

1 **APPEARANCES:**

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3 Beggs & Lane, 700 Blount Building, 3 West Garden
4 Street, Post Office Box 12950, Pensacola, Florida
5 32576-2950, appearing on behalf of **Gulf Power Company**.

6 **JAMES D. BEASLEY** and **LEE L. WILLIS**, Ausley &
7 McMullen, Post Office Box 391, Tallahassee, Florida
8 32302, appearing on behalf of **Tampa Electric Company**
9 **(TECO)**.

10 **JOHN McWHIRTER, JR.**, McWhirter, Reeves,
11 McGlothlin, Davidson, Decker, Kaufman, Arnold & Steen,
12 Post Office Box 3350, Tampa, Florida 32601-3350, and
13 **VICKI GORDON KAUFMAN**, McWhirter, Reeves, McGlothlin,
14 Davidson, Rief and Bakas, appearing on behalf of
15 **Florida Industrial Power Users Group (FIPUG)**.

16 **MATTHEW M. CHILDS**, Steel, Hector & Davis,
17 215 South Monroe Street, Suite 601, Tallahassee,
18 Florida 32301, appearing on behalf of **Florida Power &**
19 **Light Company (FPL)**.

20 **STEPHEN C. BURGESS**, Deputy Public Counsel,
21 Office of Public Counsel, 111 West Madison Street,
22 Room 812, Tallahassee, Florida 32399-1400, appearing
23 on behalf of the **Citizens of the State of Florida**.

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1 **APPEARANCES CONTINUED:**

2 **GRACE JAYE**, Florida Public Service
3 Commission, Division of Legal Services, 2540 Shumard
4 Oak Boulevard, Tallahassee, Florida 32399-0870,
5 appearing on behalf of the **Commission Staff**.

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1 behalf of the Public Counsel's Office representing the
2 Citizens of the State of Florida in all the dockets
3 before the Commission.

4 **MR. PALECKI:** Michael Palecki on behalf of
5 City Gas Company of Florida, 3111 Mahan Drive,
6 Tallahassee, Florida in the 002 and 003 dockets.

7 **MR. MCGEE:** James McGee on behalf of Florida
8 Power Corporation in the 01 and 02 dockets.

9 **MS. KAUFMAN:** John McWhirter and Vicki
10 Gordon Kaufman of the McWhirter Reeves law firm on
11 behalf of the Florida Industrial Power Users Group in
12 the 01, 02 and 07 dockets.

13 **MR. CHILDS:** Matthew M. Childs with the firm
14 of Steel, Hector and Davis appearing on behalf of
15 Florida Power & Light Company in the 01 and 07
16 dockets.

17 **MR. STONE:** Jeffrey A. Stone and together
18 with me is Russell A. Badders of the law firm of Beggs
19 and Lane, Pensacola, and we're appearing in the 01, 02
20 and 07 dockets.

21 **MR. WILLIS:** Lee L. Willis together with
22 James D. Beasley and Kenneth R. Hart of Ausley &
23 McMullen, P.O. Box 391, Tallahassee, Florida 32302
24 appearing on behalf of Tampa Electric Company in the
25 01, 02 and 07 dockets.

1 **MR. KEATING:** Cochran Keating appearing on
2 behalf of the Commission Staff in the 01 and 03
3 dockets.

4 **MS. JAYE:** Grace Jaye appearing on behalf of
5 Commission Staff in the 02 and 07 dockets.

6 **COMMISSIONER DEASON:** And there are a number
7 of other parties who have been excused from this
8 proceeding because all issues have been stipulated; is
9 that correct?

10 **MR. KEATING:** I believe so.

11 **COMMISSIONER DEASON:** Very well.

12 * * * * *

13 **COMMISSIONER DEASON:** We will now proceed to
14 the 07 docket.

15 **MS. JAYE:** Commissioner, Staff has quite a
16 few preliminary issues that need to be dealt with in
17 this docket.

18 **COMMISSIONER DEASON:** Okay. Let's proceed.

