

For the Using and Consuming Public:

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BY THE COMMISSION: On August 15, 2023, Virginia Electric and Power Company, d/b/a Dominion Energy North Carolina (DENC), filed its application for a fuel charge adjustment, along with accompanying testimony and exhibits, pursuant to N.C. Gen. Stat. § 62-133.2 and Commission Rule R8-55 relating to fuel and fuel-related charge adjustments for electric utilities (Application). The Application requested a change in DENC's fuel charges effective for service rendered on and after February 1, 2024. The Application was accompanied by the testimony and exhibits of Jeffrey D. Matzen, James Holloway, Alan J. Moore, Dale E. Hinson, Christopher D. Clemens, and Timothy P. Stuller.

The intervention and participation of the Public Staff in this docket are recognized pursuant to N.C.G.S. § 62-15(d) and Commission Rule R1-19(e).

On August 23, 2023, the Carolina Utility Customers Association, Inc. (CUCA), filed a Petition to Intervene. The Commission granted this petition to intervene by order and errata order on August 28, 2023.

On August 25, 2023, the Carolina Industrial Group for Fair Utility Rates I (CIGFURI) filed a Petition to Intervene. The Commission granted this petition to intervene on August 28, 2023.

On August 30, 2023, the Commission issued an Order Scheduling Hearing, Requiring Filing of Testimony, Establishing Discovery Guidelines, and Requiring Public Notice, which, together with a subsequent order, were amended by order issued on September 7, 2023 (Amended Order). Pursuant to the Amended Order, the Commission established deadlines for the filing of petitions to intervene, intervenor testimony and exhibits, and DENC's rebuttal testimony and exhibits. The Commission's Amended Order scheduled the hearing in this proceeding for Tuesday, November 28, 2023.

On September 21, 2023, Nucor Steel-Hertford (Nucor) filed a Petition to Intervene. The Commission granted this petition to intervene on September 26, 2023.

On September 28, 2023, DENC filed an Errata to its Application, the testimony and exhibits of witness Stuller, Schedule 4 to witness Matzen's testimony, and corrected Rule R8-55(e)(2) information.

On November 3, 2023, DENC filed the supplemental testimony and exhibits of Timothy P. Stuller.

On November 7, 2023, the Public Staff filed the testimony of Evan D. Lawrence and Darrell Brown.

Also on November 7, 2023, CIGFUR filed the testimony and exhibits of Brian C. Collins.

On November 9, 2023, DENC filed its Affidavit of Publication evidencing the publication of the Public Notice pursuant to the Amended Order.

On November 16, 2023, DENC filed the rebuttal testimony and exhibits of Alan J. Moore and Timothy P. Stuller.

On November 21, 2023, DENC filed a letter informing the Commission of DENC's inadvertent omission of certain purchased power capacity costs in its calculation of its fuel-related costs (November 21, 2023 Letter). The November 21, 2023 Letter states that, upon discovery of this error, DENC promptly notified the Public Staff. Further, the November 21, 2023 Letter indicates that while review of the error was still underway, the preliminary indication is that correction of the error would ultimately net out to result in an approximately \$1 million increase in fuel rates sought to be recovered from customers. Due to time constraints, the November 21, 2023 Letter indicates that DENC and Public Staff agreed to hold over consideration and potential recovery of these costs to DENC's 2024 fuel filing; therefore, any under-recovery will be sought in DENC's August 2024 fuel filing. Further, the November 21, 2023 Letter states that DENC agreed to waive recovery of any interest associated with delaying the recovery of these costs, and also that DENC agreed that the Public Staff should audit, investigate, and make recommendations (including with regard to any recommended disallowance) related to the costs at issue.

Also on November 21, 2023, DENC, the Public Staff, and CIGFUR filed a Joint Motion to Excuse Witnesses and Cancel Evidentiary Hearing (Joint Motion).

On November 27, 2023, the Commission granted the Joint Motion, canceled the expert witness hearing scheduled for November 28, 2023, and accepted into evidence the testimony and exhibits of DENC witnesses Matzen, Holloway, Moore, Hinson, Clemens, and Stuller, the testimony of Public Staff witnesses Lawrence and Brown, and the testimony of CIGFUR witness Collins. The Commission also directed that proposed orders and briefs be filed on or before December 28, 2023.

This matter came on for public hearing as scheduled on November 28, 2023. No public witnesses appeared to testify at the public witness hearing.

On December 28, 2023, a Joint Proposed Order was filed by DENC and the Public Staff.

Based upon the evidence presented and the entire record in this proceeding, the Commission makes the following:

FINDINGS OF FACT

1. DENC is duly organized as a public utility operating under the laws of the State of North Carolina and is subject to the jurisdiction of the Commission. DENC is engaged in the business of generating, transmitting, distributing, and selling electric power to the public in northeastern North Carolina. DENC is lawfully before this Commission based on its Application filed pursuant to N.C.G.S. § 62-133.2.

2. Recent commodity prices for natural gas have continued to be volatile with natural gas prices experiencing an initial significant increase followed by a significant decline during the test year.

3. DENC's update of its Experience Modification Factors (EMF) period costs to include its deferral balance for the months of July, August, and September 2023 in its cost recovery request for purposes of this case is reasonable and appropriate. It is also reasonable and appropriate to adopt the Rider B1 rate as proposed by DENC to account for the remaining under-recovery from July and August of 2022.

4. The appropriate test period for purposes of the deferral balance in this proceeding is the 15 months ended September 30, 2023. The fuel costs incurred from July to September 2023 are subject to review in DENC's next fuel rider proceeding.

5. DENC's fuel procurement practices during the test period were reasonable and prudent.

6. The per books test period system sales are approximately 89,287,302,000 kilowatt-hours (kWh).

7. The per books test period system generation is 91,652,242 megawatt-hours (MWh) which includes various types of generation as follows:

<u>Generation Types</u>	<u>MWh</u>
Nuclear	26,267,045
Coal	5,427,959
Heavy Oil	15,552
Wood	1,084,142
Combined Cycle and Combustion Turbine	35,360,623
Solar, Wind, and Hydro – Conventional and Pumped Storage	3,809,582
Net Power Transactions	22,958,681
Less: Energy for Pumping	(3,271,343)

8. DENC's baseload plants were managed prudently and efficiently during the test period so as to minimize fuel and fuel-related costs.

