## MEMORANDUM

**TO:** REPRESENTATIVE CHRIS MILLIS

**FROM:** NORTH CAROLINA UTILITIES COMMISSION PUBLIC STAFF

**SUBJECT:** HOUSE BILL 681

**DATE:** APRIL 27, 2015

This memorandum responds to your request directed to the North Carolina Utilities Commission Public Staff to analyze potential rate implications to the Proposed Committee Substitute H681-CSTD-18 [v.4] (PCS) for House Bill 681. Specifically, you requested that the Public Staff provide comments with respect to whether the changes contemplated in the PCS would reduce future rate pressures on North Carolina retail ratepayers. While the Public Staff is pleased to provide the analysis below in response to your inquiry, we do not take a position on the legislation itself.

Several components of the PCS could limit or reduce upward pressure on future rates. Incremental costs (compliance costs less avoided costs) incurred to comply with REPS requirements generally are recovered through the annual REPS rider. Costs not recovered through the REPS rider, i.e., avoided costs, are recovered through the fuel rider. Part IV establishes the residential cost cap at the 2014 level rather than raising it from $12.00 to $34.00 beginning in 2015. This measure reduces the maximum annual amounts that can be recovered from customers though the REPS rider by $22.00 annually. To the extent electric power suppliers' REPS compliance efforts would cause them to exceed $1.00/month on a residential customer's bill, the revised cost cap would prevent customers from paying above that level in any given year through the REPS rider. If the utilities chose to construct renewable energy facilities for REPS compliance and place them into rate base instead of the REPS rider, such costs might not count against the cost cap unless they exceeded the avoided cost. For context, below are the current REPS riders included on the three publically owned electric utilities in North Carolina:

<u>Duke Energy Progress</u>
Residential - $0.83 / month (Cost cap $1.00 / month)
Commercial – $6.11 / month (Cost cap $12.50 / month)
Industrial - $24.56 / month (Cost cap $83.33 / month)

<u>Duke Energy Carolinas</u>
Residential - $0.39 / month (Cost cap $1.00 / month)
Commercial – $1.22 / month (Cost cap $12.50 / month)
Industrial - $5.11 / month (Cost cap $83.33 / month)

Dominion North Carolina Power
Residential - $0.69 / month (Cost cap $1.00 / month)
Commercial – $3.04 / month (Cost cap $12.50 / month)
Industrial - $20.65 / month (Cost cap $83.33 / month)

Part II establishes the maximum mandatory standard contract for qualifying facilities at 100kw and establishes the maximum mandatory contract period at 15 years. It also eliminates capacity payments to qualifying facilities for years in which the utility's integrated resource plan (IRP) does not reflect a need for capacity. The elimination of capacity payments in years where the utility's IRP does not reflect a need for capacity could reduce avoided capacity cost payments from the utility to qualifying facilities, which are recovered from utility ratepayers through the REPS rider and fuel riders. Establishing the maximum standard contract for qualifying facilities at 100kw and establishing the maximum contract at a period of 15 years would not have a direct impact on utility rates through the REPS rider.

Part III increases the percentage of energy efficiency measures that can be used to meet REPS requirements from 25% to 50%. Energy efficiency is generally considered to be the most cost-effective means for compliance with REPS requirements. Energy efficiency programs approved by the Utilities Commission and implemented by the utility companies must meet certain cost-effectiveness tests to ensure full cost recovery through the DSM/EE rider. These programs are generally viewed as more than paying for themselves. To the extent a greater percentage of energy efficiency measures can be used to meet REPS requirements, this could reduce upward pressure on future rates, which will vary based on the availability of new energy efficiency programs and to the extent avoided costs vary. However, EE costs do not count against the REPS rider cost caps.

Part V eliminates the increase of the REPS requirements in 2018 and 2021, which increases from 6% to 10% and 12.5%, respectively. To the extent the generation resources that would be used to meet the original REPS percentages are not least cost, the reduction of those percentages could reduce the investment required by the utility to meet the higher requirement. This would reduce or eliminate future inputs used to calculate the REPS rider discussed above. To the extent those generation resources are least cost at that time, they would likely be included in a generation portfolio regardless of the REPS requirements. Capping the REPS at 6% could reduce the value of future or existing RECs, both of which are recoverable through the REPS rider. Part V also reduces the amount of solar specific generation included in the REPS. It is unlikely that this reduction will result in any rate impact because solar renewable energy credits (RECs) are sufficiently abundant at this time such that they are being used to satisfy general REPS obligations, thus exceeding the original solar requirement.

Part V also reduces the highest tier requirement for electricity generated from swine waste resources. The economics of swine and poultry waste generation, particularly swine generation, have limited the number of market participants, which has meant fewer sources of RECs available for purchase at a competitive price. Electric power suppliers have stated that they are unable to find cost-effective contracts to procure power and RECs from these facilities. Reducing the ultimate requirement for swine waste resources would limit this input used to calculate the REPS rider discussed above.

The REPS statutes have many moving parts, thus there may be additional rate implications as repealed or amended portions are reconciled to the remaining portions of the statute, including the provisions for cost recovery. The policy changes proposed in the PCS would not impact existing rates because the costs of the existing riders have already been incurred through programs and long-term contracts for electricity from qualifying facilities and RECs. The cost recovery will continue to be recovered through the REPS and fuel riders for the periods authorized by the Utilities Commission.