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April 26, 1996
NG-96-0618

Mr. James M. Taylor
Executive Director for Operations
U. S. Nuclear Regulatory Commission
Attn: Document Control Desk
Mail Station P1-37
Washington, DC 20555-0001

Subject: Duane Arnold Energy Center
Docket No: 50-331
Op. License No: DPR-49
Subject: Application for Partial Exemption from 10 CFR Part 171
Annual Fee for Fiscal Year 1996

References: 1. Federal Register 16203, 10 CFR Parts 170 and 171, Vol. 61, No. 72,
dated Friday, April 12, 1996
2. NRC NUREG-0020, Status Summary Report, Volume 19,
dated April 1995
3. Moody's Public Utility Manual, dated 1995
4. Inside NRC, dated June 26, 1995

File: A-100

Dear Mr. Taylor:

IES Utilities is currently required to pay an annual fee of \$2,746,000 for fiscal year (FY) 1996 (Reference 1) for the operation of Duane Arnold Energy Center (DAEC). We believe this represents a disproportionate burden on the rate payers of IES and that a partial exemption from this fee is warranted pursuant to 10 CFR 171.11, Section (c). 10 CFR 171.11, Section (c) lists the criteria which must be considered when applying for a partial exemption from the annual fee for reactor operating licenses. In support of this application, IES submits the following information.

1. **Age of the Reactor:** The DAEC is in year 22 of a 40 year license. The average age for the 108 United States reactors is 17 years (Reference 2) (Figure 1). While the age of the DAEC would not by itself form a compelling basis for fee exemption, the remaining

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licensed service life of the DAEC accentuates the other factors for exemption that apply to the DAEC. Generic NRC work in support of nuclear power has proportionally less value to a reactor as the remaining service life decreases. The DAEC has approximately 22% less remaining licensed life than the average plant ($((23 - 18) / 23) \times 100\% = 22\%$).

2. Size of the Reactor: The DAEC is a small reactor. The rated net electrical production capability is approximately 538 megawatts electric (MWe). A review of the Base Annual Fees For Operating Reactors (Reference 1) and NUREG-0020 (Reference 2) reveals that the average U.S. reactor has a net electrical capability of 935 MWe. This is a difference of 397 MWe between the DAEC and the industry average (Figure 2). On the average, the industry pays an annual fee of approximately \$2,937 per MWe installed capability ($\$2,746,000 / 935 \text{ MWe} = \$2,937 \text{ per MWe}$). The DAEC's fee of \$2,746,000 equates to an average charge of \$5,104 per MWe ($\$2,746,000 / 538 \text{ MWe} = \$5,104 \text{ per MWe}$). This is a difference of \$2,167 per MWe between the DAEC and the industry average (Figure 3). The overall effect is that rate payers of IES are disproportionately required to fund NRC fees.

3. Number of Customers in Rate Base: IES Utilities provides service to approximately 333,489 customers. The small size of our utility acts to compound the inequity created in the cost per MWe discussed in item 2 above. IES operates the DAEC and owns 70% of the facility. The share of total NRC base annual fees in FY 1996 represented an average cost of \$5.76 per customer ($(\$2,746,000 \times 70\% / 333,489 \text{ customers}) = \$5.76 \text{ per customer}$). For our partners, the utility size is also compelling. Central Iowa Power Cooperative (CIPCO) owns 20% of the DAEC. CIPCO serves a rate base of approximately 100,000 customers. Their share of total NRC base annual fees in FY 1996 represented an average cost of \$5.49 per customer ($(\$2,746,000 \times 20\% / 100,000 \text{ customers}) = \$5.49 \text{ per customer}$). The remaining 10% of the DAEC is owned by Corn Belt Power Cooperative. Corn Belt is comprised of 51,681 customers. Corn Belt's share of NRC base annual fees in FY 1996 constituted \$5.31 per customer ($(\$2,746,000 \times 10\%) / 51,681 \text{ customers} = \$5.31 \text{ per customer}$). Although not all the information was available from public resources and there are different practices in reporting the number of electric customers among utilities, figure 4 does indicate that the average nuclear utility size in the industry is substantially larger than IES in terms of the number of electric customers.

