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May 15, 1998

HAND DELIVERED

Ms. Blanca S. Bayo, Director  
Division of Records and Reporting  
Florida Public Service Commission  
101 East Gaines Street  
Tallahassee, Florida 32399-0850

Re: Environmental Cost Recovery Clause  
FPSC Docket No. 980007-EI

Dear Ms. Bayo:

Enclosed for filing in the above docket are the original and fifteen (15) copies of Tampa Electric Company's Petition for Approval of Cost Recovery for New Environmental Program.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning same to this writer.

Thank you for your assistance in connection with this matter.

Sincerely,

  
James D. Beasley

ACK ✓  
AFA 2 JDB/pp  
Enclosures  
APP \_\_\_\_\_  
CAF \_\_\_\_\_ cc: All Parties of Record (w/encls.)  
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DOCUMENT NUMBER-DATE  
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FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Environmental Cost )  
Recovery Clause. )  
\_\_\_\_\_ )

DOCKET NO. 980007-EI  
FILED: May 15, 1998

**PETITION OF TAMPA ELECTRIC COMPANY FOR APPROVAL  
OF COST RECOVERY FOR NEW ENVIRONMENTAL PROGRAM**

Tampa Electric Company ("Tampa Electric" or "the company"), pursuant to Section 366.8255, Florida Statutes (1997) and subsequent orders of the Commission implementing Section 366.8255, Florida Statutes,<sup>1</sup> hereby petitions the Commission for approval of a new environmental compliance program and for the recovery of the investment and costs associated with that program through the environmental cost recovery procedures administered in this docket. As detailed herein, the new program is the construction and ongoing operation and maintenance of Flue Gas Desulfurization (FGD) equipment (a "scrubber") located at the company's Big Bend Station for Big Bend Units 1 and 2. In support of its petition, Tampa Electric states:

1. Tampa Electric is an investor-owned electric utility subject to the Commission's jurisdiction pursuant to Chapter 366, Florida Statutes. Tampa Electric serves retail customers in Hillsborough and portions of Polk, Pinellas and Pasco Counties in Florida. The company's principal offices are located at 702 North Franklin Street, Tampa, Florida 33602.

<sup>1</sup>Order No. PSC-94-0044-FOF-EI issued January 12, 1994 in Docket No. 930613-EI, and Order No. PSC-94-1207-FOF-EI, issued October 3, 1994 in Docket No. 940042-EI.

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

2. The persons to whom all notices and other documents should be sent in connection with this docket are:

Angela Llewellyn  
Regulatory Specialist  
Tampa Electric Company  
Post Office Box 111  
Tampa, FL 33601

Lee L. Willis  
James D. Beasley  
Ausley & McMullen  
Post Office Box 391  
Tallahassee, FL 32302

3. This Petition is filed pursuant to Section 366.8255, Florida Statutes, which authorizes Commission regulated investor-owned electric utilities to submit to the Commission a petition describing the utility's proposed environmental compliance activities seeking recovery of projected environmental compliance costs in addition to any Clean Air Act compliance activities and costs. The Commission initially implemented Section 366.8255, Florida Statutes, on a case-by-case basis for Florida Power & Light Company in October of 1993, for Gulf Power Company in January of 1994 and for Tampa Electric in August of 1996. Cost recovery hearings under Section 366.8255, Florida Statutes, were eventually consolidated in this docket. As contemplated in Commission Order No. 94-1207 this Petition seeks Commission approval of a new project between cost recovery periods. This Petition also seeks approval to use a ten year recovery period for the FGD system Tampa Electric proposes to construct. •

**The Proposed Program and the Environmental Requirements to be Complied With:**

4. The proposed project has been determined to be Tampa Electric's most economically viable option to meet the SO<sub>2</sub> requirements of Phase II of the Clean Air Act Amendments of 1990 (CAAA). Phase II of the CAAA program begins on January 1, 2000 and further restricts the annual SO<sub>2</sub> emissions limits imposed on Phase I plants. Phase II affects Tampa Electric's Big Bend, Gannon and Polk coal units as well as Hookers Point and any future units.

5. For SO<sub>2</sub> compliance with Phase I of the CAAA, Tampa Electric conducted an extensive study, with a follow-up study recommending the integration of Big Bend Unit 3 with the existing Big Bend Unit 4 FGD system. That study was included for cost recovery purposes in Tampa Electric's petition to establish its Environmental Cost Recovery Clause (ECRC), Docket No. 960688-EI.

For Phase II SO<sub>2</sub> compliance, Tampa Electric reviewed the analysis done previously for Phase I SO<sub>2</sub> compliance and developed several compliance alternatives. Tampa Electric identified viable options to meet the more stringent regulations and proceeded with a screening process. Analyses were performed on the alternatives selected to determine the most practical and economical Phase II SO<sub>2</sub> compliance strategy. Based on the results of these analyses, the installation of an FGD system for Big Bend Units 1 and 2 was determined to be the most cost-effective compliance alternative for Tampa Electric's system.

Of the various compliance options evaluated by Tampa Electric, the FGD option provides significantly greater cumulative present worth revenue requirement (CPWRR) savings relative to other alternatives -- nearly twice the expected savings of the next most economical option. From the standpoint of Tampa Electric's ratepayers, this equates to the lowest cost option for meeting Phase II requirements. The FGD option for Big Bend Units 1 and 2 offers the greatest fuel savings and will provide the greatest rate benefits to retail customers compared to the other alternatives analyzed.