9. The nuclear capacity factor appropriate for use in this proceeding is 90.9%, which is the estimated nuclear capacity factor for the 12 months beginning February 1, 2024.

10. The adjusted test period system sales for use in this proceeding are 93,919,976,874 kWh.

11. The adjusted test period system generation for use in this proceeding is 96,489,292 MWh which is categorized as follows:

<u>Generation Types</u>	<u>MWh</u>
Nuclear	26,581,550
Coal (including wood and natural gas steam)	6,899,590
Heavy Oil	0
Combined Cycle and Combustion Turbine	37,464,853
Hydro	3,012,451
Solar/Wind	1,638,661
Net Power Transactions	24,163,530
Less: Energy for Pumping	(3,271,343)

12. A marketer percentage serves as a proxy for fuel costs when actual fuel costs associated with power purchases are not available. A marketer percentage of 68.0% should be applied in this proceeding to approximate the projected fuel cost of such power purchases.

13. The adjusted test period system fuel expense for use in this proceeding is \$3,242,553,433.

14. DENC's methodology for calculation of the billing period rate is reasonable and appropriate for this proceeding.

15. The reasonable and appropriate North Carolina retail class-specific base fuel factors as approved in Docket No. E-22, Sub 562 (DENC's 2019 rate case) including the regulatory fee are as follows:

<u>Customer Class</u>	<u>Base Fuel Factor</u>
Residential	2.118 ¢/kWh
SGS & PA	2.115 ¢/kWh
LGS	2.098 ¢/kWh
Schedule NS	2.036 ¢/kWh
6VP	2.065 ¢/kWh
Outdoor Lighting	2.118 ¢/kWh
Traffic	2.118 ¢/kWh

16. The reasonable and appropriate prospective North Carolina retail class-specific Rider A fuel factors including the regulatory fee are as follows:

<u>Customer Class</u>	<u>Prospective Fuel Factor (Rider A)</u>
Residential	\$0.013755 kWh
SGS & PA	\$0.013753 kWh
LGS	\$0.013675 kWh
Schedule NS	\$0.013223 kWh
6VP	\$0.013417 kWh
Outdoor Lighting	\$0.013755 kWh
Traffic	\$0.013755 kWh

17. The appropriate North Carolina retail test period jurisdictional fuel expense under-collection is \$7,351,825, and the adjusted North Carolina retail jurisdictional test period system sales are 4,013,280,667 kWh.

18. The appropriate EMF or Rider B for this proceeding (including the regulatory fee) for the February 1, 2024, through January 31, 2025, fuel charge billing period are as follows:

<u>Customer Class</u>	<u>EMF Billing Factor (Rider B)</u>
Residential	\$0.001854 kWh
SGS & PA	\$0.001853 kWh
LGS	\$0.001839 kWh
Schedule NS	\$0.001783 kWh
6VP	\$0.001808 kWh
Outdoor Lighting	\$0.001854 kWh
Traffic	\$0.001854 kWh

19. The appropriate EMF or Rider B1 for this proceeding (including the regulatory fee) for the February 1, 2024, through January 31, 2025, fuel charge billing period are as follows:

<u>Customer Class</u>	<u>EMF Billing Factor (Rider B1)</u>
Residential	\$0.006297 kWh
SGS & PA	\$0.006108 kWh
LGS	\$0.006295 kWh
Schedule NS	\$0.006494 kWh
6VP	\$0.006093 kWh
Outdoor Lighting	\$0.005838 kWh
Traffic	\$0.006074 kWh

20. The total fuel factors to be billed to DENC’s North Carolina retail customers during the February 1, 2024, through January 31, 2025, fuel charge billing period, including the regulatory fee, are as follows:

<u>Customer Class</u>	<u>Base Fuel Factor</u>
Residential	\$0.043086 kWh
SGS & PA	\$0.042864 kWh
LGS	\$0.042789 kWh
Schedule NS	\$0.041860 kWh
6VP	\$0.041968 kWh
Outdoor Lighting	\$0.042627 kWh
Traffic	\$0.042863 kWh

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1

This finding of fact is essentially informational, jurisdictional, and procedural in nature and is not controverted.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 2-4

The evidence for these findings of fact is contained in the testimony of DENC witnesses Hinson, Moore, and Stuller; Public Staff witness Lawrence; CIGFUR witness Collins; and the entire record in this proceeding.

North Carolina General Statutes Section 62-133.2(c) sets out the verified, annualized information that each electric utility is required to furnish the Commission in an annual fuel charge adjustment proceeding for an historical 12-month test period. Commission Rule R8-55(b) prescribes the 12 months ending June 30 as the test period for DENC. DENC’s Application was based on the 12 months ended June 30, 2023.

In DENC witness Hinson’s direct testimony, he discussed the trends that natural gas commodity markets experienced during the test period. Witness Hinson stated that price volatility was and will likely continue to be prevalent across the natural gas, coal, oil,

and biomass fuel commodities. For natural gas, an initial commodity price increase was followed by a dramatic price decline. The initial natural gas price increase was largely caused by concerns, both domestically and in Europe, about sufficient fuel storage inventories to meet the anticipated winter demand for 2022 and 2023. The subsequent price decline occurred due to lower natural gas prices resulting from overall mild weather, lower regional consumption, easing international liquified natural gas (LNG) demand (and associated price decreases), continued strength in domestic natural gas production, and a healthy domestic natural gas storage inventory at the start of the 2023 injection season.

In DENC witness Stuller's direct testimony, he testified that the stepped mitigation approved by the Commission in the 2022 fuel adjustment proceeding was expected to leave a significant portion of the original EMF balance from August 31, 2022 unrecovered during the 2023 fuel rate year. Witness Stuller stated that in order to separate this unrecovered amount from the recovery of current period expense to be recovered through Rider B in this proceeding, DENC proposed rates to recover the projected remaining balance of the prior period fuel expense during the 2024 fuel year through a mechanism termed Rider B1. He stated that in the 2024 fuel proceeding, DENC will establish Rider B1 rates to recover or refund during the 2025 fuel year any final over- or under-recovery of the August 31, 2022 balance.

