

**BIENNIAL REPORT OF THE
NORTH CAROLINA UTILITIES COMMISSION**

TO

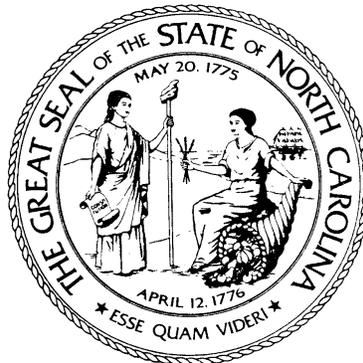
**THE GOVERNOR OF NORTH CAROLINA,
THE ENVIRONMENTAL REVIEW COMMISSION,
AND THE JOINT LEGISLATIVE UTILITY REVIEW COMMITTEE**

REGARDING

**THE RESULTS OF COST ALLOCATIONS FOR ELECTRIC
UTILITIES INVOLVING:**

- 1. RENEWABLE ENERGY AND ENERGY
EFFICIENCY PORTFOLIO STANDARDS
COSTS**
- 2. DEMAND-SIDE MANAGEMENT AND ENERGY
EFFICIENCY PROGRAMS COSTS AND**
- 3. CERTAIN FUEL AND FUEL-RELATED COSTS**

(Pursuant to Section 14 of Session Law 2007-397)



October 1, 2009



State of North Carolina Utilities Commission

COMMISSIONERS
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ROBERT V. OWENS, JR.
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October 1, 2009

The Honorable Beverly Eaves Perdue
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Environmental Review Commission
545 Legislative Office Building
Raleigh, North Carolina 27611

Steven J. Rose, Committee Counsel
Joint Legislative Utility Review Committee
545 Legislative Office Building
Raleigh, North Carolina 27611

Dear Governor Perdue and Gentlemen,

The Utilities Commission hereby presents for your consideration its first biennial report summarizing the actual results of cost allocations established by the Commission in proceedings involving electric utilities and:

1. costs related to compliance with the renewable energy and energy efficiency portfolio standards (pursuant to G.S. 62-133.8(h));
2. costs related to new energy efficiency and demand-side management programs (pursuant to G.S. 62-133.9(e) and (f)); and

3. certain fuel and fuel-related costs (pursuant to G.S. 62-133.2(a2) and (a3)).

The Honorable Beverly Eaves Perdue

Mr. Jeff Hudson

Mr. Steve Rose

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The Commission provides this report pursuant to Section 14 of Session Law 2007-397. This report summarizes the results of cost allocations in proceedings conducted and decided by the Commission during the preceding two fiscal years ending June 30, 2009.

I understand that legislative counsel will distribute copies to the members of the Environmental Review Commission and the Joint Legislative Utility Review Committee. Thank you for your assistance.

Sincerely,



Edward S. Finley, Jr., Chairman

ESFjr/KJ/mr

cc: Members of the Joint Legislative Utility Review Committee
Members of the Environmental Review Commission
Bill Patterson, Committee Counsel
Heather Fennell, Assistant Committee Counsel
Mariah Matheson, Research Assistant
Robert P. Gruber, Executive Director, Public Staff
The Honorable Roy Cooper, Attorney General
Duke Energy Carolinas, LLC
Progress Energy Carolinas, Inc.
North Carolina State Publications Clearinghouse
North Carolina State Environmental Review Clearinghouse

INTRODUCTION

The Utilities Commission is providing this report to the Governor, the Environmental Review Commission, and the Joint Legislative Utility Review Committee pursuant to Section 14 of Session Law 2007-397. Section 14 requires the Commission to submit a report on the actual results of the cost allocations established by the Commission pursuant to G.S. 62-133.8(h), G.S. 62-133.9(e) and (f), and G.S. 62-133.2(a2) and (a3) in proceedings conducted and decided during the preceding two fiscal years ending June 30, 2009.