4. Net Increase in KWH Cost for Each Customer: When spread over all electrical sales for IES customers, the fee forms a relatively small percentage of total costs. For the electrical output of the DAEC, the fee equates to roughly seven hundredths of a cent

per kilowatt hour electric (KWHe) assuming an annual capacity factor of 80%. The basic mathematical calculation is $\$2,746,000 / (538,000 \text{ KWHe} \times 365 \text{ days} \times 24 \text{ hours} \times 80\%) = \0.00073 per KWHe (or $\text{¢}0.073$ per KWHe). However, in an increasingly competitive environment, decisions on electrical service are being made on tenths and hundredths of a cent per kilowatt hour. In a different perspective, NRC base annual fees will form approximately 3.82% of the total non-fuel Operations and Maintenance (O&M) budget in 1996 for the DAEC ($(\$2,746,000 / \$71,956,320) \times 100\% = 3.82\%$). This is a disproportionate share of the expense of operation. Based on data obtained from the Inside NRC, dated June 26, 1995 for O&M costs of all reactors (Reference 4), NRC fees make up only approximately 2.31% of the average O&M expenditures for commercial reactors ($(\$2,746,00 / \$118,836,568) \times 100\% = 2.31\%$). Again, the customers of IES are paying a disproportionate share of the applicable fees (Figure 5).

5. **Other:** The DAEC is the only nuclear power generating plant in Iowa and has to compete with low cost coal-generating plants in the local area that are not subjected to equivalent fees. This puts the DAEC in an economically disadvantaged position. However, in spite of the economical disadvantage, the DAEC has a strong focus on nuclear safety. This is underscored by the last Systematic Assessment of Licensee Performance (SALP) Report, dated December 8, 1995, which assessed the operation of the DAEC from March 1994 to October 1995. The report reaffirmed the DAEC's excellent commitment to nuclear safety and concluded that conservative decision making, effective management involvement, excellent safety focus, and good human performance are attributes to the excellent operation of the DAEC. The last SALP Report rated the DAEC a 1 in 3 of 4 functional areas.

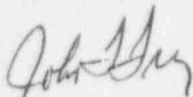
Conclusion: Based on the age of the DAEC, its low electrical output capability when compared with average nuclear plants in the industry, the impact of base annual NRC fees, competition from the local low cost coal-generating plants, and a strong focus on safety, we believe that the DAEC satisfies all of the criteria specified in 10 CFR 171.11, Section (c). Therefore, a partial exemption from or a reduction to 58% of base annual NRC fees proportional to the size of the reactor is warranted ($(538 \text{ MWe} / 935 \text{ MWe}) \times 100\% = 58\%$). This percentage equates to a reduction from FY 1996 rate of \$2,746,000 to \$1,592,680.

This exemption request is consistent with the exemptions previously granted to the Consumers Power Company's Big Rock Point Plant and Yankee Atomic Electric Company's Yankee Rowe Plant.

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Should you have any questions, please contact this office.

Sincerely,



John F. Franz
Vice President, Nuclear

JFF/KP/HT

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- Attachments:
1. Figure 1, Reactor Age, Remaining Licensed Life Comparison
 2. Figure 2, Net Electrical Output Comparison
 3. Figure 3, NRC Fee Per Net Electrical Output Comparison
 4. Figure 4, Number Of Electric Customer Comparison
 5. Figure 5, O&M Costs Comparison

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L. Liu
D. Mineck
G. Kelly (NRC-NRR)
H. Miller (Region III)
NRC Resident Office
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Figure 1. Reactor Age, Remaining Licensed Life Comparison Between DAEC & Industry Average

