

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Tampa Electric Company)
for Approval of Cost Recovery for a New) Docket No. 980693-EI
Environmental Program, the Big Bend Units)
1 and 2 Flue Gas Desulfurization System.) Filed: August 14, 1998
_____)

**THE FLORIDA INDUSTRIAL POWER USERS GROUP'S
PREHEARING STATEMENT**

Pursuant to Order No. PSC-98-0864-PCO-EI, the Florida Industrial Power Users Group (FIPUG) files its Prehearing Statement.

A. APPEARANCES:

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On behalf of the Florida Industrial Power Users Group.

B. WITNESSES:

<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
James T. Selecky	Prematurity of TECO's request; attribution of fair share of wholesale responsibility; adequacy of base rates.	1, 3, 7

C. EXHIBITS:

None.

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FILED IN THE OFFICE OF THE CLERK OF THE COMMISSION

D. STATEMENT OF BASIC POSITION:

FIPUG's Statement of Basic Position:

TECO has failed to seek preconstruction prudency approval pursuant to § 366.825, *Florida Statutes*. Therefore, its attempt to proceed under § 366.8255 must fail. Further, because the Commission cannot yet determine the status of TECO's earnings in the year 2000 (the in-service date of the FGD), it is too early to tell whether TECO's earnings from base rates will be sufficient to cover the investment without an additional surcharge on consumers. These omissions preclude the Commission's consideration of TECO's petition at this time. FIPUG has addressed these issues in its motion to dismiss.

Environmental costs are driven by energy sales. TECO has substantial firm and economy wholesale energy sales. Approving cost recovery under the cost recovery clause, ECRC, without accounting for wholesale sales discriminates against retail customers and is an unfair trade practice *vis a vis* other utilities.

1. **ISSUE:** Has Tampa Electric Company (TECO) adequately explored alternatives to the construction of a Flue Gas Desulfurization (FGD) system on Big Bend Units 1 and 2?

FIPUG: No. TECO did not present its petition in a timely fashion before construction contracts were awarded and construction of the major component commenced. It has not provided the basic information concerning its total CAAA II compliance plan and its rate impact as required by § 388.825 *Florida Statutes*, the primary preconstruction prudency section. There is insufficient time for the Commission to give meaningful consideration to any alternatives other than those TECO promoted. The petition should be denied without prejudice to come back when all compliance requirements have been met and costs are known.

2. **ISSUE:** Is the fuel price forecast used by TECO in its selection of a CAAA Phase II Compliance plan reasonable?

FIPUG: The Commission should decline to rule on this issue because TECO has not sought relief under § 388.825, *Florida Statutes*, the preconstruction prudency section.

3. **ISSUE:** Are the economic and financial assumptions used by TECO in its selection of a CAAA Phase II Compliance plan reasonable?

FIPUG: The financial assumptions used by TECO result in a far more expensive cost than is prudent, but if they are used only for the purpose of comparing the alternatives TECO requests the Commission to compare, they are conservative and FIPUG has no objection

to their use, provided they set no precedent for determining the prudent costs that can be charged to ratepayers. The Commission should decline to rule on this issue because TECO has not sought relief under § 388.825, *Florida Statutes*, the preconstruction prudency section.

4. **ISSUE:** Did TECO reasonably consider the environmental compliance costs for all regulated air, water and land pollutants in its selection of the proposed FGD system on Big Bend Units 1 and 2 for sulfur dioxide (SO₂) compliance purposes?

FIPUG: FIPUG takes no position on this issue except that the Commission should decline to rule on this issue because TECO has not dealt with all of the compliance requirements of CAAA II as required by § 388.825, *Florida Statutes*, the primary preconstruction prudency section.

5. **ISSUE:** Has TECO demonstrated that its proposed FGD system on Big Bend Units 1 and 2 for SO₂ compliance purposes is the most cost-effective alternative available?

FIPUG: No. TECO made its SO₂ decision long ago. Other expensive environmental issues are not addressed as required by §388.825, *Florida Statutes*. The Commission should decline to rule on SO₂ in isolation. It is too late for the Commission to second guess the utility's decision on even this single compliance issue in time to meet the compliance deadline.

6. **ISSUE:** Should the Commission approve TECO's request for recovery of allowance for funds used during construction (AFUDC) for the proposed FGD system on Big Bend Units 1 and 2?

FIPUG: No. AFUDC would not be authorized by Commission rule 25-6.0141 unless the Commission specifically permits it. The Commission should not permit it because:

- a. TECO has failed to show any extraordinary justification for accruing AFUDC;
- b. The standard AFUDC rate is inappropriate. TECO has failed to explain why it failed to use low cost tax exempt pollution control bonds it previously used for a major environmental project;
- c. The standard AFUDC rate is inappropriate because TECO is holding cost free excess revenue received from customers that could be used for the project at the commercial paper rate;

- d. Commission approval of AFUDC may result in book earnings during construction that are subject to disallowance when cost recovery is sought and TECO must prove the prudence of expenditures. It would be better to wait until other cost issues are considered in the deferred portion of this docket;
- e. Sufficient CWIP was allowed in the last rate case to cover this project until near completion.

7. **ISSUE:** Should TECO's petition for cost recovery of a FGD system on Big Bend Units 1 and 2 through the Environmental Cost Recovery Clause (ECRC) be granted?

FIPUG: No. Cost recovery is unnecessary because base rates are sufficient to cover the carrying cost of TECO's selected compliance plan. TECO has failed to show that it will earn less than its authorized return on base rates unless an environmental surcharge is imposed upon its customers.

In addition, the environmental cost recovery mechanism which may be proper for other utilities and is proper when fuel switching is used, is inappropriate to fund capital investment used to remove SO₂ created by coal burned to furnish electricity to wholesale customers without requiring the wholesale customers who receive the energy to bear all the costs attributable to creating that energy. The use of the cost recovery mechanism to fund capital improvements for TECO, which has substantial wholesale sales, will result in retail customers subsidizing TECO's ventures in the competitive market, giving TECO an advantage over other Florida utilities in wholesale sales at the expense of TECO's retail customers.

8. **ISSUE:** Should this docket be closed?

FIPUG: Yes. TECO's petition should be denied and this docket should be closed.

F. STIPULATED ISSUES:

None.

G. PENDING MOTIONS:

FIPUG's Motion to Dismiss;

Office of Public Counsel's Suggestion that the Commission Dismiss
Tampa Electric's Petition on its Own Motion

H. OTHER MATTERS:

None at this time.

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