



Memorandum from the Office of the Inspector General

April 7, 2026

Monika Beckner

REQUEST FOR MANAGEMENT DECISION – EVALUATION 2025-17598 – RENEWABLE ENERGY CERTIFICATES TO MEET NORTH CAROLINA REQUIREMENTS

On October 10, 2023, the North Carolina General Assembly enacted the Clean Energy and Energy Efficiency Portfolio Standard (CEPS) requiring rural electric cooperatives and municipal electric suppliers in North Carolina to meet 10 percent of their energy needs through clean energy resources or energy efficiency measures. Additionally, North Carolina CEPS requires a percentage of retail sales be attributed to solar, poultry, and swine resources. The Tennessee Valley Authority's (TVA) renewable energy certificates (REC¹) portfolio management process includes obtaining and retiring RECs to meet the requirements set forth in CEPS on behalf of its four local power companies (LPC) in the state. By September 1 of each year, TVA is required to file an annual compliance report for the prior year. Also, at that time, TVA files its compliance plans for the calendar year in which the plan is filed and the following 2 years. Due to increased power demand from data centers in North Carolina, we performed an evaluation to determine if TVA has adequate RECs to meet regulatory requirements in North Carolina for LPCs.

We found that TVA appropriately retired enough RECs to achieve compliance with North Carolina CEPS in 2024 and has enough RECs to meet the general, solar, and swine requirements for compliance year 2025. However, there is a risk that TVA will not be able to meet the poultry requirement for 2025. TVA has taken action to reduce this risk by submitting a request for offers in 2025 to purchase poultry RECs. Additionally, our review of the 2024 CEPS Compliance Report identified an understatement of RECs to be carried forward for use in future years.

We made recommendations to the Vice President, Power Supply and Fuels, to explore options to amend the 2024 compliance report to reflect the accurate number of RECs to be carried forward and take steps to ensure the accuracy of information provided in compliance reports.

TVA management agreed with our recommendations and provided comments that have been incorporated into the final report as appropriate. See the Appendix for TVA's complete response.

¹ RECs are market-based instruments that represent the property rights to the environmental, social, and other nonpower attributes of renewable electricity generation. A REC is issued when one megawatt-hour (MWh) of electricity is generated and delivered to the electricity grid from a renewable energy resource.

BACKGROUND

On August 20, 2007, North Carolina became the first state in the Southeast United States to adopt a Renewable Energy and Energy Efficiency Portfolio Standard (REPS), which was expanded and renamed CEPS in October 2023. Under the law, rural electric cooperatives and municipal electric suppliers in North Carolina are required to meet 10 percent of their energy needs through clean energy resources or energy efficiency measures. Electric power suppliers may comply with this requirement in several ways, including the (1) use of clean or renewable energy resources in existing electric generating facilities, (2) generation of power at new clean energy facilities, (3) purchase of power from clean energy facilities, (4) implementation of energy efficiency measures, or (5) purchase of RECs.

On January 24, 2011, TVA entered into an agreement with its four North Carolina distributors to determine and implement a methodology for compliance with the REPS requirements. By September 1 of each year, TVA is required to file an annual compliance report for the prior year. Also, at that time, TVA files its compliance plans for the calendar year in which the plan is filed and the following 2 years. The 2025 CEPS requirements for TVA are:

- 10 percent of retail sales from any clean energy resource.
- 0.2 percent of retail sales from solar energy resources.
- 0.07 percent of retail sales from swine waste resources.²
- 0.74 percent of a statewide requirement of 900,000 MWhs from poultry waste resources.

Due to increased power demand from data centers in North Carolina, we performed an evaluation to determine if TVA has adequate renewable energy certificates to meet regulatory requirements in North Carolina for LPCs.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our evaluation was to determine if TVA has adequate RECs to meet regulatory requirements in North Carolina for LPCs. The scope of our review included the North Carolina CEPS for compliance years 2024 and 2025. To achieve our objective, we reviewed:

- North Carolina regulations and TVA guidance to determine requirements for CEPS.
- Contract with North Carolina LPCs to determine TVA's obligation to meet North Carolina CEPS requirements.

² A modifying order set the 2025 swine requirements to 0.07 percent of retail sales with the option to use other methods such as solar RECs if the electric power supplier is unable to obtain the required swine RECs.

- TVA's 2024 compliance report and the North Carolina Renewable Energy Tracking System to determine if TVA appropriately retired RECs in 2024 to meet the requirements of the North Carolina CEPS.
- Renewable Energy Certificate inventory and compliance plans to determine if TVA has adequate inventory or plans in place to meet the North Carolina CEPS requirements for 2025.

This evaluation was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*.