Section 2.(a) of Session Law 2007-397, G.S. 62-133.8, established a renewable energy and energy efficiency portfolio standard (REPS) for North Carolina's electric power suppliers. Subsection (h) of G.S. 62-133.8 provides for the recovery of certain costs incurred by an electric power supplier to comply with the REPS requirements through an annual rider allocated among residential, commercial, and industrial customers. Session Law 2007-397 also required electric suppliers to implement demand-side management (DSM) and energy efficiency (EE) measures. Subsection (d) of G.S. 62-133.9 provides for the recovery of costs incurred by electric public utilities for adoption and implementation of new DSM and EE measures through a rider approved by the Commission. In determining the amount of the DSM and EE rider, the Commission is required to assign or allocate costs as set forth in G.S. 62-133.9(e) and (f). Lastly, Section 5. of Session Law 2007-397 amended G.S. 62-133.2. Among other changes, subsections (a2) and (a3) were added to G.S. 62-133.2 and require the Commission to allocate certain fuel and fuel-related costs as specified in those subsections to be recovered as separate components of the rider for fuel and fuel-related costs.

This report is divided into three parts describing the cost allocations established by the Commission in conformity with the statutes cited above.

Reference is made in this report to various Commission dockets. To review the entire official record in any docket, persons may visit the web site of the Utilities Commission (<http://www.ncuc.net>), select "Dockets" from the homepage, select "Docket Search" and then enter the docket number.

PART 1: Cost Allocations Established Pursuant to G.S. 62-133.8(h)

The first part of this report provides the actual results of the cost allocations established by the Commission pursuant to G.S. 62-133.8(h) as enacted by Section 2 of Session Law 2007-397 (Senate Bill 3) during the two fiscal years ending June 30, 2009. G.S. 62-133.8 is the statute that establishes a renewable energy and energy efficiency portfolio standard (REPS) for North Carolina electric power suppliers. Electric power suppliers include public utilities, electric membership corporations and municipalities that sell electric power to retail electric power customers in North Carolina.

G.S. 62-133.8(h)(4) allows electric power suppliers to recover the incremental costs that they incur to comply with REPS (and costs of related research) from their customers via an annual rider, with those charges not to exceed the following per-account annual charges:

Customer Class	2008-2011	2012-2014	2015 and thereafter
Residential	\$ 10.00	\$ 12.00	\$ 34.00
Commercial	\$ 50.00	\$ 150.00	\$ 150.00
Industrial	\$500.00	\$1,000.00	\$1,000.00

G.S. 62-133.8(h)(5) states that the Commission shall adopt rules establishing a procedure for the annual assessment of the per-account charges to customers to allow each electric public utility the timely recovery of all reasonable and prudent costs of REPS compliance and related research.¹ The statute further requires that costs recovered from individual customers on a per-account basis must be assessed in the same proportion as the per-account annual charges for each customer class listed above.

On February 29, 2008, the Commission issued an Order in Docket No. E-100, Sub 113, establishing rules pursuant to Senate Bill 3. Those rules include Rule R8-67, which requires electric power suppliers to annually file a prospective REPS compliance plan and a historic REPS compliance report. Electric public utilities that seek REPS cost recovery via an annual rider must also file a REPS rider application coincident with their annual fuel rider application. (See Part 3 of this report for more information about the cost allocations established in annual fuel proceedings.)

R8-67(c)(4) requires each electric power supplier to propose a method for determining its cap on incremental REPS costs for REPS compliance and research, including a method for determining its year-end number of customer accounts subject to the cost caps. The phrase “year-end number of customer accounts” means

The number of accounts within each customer class as of December 31 for a given calendar year and, unless approved otherwise by the Commission pursuant to subsection (c)(4), determined in the same manner as that information is reported to the Energy Information

¹ Research costs recovered via the annual REPS rider cannot exceed \$1 million per year. Qualifying research costs are those that encourage the development of renewable energy, energy efficiency, or improved air quality. G.S. 62-133.8(h)(1)(b).

Administration (EIA), United States Department of Energy, for annual electric sales and revenues reporting.

The term “incremental costs,” as defined in G.S. 62-133.8(h)(1), includes the costs of renewable energy purchases “that are in excess of the electric power supplier’s avoided costs.” The term “avoided costs” includes both avoided energy costs and avoided capacity costs.

Any under-collection of such costs through the rider is to be collected prospectively. Any over-collection of such costs through the rider is to be refunded to customers, with interest.