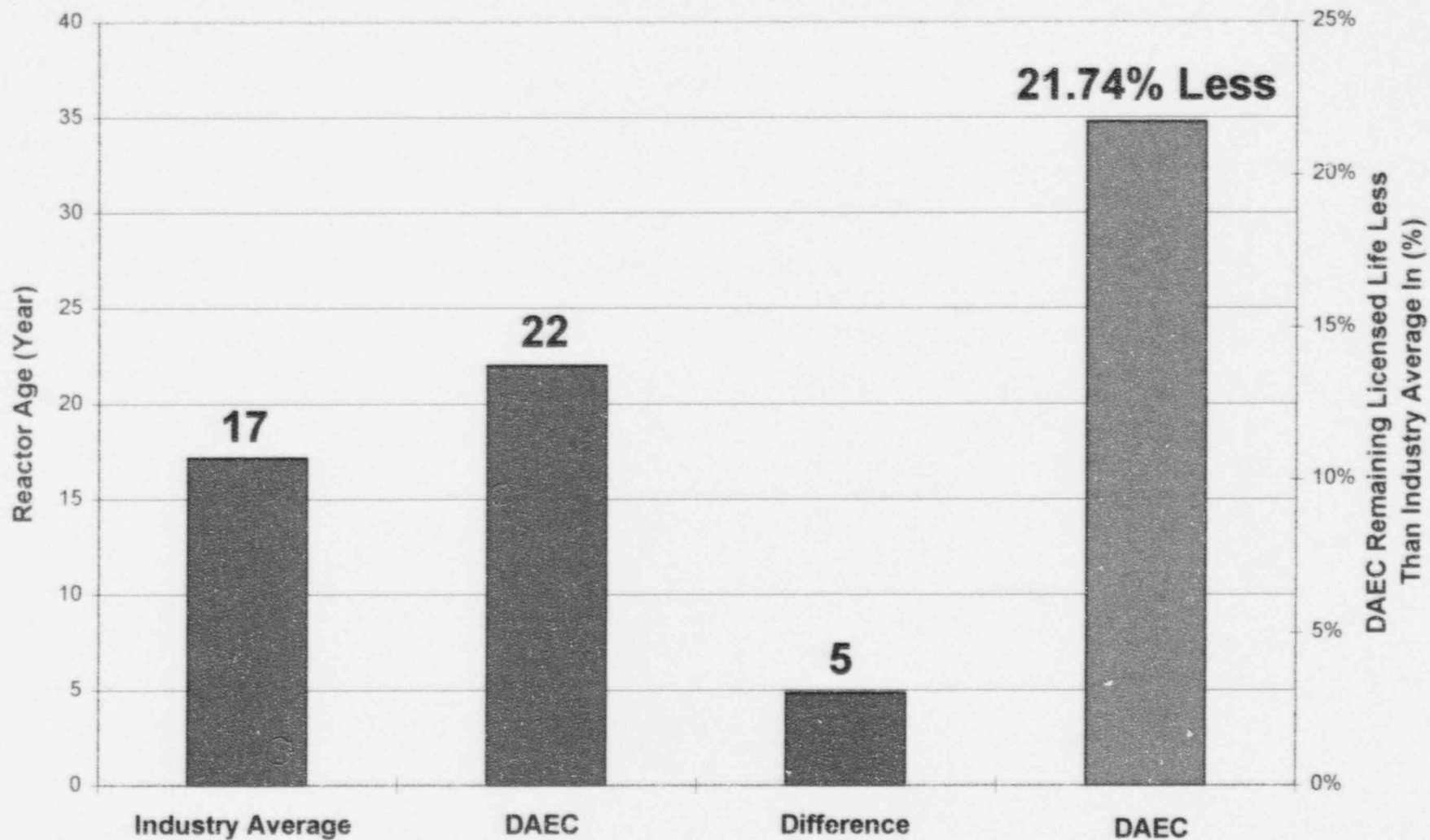


Figure 1

Figure 2. Net Electrical Output Comparison Between DAEC & Industry Average