19 **MS. JAYE:** First of all, Staff would like to
20 withdraw its witness John Slemkewicz's testimony and
21 withdraw him as a witness appearing in this docket.

22 **COMMISSIONER DEASON:** I'm sorry. Which
23 witness?

24 **MS. JAYE:** John Slemkewicz.

25 **COMMISSIONER DEASON:** Very well. That

1 testimony is being withdrawn, correct?

2 **MS. JAYE:** Yes, sir.

3 **COMMISSIONER DEASON:** Okay. Other
4 preliminary matters?

5 **MS. JAYE:** Yes, sir. Both Staff and Tampa
6 Electric Company have outstanding requests for
7 official recognition of various Commission orders and
8 I was wondering if we could have those orders taken
9 official recognition of at this time.

10 **COMMISSIONER DEASON:** Do we have a list of
11 those orders?

12 **MS. JAYE:** We're trying to locate that.
13 Just a moment.

14 **MR. BEASLEY:** Commissioner, if can help out
15 here --

16 **COMMISSIONER DEASON:** You need to turn on
17 your microphone.

18 **MR. BEASLEY:** Thank you. First one is,
19 Order No. PSC-93-1580-FOF-EI. The next one is, Order
20 No. PSC-94-0044-FOF-EI. The next one is
21 PSC-98-1764-FOF-EI. The next one is
22 PSC-99-0075-FOF-EI. Those are the ones that we had.

23 **MS. JAYE:** There is another order. It's
24 PSC-96-1048-FOF-EI issued in Docket No. 96-066-ADI.

25 **COMMISSIONER DEASON:** Very well. Any other

1 orders? All of those are PSC orders, correct?

2 **MS. JAYE:** Yes, sir, they are.

3 **COMMISSIONER DEASON:** Okay. We'll take
4 recognition of our own orders has have been listed out
5 by Staff counsel and Mr. Beasley.

6 Other preliminary matters in the 07 docket?

7 **MS. JAYE:** Yes, Commissioner. On Issue 7
8 Gulf Power Company has indicated that the factor for
9 the GSD and GSDT rate should be changed to reflect its
10 changed ROE and that change should be made from .114
11 to .113.

12 **COMMISSIONER DEASON:** Very well.

13 **MS. JAYE:** And FIPUG has also requested that
14 its position be reflected on Issue 8 as not agreeing
15 to the stipulation. If there were some specific
16 language that FIPUG wished reflected on that issue, I
17 would request that they would let us know so that we
18 can include that in the order.

19 **COMMISSIONER DEASON:** Ms. Kaufman.

20 **MS. KAUFMAN:** Yes, Mr. Deason. I think
21 there was some confusion about this issue and what was
22 and was not stipulated to, and Ms. Jaye is correct.
23 FIPUG does not agree with the language that is
24 represented as being stipulated. And our position is
25 that all testimony and projections should be filed at

1 least 90 days prior to the hearing.

2 **COMMISSIONER DEASON:** Which issue is this,
3 Staff?

4 **MS. JAYE:** It is Issue 8. It should be on
5 Pages 12 and 13 of the prehearing order.

6 **MS. KAUFMAN:** Right now I think it's
7 incorrectly reflected as being stipulated.

8 **COMMISSIONER DEASON:** Okay. So, FIPUG then
9 takes exception to Issue 8 and there is not a
10 stipulation between all the parties.

11 **MS. JAYE:** No, there is not at this point.

12 **COMMISSIONER DEASON:** Okay. Okay. Other
13 preliminary matters?

14 **MS. JAYE:** Yes, Commissioner. It appears
15 that with the exception of some language that FIPUG
16 has indicated it would like added to the issue that
17 all the parties have agreed to the language for a
18 stipulation on Issue 10. If you would like, I can
19 read that language into the record.

20 **COMMISSIONER DEASON:** Yes. Please do so.

