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**State of North Carolina
Utilities Commission**

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November 7, 1990

Secretary
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

ATTENTION: Docketing and Services Branch

Dear Sirs:

Enclosed is a copy of Rule R8-55 of the North Carolina Utilities Commission governing fuel charge adjustments for electric utilities. The rule is being furnished for your information in response to the request for comments on your draft policy statement regarding possible safety impacts of incentive programs affecting nuclear performance.

As you can see from the enclosed Rule R8-55, the target established by the North Carolina Utilities Commission for testing the efficiency of nuclear generation is based essentially on long term averages of nuclear capacity factors. Furthermore, the threshold or target serves as a signal requiring the affected utility to bear the burden of proof that its nuclear operations were prudent rather than as a signal requiring an automatic penalty.

We are pleased with our utilities' overall response to Rule R8-55, although we continue to reevaluate the rule from time to time in seeking improvements. We commend the rule to you and invite you to pass it along for consideration by others who may have incentive programs that you are concerned about.

Thank you for the opportunity to comment on your proposed policy statement.

Sincerely,

William W. Redman, Jr.
Chairman

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Enclosure

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- (iv) MWH not generated during period due to partial forced outages (in MWH and as % of total possible generation);
- (v) MWH not generated during period due to economic dispatch (in MWH and as % of total possible generation); and
- (vi) Heat rate (in BTU per kWh). (NCUC Docket No. E-100, Sub 47, 5/1/84.)

Rule R8-54: Repealed by NCUC Docket No. E-100, Sub 47, 8/14/86.

Rule R8-55. Annual hearings to review changes in the cost of fuel and the fuel component of purchased power.

(a) For each utility generating electric power by means of fossil and/or nuclear fuel for the purpose of furnishing North Carolina retail electric service, the Commission shall schedule an annual public hearing pursuant to G.S. 62-133.2(b) in order to review changes in the cost of fuel and the fuel component of purchased power. The annual fuel charge adjustment hearing for Duke Power Company will be scheduled for the first Tuesday of May each year; for Carolina Power & Light Company, the annual hearing will be scheduled for the first Tuesday of August each year; and, for Virginia Electric and Power Company, d/b/a North Carolina Power, the annual hearing will be scheduled for the second Tuesday of November each year.

(b) The test periods for the hearings to be held pursuant to paragraph (a) above will be uniform over time. The test period for Duke Power Company will be the calendar year; for Carolina Power & Light Company, the test period will be the 12-month period ending March 31; and, for North Carolina Power, the test period will be the 12-month period ending June 30.

(c) The general methodology and procedures to be used in establishing fuel costs, including the fuel cost component of purchased power, shall be as follows:

- (1) Fuel costs will be preliminarily established utilizing the methods and procedures approved in the utility's last general rate case, except that capacity factors for

nuclear production facilities will be normalized based generally on the national average for nuclear production facilities as reflected in the most recent North American Electric Reliability Council's Equipment Availability Report, adjusted to reflect unique, inherent characteristics of the utility including but not limited to plants 2 years or less in age and unusual events. The national average capacity factor for nuclear production facilities shall be based on the most recent 5-year period available and shall be weighted, if appropriate, for both pressurized water reactors and boiling water reactors. A fuel cost rider will then be determined based upon the difference between the fuel costs thus established and the base fuel cost component of the rates established in the utility's most recent general rate case. The foregoing normalization requirement assumes that the Commission finds that an abnormality having a probable impact on the utility's revenues and expenses existed during the test period.

- (2) The fuel cost as described above will be further modified through use of an experience modification factor (EMF) rider. The EMF rider will reflect the difference between reasonable and prudently incurred fuel cost and the fuel related revenues that were actually realized during the test period under the fuel cost components of rates then in effect.
- (3) The fuel cost rider and the EMF rider as described hereinabove will be charged as an increment or decrement to the base fuel cost component of rates established in the utility's previous general rate case.
- (4) The EMF rider will remain in effect for a fixed 12-month period following establishment and will carry through as a rider to rates established in any intervening general rate case proceedings; provided, however, that such carry-through provision will not relieve the Commission of its responsibility to determine the reasonableness of fuel costs, other than that being collected through

operation of the intervening proceeding.