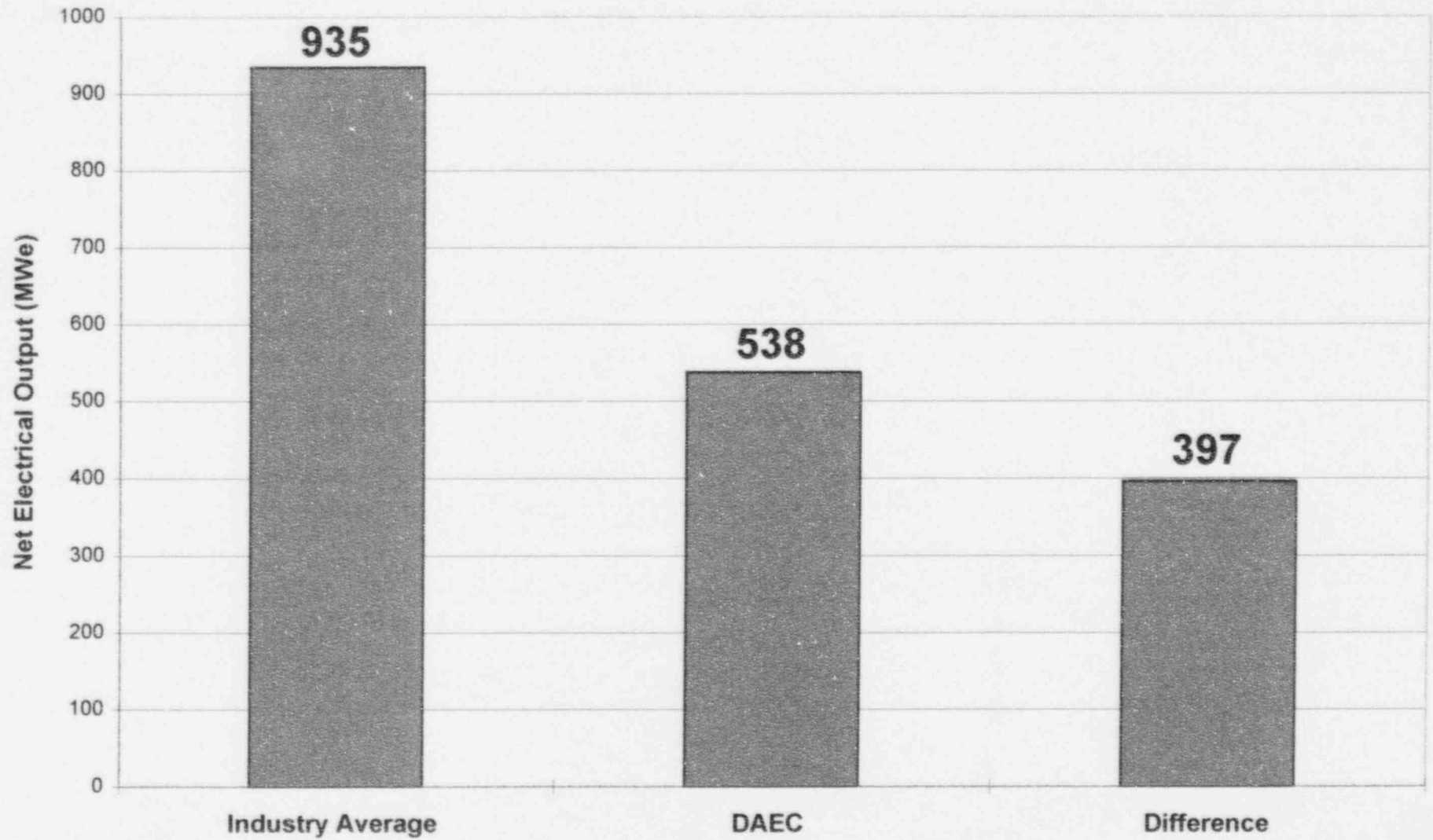


Figure 2

Figure 3. NRC Fee Per Electrical Output Comparison Between DAEC & Industry Average