21 **MS. JAYE:** The language that has been agreed
22 to is as follows. "The appropriate adjustment to ECRC
23 project costs to reflect retirements or replacements
24 of plant should reflect the impact on the company's
25 net plant in-service and depreciation expense. Based

1 on utility accounting the impact of retiring plant on
2 net investment is zero dollars. The net plant
3 in-service is increased by the amounts of the new ECRC
4 investment. Until the company's next depreciation
5 study depreciation expense would decrease by the
6 amount of depreciation on the retired investment and
7 would increase by the amount of depreciation related
8 to the new investment. Until the next depreciation
9 study becomes effective the company would offset the
10 depreciation related to the retired investment for
11 recovery through the ECRC. When a new depreciation
12 study is prepared, the reserved deficiency created by
13 the premature retirement of the old asset will be
14 properly reflected in the new depreciation rates.
15 When these new rates become effective, the offset
16 described above will no longer be necessary or
17 appropriate. For purposes of resolving this issue,
18 the depreciation expense offset will be effective as
19 of the effective date of the last company-specific
20 depreciation study."

21 And I do believe that FIPUG had a different
22 response to this issue.

23 **COMMISSIONER DEASON:** Mr. McWhirter.

24 **MR. MCWHIRTER:** Mr. Chairman, the
25 stipulation appears satisfactory but when you look at

1 language in a vacuum without seeing the numbers, it's
2 difficult to apprehend what is going on.

3 For instance, where the sentence, the third
4 line -- fourth line down, it says, "based on utility
5 accounting the impact of retiring plant on net
6 investment is zero."

7 I presume that what that means is that if
8 you have an environmental piece of capital asset
9 that's in the rate base and it's fully depreciated,
10 the rates don't go down. I'm not sure if that's what
11 this means, but that's what it means to me. The net
12 plant in-service is increased by the amount of new
13 ECRC. I understand that aspect of it.

14 But, in essence, this depreciation clause is
15 going to be related to the environmental cost recovery
16 clause and it would appear that if all new investment
17 would be recovered through that clause. It would also
18 appear that if old investment is written off and not
19 replaced then that clause would be -- the factor would
20 be reduced by the amount of that continuing
21 depreciation expense. If that's what this means,
22 we're all for it. But, we've never seen any numbers
23 that go with it.

24 So for purposes of this hearing I would
25 abstain from either agreeing with or disagreeing with

1 the stipulation until we see how it is applied. The
2 Staff says that they're going to keep the issue under
3 advisement and address it in future cases and we will
4 be there to look at it and see how the numbers play
5 out. The language appears to be okay. But we're not
6 sure.

7 **COMMISSIONER DEASON:** You just want to hold
8 your options open, is that right, Mr. McWhirter?

9 **MR. MCWHIRTER:** Yes, sir. I wouldn't want
10 to come back and be trapped in the future thinking
11 that we'd agreed to something we didn't understand,
12 which I've often done to my regret.

13 **COMMISSIONER DEASON:** Okay. So there is no
14 objection at this point?

15 **MR. MCWHIRTER:** No, sir.

16 **COMMISSIONER DEASON:** Very well.

17 **MR. BEASLEY:** Commissioner Deason, Tampa
18 Electric has looked at the language and will accept
19 it. I have a revised position on Issue 10 that states
20 that we're accepting this for purposes of settlement.
21 I'd like to distribute that.

22 **COMMISSIONER DEASON:** Very well.

23 Mr. Beasley, the language you have here which you
24 indicate is Staff's proposed treatment, is that
25 consistent with the language which Staff counsel just

1 entered into the record?

2 **MR. BEASLEY:** Yes, sir, it is. We just
3 distributed this in order to place it into perspective
4 of our position.

5 **COMMISSIONER DEASON:** Very well. Okay. So,
6 is it fair to say then that given the caveat that
7 Mr. McWhirter just indicated that there is no
8 objection or in lieu -- or else you could say there is
9 a stipulation on Issue 10 for purposes of today's
10 proceeding. Correct?

11 **MS. JAYE:** That appears to be so,
12 Commissioner.