Public Staff witness Lawrence noted that in previous fuel filings the Public Staff had discussed elevated natural gas commodity prices and volatility. However, natural gas commodity prices in the test year were significantly below the highest prices observed in 2021 and 2022. Those high prices in those prior years contributed to the significant fuel expense levels and resulting under-recoveries in prior cases. Witness Lawrence presented data demonstrating the increases in the average natural gas price at the Henry Hub from July 2019 through October 18, 2023. He also noted that the NYMEX natural gas futures quotes average \$3.40/MMBTU for 2024 with a minimum monthly price of \$3.021/MMBTU for April 2024 and a maximum price of \$4.218/MMBTU for December 2024.

Witness Lawrence further testified that the implementation of the multi-step Rider B to recover the under-collection in the 2022 fuel filing has worked as expected thus far. He stated that the intent of the multi-step recovery was to mitigate rate shock and keep the rate increases less volatile through this fuel filing. The remaining EMF balance not recovered under the initial step of Rider B as part of the multi-year mitigation will become Rider B1 at the start of the February 1, 2024 billing period. Rider B1 will be combined with Rider A (the billing period rate) and Rider B (the traditional EMF rate) to form the total amount to be recovered. The net impact of Riders A, B, and B1 will result in an overall fuel rate decrease compared to current rates.

CIGFUR witness Collins recommended that to the extent DENC over-recovered fuel costs for the period July 2023 to September 2023 that the test period in this case be extended by three months to include July 2023 to September 2023 to reduce the under-recovery amount of \$17.6 million requested in this case to be recovered from customers. Witness Collins further suggested that the new net amount of under-recovery be used to recalculate the Rider B rate to be charged to customers during the Rate Period

of February 1, 2024, to January 31, 2025. Finally, witness Collins asserted that because DENC updated the test period in the 2022 fuel charge proceeding when the recovery position was declining, DENC should also do so in this proceeding when the recovery position is improving.

In rebuttal testimony, DENC witness Stuller acknowledged that DENC's recovery balance has improved. He testified that from June 30, 2023 to September 30, 2023, the recovery position decreased from \$17,578,384 to \$7,351,825. He explained his understanding that DENC has discretionary statutory authority to update the experienced costs of fuel and fuel-related costs through the date that is 30 days prior to hearing. He concluded that updating the proposed Rider B rate to be effective February 1, 2024, to incorporate this improved recovery position would lower the North Carolina jurisdictional average rate, including the regulatory fee, from \$0.004386 per kWh to \$0.001835 per kWh. Witness Stuller presented DENC's updated derivation of the proposed EMF Rider B for the North Carolina jurisdiction and for each customer class based on DENC's North Carolina recovery experience as of September 30, 2023. Witness Stuller also recommended that if DENC updates the current period recovery for the purpose of updating Rider B then it should also update proposed Rider B1. He explained that similar to the recovery position of current period expense the recovery of prior period expense has also improved as it decreased from \$26,638,591 to \$25,165,475. Updating the proposed Rider B1 rate effective February 1, 2024, to incorporate this improved recovery position, lowers the jurisdictional average rate, including the regulatory fee, from \$0.006647 per kWh to \$0.006280/kWh. Witness Stuller stated that based on discussions with the Public Staff, DENC's understanding is that the Public Staff does not oppose this proposal.

In DENC witness Moore's rebuttal testimony, he presented DENC's actual system fuel expenses for the updated test period of the 15 months ended September 30, 2023, and DENC's jurisdictional North Carolina recovery experience as of September 30, 2023. Witness Moore testified that based on the North Carolina jurisdictional fuel factor methodology approved by the Commission, the actual system fuel expenses incurred by DENC during this 15-month period totaled \$3,662,448,572. As of September 30, 2023, DENC was in a fuel cost under-recovery position of \$7,351,825 on a North Carolina jurisdictional basis.

North Carolina General Statutes Section 62-133.2(d) provides that "the Commission shall consider all evidence required under subsection (c) of this section and all other competent evidence that may assist the Commission in reaching its decision including changes in the cost of fuel consumed and fuel-related costs that occur within a reasonable time, as determined by the Commission, after the test period is closed." This statute and Commission Rule R8-55(d)(3) provide further that "[u]pon request of the electric public utility, the Commission shall also incorporate in this determination the experienced over-recovery or under-recovery of costs of fuel and fuel-related costs through the date that is 30 calendar days prior to the date of the hearing, provided that the reasonableness and prudence of these costs shall be subject to review in the utility's next annual hearing pursuant to this section."

Based on its authority under N.C.G.S. § 62-133.2(d), the Commission can consider competent evidence regarding the cost of fuel consumed and fuel-related costs during the months of July, August, and September, 2023, which represent the three months following the close of the test period as defined by Commission Rule R8-55(b). The evidence presented by DENC and the Public Staff indicates that DENC's under-recovery position has improved since June 30, 2023. The Commission finds reasonable DENC's update of its EMF period costs in this proceeding to include DENC's deferral balance for the months of July, August, and September, 2023 for recovery subject to review of the costs in DENC's next fuel rider proceeding. This approach balances DENC's recovery of its fuel-related costs with the benefit to customers of taking account of improved conditions in those costs.

In addition, Rule R8-55(d)(3) requires the Commission, upon request of the utility, to consider DENC's experienced under-recovery of fuel and fuel-related costs up through 30 days before the hearing date, which in this case was November 28, 2023. DENC's updated cost evidence reflects the period ending September 30, 2023, which is well within this time frame. The Commission notes that as also provided by Rule R8-55(d)(3), the reasonableness and prudence of DENC's updated fuel costs will be subject to review in its 2024 fuel factor adjustment proceeding.

Based on the foregoing, the Commission approves the update to DENC's EMF period in this proceeding to include DENC's deferral balance for the months of July, August, and September, 2023 in order to help mitigate a projected significant under-recovery for the 2024 fuel factor adjustment proceeding. The deferral balance for the months of July, August, and September, 2023 shall be subject to Commission review in DENC's 2024 annual fuel and fuel-related costs adjustment proceeding.

The Commission further finds reasonable DENC's proposal to utilize Rider B1 to separately recover the remaining under-recovery from July and August, 2022 and to update that under-recovery position to reflect improvements as discussed in witness Stuller's rebuttal testimony.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 5

The evidence for this finding of fact is contained in the direct testimony and exhibits of DENC witnesses Hinson and Clemens.