- (5) Pursuant to the overcollection prudently incurred refunded to a through operator shall in interest, at submission determined reasonable, maximum station
- (d) Each electric utility shall submit to the Commission copies of investigation information and data detail as set forth below:
 - (1) Actual test period related revenue expenses for system and for retail operation
 - (2) Test period kW for weather, usage. Said no shall be for system and for retail operation used for shall be the adopted by the any, in the utility rate case.
 - (3) Adjusted test period corresponding test period kW methodology for such be the same methodology by the Commission last general rate adjustment by, i.e., nuclear, fossil storage, purchased the event that is inconsistent with paragraph (c)(1) pro forma calculation presented in the normalization method in paragraph (c)
 - (4) Cost of fuel corresponding adjusted test period, including a petition showing how was derived. This be based on the fuel prices in the test period, although prices if test period

ion facilities will be used generally on a per capita basis for nuclear utilities as reflected in the recent North American Nuclear Reliability Council's Reliability Report, which sets out unique, inherent characteristics of the utility industry not limited to age and size. The national average factor for nuclear utilities shall be based on the most recent 5-year average and shall be appropriate, for both gas reactors and coal reactors. A fuel cost shall be determined as the difference between the cost established and the cost component of the utility as published in the utility's last general rate filing. The normalizing factor shall be the same as that used in the utility's last general rate filing. It is assumed that the difference between the actual and the probable impact on revenues and expenditures during the test

period described above shall be modified through the use of the EMF rider. The EMF rider shall be used to adjust the difference between the actual fuel cost and the probable impact on revenues that were realized during the test period. The EMF rider and the EMF rider shall be used as an increment to the base fuel cost established in the previous general rate

filing. The rider will remain in effect for a 12-month period following the filing of the rider and will be subject to any intervening rate case proceedings; however, that such a revision will not be a cause for re-determination of its rate. The rider shall be based on fuel costs, other than those collected through

operation of the EMF rider, in any intervening general rate case proceeding.

- (5) Pursuant to G.S. 62-130(e), any overcollection of reasonable and prudently incurred fuel costs to be refunded to a utility's customers through operation of the EMF rider shall include an amount of interest, at such rate as the Commission determines to be just and reasonable, not to exceed the maximum statutory rate.
- (d) Each electric utility, as a minimum, shall submit to the Commission for purposes of investigation and hearing the information and data in the form and detail as set forth below:
 - (1) Actual test period kWh sales, fuel related revenues, and fuel related expenses for the utility's total system and for its North Carolina retail operations.
 - (2) Test period kWh sales normalized for weather, customer growth and usage. Said normalized kWh sales shall be for the utility's total system and for its North Carolina retail operations. The methodology used for such normalization shall be the same methodology adopted by the Commission, if any, in the utility's last general rate case.
 - (3) Adjusted test period kWh generation corresponding to normalized test period kWh usage. The methodology for such adjustment shall be the same methodology adopted by the Commission in the utility's last general rate case, including adjustment by type of generation: i.e., nuclear, fossil, hydro, pumped storage, purchased power, etc. In the event that said methodology is inconsistent with the normalization methodology set forth in paragraph (c)(1) above, additional pro forma calculations shall be presented incorporating the normalization methodology reflected in paragraph (c)(1).
 - (4) Cost of fuel corresponding to the adjusted test period kWh generation, including a detailed explanation showing how such cost of fuel was derived. The cost of fuel shall be based on end-of-period unit fuel prices incurred during the test period, although the Commission may consider other fuel prices if test period fuel prices are

demonstrated to be nonrepresentative on an on-going basis. Unit fuel prices shall include delivered fuel prices and burned fuel expense rates as appropriate.

- (5) The monthly fuel report and the monthly base load power plant performance report for the last month in the test period and any information required by NCUC Rules R8-52 and R8-53 for the test period which has not already been filed with the Commission. Further, such information for the complete 12-month test period shall be provided by the company to any intervenor upon request.
- (6) All workpapers supporting the calculations, adjustments and normalizations described above.
- (7) The nuclear capacity rating(s) in the last case and the rating(s) proposed in this proceeding. If they differ, supporting justification for the change in nuclear capacity rating(s) since the last rate case.
- (e) Each utility shall file the information required under this rule, accompanied by workpapers and direct testimony and exhibits of expert witnesses supporting the information filed herein, and any changes in rates proposed by the respondent (if any), at least 60 days prior to the hearing. Nothing in this rule shall be construed to require the respondent utility to propose a change in rates or to utilize any particular methodology to calculate any change in rates proposed by the respondent utility in this proceeding.
- (f) The respondent utility shall publish a notice for two (2) successive weeks in a newspaper or newspapers having general circulation in its service area, normally beginning at least 30 days prior to the hearing, notifying the public of the hearing before the Commission pursuant to G.S. 62-133.2(b) and setting forth the time and place of the hearing.
- (g) Persons having an interest in said hearing may file a petition to intervene setting forth such interest at least 15 days prior to the date of the hearing. Petitions to intervene filed less than 15 days prior to the date of the hearing may be allowed in the discretion of the Commission for good cause shown.
- (h) The Public Staff and other intervenors shall file direct testimony and exhibits of expert witnesses at least 15 days prior to the hearing date. If a petition to intervene is filed less than 15 days prior to

the hearing date, it shall be accompanied by any direct testimony and exhibits of expert witnesses the intervenor intends to offer at the hearing.