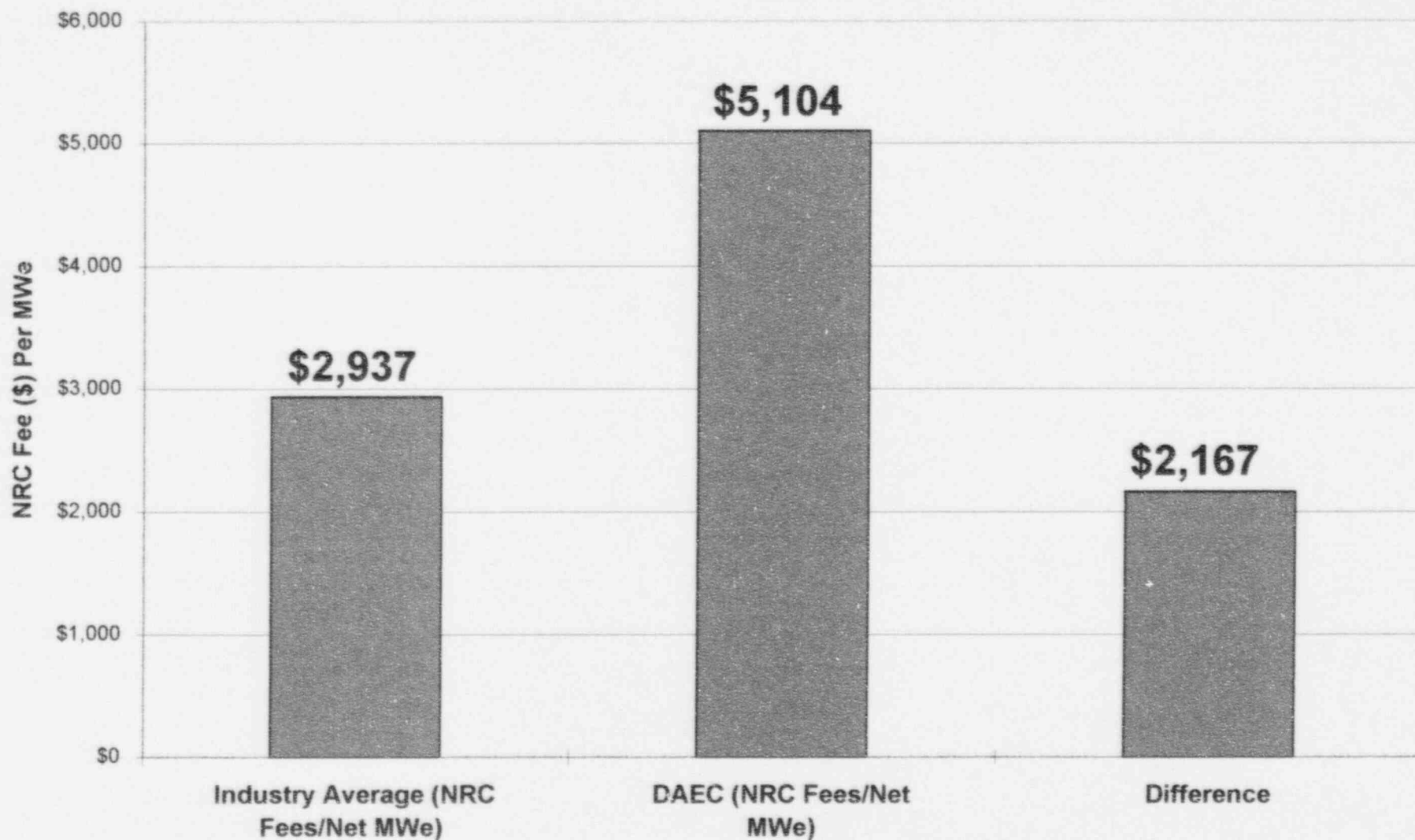


Figure 3

Attachment 3 to NG-96-0618
Data Source: References 1 and 2 of NG-96-0618