Commission Rule R8-52(b) requires each electric utility to file a Fuel Procurement Practices Report at least once every ten years and each time the utility's fuel procurement practices change. DENC's current fuel procurement practices for purposes of this proceeding were filed with the Commission in Docket No. E-100, Sub 47A, on December 20, 2013.

In DENC witness Hinson's direct testimony, as noted above, he discussed the trends that affected fuel commodity markets during the test period. He described DENC's fuel procurement practices and explained that DENC continues to follow the same

procurement practices it has in the past in accordance with its report filed in Docket No. E-100, Sub 47A. He also testified that DENC continues to follow its fuel hedging program as discussed in its Fuel Procurement Strategy Report, and DENC believes its comprehensive approach to hedging (e.g., price hedging, diverse fuel supply access, and diverse generation portfolio) has and continues to have a material mitigating effect on fuel cost volatility. He also discussed the activities that DENC employs to mitigate fuel cost expenses in addition to the hedging program while providing safe and reliable electricity for customers.

Witness Hinson explained the importance of both short-term and long-term pipeline capacity acquisitions to provide greater access to competitively priced natural gas supplies and greater fueling flexibility due to the location of DENC's gas-fired generation fleet in the Mid-Atlantic region which is characterized by pipeline constraints and high price volatility. He noted that Winter Storm Elliott illustrated the importance of alternate fuel supplies and associated firm access both onsite and offsite. Witness Hinson also discussed the long-term pipeline and supply options DENC is considering including executing agreements that significantly improve fueling capabilities and continuing to pursue incremental opportunities for firm pipeline transportation as well as considering natural gas peaking services or on-site LNG and oil capabilities.

Regarding natural gas procurement witness Hinson explained that DENC employs a disciplined natural gas procurement plan to ensure a reliable supply of natural gas at competitive prices. He stated that through periodic solicitations and the open market DENC serves its natural gas-fired fleet using a combination of day-ahead, monthly, seasonal, and multiyear physical gas supply purchases. Witness Hinson also described how DENC evaluates its diverse portfolio of pipeline and storage contracts to determine the most reliable and economical delivered fuel options for each power station and how this portfolio of natural gas transportation contracts provides access to multiple natural gas supply and trading points from the Marcellus shale region to the southeast region. He also noted that DENC actively participates in short-term, interstate pipeline capacity markets and purchases capacity when available during times of need or selling during low generation periods or power station outages.

Witness Hinson further testified that DENC-owned natural gas-fired generation accounted for on average 51.0%, and up to as much as 58.0%, of DENC's electricity generation during the test period.

Regarding coal procurement, witness Hinson testified that DENC employs a multi-year physical procurement plan to ensure that a reliable supply of coal is delivered to its generating stations by truck or rail at competitive prices. DENC accomplishes this by procuring long-term coal requirements primarily through periodic solicitations and secondarily on the open market for short-term or spot needs. He explained that this blend of contract terms creates a diverse coal fuel portfolio and allows DENC to proactively manage its fuel procurement strategy, contingency plans, and any risk of supplier non-performance. He further noted that DENC optimizes generation flexibility afforded by

the coal fleet including on-site fuel storage to take advantage of fuel commodity price differentials for the benefit of customers.

Witness Hinson also testified that DENC has a varied procurement strategy for its biomass stations depending on their geographical region. He stated that DENC's biomass stations at Hopewell and Southampton continue to be served by multiple suppliers under both short- and long-term agreements which enables DENC to increase the reliability of its biomass supply by diversifying its supplier base. He also noted that DENC continues to purchase long-term fuel supply through one primary supplier for its Altavista Power Station and procures biomass needs for the Virginia City Hybrid Energy Center via short- and long-term contracts with various suppliers.

Finally, witness Hinson described how with respect to its oil procurement practices it purchases No. 2 fuel oil and No. 6 fuel oil requirements on the spot market and optimizes its inventory, storage, and transportation to ensure reliable supply.

In DENC witness Clemens' direct testimony, he testified that DENC continues to follow the same procurement practices as it has in the past in accordance with the procedures filed in Docket No. E-100, Sub 47A.

Witness Clemens explained that the Russian/Ukrainian conflict has continued to impact the front-end nuclear fuel component markets with the impacts on conversion and enrichment markets being the most pronounced. He stated that both spot and term prices for conversion and enrichment are significantly higher and likely to remain higher than prior to the invasion due to the prospect of Russian supply becoming limited or unavailable. He further testified that Russia is a major global nuclear fuel supplier particularly with respect to uranium enrichment. While supply to the U.S. is limited by the Russian Suspension Agreement, witness Clemens stated that impacts to global supply affect global market pricing. He also noted that the potential for an immediate and indefinite cutoff of Russian supply to the U.S. and potentially other Western utilities through sanctions, bans, or other government actions would have certain and near immediate impacts on conversion and enrichment supply to the U.S. and other Western markets. He further explained that a disruption of Russian uranium supply would not be as significant for the uranium market compared to conversion and enrichment due to opportunities to restart idled uranium production and develop new production worldwide. Specifically, since late June 2022 through the end of May 2023, the market price for spot uranium has increased by approximately 11.0% and term base escalated prices for uranium have increased approximately 10.0%. He further testified that conversion prices have also increased during the same time frame with both market and term base escalated prices increasing approximately 16.0%. Similarly, the market price and term base escalated price for enrichment has increased approximately 54.0% and 8.0%, respectively. Witness Clemens clarified that, while the Russian invasion has contributed to uranium price volatility, financial fund purchasing also impacts prices.

Witness Clemens explained that these changes in market costs have not significantly impacted DENC's projected near-term costs as DENC's current mix of

longer-term front-end component contracts has reduced its exposure to the market price volatility that has occurred over the past several years. Witness Clemens finally testified that the 18-month refueling schedule for DENC's nuclear plants delays the full effect of any significant changes in a component price.

Based on the foregoing, the Commission concludes that DENC's fuel procurement and power purchasing practices during the test period were reasonable and prudent.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 6-7

The evidence for these findings of fact is contained in the direct testimony and exhibits of DENC witnesses Moore and Matzen.