Progress Energy Carolinas, Inc. (PEC) – Docket No. E-2, Sub 930

PEC filed its initial REPS rider application on June 6, 2008, for charges effective December 1, 2008, through November 30, 2009. PEC sought recovery of \$11.5 million of REPS compliance and research costs. The Commission held an evidentiary hearing on September 17, 2008, and issued its Order on November 14, 2008, in which it allowed PEC to recover \$9.1 million via a REPS rider.

The Public Staff opposed PEC’s proposal to bill all customers in each class a flat monthly REPS rider charge, regardless of a specific customer’s electric consumption. The Public Staff proposed that REPS costs should instead be recovered on a per kWh basis, so that customers who use more electricity pay more toward REPS, and customers who use less electricity pay less toward REPS. The Commission concluded that PEC’s proposal was consistent with Senate Bill 3 and declined to adopt the Public Staff’s proposal.

PEC proposed to define “customer account” as all accounts (metered and unmetered) serving the same revenue classification located on the same or contiguous properties. Upon written notification from a customer, PEC proposed to code accounts meeting this criterion in its billing system to allow the customer to receive only one monthly REPS charge for all identified accounts. The Commission approved PEC’s proposed definition of customer account.

The monthly REPS riders approved by the Commission for the 12-months ending November 30, 2009, including regulatory fee and gross receipts tax, are as follows:

Customer Class	REPS Rider Charge Per Month	REPS Rider Charge Per Year
Residential	\$ 0.36	\$ 4.32
Commercial	\$ 1.82	\$ 21.84
Industrial	\$18.24	\$218.88

These costs are allocated in the same proportion as the per-account annual cost caps established by G.S. 62-133.8(h)(4).

PART 2: Cost Allocations Established Pursuant to G.S. 62-133.9(e) and (f)

The second part of this report provides the actual results of the cost allocations established by the Commission pursuant to G.S. 62-133.9(e) and (f), as enacted by Section 4(a) of Session Law 2007-397 (Senate Bill 3), regarding cost recovery for demand-side management (DSM) and energy efficiency (EE) measures.

Subsection (e) of G.S. 62-133.9 provides that the Commission shall determine the appropriate assignment of costs of new DSM and EE measures for electric public utilities and shall assign the costs of the programs only to the class or classes of customers that directly benefit from such programs.

Subsection (f) of G.S. 62-133.9 provides that none of the costs of new DSM or EE measures of an electric power supplier shall be assigned to any industrial customer that notifies the industrial customer's electric power supplier that, at the industrial customer's own expense, the industrial customer has implemented at any time in the past or, in accordance with stated, quantified goals for DSM and EE, will implement alternative DSM and EE measures and that the industrial customer elects not to participate in DSM or EE measures under G.S. 62-133.9.

Further, the opt-out provision of subsection (f) of G.S. 62-133.9 also applies, pursuant to Commission Rule R8-69(a)(3), to any commercial customer that has an annual energy usage of not less than 1,000,000 kilowatt-hours (kWh), measured in the same manner as the electric public utility that serves the commercial customer measures energy for billing purposes.

Any under-collection of such costs through the rider is to be collected prospectively. Any over-collection of such costs through the rider is to be refunded to customers, with interest.

The following sections of this report provide the actual results of the cost allocations established by the Commission pursuant to G.S. 62-133.9 (e) and (f) in proceedings conducted and decided during the previous two fiscal years ending June 30, 2009.

Duke Energy Carolinas, LLC (Duke) – Docket No. E-7, Sub 831

On May 7, 2007, in Docket No. E-7, Sub 831, Duke filed a petition for approval of a new save-a-watt approach to energy efficiency (EE) programs; a portfolio of EE programs; and an EE rider (Rider EE) to compensate and reward it for verified energy efficiency results and to recover the amortization of, and a return on, 90% of the costs avoided by the save-a-watt approach. Session Law 2007-397 includes provisions bearing on the Commission's authority to consider and authorize proposals such as the save-a-watt approach. Consequently, the Commission determined that, after completion of the rulemaking proceeding to implement Senate Bill 3, the Commission would schedule a hearing to consider the merits of Duke's save-a-watt petition. Beginning July 28, 2008, the Commission conducted evidentiary hearings regarding Duke's petition.

