



Public Service Commission

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RECORDS AND REPORTING

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DATE: AUGUST 19, 1999

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

FROM: DIVISION OF ELECTRIC AND GAS (BREMEN, KUMMER, LEE, WHEELER)
 DIVISION OF AUDITING AND FINANCIAL ANALYSIS (DRAPER, SICKEL, LEE, SNYDER)
 DIVISION OF LEGAL SERVICES (JAYE) *RUE For GAT*

RE: DOCKET NO. 990667-EI - PETITION BY GULF POWER COMPANY FOR APPROVAL OF PLANT SMITH SODIUM INJECTION SYSTEM AS NEW PROGRAM FOR COST RECOVERY THROUGH ENVIRONMENTAL COST RECOVERY CLAUSE.

AGENDA: 8/31/99 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\EAG\WP\990667.RCM

CASE BACKGROUND

Pursuant to Section 366.8255, Florida Statutes, and 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, on May 24, 1999, Gulf Power Company (Gulf) filed a Petition for Approval of New Environmental Program for Cost Recovery Through the Environmental Cost Recovery Clause (ECRC). Gulf seeks Commission approval of its proposed Plant Smith Sodium Injection System as an environmental compliance program/activity appropriate for recovery through the ECRC.

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Because Gulf's ECRC factors for calendar year 1999 have already been set, Gulf requests that the actual costs of this project 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.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Gulf Power Company's petition for cost recovery of the Plant Smith Sodium Injection System through the Environmental Cost Recovery Clause?

RECOMMENDATION: Yes. The Commission should approve Gulf Power Company's petition for cost recovery of the Plant Smith Sodium Injection System 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. [BREMAN, LEE, WHEELER, KUMMER, SICKEL, SNYDER, DRAPER]

STAFF ANALYSIS: Staff recommends that Gulf's petition be granted. Staff's analysis is presented in the following sections. Each section fully explores key topics staff pursued in reaching its final recommendation.

Environmental Requirement

The Acid Rain Phase II provisions in Title IV of the Clean Air Act Amendments of 1990 (CAAA) require a reduction from Phase I levels in the air borne emissions of SO₂ from electric power plants by January 1, 2000. Gulf's Phase II compliance strategy for the foreseeable future is primarily fuel switching (use of lower sulfur

coals) because this strategy is the most cost-effective and provides for flexibility to respond to future developments. However, the properties of the lower sulfur coals decrease the efficiency of the Plant Smith Units 1 & 2 precipitators. The precipitators are the primary pollution control device to achieve compliance with standards for particulate matter and opacity by collecting particulates suspended in the exhaust flue gases before they are released up the stack.

Project Cost-Effectiveness

Gulf determined that coating the lower sulfur coal with sodium carbonate powder will allow the precipitators to operate more efficiently and in a cost-effective manner. In response to staff interrogatories, Gulf stated that no compliance approach other than the sodium injection system was explored because the technology has long been recognized as an industry standard for improving efficiencies of precipitators that collect ash from the burning of low sulfur coals. A report published by the Energy Information Administration (DOE/EIA-0582-97) supports the use of sodium treatment to improve the collection efficiency of precipitators.

According to Gulf's petition, "...the projected program expenditures 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 true-up 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's ECRC factors is not warranted in this instance.

Scope of the Project

Gulf's petition states that the estimated 1999 capital expenditures associated with the project are \$77,000. In response to Staff's Interrogatory 6, Gulf provided an updated itemized list of all costs related to the construction of the Plant Smith Sodium Injection System. The updated estimate of the construction cost is \$87,488. The updated total includes costs for mechanical and

electrical work of \$33,567 and \$53,921 for equipment purchases. The primary equipment components are:

- 1) a 40 ton silo to store the sodium, and
- 2) an air dryer and filter system to remove moisture from the sodium, and
- 3) a control mechanism to dispense the sodium powder onto the primary coal feeder belt.

Gulf's response to Staff's Interrogatories 1 and 7 indicated that there will be associated O&M costs of approximately \$100,000 annually for the purchase of sodium. However, Gulf did not include any O&M costs in its petition and is not asking for recovery of O&M costs through the ECRC at this time.

Allocation to Rate Classes

Upon review of Gulf's petition and responses to staff's discovery it is clear the impetus for the instant project is the SO₂ emission reduction requirement of the CAAA. Order No. PSC-94-0044-FOF-EI, issued January 12, 1994, in Docket No. 930613-EI, requires that costs associated with compliance with the CAAA should be allocated to the rate classes on an energy basis. Therefore, staff recommends that the costs of the Plant Smith Sodium Injection System should be allocated to the rate classes on an energy basis.

Applicable Criteria

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:

- (1) such costs were prudently incurred after April 13, 1993;
- (2) the activity is legally required to comply with governmentally imposed environmental regulation enacted, became effective, or whose effect was triggered after the company's last test year upon which rates are based; and,

- (3) such costs are not recovered through some other cost recovery mechanism or through base rates.
(Order No. PSC-94-0044-FOF-EI, p. 6,7)

Gulf's proposed project appears to meet all three criteria. First, the costs for the project must be incurred after April 13, 1993. The CAAA Title IV Acid Rain Phase II requirements begin January 1, 2000, and Gulf is responding to those requirements during calendar year 1999. Therefore, costs for the specific compliance activities will be incurred after April 13, 1993.

Secondly, the CAAA Title IV Acid Rain Phase II requirements will be enforced beginning January 1, 2000. Gulf's base rates are currently based on a 1990 test year. Therefore, the effect of the environmental requirement was triggered after the company's last test year upon which rates are based.

Finally, the company's petition and responses to staff's discovery assert that the capitalized cost for the Plant Smith Sodium Injection System is not being recovered through any other cost recovery mechanism or through base rates. Gulf's CAAA Title IV Acid Rain Phase II compliance activities had not begun in 1990 and were not included in the 1990 test year budget. Therefore, Staff agrees that the identified costs for constructing the Plant Smith Sodium Injection System have not been included in any other rate setting procedure.

Conclusion

Therefore, based on the forgoing discussion, staff recommends that this project and the associated prudently incurred equipment 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.

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ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes. If no person whose substantial interests are affected files a request for a Section 120.57(1), Florida Statutes, hearing within 21 days of the order, the order will become final and effective upon the issuance of a consummating order. Because no further action will be required, this docket should be closed. [JAYE]

STAFF ANALYSIS: If no person whose substantial interests are affected files a request for a Section 120.57(1), Florida Statutes, hearing within 21 days of the order, the order will become final and effective upon the issuance of a consummating order. Because no further action will be required, this docket should be closed.