DENC witness Moore's Schedule 3 identified that DENC's per books test period system sales were approximately 89,287,302,000 kWh, and witness Matzen's Schedule 3 identified that DENC's per books test period system generation was 91,652,242 MWh. Witness Matzen's Schedule 3 identified that the per books test period system generation is categorized as follows:

<u>Generation Types</u>	<u>MWh</u>
Nuclear	26,267,045
Coal	5,427,959
Heavy Oil	15,552
Wood	1,084,142
Combined Cycle and Combustion Turbine	35,360,623
Solar, Wind, and Hydro – Conventional and Pumped Storage	3,809,582
Net Power Transactions	22,958,681
Less: Energy for Pumping	(3,271,343)

No other party offered testimony on the level of per books test period system MWh sales or generation. The Commission thus concludes that the foregoing test period per books levels of sales and generation are reasonable and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

The evidence for this finding of fact is contained in the direct testimony of DENC witnesses Matzen and Holloway and the testimony of Public Staff witness Lawrence.

For purposes of determining the EMF rider, Commission Rule R8-55(k) requires that a utility must achieve either (a) an actual system-wide nuclear capacity factor in the test year that is at least equal to the national average capacity factor for nuclear production facilities based on the most recent five-year period available as reflected in the most recent Generating Availability Report of the North American Electric Reliability Corporation (NERC), appropriately weighted for size and type of plant, or (b) an average

system-wide nuclear capacity factor, based upon a two-year simple average of the system-wide capacity factors actually experienced in the test year and the preceding year, that is at least equal to the national average capacity factor for nuclear production facilities based on the most recent five-year period available as reflected in the most recent NERC Generating Availability Report, appropriately weighted for size and type of plant. Commission Rule R8-55(k) also provides that, if a utility does not meet either standard, a rebuttable presumption is created that the increased cost of fuel was incurred imprudently, and a disallowance may be appropriate. Commission Rule R8-55(d)(1) provides 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 NERC Generating Availability Report, adjusted to reflect the unique, inherent characteristics of the utility facilities and any unusual events.

In DENC witness Matzen’s direct testimony, he testified to the performance of DENC’s major generating units during the test period. Witness Matzen also testified that DENC’s net capacity factors during the test period for its four nuclear units were:

North Anna Unit 1	91.4%
North Anna Unit 2	92.7%
Surry Unit 1	87.0%
Surry Unit 2	86.3%

The average capacity factor for the test period was 89.4%. Witness Matzen also stated that the aggregate capacity factor for DENC’s nuclear units during the test period and the preceding year was 92.3%. The five-year industry weighted average capacity factor for the period 2017-2021 for 800-999 megawatt (MW) units, as reported by NERC in its latest Generating Availability Report, was 93.09%. Based on these figures, he stated that DENC’s nuclear fleet performance was lower than the industry five-year average for comparable units based on the two-year simple average metric and based on the test year average. Witness Matzen noted in addition that, for the same five-year period (i.e., 2017-2021), DENC’s net nuclear capacity factor was 94.6%, compared to the national average of 93.09%.

In DENC witness Holloway’s direct testimony, he provided additional details regarding DENC’s nuclear performance during the test period. Witness Holloway discussed DENC’s primary objectives in the operation of its nuclear fleet—the safe, reliable, and efficient generation of electricity—and the key factors DENC focuses on to achieve those objectives. He testified that DENC was prudent in its operations of the nuclear fleet considering the performance during the test period. He explained that capacity factor is just one metric used when determining prudent operations. He noted that both North Anna and Surry Power Stations have sustained high levels of plant performance and operated in a safe and reliable manner while maximizing generation including during Winter Storm Elliott in December 2022. Witness Holloway discussed how DENC schedules and manages the impact to unit availability of refueling and maintenance outages for the nuclear fleet and explained that DENC conducts outage scheduling for refueling and maintenance in a systematic manner to ensure all planned

activities are performed and all scheduled repairs are completed. Witness Holloway also described the work associated with DENC's subsequent license renewal (SLR) requests for its nuclear units and how SLR work impacts planned refueling outages and nuclear unit capacity factors. He addressed DENC's approach to outage extensions and forced outages and how DENC analyzes such events. Finally, witness Holloway provided details regarding DENC's refueling, planned, and forced outages during the test period, and he concluded that the full context of DENC's reasonable and prudent management of the test period outages demonstrates DENC's continued commitment to achieving high nuclear fleet performance while maintaining safety and reliability.

Public Staff witness Lawrence testified that in the course of his investigation he reviewed DENC's Application, prefiled testimony and exhibits, supplemental filings, fuel costs, test period baseload power plant performance reports, various documents related to test year power plant outages, responses to data requests, and conducted numerous conference calls with DENC. Witness Lawrence testified that DENC did not meet the standards of Commission Rule R8-55(k) for the test period. Witness Lawrence stated that refueling outages had the largest impact on DENC's overall weighted nuclear capacity factor, noting that there were three refueling outages in the test year, while two refueling outages are more typical. He noted in addition that there were additional outages not related to scheduled refueling outages that also negatively impacted the test period weighted capacity factor for the nuclear fleet. Nonetheless, based on his investigation of the operation of DENC's nuclear power plants during the test year, witness Lawrence did not recommend any replacement power cost adjustments.

Based upon the evidence in the record, the Commission concludes that DENC managed its baseload plants prudently and efficiently so as to minimize fuel and fuel-related costs.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 9

The evidence for this finding of fact is contained in the direct testimony of DENC witness Matzen.

DENC witness Matzen testified that for the 12-month rate period ending January 31, 2025, North Anna Unit 1 is projected to operate at a net capacity factor of 89.3%, North Anna Unit 2 is projected to operate at a net capacity factor of 100.6%, Surry Unit 1 is projected to operate at a net capacity factor of 82.9%, and Surry Unit 2 is projected to operate at a net capacity factor of 89.7%. Based on this projection, DENC normalized expected nuclear generation and fuel expenses in developing the proposed fuel cost rider. DENC's projected fuel costs are based on a 90.9% nuclear capacity factor, which is what DENC anticipates for the period the new rates will be in effect — the 12-month period beginning February 1, 2024, through January 31, 2025. No party offered testimony contesting the projected normalized system nuclear capacity factor.