Figure 4. Number of Electric Customer Comparison Between DAEC & Industry

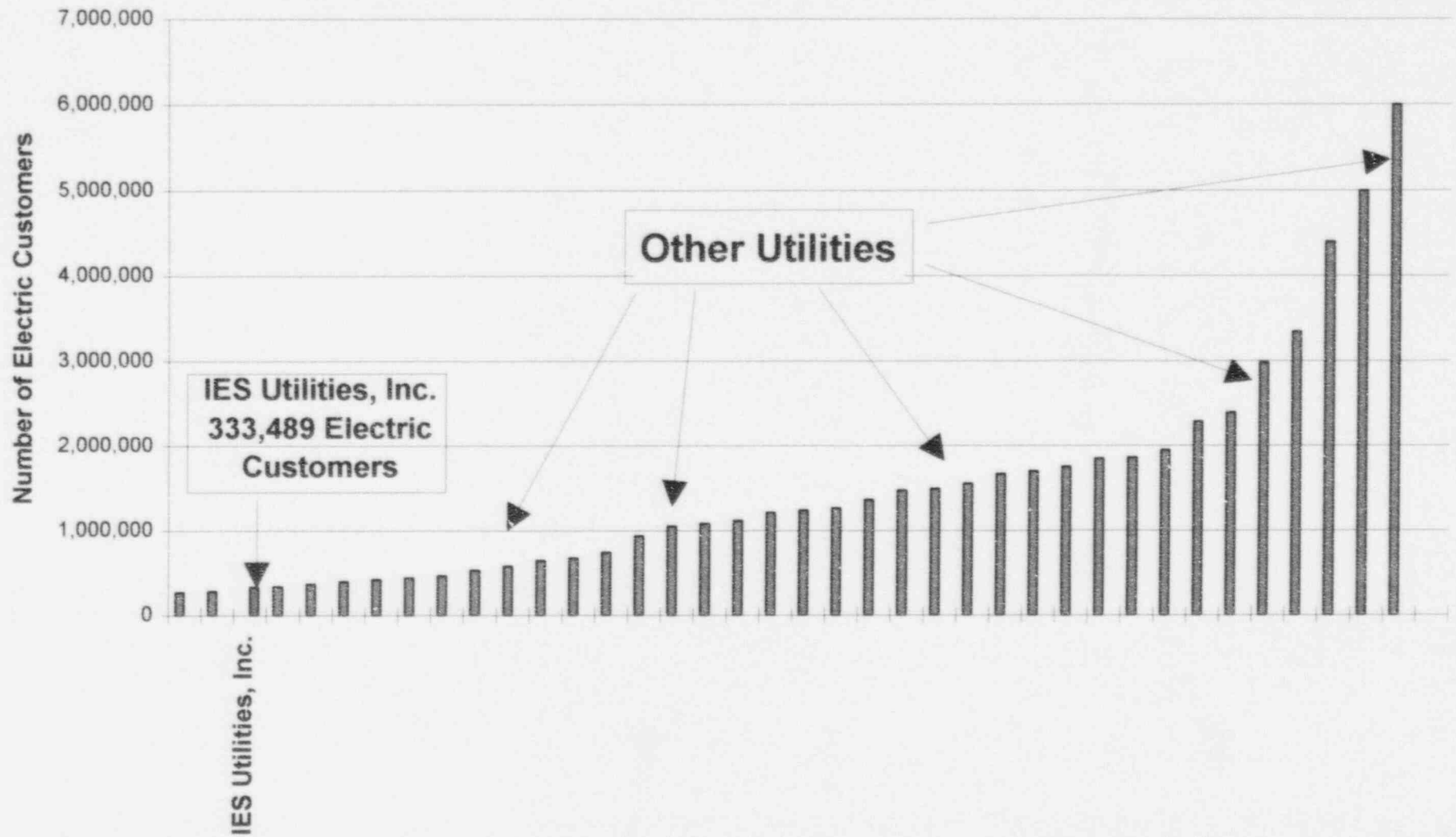
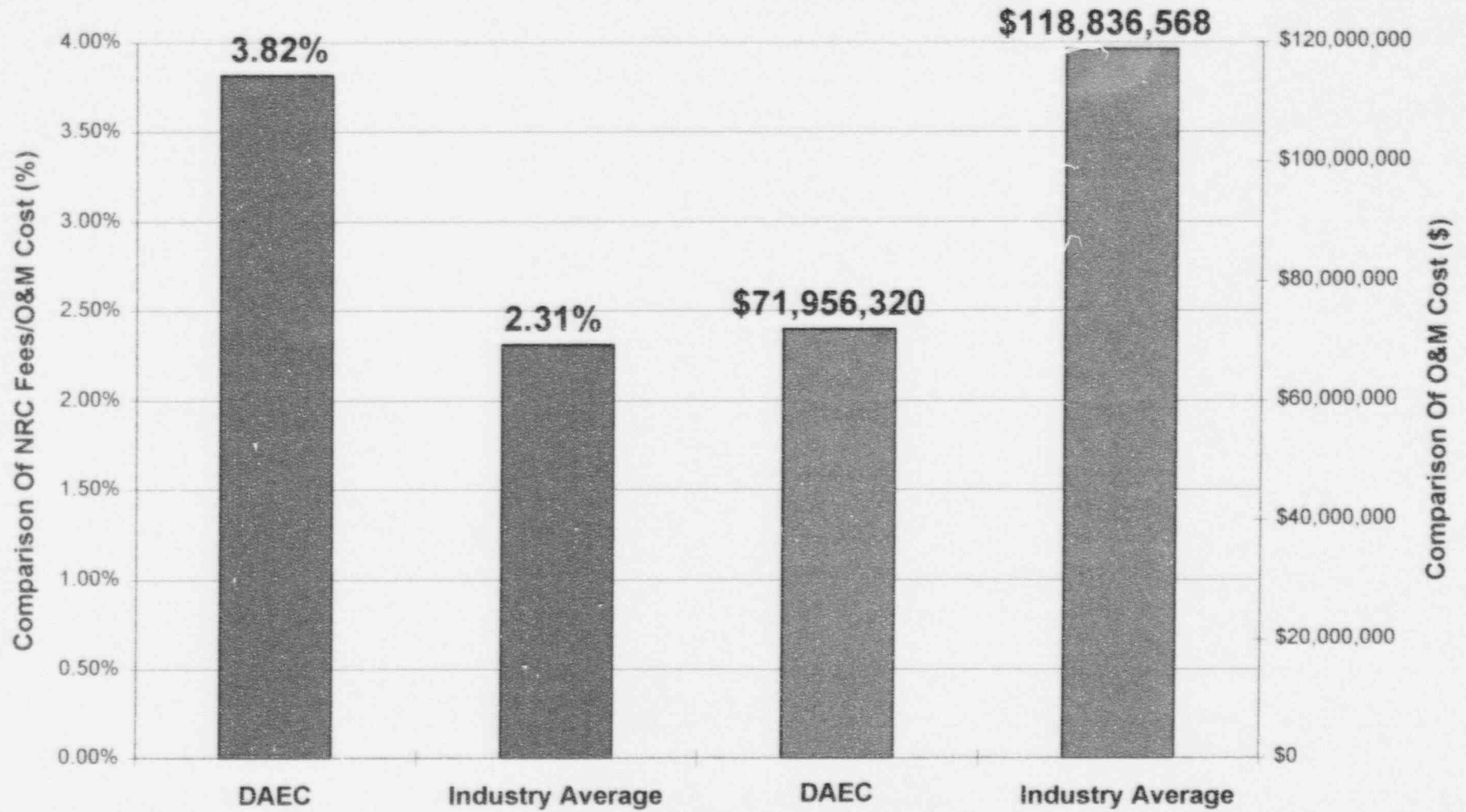


Figure 4

Figure 5. Costs Comparison Between DAEC & Industry Average



Attachment 5 to NG-96-0618
Data Source: Reference 4 of NG-96-0618

Figure 5