On February 26, 2009, the Commission approved Duke's request to put its proposed rider into effect, subject to refund with interest, pending final resolution of the Sub 831 proceeding. In addition, the Commission required Duke to file supplemental information by March 31, 2009, regarding the profitability of the save-a-watt program. On May 1, 2009, Duke filed a letter and proposed Notice to Customers and stated that because of a pending motion for reconsideration,² it had elected to put into effect, subject to refund, only its conservation programs. On June 1, 2009, Duke implemented its interim DSM/EE rider.³

On June 12, 2009, Duke, the Public Staff, and a group of Environmental Intervenors⁴ filed an Agreement and Joint Stipulation of Settlement (Settlement), which is currently pending before the Commission. The Settlement was proposed as a four-year limited term pilot and addressed most, but not all, of the disputed issues between the parties. One of the unresolved issues between the parties relates to the appropriate allocation method for assigning costs to customer classes. The Commission's final decision in this matter is pending.

PEC – Docket No. E-2, Sub 931

PEC filed its first request under G.S. 62-133.9 for approval of an annual DSM/EE cost recovery rider for costs and utility incentives relative to six DSM and EE programs⁵ on June 6, 2008, in Docket No. E-2, Sub 931. The period during which the DSM/EE rider established in this proceeding will be in effect is the 12-month period December 1, 2008, through November 30, 2009.

On November 14, 2008, the Commission approved PEC's request to put its proposed rider into effect on December 1, 2008, subject to refund with interest, pending final resolution of this proceeding.⁶ PEC requested that its interim rider remain in effect until December 1, 2009.

The Commission held evidentiary hearings on January 7 and 8, 2009, and on June 15, 2009, the Commission issued its Order in this proceeding. The Order decided,

² Air Products and Chemicals, Inc., an intervenor in the Sub 831 proceeding, filed a Petition to Reconsider on March 20, 2009, which was denied.

³ Such rates were provided in the Biennial Report of the North Carolina Utilities Commission to the Governor of North Carolina and the Joint Legislative Utility Review Committee Regarding Proceedings for Electric Utilities Involving Energy Efficiency and Demand-Side Management Programs, Cost-Recovery and Incentives (September 1, 2009 DSM/EE Program Report) [Pursuant to G.S. 62-133.9(i)].

⁴ The Environmental Intervenors include the Southern Alliance for Clean Energy, the Environmental Defense Fund, the Natural Resources Defense Council, and the Southern Environmental Law Center.

⁵ See Docket No. E-2, Subs 908, 926, 927, and 928 and the September 1, 2009 DSM/EE Program Report for detailed information regarding each specific program.

⁶ Such rates were provided in the September 1, 2009 DSM/EE Program Report.

among other things, an unresolved issue among the stipulating parties⁷ related to allocating DSM and EE costs among customer classes. The Commission concluded that G.S. 62-133.9(e) provides that the costs of new DSM/EE programs are to be assigned and recovered from only the class or classes of customers that directly benefit from such programs. Therefore, the costs of an approved DSM/EE program or measure should first be allocated to the North and South Carolina retail jurisdictions and such costs should then be recovered from only the class or classes of North Carolina retail customers to which the program is targeted.

With respect to PEC's Distribution System Demand Response (DSDR) program⁸, the Commission concluded that the costs of this program should be recovered from all retail customers that benefit; that is, all retail customers that receive power via PEC's distribution system. Consequently, industrial and large commercial customers that receive power via PEC's distribution system benefit from DSDR and may not opt out of the cost recovery rider for this program. Further, the Commission concluded that the DSDR program should be classified as an EE program rather than a DSM program as proposed by PEC in its application.

