

NC WARN **On the Backs of Families and Small Businesses**

Duke Energy Carolinas Justifies New Power Plants by Giving Breaks to the World's Richest Corporations

Summary

Duke Energy Carolinas is aggressively recruiting huge electricity users, with rock-bottom rates and special deals, which are fueling demand for new “baseload” power plants and causing the rates of captive small business and residential customers to keep soaring for years to come.

Duke Energy’s 215,000 small business customers in North Carolina pay more than three times as much per kilowatt hour of electricity as data storage and processing centers, also called server farms, operated by the world’s richest corporations – Apple, Google and Facebook (after accounting for fuel charges, which are essentially equal for all users).

During 2010, Duke Energy’s average data center customer used almost 3,200 times as much electricity as the average small business customer. Since that time additional, larger data centers are being built, creating even greater demand for electricity that residential and small business customers are subsidizing.

Duke sets its highest rates for small businesses and homes – and lowest rates for the biggest users – by designing its cost-of-service “study” to assign most costs to the smaller users.

It does this by using a “Summer Coincident Peak” method to allocate all costs related to generation of power based only on the *single hottest hour of the year*, when households and small businesses are relying on maximum air conditioning.

On cue from Duke Energy, most big customers reduce their electric load during that hottest hour – for example, with back-up generators – avoiding paying their fair share of electricity costs and shifting even more costs to homes and small businesses.

Also, Duke Energy allocates many distribution and corporate overhead costs by the mere number of customers in a rate class, regardless of how much electricity they used. So Google pays the same dollar amount of those costs as does a retired apartment renter or small retailer.

By excluding consideration of average electricity use, Duke Energy protects data centers from paying rates proportionate to the costs needed to provide the voluminous electricity they use year-round. Those costs are shifted to others.

North Carolina law strictly prohibits discriminatory rate structures.

In fact, the N.C. Utilities Commission twice rejected the method Duke Energy is using – in rulings standing for 20 years. The other two North Carolina utilities, Progress Energy and Dominion Power, do not use the Summer Peak rate making because the Commission has said it is unfair and unreasonable.

... And the Commission's consumer-protecting Public Staff argues that Duke Energy should allocate part of its production costs based on customers' average usage year-round.

... And NC Attorney General Roy Cooper's expert witness testified in 2009 that Duke Energy's method *"does not consider, in any way, the extent to which customers use these facilities during the other 8,759 hours of the year ..."*

But Duke Energy continues using the Summer Peak method because its rate cases in 2009 and 2011 were settled with the Commission's Public Staff prior to evidentiary hearings, thus the Commission did not revisit its 20-year rejection of Summer Peak.

The unfairness is getting much worse.

Duke Energy's Summer Peak method will impose most of the costs of building \$20 billion-plus for new power plants on Duke's captive residential and small business customers, whose needs could be met more cheaply with energy efficiency, cogeneration and renewable energy.

As long as Duke Energy can recover its variable costs from data centers and other large-volume customers, while forcing smaller, captive customers to pay most of its fixed costs, the utility will profit by building more – and increasingly more expensive – nuclear and fossil-fuel plants.

The rapidly expanding data center sector provides Duke an excuse to build financially risky nuclear plants – and burn its giant coal-fired units for decades – even though some industry analysts believe long-term U.S. electricity demand could decrease due to higher prices and advances in efficiency and decentralized renewables.

Increasingly extreme summer temperatures exacerbate the unfairness of Duke's method.

Falling prices for photovoltaic solar power are leading high-load electricity customers to install large solar arrays, causing more "peak shaving" – shifting usage away from the hottest hours.

Duke Energy is promising more peak shaving options and special deals for large customers, shifting more and more costs to residential and small business ratepayers.

On top of rate inequity, Duke Energy, along with the state and local governments, offer data centers millions in other subsidy dollars just to come into North Carolina – although some of the largest server farms produce as few as 10 jobs per average work shift.

The N.C. Utilities Commission must act.

With three imminent big-utility rate cases, and Duke Energy seeking to add expensive and financially risky nuclear plants, it is urgent for the Commission to firmly abolish the Summer Peak allocation method and require the biggest customers to pay their fair share for new power plants built primarily to serve them.

Electricity is a miserable economic development tool. With Apple, Google and Facebook not paying their fair share, rising electricity rates for smaller customers is harming the North Carolina economy by raising prices on virtually all electricity-related goods and services.