6. After a preliminary determination that the proposed Big Bend Units 1 and 2 FGD was the best available compliance option, additional sensitivities, both quantitative and qualitative, were performed to verify the economic viability of this option. These sensitivities included: capital cost, SO<sub>2</sub> allowance market viability, fuel price sensitivity and a deferral analysis. The proposed FGD project remained economically viable in each of these sensitivity analyses.

7. The proposed project has the added benefit of providing more flexibility to Tampa Electric's system by allowing the blending of less expensive, higher sulfur coal.

8. An innovative approach to the design and development of the system will allow Tampa Electric to construct the FGD system at a cost comparable to the industry average cost for Phase I FGD systems. The capital cost of the proposed FGD system is estimated to be approximately \$90 million (including AFUDC). This estimate is based on a conceptual design and a detailed cost estimate performed by an outside consulting firm. The annual O&M expense of the project is estimated to be approximately \$3.5 million based on Tampa Electric's past experience in fuel blending and operation of the existing FGD system.

#### **Qualification of the Project for Recovery**

9. In its Order No. 94-0044, the Commission required that environmental costs and activities meet three specific criteria in order to be eligible for recovery:

- (a). Such costs were prudently incurred after April 13, 1993;
- (b). The activity is legally required to comply with a governmentally imposed environmental regulation enacted, which became effective, or whose effect was triggered after the company's last test year upon which rates are based; and
- (c). Such costs are not recovered through some other cost recovery mechanism or through base rates.

10. The costs associated with the proposed FGD system jointly serving Big Bend Units 1 and 2 are appropriate for cost recovery through the ECRC because they satisfy the three criteria identified in the policy the Commission established in the above-referred to order. The proposed costs will be prudently incurred after April 13, 1993. In addition, Tampa Electric is legally required to comply with the CAAA requirements. Finally, the expenses requested for recovery are not being recovered through

base rates nor through any other recovery mechanism.

11. The FGD related costs proposed for environmental cost recovery were not among the compliance activities included in the basis for setting base rates in Tampa Electric's last rate case, Docket No. 920324-EI in 1992.

12. Tampa Electric will present detailed testimony and exhibits by the end of June to support the estimated capital and O & M costs of the proposed FGD system as well as the relief sought in this Petition. In view of the magnitude of the proposed investment in the project and the level of O & M expenses associated with it, Tampa Electric is presently requesting a Commission determination that the project is a reasonable compliance option; that it is a project which qualifies for environmental cost recovery; and that funds prudently invested and expended in implementing the project will be recoverable through the ECRC mechanism. Tampa Electric proposes to begin collecting the actual and projected costs of the project during the cost recovery period when the FGD system is placed in service. Project costs will be tracked and accumulated in AFUDC until the FGD system goes into service. Prior to seeking the actual recovery of costs associated with this project, Tampa Electric will file additional testimony and exhibits for consideration at the hearing in which the ECRC factors will be set for the cost recovery period when the FGD system will be placed in service.

13. Tampa Electric proposes the use of a 10 year recovery period for the Big Bend Units 1 and 2 FGD system. The use of a 10-year recovery period recognizes that the FGD system will not be built to serve incremental load on Tampa Electric's system but, instead, will enable the company to comply with a regulatory mandate and achieve the intangible benefits of cleaner air. Significant fuel savings will flow from this project relative to the base case scenario. Using a 10-year recovery period will enable Tampa Electric to recoup the cost of the equipment over a reasonable period of time while

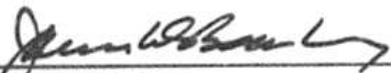
producing net benefits to customers. This is a conservative approach and one which will better prepare Tampa Electric to deal with increasing uncertainties in the electric industry.

14. Tampa Electric has a legal obligation to comply with the CAAA. Based on the above described analyses, installing the FGD system at Big Bend Units 1 and 2 is the most economically viable compliance option for both the company and its customers.

WHEREFORE, Tampa Electric Company respectfully requests the Commission to approve for cost recovery through the Environmental Cost Recovery Clause the construction costs of the Big Bend Units 1 and 2 FGD system and the expenses associated therewith consistent with this Petition.

DATED this 15<sup>th</sup> day of May, 1998.

Respectfully submitted,

  
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LEE L. WILLIS  
JAMES D. BEASLEY  
Ausley & McMullen  
Post Office Box 391  
Tallahassee, FL 32302  
(850) 224-9115

ATTORNEYS FOR TAMPA ELECTRIC COMPANY

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true copy of the foregoing Petition, filed on behalf of Tampa Electric Company, has been furnished by hand delivery (\*) or U. S. Mail on this 15<sup>th</sup> day of May, 1998 to the following:

Ms. Leslie G. Paugh\*  
Staff Counsel  
Division of Legal Services  
Florida Public Service Commission  
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Tallahassee, FL 32399-0872

Mr. John Roger Howe  
Office of Public Counsel  
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Suite 812  
Tallahassee, FL 32399-1400

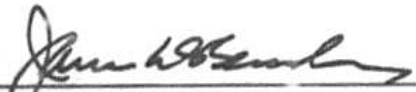
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ATTORNEY