Based on the foregoing evidence, the Commission concludes that a projected normalized system nuclear capacity factor of 90.9% is reasonable and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 10

The evidence for this finding of fact is contained in the direct and supplemental testimony of DENC witness Stuller and the testimony of the Public Staff.

DENC witness Stuller testified on direct testimony that, due to changes in usage, weather normalization, and customer growth, he recommended an adjustment to DENC's system sales for the 12 months ended June 30, 2023. Witness Stuller stated the adjustment is consistent with the methodology used in DENC's 2019 rate case and the last fuel charge adjustment case, Docket No. E-22, Sub 644 (2022 fuel case).

On September 28, 2023, DENC filed errata direct testimony of witness Stuller to support corrected system sales of 93,919,976,874 kWh.

The Public Staff reviewed and accepted these adjustments. No other party offered or elicited testimony on these adjustments.

Based on the foregoing, the Commission concludes that DENC's recommended adjustments for changes in usage, weather normalization, and customer growth are reasonable and appropriate adjustments for use in this proceeding. The appropriate adjusted system sales for the 12 months ended June 30, 2023, are 93,919,976,874 kWh.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

The evidence for this finding of fact is contained in the direct testimony of DENC witness Matzen.

DENC witness Matzen presented an adjustment to per books MWh generation for the 12-month period ended June 30, 2023, to incorporate nuclear generation based upon the expected future operating parameters for each unit. Other sources of generation were then normalized, including an adjustment for weather, customer growth, and increased usage. This methodology for normalizing test period generation resulted in an adjusted generation level of 96,489,292 MWh, which is categorized as follows:

<u>Generation Types</u>	<u>MWh</u>
Nuclear	26,581,550
Coal (including wood and natural gas steam)	6,899,590
Heavy Oil	0
Combined Cycle and Combustion Turbine	37,464,853
Hydro	3,012,451
Solar/Wind	1,638,661
Net Power Transactions	24,163,530
Less: Energy for Pumping	(3,271,343)

No other party offered or elicited testimony on the adjusted test period system generation for use in this proceeding. Thus, based on the foregoing, the Commission concludes that the adjusted test period system generation level of 96,489,292 MWh is reasonable and appropriate for use in this proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

The evidence for this finding of fact is contained in the direct testimony of DENC witness Matzen.

DENC witness Matzen testified that the system fuel expense includes PJM Interconnection, LLC (PJM) energy market purchases, non-utility generator (NUG) energy purchases, and off-system sales, and generally purchases from the PJM energy market and certain NUG purchases that do not provide fuel cost data. He explained that the marketer percentage is a proxy used to approximate the percentage of these purchase costs related to fuel and is applied to fuel expenses. He presented DENC's updated calculation of the marketer percentage of 68.0% which DENC included in the calculation of system projected fuel expense based on the PJM State of the Market Reports for 2021 and 2022 using the same averaging method that was applied in the 2022 fuel case as well as DENC's 2019 rate case.

The Public Staff and other parties to the proceeding did not offer any evidence on this matter.

Consistent with the February 24, 2020 order issued in DENC's 2019 rate case, and based on the evidence in this proceeding, the Commission concludes that it is reasonable for DENC to apply a 68.0% marketer percentage to purchases from suppliers that do not provide DENC with actual fuel costs as a proxy for actual fuel costs associated with such purchases for the next EMF period.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 13-16

The evidence for these findings of fact is contained in the testimony of DENC witnesses Matzen and Stuller and the testimony of Public Staff witness Lawrence.

In DENC witness Matzen's direct testimony, he presented DENC's system fuel expense for the test period and the normalized system fuel expenses for the upcoming rate period of \$3,242,280,682. Witness Matzen testified that he used the expense normalization methodology that has been used by DENC and approved in previous North Carolina annual fuel factor proceedings. Specifically, the first step in computing normalized system fuel expense is to calculate nuclear generation based on the expected future operating parameters for each unit. The expected generation from the nuclear units was calculated for the 12-month period ending January 2025. Other sources of generation were then normalized for the test period. The total of coal, heavy oil, combustion turbine and combined cycles, and purchased energy during the test period was then calculated. A percentage of this total was then calculated for each of these resources. Normalized generation was computed by applying these percentages to a new total, including an adjustment for weather, customer growth, increased usage, and the net change in nuclear and DENC's solar generation. Witness Matzen stated that this methodology for normalizing the test period generation resulted in adjusted annual system energy requirements of 96,483,136 MWh.

Witness Matzen's corrected Schedule 4, together with its errata Application and errata Stuller direct testimony and schedules, updated the system average fuel expense to \$3,242,553,433 and updated the adjusted annual system energy requirements to 96,489,292 MWh.

Witness Matzen also testified on direct testimony that during the test period the 20 MW Grassfield Solar Facility and the 42 MW Renan Solar Facility were placed in service, along with an additional 20 MW of PPA solar. Witness Matzen also noted that DENC anticipates adding additional solar facilities totaling approximately 953 MW AC during the February 2024 – January 2025 rate period. He testified that DENC anticipates a benefit to system fuel expense from these changes and an adjustment of \$37.3 million was included on his Schedule 4 showing the calculation of the system projected fuel expense.

In DENC witness Stuller's direct testimony, he presented DENC's calculation of the base fuel component for the North Carolina jurisdiction and each customer class. He first determined the average system fuel factor of \$0.034575 per kWh based on system fuel expenses of \$3,242,280,682 and system sales of 93,914,081,594 kWh which reflected adjustments for changes in usage, weather normalization, and customer growth. Witness Stuller also presented the calculations used to differentiate the jurisdictional base fuel component by voltage to determine the class fuel factors and testified that these are consistent with the methodology used in DENC's 2022 fuel case. In witness Stuller's errata direct testimony, he updated the average system fuel factor to \$0.034576 per kWh based on system fuel expenses of \$3,242,553,433 and system sales of 93,919,976,874 kWh.

Public Staff witness Lawrence testified regarding DENC's calculation of the billing period rate. He explained that DENC uses the test period as the basis of the projection it uses to determine the rate to be charged for the billing period in Rider A. To determine the load that must be served, DENC uses the customer count and weather-normalized test

period sales adjusted for customer growth. DENC then uses the delivered cost of fuel during the test period as the fuel cost for the billing period. Finally, it normalizes the nuclear capacity factor of its nuclear units and applies known changes to the generation fleet (in this case, new solar facilities coming online during the billing period) and then models the generation mix dispatch needed to meet load based on these factors. This approach results in the billing period costs being substantially similar to the test period costs.

