

Subject: Cost of Energy  
May 11, 2022

Cost of energy is a huge national issue and a major driver of inflation. At the last Town Board Meeting our energy consultant informed us that Duke Power would be increasing wholesale electric rates in the coming months, and he recommended the town approve a rate increase very soon to address this impending increase that the town will pay for wholesale electricity.

At the Budget workshop last Thursday, the Board decided not to pass a rate increase to our customers, at least not at this time. From past cost adjustments, and Duke Power court settlements, the town recently received over \$700,000. The board voted to earmark those funds to address future rate increases. So, when the Duke Power rate increase occurs the town will use the \$700,000 to cover the cost. We will hold the line on rate increases for as long as we can, or at least until this earmarked money is depleted. The town may be able to absorb even more, but if energy costs continue to skyrocket, especially natural gas costs, the town will have to increase rates. Highlands has not had an electric rate increase in a number of years. Because we have a wholesale contract, Highlands customers have avoided the recent rate spikes that Duke Power retail customers have experienced. The major expense we have had to deal with has been those coal ash fees that Duke passed on to both retail and wholesale customers.

While reviewing the impending rate pressures the Town Manager and I examined the peak usage times for electricity in Highlands. We were both surprised that peaks occur around Christmas. Last year there were many hours during the week of Christmas where the town was using 13 megawatts of electricity. To put that number into perspective, back when the Highlands hydroelectric plant began operation some 90 years ago the amount of power available for the entire town was around three quarters of a megawatt. On optimal generating days that number might have gotten up to one megawatt.

In short, I see a continual increase in power demands in the coming years, and I don't believe everyone in town converting to solar generation will alleviate this increasing demand. The move to green energy sources will be a major development, and in that regard, Duke Power just announced their plan to double their green energy generating capacity to 24,000 megawatts by 2030. They are asking regulators for generous incentives and tax credits to make this conversion which will also involve closing their six remaining coal plants. Duke is also asking regulatory agencies and the legislature to lower the costs they reimburse folks who sell back power to them through solar generation. I believe Duke's rationale is that they will have the biggest impact on green energy generation rather than individual household units. The final decision by regulatory agencies should happen in the coming months.

One may question my view that the production of electric power will have to be significantly increased in the coming years, and as the country transitions to electric vehicles, the energy to power those vehicles will require an abundant source.

The town will have to enter a new wholesale electric contract by the end of the decade with either Duke Power or another provider. Much to consider.