Overview of Duke Energy's Comments on EPA's Proposed Federal Plan and Model Trading Rules





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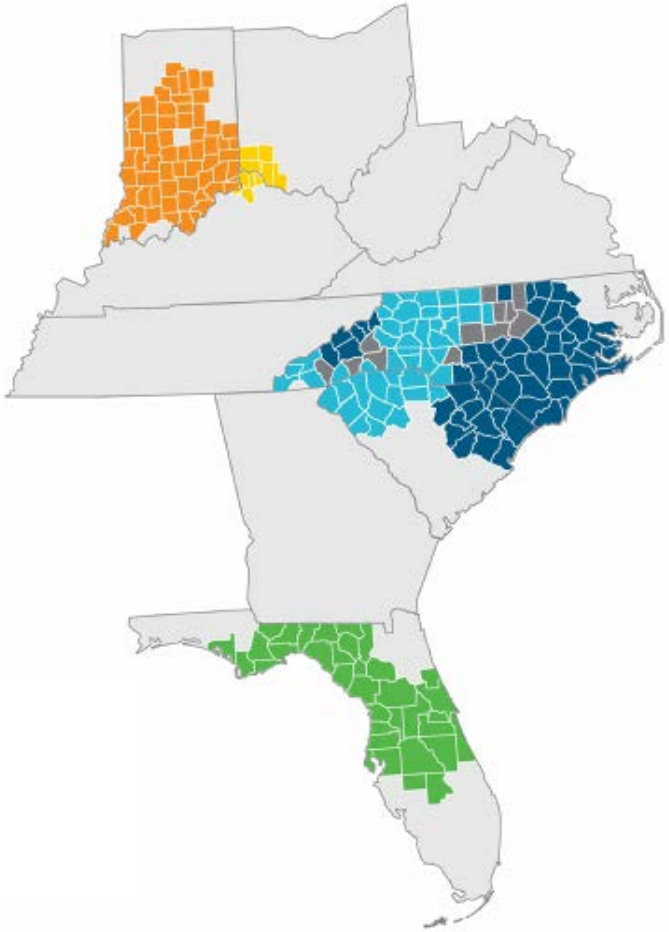
DUKE ENERGY®

Duke Energy Overview

- Duke Energy is the largest electric power holding company in the U.S., with a domestic generating capacity of 57,500 MW.
- Our regulated utility operations provide electricity to approximately 23 million people located in six states.
- Duke Energy has reduced CO_2 emissions by 22% since 2005 across our fleet.
- We have invested more than $9 billion to retire 40 of our older coal units across the Carolinas and the Midwest and replaced them with 6,600 MW of cleaner, more efficient generating capacity.
- We are planning to invest an additional $3 billion in renewable energy over the next 5 years.
- Duke Energy is the owner and operator of the nation's largest regulated nuclear fleet.



Comments on Proposed Federal Plan Structure

- Duke Energy recommends that EPA prepare to finalize both mass-based and rate-based federal plans.
  - EPA should solicit input from the state regarding plan preference prior to finalizing a federal plan.
- However, if EPA only finalizes one type of federal plan, we recommend that EPA finalize a mass-based approach, based on the demonstrated success of mass-based trading.
- We support EPA's proposal that states subject to the federal plan should be able to replace the federal plan allowance allocations with state-developed allocations.
- In addition, we believe that EPA should allow borrowing in the final federal plans and model trading rules as an additional compliance flexibility measure.
- We support EPA's proposal that affected units in states covered by a federal plan can trade with affected units in states subject to a federal plan or a state plan meeting the conditions for linkage to the federal plan.