Witness Lawrence explained that the Public Staff had concerns with DENC's approach to the calculation. He stated that DENC's methodology which relies heavily on the test period serves its purpose well during periods of fuel price stability. However, he contended that over the past several years this methodology has contributed to large under-recoveries. For example, when the test period costs are substantially different from the billing period this methodology may result in a potentially avoidable EMF balance. In addition, witness Lawrence argued that the increase in the percentage of natural gas energy production over past years has increased the exposure to natural gas price fluctuations for DENC and its customers.

Witness Lawrence stated that the Public Staff did not take issue with DENC's forward looking fuel component and was not recommending any change to the billing period rate or the methodology, and he recommended that the Commission accept each of DENC's recommendations for the purpose of this proceeding. However, witness Lawrence added that, prior to DENC's 2024 fuel filing, the Public Staff intends to work with DENC to explore methodologies available to ensure that the method used by DENC appropriately balances the risks and benefits for customers. He also stated that DENC agreed to engage in discussions with the Public Staff prior to DENC's next fuel rider filing regarding the methodology used to determine Rider A.

Witness Lawrence testified that the Public Staff recommended approval of the base fuel factors as shown in his Table 2 and as follows for each of DENC's North Carolina retail customer classes for the entire rate year:

<u>Customer Class</u>	<u>Base Fuel Factor</u>
Residential	\$0.02118 /kWh
SGS &PA	\$0.02115 /kWh
LGS	\$0.02098 /kWh
Schedule NS	\$0.02036 /kWh
6VP	\$0.02065 /kWh
Outdoor Lighting	\$0.02118 /kWh
Traffic	\$0.02118 /kWh

In his rebuttal testimony, witness Stuller maintained the following class-specific Rider A fuel factors, including the regulatory fee, that were presented in his errata direct and his supplemental testimonies:

<u>Customer Class</u>	<u>Prospective Factor (Rider A)</u>
Residential	\$0.013755 kWh
SGS & PA	\$0.013753 kWh
LGS	\$0.013675 kWh
Schedule NS	\$0.013223 kWh
6VP	\$0.013417 kWh
Outdoor Lighting	\$0.013755 kWh
Traffic	\$0.013755 kWh

In the Commission's final order deciding DENC's 2019 rate case, the Commission approved the system base fuel factor and the North Carolina retail class-specific base fuel factors. Based upon that approval and the evidence presented in this proceeding, the Commission concludes that the appropriate level of fuel expenses to be used to set the prospective, or forward-looking, fuel factor in this proceeding is \$3,242,553,433, the appropriate prospective system average base fuel factor (including regulatory fee) is \$0.034576 per kWh, and the appropriate class-specific prospective base fuel factors (including regulatory fee) are as set forth in Table 2 of witness Lawrence's testimony.

The Commission also finds that DENC's calculation of the billing rate period is reasonable for use in this proceeding. The Commission further finds that the Public Staff and DENC should report on the results of their discussions on the methodology in DENC's next fuel rider proceeding.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 17-19

The evidence for these findings of fact is contained in DENC's Application, the testimonies and exhibits of DENC witnesses Matzen, Moore, and Stuller, the testimony of Public Staff witness Brown, and the testimony of CIGFUR witness Collins.

DENC witness Matzen's direct testimony explained that DENC continued to experience a significant under-recovery of fuel expenses during the test year driven by previous major commodity price increases created by global geopolitical and energy issues. Witness Matzen noted that commodity prices have improved significantly in the last six months due to the lack of cold weather during the winter months. DENC witness Moore's direct testimony presented a total of \$137,441,662 in fuel costs allocated to North Carolina jurisdictional customers, while DENC received fuel revenues totaling \$98,834,232. The difference between the fuel costs and the fuel revenues resulted in an under-recovery of \$38,607,430 for the test period. A portion of that under-recovery was due to the under-recoveries in the months of July and August 2022. Because July and August 2022 overlap with the current proceeding's test period, DENC removed these months from the recovery position resulting in an under-recovery of \$17,578,384. To determine the EMF Rider B, DENC witness Stuller divided this net balance by the adjusted jurisdictional test period sales of 4,013,280,667 kWh. He then used customer class expansion factors to differentiate the uniform factor by voltage to determine the North Carolina retail jurisdictional voltage differentiated EMF fuel factors at the sales level

applicable to each class. To determine the EMF Rider B1, witness Stuller utilized the same methodology applied to the determination of Rider B.

In witness Stuller's supplemental testimony, he updated Rider B1 rates to reflect a revised class allocation methodology. Based on discussions with the Public Staff, he presented a rate design mechanism for Rider B1 that allocates DENC's remaining under-recovery balance based on the stipulated class responsibility for the initial under-recovery of \$66,729,993 approved in the 2022 fuel proceeding as opposed to using a voltage differentiated jurisdictional average factor, the same design used for Rider A and Rider B.

Public Staff witness Brown's testimony presented the results of the Public Staff's investigation of DENC's proposed EMF Riders B and B1. He recommended that DENC's EMF Rider B increment rates for each customer class be based on total net fuel and fuel-related cost under-recoveries of \$17,578,384 and DENC's normalized North Carolina retail sales of 4,013,280,667 kWh consistent with DENC's supplemental testimony. He also recommended that DENC's EMF Rider B1 increment rates for each customer class be based on the remaining projected under-recovery deferred balance of \$26,677,883 and normalized North Carolina retail sales for each class, as shown in witness Stuller's Supplemental Exhibit TPS-1 Schedule 5. Witness Brown also stated that prior to DENC's next fuel proceeding, the Public Staff will work with DENC on the final true-up for Rider B1 to ensure that the total amount recovered by retail customer class complies with the amounts approved in the stipulation filed with the Commission in the 2022 fuel case and that DENC has agreed to meet prior to the next fuel filing for this purpose.

CIGFUR witness Collins proposed that DENC track the Rider B1 total over/under-recovery and eliminate the Rider B1 tariff rate once the balance reaches zero.