As explained above, G.S. 62-133.9(f) provides that industrial customers and certain large commercial customers may opt-out of the cost recovery rider for new DSM or EE programs under certain circumstances, in which case none of the costs of the programs will be assigned to those customers.⁹ In its June 15, 2009 Order, the Commission stated that, according to the statute, the notice for such an opt-out requires two statements: (1) that the customer has, or will, implement alternative DSM and EE measures at the customer's own expense and (2) that the customer elects not to participate in the program to which it opts out. The Commission further stated that it appears from the language of G.S. 62-133.9(f) that certain industrial and large commercial customers were given the ability to opt-out because they had implemented or will implement, their own DSM or EE measures and should not essentially "pay twice" for such benefits. With regard to PEC's DSDR program, the Commission concluded that the DSDR program achieves a type of efficiency, voltage reduction, that no customer could achieve on its own initiative; therefore, the rationale that an industrial or large commercial customer should be allowed to opt-out so as not to "pay twice" for efficiency does not logically apply to the DSDR program. Further, the DSDR program involves activities and equipment on the electric supplier's side of the meter, and these activities and equipment benefit all customers who take service from the distribution system. Consequently, the Commission concluded that no customer served by PEC's distribution grid can elect to "not participate."

⁷ On December 9, 2008, PEC, the Public Staff, and Wal-Mart filed an Agreement and Stipulation of Partial Settlement (Stipulation) that addressed most, but not all, of the issues among these three parties relative to the Sub 931 DSM/EE rider. See Docket No. E-2, Sub 931 for more detailed information regarding such agreement and stipulation.

⁸ PEC's DSDR program was approved on June 15, 2009, in Docket No. E-2, Sub 926.

⁹ In this proceeding, opt-out sales represent 39.6% of total North Carolina rate class sales (MWh). As a result of the opt-out provision, the remaining customers would be assigned such costs as required by statute.

In regard to the opt-out eligibility requirement and the definition of “large commercial customer” contained in Commission Rule R8-69, the Commission concluded in its June 15, 2009 Order that it was appropriate to refine, as proposed by the stipulating parties, the definition to include the following language:

For commercial accounts, once one account meets the opt-out eligibility requirement, all other accounts billed to the same entity with lesser annual usage located on the same or contiguous properties are also eligible to opt-out of the DSM/EE Rider. . .

In its June 15, 2009 Order, the Commission also determined that it was appropriate for PEC to recover costs for the six DSM and EE programs in its DSM/EE rider subject to review and true-up during its next annual rider proceeding. Specifically, the Commission concluded that PEC’s North Carolina retail capitalized operation and maintenance expenses for its DSM/EE programs for purposes of determining an annual rider in this proceeding were \$27,980,374.¹⁰ Further, the Commission required PEC to file revised exhibits to reflect the Commission’s decisions regarding the appropriate costs to recover, cost allocations, and DSM/EE rates per customer class.

Motions for reconsideration regarding the DSDR program have been filed and the Commission’s final decision in this matter is pending.

PART 3: Cost Allocations Established Pursuant to G.S. 62-133.2(a2) and (a3)

The third part of this report provides the actual results of the cost allocations established by the Commission pursuant to G.S. 62-133.2(a2) and (a3), as enacted by Section 5 of Session Law 2007-397. G.S. 62-133.2 is the statute regarding fuel and fuel-related charge adjustment proceedings for electric public utilities.

Subsection (a2) of G.S. 62-133.2 provides that the fuel and fuel-related costs defined in subdivisions (4), (5), and (6) of subsection (a1) shall be recoverable from each class of customers as a separate component of the fuel rider. The fuel and fuel-related costs defined in subdivisions (4), (5), and (6) of subsection (a1) are as follows:

- 4) the total delivered noncapacity related costs, including all transmission charges, of all purchases of electric power by the electric public utility, that are subject to economic dispatch or economic curtailment (referred to hereafter as noncapacity purchased power costs);
- 5) the capacity costs associated with all purchases of electric power from qualifying cogeneration facilities and qualifying small power production facilities, as described in 16 U.S.C. §796, that are subject to economic dispatch by the

¹⁰ Such amounts include reasonable and appropriate estimates of North Carolina retail capitalized O&M expenses which are subject to review in PEC’s next DSM/EE rider proceeding (Docket No. E-2, Sub 951).

electric public utility (referred to hereafter as qualifying facility capacity costs); and

- 6) except for those costs recovered pursuant to G.S. 62-133.7(h), the total delivered costs of all purchases of power from renewable energy facilities and new renewable energy facilities pursuant to G.S. 62-133.7 or to comply with any federal mandate that is similar to the requirements of subsections (b), (c), (d), (e), and (f) of G.S. 62-133.7 (referred to hereafter as renewable energy costs).