Comments on Proposed Allowance Allocations under a Mass-Based Federal Plan and Model Trading Rule

- Duke Energy supports EPA's proposal to allocate most allowances under a mass-based federal plan and model trading rule to affected units using historic data.
  - Allocation can protect electricity customers from sudden and abrupt increases in electricity prices.
- However, we do not support EPA's proposed approach to allocate to affected units based on their share of historical generation.
  - This approach provides a disproportionate amount of allowances to units with lower CO_2 emissions.
  - EPA made several errors in translating allocations from the generator-level to the affected units.
- Allocation based on historical CO_2 emissions is a more equitable way to distribute allowances and would eliminate the errors from EPA's proposed methodology.
- EPA should consider maintaining the allowance allocation to a unit after it retires.
  - This continued allocation to retired units allows unit owners and operators to use the allowance value to invest in cleaner, more efficient replacement generation and limit cost impacts to customers.
  - EPA's proposed methodology of ending the allocation to retired units creates the perverse incentive of maintaining the operation of a unit simply to avoid losing the allocation.

Comments on Proposed Allowance Allocations under a Mass-Based Federal Plan and Model Trading Rule

- Duke Energy does not support EPA's proposal to re-allocate allowances from units that are modified, reconstructed, or retired to state RE set-asides.
  - This will result in an unnecessarily large set-aside to RE, which will increase direct compliance costs and therefore costs to electricity customers.
  - In North Carolina, where we have retired 17 coal-fired units (2,259 MW) since the beginning of 2012, the RE set-aside will be 15% or higher in 2022 and will continue to grow over time.
- Auctioning does not provide any additional environmental benefit and would increase prices to electricity customers. As a result, we do not support EPA auctioning allowances under a mass-based federal plan.
- We also do not support EPA allocating any allowances to LSEs under a mass-based federal plan or model trading rule.
  - Electricity customers in fully deregulated states can be shielded from significant price impacts by allocating a portion of allowances to LSEs.
  - However, any decision about allocating allowances to LSEs should be addressed directly by the states.

Comments on Proposed Output-Based Allocation and Renewable Energy Set-Aside

- EPA's proposed Output-based allocation (OBA) set-aside appears to align with EPA's concern regarding generation shift from existing to new NGCC.
  - The 10% capacity factor target EPA has proposed to use for determining the size of the set-aside appears to strike a reasonable balance.
- The RE set-aside should be no larger than EPA can demonstrate is needed to address their concerns about leakage.
  - In their proposal, EPA states that an RE set-aside of 5% is needed to incentivize 330 TWh of RE generation in 2030.
  - However, EPA's modeling indicates that 259 TWh of RE are deployed in 2030 for mass-based compliance with no set-aside.
  - <u>Duke Energy believes that the appropriate size of the RE set-aside is in the 1% range.</u>
  - EPA should recognize that any set-aside that takes allowances away from affected EGUs will increase direct compliance costs and therefore costs to electricity customers.

Comments on Clean Energy Incentive Program (CEIP)

- States should not be required to set aside allowances to participate in the CEIP.
  - Since CEIP allowances could be freely transferred out of state, or not sold at all during certain compliance periods, the set-aside increases compliance costs and costs to electricity customers.
- Duke Energy believes that it will be difficult for the CEIP to be fully subscribed based on the way the program is currently constructed.
- EPA should consider:
  - allowing states to determine which projects, not only utility-scale wind and solar projects and low-income EE, could qualify for the CEIP.
  - making September 6, 2016 the eligibility date to earn CEIP credits/allowances.
  - allowing projects to earn credits as soon as they come on line and not just in the period 2020-2021.
- If states choose not to participate in the CEIP, their federal matching credits/allowances should be distributed to projects on a first-come, first served basis.
  - This will be particularly beneficial to states that have more cost-effective RE resources.

Comments on Clean Energy Incentive Program (CEIP)

- From our experience managing low-income EE programs, we know it is very difficult to make such programs cost effective.
  - The CEIP incentive of two allowances for each MWh of energy savings created by programs targeted to low income communities may not be enough to incentivize these programs.
- To ensure that more EE projects are deployed, Duke Energy suggests that 33% of ERCs/allowances be reserved for EE programs for low-income communities.
- A broad definition of how low-income communities are served will increase the number of projects that are eligible – some of which may be larger and therefore lower cost to implement – and will thus maximize environmental and economic benefits of the CEIP.
- At the end of the program, any unused federal matching allowances reserved for EE should be provided to the State to consign for auction with the provision that the revenue be used to provide additional funding for existing low-income EE program subsidies.