FINDINGS

We found that TVA appropriately retired enough RECs to achieve compliance with North Carolina CEPS in 2024 and has enough RECs to meet the general, solar, and swine requirements for compliance year 2025. However, there is a risk that TVA will not be able to meet the poultry requirement for 2025. TVA has taken action to reduce this risk by submitting a request for offers in 2025 to purchase poultry RECs. Additionally, our review of the 2024 CEPS Compliance Report identified an understatement of RECs to be carried forward for use in future years.

RISK OF INABILITY TO OBTAIN POULTRY RECS

As mentioned previously, the North Carolina CEPS requires a percentage of retail electric sales be from poultry waste resources. TVA does not generate any electricity from poultry waste resources, but in 2024, TVA was able to purchase the required number of poultry RECs and has submitted a request for offers to purchase poultry RECs for 2025. However, if TVA is unable to purchase the required poultry RECs, TVA's North Carolina LPCs would be at risk of noncompliance with North Carolina's CEPS.

While TVA would not face penalties or fines due to noncompliance, they have agreed to bear the compliance burden on behalf of the four North Carolina LPCs that could face potential fines for noncompliance.

TVA UNDERSTATED THE NUMBER OF RECS TO BE CARRIED FORWARD

The North Carolina Utilities Commission's rules and regulations require that the CEPS compliance report include, among other things, the identification of any RECs to be carried forward for use in future years. In the 2024 CEPS compliance report, TVA stated that it would carry forward 60,588 RECs for use in calendar year 2025 or later. However, an additional 5,804 RECs were in TVA's inventory that were not included in the report. These RECs were not included in the 2024 compliance report due to an omission of the additional purchase of 5,804 RECs that occurred after the draft report had been prepared. As a result, the information provided in the 2024 CEPS compliance report did not reflect the correct number of RECs to be carried forward.

RECOMMENDATIONS

We recommend the Vice President, Power Supply and Fuels:

- Explore options to amend the 2024 compliance report to reflect the accurate number of RECs to be carried forward.

TVA Management's Comments – TVA management agreed with the recommendation. See the Appendix for TVA's complete response.

- Take steps to ensure the accuracy of information provided in compliance reports.

TVA Management's Comments – TVA management agreed with the recommendation. See the Appendix for TVA's complete response.

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This report is for your review and management decision. You are responsible for determining the necessary actions to take in response to our findings. Please advise us of your management decision within 60 days from the date of this report. In accordance with the Inspector General Act of 1978, as amended, the Office of the Inspector General is required to report to Congress semiannually regarding evaluations that remain unresolved after 6 months from the date of report issuance.

If you have any questions or wish to discuss our observations, please contact Lindsay J. Denny, Director, Evaluations - Operations at (865) 633-7349. We appreciate the courtesy and cooperation received from your staff during the evaluation.



Greg Stinson
Assistant Inspector General
(Audits and Evaluations)

KHS:FAJ

cc: TVA Board of Directors
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OIG File No. 2025-17598

March 27, 2026

Greg Stinson, WT 2C-K

RESPONSE TO REQUEST FOR COMMENTS - DRAFT EVALUATION 2025-17598 RENEWABLE
ENERGY CERTIFICATES TO MEET NORTH CAROLINA REQUIREMENTS

This letter is in response to the Draft Evaluation 2025-17598 Renewable Energy Certificates to Meet North Carolina Requirements. Power Supply and Fuels (PS&F) would like to express its appreciation for Kenneth Sims and the Office of Inspector General's thorough evaluation of TVA's compliance with the North Carolina Clean Energy and Energy Efficiency Portfolio Standard (CEPS) requirements.

Recommendations:

1. Explore options to amend the 2024 compliance report to reflect the accurate number of RECs to be carried forward.

Response:

PS&F agrees with the recommendation and will explore options to amend the 2024 compliance report to reflect the accurate number of RECs to be carried forward.

2. Take steps to ensure the accuracy of information provided in compliance reports.

Response:

PS&F agrees with the recommendation and will take steps to ensure the accuracy of the information provided in compliance reports.

PS&F requests the following revisions in bold to page 3, paragraph 7 of the draft report: These RECs were not included in the 2024 compliance report due to an omission of the additional purchase of 5,804 RECs that occurred after the draft report had been prepared. As a result, the information provided in the 2024 CEPS compliance report did not reflect the correct number of RECs to be carried forward. The carry-forward value is a forecast only and does not present any risk to future compliance.

Thank you for allowing us to provide these comments. Please contact us if you have any questions.

Monika Beckner

Monika Beckner
Vice President
Power Supply & Fuels

GLH

cc: Donald R. Knotts Jenny P. Fogo
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