(i) The burden of proof as to the correctness and reasonableness of any charge and as to whether the test year fuel expenses were reasonable and prudently incurred shall be on the utility. For purposes of determining the EMF rider, a utility must achieve either (a) an actual systemwide nuclear capacity factor in the test year that is at least equal to the systemwide nuclear capacity factor used for setting the rate in effect during the test year or (b) an average systemwide nuclear capacity factor, based upon a two-year simple average of the systemwide capacity factors actually experienced in the test year and the preceding year, that is at least equal to the systemwide nuclear capacity factor used for setting the rate in effect during the test year, or a presumption will be created that the utility incurred the increased fuel expense resulting therefrom imprudently and that disallowance thereof is appropriate. The utility shall have the opportunity to rebut this presumption at the hearing and to prove that its test year fuel costs were reasonable and prudently incurred. To the extent that the utility rebuts the presumption by the preponderance of the evidence, no disallowance will result.

(j) The hearing will generally be held in the Hearing Room of the Commission at its offices in Raleigh, North Carolina.

(k) If the Commission has not issued an order pursuant to G.S. 62-133.2 within 120 days after the date the respondent utility has filed any proposed changes in its rates and charges in this proceeding based solely on the cost of fuel and the fuel component of purchased power, then said utility may place such proposed changes into effect. If such changes in the rates and charges are finally determined to be excessive, said utility shall refund any excess plus interest to its customers in a manner directed by the Commission.

(l) Each company shall follow deferred accounting with respect to the difference between actual reasonable and prudently incurred fuel costs, including the fuel cost component of purchased power, and fuel related revenues realized under rates in effect. (NCUC Docket No. E-100, Sub 47, 5/1/84; NCUC Docket No. E-100, Sub 47, 8/14/86; NCUC Docket No. E-100, Sub 55, 4/27/88; 6/22/88; 1/25/90.)

Editor's Note. -- The amendment dated August 14, 1986, rewrote this rule.

The amendment dated January 25, 1990, rewrote this rule.

ARTICLE 11.

Least Cost Integrated Resource Planning.

Rule R8-56. General.

(a) *Purpose.* The purpose of least cost integrated resource planning is to ensure that each regulated electric utility operating in North Carolina is developing reliable projections of the long range demands for electricity in its service area and a combination of reliable resource options for meeting the anticipated demands in a cost effective manner. These rules are intended to be consistent with the applicable provisions of the North Carolina General Statutes, but are not intended to restrict or prohibit demonstration projects, pilot programs or other experimental ventures.

(b) *Applicability.* These rules are applicable to Carolina Power & Light Company, Duke Power Company, Nantahala Power and Light Company, and Virginia Electric and Power Company, d/b/a North Carolina Power.

(c) *Integrated Resource Plan.* Each utility shall develop and keep current a least cost integrated resource plan consisting of at least the following components:

- (1) A load forecast;
- (2) An integrated resource plan; and
- (3) A short-term action plan.

(d) *Data.* Each utility shall provide such information and data as the Commission requests and deems necessary for proper evaluation of the integrated resource plans prepared by the utility.

(e) *Filing.* Each utility shall file its least cost integrated resource plan and supporting testimony with the Commission at the times designated by the Commission. The utilities should anticipate filing such plans approximately every two (2) or three (3) years. The Public Staff or any other intervenor may file a least cost integrated resource plan of its own, or it may prepare an evaluation of the least cost integrated resource plans filed by the utilities, or both. Any least cost integrated resource plans, evaluations, and supporting testimony prepared by the Public Staff or other intervenors shall be filed at the times designated by the Commission. A reasonable amount of time will be given for the Public Staff and other intervenors to evaluate the least cost integrated resource

plans filed by the their own least cost plans and evaluate should anticipate least cost integrated resource plans approximately receipt of the integrated resource plan filed by the utilities.

(f) *Review.* The Commission shall review the least cost integrated resource plans filed by the utilities in North Carolina and federal agencies and state information in annual reports for expansion needs for expansion facilities in North Carolina. Staff is required by the Commission to determine the range needs for expanding facilities. Public hearing on least cost integrated resource plans filed by the Public Staff shall be scheduled in the place designated by the utilities and intervene at public hearings beginning a minimum of 45 days after the filing of testimony and exhibits. (NCUC Docket No. 12/8/88.)

Rule R8-57. Load Forecasts.

The load forecasts part of its least cost integrated resource plan shall include, at least, the following:

- (a) A description of the assumptions used to prepare its description of the variables used in the load forecast;
- (b) A tabulation of the load forecasts for at least one (1) year, including peak, average and winter year, annual and the projected price induced load management casted annual loads for each year;
- (c) Highest, low forecast scenarios and the utility's response to each; or, a which address the uncertainty to at