Subdivision (1) of subsection (a2) requires that noncapacity purchased power costs be allocated among customer classes based on the electric public utility's North Carolina energy usage for the prior year in determining the specific component of the fuel rider for such costs. Subdivision (2) of subsection (a2) requires that qualifying facility capacity costs and renewable energy costs be allocated among customer classes based on the electric public utility's North Carolina peak demand for the prior year in determining the specific component of the fuel rider for these costs.

Therefore, generally speaking, subsection (a2) establishes the cost allocation requirements for noncapacity purchased power costs, qualifying facility capacity costs, and renewable energy costs. Further, subsection (a2) requires that such costs be recovered as separate components of the fuel rider and specific for each class of customers. One separate component is required for noncapacity purchased power costs for each customer class and another separate component is required for qualifying facility capacity costs and renewable energy costs. Subsection (a2) applies to the fuel and fuel-charge adjustment proceedings of Duke and PEC until the Commission determines how the costs discussed above should be allocated in a general rates case for these companies. Subsection (a2) also limits the annual increase in the aggregate amount of such costs that are recoverable by an electric utility at two percent (2%) of the electric public utility's total North Carolina retail jurisdictional gross revenues for the preceding calendar year.

Subsection (a3) applies only to Dominion NC Power and requires that only renewable energy costs be recovered from each class of customers as a separate component of the fuel rider. Specifically, subsection (a3) requires that renewable energy costs be allocated among customer classes based on the electric public utility's North Carolina peak demand for the prior year in determining the specific component of the fuel rider for such costs, until the Commission determines how these costs shall be allocated in a general rate case for Dominion NC Power. Subsection (a3) also limits the annual increase in the recoverable amount of renewable energy costs at one percent (1%) of Dominion NC Power's total North Carolina retail jurisdictional gross revenues for the preceding calendar year.

The following sections provide the actual results of the cost allocations established by the Commission pursuant to G.S. 62-133.2(a2) and (a3) in proceedings conducted and decided during the preceding two fiscal years ending June 30, 2009.

Duke – Docket No. E-7, Sub 847

This fuel and fuel-related charge adjustment proceeding for Duke utilized a 12-month test period ending December 31, 2007. The evidentiary hearing was held on June 5, 2008 and the Commission issued its Order on August 8, 2008.

The inclusion of noncapacity purchased power costs, qualifying facilities capacity costs, and renewable energy costs in the definition of fuel and fuel-related costs under G.S. 62-133.2(a1) did not become effective until January 1, 2008. Therefore, such costs were not included in fuel and fuel-related costs for the test period. However, Duke anticipated that it would incur noncapacity purchased power costs during the period that the fuel and fuel-related cost rider established in this proceeding would be billed to customers, September 1, 2008, through August 31, 2009. Therefore, Duke calculated a separate noncapacity purchased power component of the fuel rider using a representative level of such costs. Because Duke did not anticipate incurring material qualifying facilities capacity costs or renewable energy costs during the billing period, it did not compute a separate component of the fuel rider for these costs.

To calculate the proposed noncapacity purchased power rider component, Duke first allocated \$126,909,000 of total company, or system, noncapacity purchased capacity costs to the North Carolina retail jurisdiction using a 69.28% ratio of the 2007 adjusted North Carolina retail megaWatt hour (MWh) sales to the 2007 adjusted system MWh sales. The North Carolina retail jurisdiction amount of noncapacity purchased power costs equaled \$87,925,000. Duke then allocated the \$87,925,000 of noncapacity purchased power costs among the customer classes based on the energy usage by class in the prior year as required by G.S. 62-133.2(a2)(1). The energy usage of the residential, commercial, and industrial classes were 36.78%, 38.29%, and 24.93%, respectively, of the actual total North Carolina energy usage in 2007. Therefore, the noncapacity purchased power costs allocated to the residential, commercial, and industrial customer classes equaled \$32,335,000, \$33,670,000, and \$21,920,000, respectively. Finally, the amounts allocated to each customer class were divided by the 2007 adjusted MWh sales to each customer class and resulted in Duke's proposed noncapacity purchased power cost rider components equal to 0.1559¢ per kWh for the residential customer class, 0.1556¢ per kWh for the commercial customer class, and 0.1579¢ per kWh for the industrial customer class.

