



Public Service Commission

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98 APR -8 AM 11:37
RECORDS AND REPORTING

DATE: April 8, 1999

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF ELECTRIC AND GAS (TEW, BASS, BREMAN, WHEELER)
DIVISION OF AUDITING AND FINANCIAL ANALYSIS (L. ROMIG)
DIVISION OF LEGAL SERVICES (COLLINS) *WU RVE*

RE: DOCKET NO. 981973-EI - PETITION BY GULF POWER COMPANY FOR APPROVAL OF COST RECOVERY FOR NEW ENVIRONMENTAL PROGRAM ENTITLED "MERCURY EMISSIONS INFORMATION COLLECTION EFFORT"

AGENDA: 04/20/99 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\EAG\WP\981973.RCM

Handwritten initials: JW, CR, RT, DM, JS, RVE

CASE BACKGROUND

On December 28, 1998, Gulf Power Company (Gulf Power) filed a Petition for Approval of New Environmental Program for Cost Recovery Through the Environmental Cost Recovery Clause (ECRC). Pursuant to section 114 of the Clean Air Act, as amended, Gulf Power is required to collect and analyze certain data pertaining to mercury emissions for the period January 1, 1999 through December 31, 1999 and to periodically report its results to the United States Environmental Protection Agency (EPA). Since Gulf Power's ECRC factors for calendar year 1999 have already been set, the petition clarified that the actual costs of this project will be addressed in an upcoming true-up cycle. Therefore, a separate docket was appropriate in order for the Commission to determine whether the project is appropriate for recovery through the ECRC before the costs are included in the true-up.

DOCUMENT NUMBER-DATE

04544 APR-89

FPSC-RECORDS/REPORTING

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Gulf Power's petition for cost recovery of the Mercury Emissions Information Collection Effort through the Environmental Cost Recovery Clause?

RECOMMENDATION: Yes. The Commission should approve Gulf Power's petition for cost recovery of the Mercury Emissions Information Collection Effort through the Environmental Cost Recovery Clause (ECRC). The prudence of the project costs incurred will be determined by the Commission in a subsequent ECRC hearing, and final disposition of the costs will be subject to audit. Costs of the project should be allocated to the rate classes on an energy basis. [TEW, BREMAN, WHEELER]

STAFF ANALYSIS: The Clean Air Act Amendments of 1990 (CAAA) empower the EPA to assess the impacts associated with mercury emissions from all coal-fired electric utility steam generating units. Pursuant to section 114 of the CAA (42 U.S.C. 7414), EPA required Gulf Power to collect and analyze certain information associated with mercury emissions for calendar year 1999 and to periodically report its findings to the EPA. In response to staff interrogatories, Gulf Power stated that no compliance approach other than the sampling and analyses specified in the directive from EPA was considered in estimating the costs of this project. Although Gulf Power considered using alternative laboratories, it determined that use of the services of the Southern Electric System (SES) laboratory is the most prudent long-term solution. The SES laboratory is currently providing coal sampling and analyses used for coal vendor payments for Gulf Power. Pursuant to the proposed new project, the SES laboratory is to provide additional services, consisting primarily of performing additional sampling and analyses for mercury and chlorine which were not currently being performed. In response to staff interrogatories, Gulf Power stated that the final cost of the project depends on the number of actual coal shipments and the number of samples taken and, therefore, could range from \$11,000 to \$60,000.

According to Gulf Power's petition, "...the projected program expenses are not expected to result in the need for a mid-course correction of the ECRC factors during 1999. The actual program expenditures will be addressed in an upcoming cycle and will be subject to audit." Staff has analyzed the projected costs of the

proposed project and agrees that a mid-course correction to Gulf Power's ECRC factors is not warranted in this instance.

In order to recover environmental compliance costs through the ECRC, a proposed project must meet the specific criteria listed in Order No. PSC-94-0044-FOF-EI. The first threshold to be met is that the costs must be incurred after April 13, 1993. Since the EPA's information collection request to Gulf Power is dated November 25, 1998, and specifically requires performance by Gulf Power during calendar year 1999, costs for this project will be incurred after April 13, 1993. Based on Gulf Power's responses to staff's interrogatories, the proposed project appears to be the most cost-effective approach for compliance with EPA's information collection request. In addition, the effect of this new EPA requirement was triggered after Gulf Power's last test year (1990) upon which rates are based. This satisfies the second criterion for recovery. Finally, the company's petition addresses the third criterion and states that the expenses for EPA's Mercury Emissions Information Collection effort are not recovered through any other cost recovery mechanism or through base rates. Again, since the EPA's information collection request to Gulf Power is dated November 25, 1998, it is unlikely that these specific analyses are typical expense items which are being recovered elsewhere. Therefore, staff recommends that this project and prudently incurred costs be approved for recovery through the ECRC. The prudence of the costs associated with this project will be determined by the Commission in a subsequent ECRC hearing. Final disposition of these costs will be subject to audit.

In response to a staff interrogatory, Gulf Power stated that it proposed to allocate the costs of the Mercury Emissions Information Collection Effort to the rate classes on an energy basis because the project is in response to a requirement by the EPA pursuant to its authority under the CAAA. Staff agrees with Gulf Power's proposed method of allocation and notes that it is consistent with Commission Order No. PSC-94-0044-FOF-EI, in which the Commission decided that costs associated with the CAAA should be allocated to the rate classes on an energy basis.

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ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes. If no person whose substantial interests are affected by the Commission's proposed agency action files a protest within 21 days of the order, this docket should be closed.
[COLLINS]

STAFF ANALYSIS: If no person whose substantial interests are affected by the Commission's proposed agency action files a request for hearing within 21 days of the order, no further action will be required and this docket should be closed.