In DENC witness Stuller's rebuttal testimony, he disagreed with witness Collins' proposal to suspend recovery of the Rider B1 rate when its balance reaches zero. Witness Stuller explained that this would create an unnecessary complication of Rider B1 recovery since the Rider B1 mechanism does not carry the same regulatory lag that Riders A and B carry. He noted that based on the forecasted balance of the Rider B1 mechanism it would need to be substantially different than the projected amount to have any significant impact on recovery during the rate year. Witness Stuller also noted that the proposal would require that DENC continue to track the balance on a jurisdictional basis, and if the Commission approves the class level rate mechanism proposed in his supplemental testimony and supported by the Public Staff, there would be a timing difference in when the various class balances reach zero for each class's respective responsibility of the balance. He stated that it would not be practical to eliminate the charge for one customer class but not all customer classes. Witness Stuller also stated that eliminating Rider B1 altogether is not practical because the mechanism is required in order to complete the final true-up in the next rate year. He concluded that if the Commission determines that the rate should cease to be charged when the jurisdictional balance reaches approximately zero, then DENC would suspend the billing of the Rider B1 rate rather than eliminate it entirely.

Witness Stuller also presented updated Rider B and Rider B1 rates accounting for DENC's improved under-recovery position as of September 30, 2023. He stated that updating the EMF riders to incorporate the improved recovery position lowers the Rider B average rate, including the regulatory fee, from \$0.004386/kWh to \$0.001835/kWh, and lowers the Rider B1 average rate, including the regulatory fee, from \$0.006647/kWh to \$0.006280/kWh.

Based on the evidence in this proceeding, the Commission concludes that the appropriate North Carolina retail test period jurisdictional fuel expense under-collection is \$7,351,825, that the appropriate North Carolina retail prior period jurisdictional fuel expense under-collection is \$25,165,475 as shown in witness Stuller's Rebuttal Schedule 4, and that the adjusted North Carolina jurisdictional test period sales appropriate for computing the EMF riders (Rider B and Rider B1) are 4,013,280,667 kWh. The Commission also concludes that Rider B1 should not be eliminated when its balance reaches zero for the reasons discussed in witness Stuller's rebuttal testimony.

The Commission concludes that the appropriate EMF Rider B for this proceeding, including the regulatory fee and no interest as DENC agreed in the previous fuel proceeding to not recover any associated interest from ratepayers for a period of two years are as follows:

<u>Customer Class</u>	<u>EMF Billing Factor (Rider B)</u>
Residential	0.1854 ¢/kWh
SGS &PA	0.1853 ¢/kWh
LGS	0.1839 ¢/kWh
Schedule NS	0.1783 ¢/kWh
6VP	0.1808 ¢/kWh
Outdoor Lighting	0.1854 ¢/kWh
Traffic	0.1854 ¢/kWh

The Commission concludes that the appropriate EMF Rider B1 for this proceeding, including the regulatory fee and no interest as DENC agreed in the previous fuel proceeding to not recover any associated interest from ratepayers for a period of two years are as follows:

<u>Customer Class</u>	<u>EMF Billing Factor (Rider B1)</u>
Residential	0.6297 ¢/kWh
SGS &PA	0.6108 ¢/kWh
LGS	0.6295 ¢/kWh
Schedule NS	0.6494 ¢/kWh
6VP	0.6093 ¢/kWh
Outdoor Lighting	0.5838 ¢/kWh
Traffic	0.6074 ¢/kWh

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 20

The evidence supporting this finding of fact is cumulative and is contained in the direct, supplemental, and rebuttal testimony and exhibits of DENC witnesses Matzen, Moore, Hinson, Clemens, and Stuller, the testimony of Public Staff witnesses Lawrence and Brown, and the testimony of CIGFUR witness Collins.

Based upon the above findings and conclusions, the Commission finds and concludes that the total net fuel factors (¢/kWh) are determined as follows (with Regulatory Fee):

<u>Customer Class</u>	<u>Total Fuel Factor</u>
Residential	4.3086 ¢/kWh
SGS &PA	4.2864 ¢/kWh
LGS	4.2789 ¢/kWh
Schedule NS	4.1860 ¢/kWh
6VP	4.1968 ¢/kWh
Outdoor Lighting	4.2627 ¢/kWh
Traffic	4.2863 ¢/kWh

IT IS THEREFORE ORDERED as follows:

1. That the Commission shall hold over its consideration of erroneously omitted purchased power capacity costs (further described in DENC's November 21, 2023 Letter) to DENC's 2024 fuel filing, and, that consistent with DENC's statements in its November 21, 2023 Letter, DENC shall waive recovery of any interest associated with delaying the recovery of these costs;

2. That effective beginning with usage on and after February 1, 2024, DENC shall implement a Fuel Cost Rider A for all classes as approved and set forth in the Evidence and Conclusions for Finding of Fact No. 16 above;

3. That EMF Rider increment (Rider B) as approved and set forth in the Evidence and Conclusions for Findings of Fact Nos. 17 and 18 above, shall be instituted and remain in effect for usage from February 1, 2024, through January 31, 2025;

4. The EMF Rider increment (Rider B1) as approved and set forth in the Evidence and Conclusions for Findings of Fact Nos. 17 and 19 above, shall be instituted and remain in effect for usage from February 1, 2024, through January 31, 2025;

5. That DENC shall file appropriate rate schedules and riders with the Commission in order to implement the fuel charge adjustments approved herein as soon as practicable; and

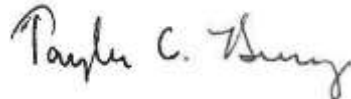
6. That DENC shall work with the Public Staff to prepare a joint proposed Notice to Customers of the rate adjustments ordered by the Commission herein, as well

as in Docket No. E-22, Subs 674 and 676, and DENC shall file such proposed notice for Commission approval as soon as practicable, but not later than five working days after the Commission issues the last of its orders in the above-referenced dockets.

ISSUED BY ORDER OF THE COMMISSION

This the 24th day of January, 2024.

NORTH CAROLINA UTILITIES COMMISSION

A handwritten signature in cursive script that reads "Taylor C. Berry".

Taylor C. Berry, Deputy Clerk

Commissioners William M. Brawley and Tommy Tucker did not participate in the decision in this docket.