No party expressed opposition to the separate and noncapacity purchased power components of the fuel and fuel-related cost riders proposed by Duke. In its Order, the Commission found that Duke's proposal was consistent with the cost allocation requirements of G.S.62-133.2(a2)(1).

PEC – Docket No. E-2, Sub 929

PEC's most recent fuel and fuel-related charge adjustment proceeding employed a 12-month test period consisting of the year ending March 31, 2008. The evidentiary hearing was held on September 16, 2008, and the Commission issued its Order on November 14, 2008.

PEC included noncapacity purchased power costs, qualifying facilities capacity costs, and renewable energy costs in its forecasted fuel and fuel-related costs for the year ending September 30, 2009, the period that the fuel and fuel-related cost rider established in this proceeding would be billed to customers.

To calculate the separate component of the fuel rider for noncapacity purchased power costs, PEC first allocated \$212,525,561 of total company, or system, noncapacity purchased power costs to the North Carolina retail jurisdiction using a 65.58% ratio of the normalized 2007 North Carolina retail MWh sales to the normalized 2007 system MWh sales. The North Carolina retail jurisdiction amount of noncapacity purchased power costs equaled \$139,370,127. PEC then allocated the \$139,370,127 of noncapacity purchased power costs among five rate groups based on the ratio of the energy usage of each rate group to the total North Carolina energy usage for the prior year as required by G.S. 62-133.2(a2)(1). Finally, PEC determined the separate component of the fuel rider for noncapacity purchased power costs for each customer class by dividing the amount of noncapacity purchased power costs allocated to each rate group by the forecasted NC retail MWh sales for each rate group. The noncapacity purchased power cost allocations and the resulting separate components of fuel rider proposed by PEC are shown below:

Rate Class	2007 NC MWh Sales Allocation %	Allocated NC Noncapacity Purchased Power Costs \$	Forecasted MWh Sales	¢/kWh Component
Residential	39.59	55,170,614	15,496,950	0.356
Small Gen. Svc.	4.37	6,091,225	1,985,374	0.307
Medium Gen. Svc.	30.66	42,729,409	11,734,023	0.364
Large Gen. Svc.	24.24	33,781,802	9,076,284	0.372
Lighting	1.15	1,597,075	453,441	0.352
	100.00	139,370,127	38,746,072	

To calculate the separate component of the fuel rider for qualifying facilities capacity costs and renewable energy costs, PEC first allocated \$22,264,529 of total company, or system, qualifying facilities capacity costs (\$11,021,880) and renewable energy costs (\$11,242,649) to the North Carolina retail jurisdiction using a 69.79% ratio of the North Carolina peak demand (MW) to the total company, or system, peak demand (MW) that occurred in 2007. PEC then allocated the \$22,264,529 cost among five rate classes based on the contribution of each rate class to the North Carolina peak demand for the prior year as required by G.S. 62-133.2(a2)(2). Finally, PEC determined the separate component of the fuel rider for qualifying facilities costs and renewable energy costs by dividing the amount of these costs allocated to each rate group by the forecasted retail MWh retail sales for each rate group. The qualifying facilities capacity cost and renewable energy cost allocations and the resulting separate components of the fuel rider proposed by PEC are shown below:

<u>Rate Class</u>	<u>2007 NC MW Demand Allocation %</u>	<u>QF Capacity and Renewable Energy Costs</u>	<u>Forecasted MWh Sales</u>	<u>¢/kWh Component</u>
Residential	49.32	7,663,416	15,496,950	0.049
Small Gen. Svc.	6.42	997,090	1,985,374	0.050
Medium Gen. Svc.	29.93	4,650,771	11,734,023	0.040
Large Gen. Svc.	14.34	2,227,982	9,076,284	0.025
Lighting	<u>0.00</u>	<u>0</u>	<u>453,441</u>	0.000
	100.00	15,539,260	38,746,072	

No party expressed any opposition with respect to the noncapacity purchased power costs, qualifying facilities capacity costs, or renewable energy costs amounts, allocations, or the separate components of the fuel rider proposed by PEC to recover such costs, and the Commission approved the fuel and fuel-related cost riders proposed by PEC that included such components.