13 **COMMISSIONER DEASON:** All right.

14 **MS. JAYE:** Commissioner, on Issue 11 Staff
15 would like to change its position in view of the fact
16 that we have withdrawn witness Slemkewicz's testimony
17 from this proceeding. Staff would like to change its
18 position to state, "yes, it is Staff's position that
19 the adjustments have been made in accordance with
20 Order No. 94-0044-FOF-EI."

21 **COMMISSIONER DEASON:** Mr. Burgess, you
22 still -- indicated that your position is you agree
23 with Staff's and Staff has updated that position.

24 **MR. BURGESS:** Yes. We don't have a position
25 on the issue.

1 **COMMISSIONER DEASON:** Okay. Very well.

2 **MR. BURGESS:** Thank you.

3 **MS. JAYE:** Commissioner, the parties, with
4 the exception of FIPUG, have also reached a
5 stipulation on Issue 12A.

6 **COMMISSIONER DEASON:** Before we leave
7 Issue 11, with the change that you've just indicated
8 and the indication by Public Counsel they have no
9 position on Issue 11 is -- for purposes of this
10 proceeding today, Issue 11 is not being contested?

11 **MS. JAYE:** I am unsure of that. It would
12 depend on whether or not FIPUG wishes to change its
13 position as well in the view of Staff's changed
14 position.

15 **COMMISSIONER DEASON:** Ms. Kaufman.

16 **MS. KAUFMAN:** I think our position would be
17 the same as we stated on Issue 10; that we don't have
18 a problem with it at this time, but we want to
19 preserve our right to continue to review it.

20 **COMMISSIONER DEASON:** Very well.

21 **MR. STONE:** With that, does that mean that
22 Issue 11 is now stipulated for this hearing?

23 **COMMISSIONER DEASON:** That would be my
24 understanding. Is that Staff's understanding?

25 **MS. JAYE:** Yes, it is my understanding.

1 **COMMISSIONER DEASON:** Very well. We can
2 proceed then to Issue 12.

3 **MS. JAYE:** Commissioner, on Issue 12A, Staff
4 has reached an agreement with the parties that they're
5 stipulated language would be acceptable and I
6 understand that FIPUG might still have a different
7 view. But the language, as I understand it, reads as
8 follows if you would like for me to read it into the
9 record.

10 **COMMISSIONER DEASON:** Please do so.

11 **MS. JAYE:** "For the three projects listed
12 below, Staff has been unable to verify Florida
13 Power & Light's depreciation amounts and adjustments.
14 Florida Power & Light agrees to provide Staff the
15 necessary information and calculations to resolve the
16 differences identified by Staff and to reflect any
17 resulting changes in its actual 1999 results. The
18 amounts in question for 1997 through 2000, are not
19 significant enough to change Florida Power & Light's
20 proposed factors. However, the net amount of the
21 changes will be reflected in Florida Power & Light's
22 true-up filing scheduled for April 1, 2000."

23 **COMMISSIONER DEASON:** Mr. Childs, I assume
24 you agree with that language?

25 **MR. CHILDS:** We do.

1 **COMMISSIONER DEASON:** Very well. Any other
2 parties have comments on Staff's language?

3 **MR. CHILDS:** I would point out that I don't
4 think she listed the three projects but, you know,
5 they will be there. They're the 3B, 8B and 17 with
6 the names that go with them.

7 **MS. JAYE:** We do agree and those will be
8 shown reflected in the order.

9 **COMMISSIONER DEASON:** Very well. Then,
10 unless a party objects I will indicate then that Issue
11 12A is the stipulated issue. Very well.

12 **MS. JAYE:** Commissioner, there is also a
13 stipulation for 13F and unless parties take a
14 different position the language reads, "if the
15 stipulation in Issue 10 is approved no adjustment is
16 necessary for Issue 13F."

17 **COMMISSIONER DEASON:** Okay. Is there any
18 party that takes issue with the position just
19 indicated by Staff on Issue 13F? Very well. We can
20 show then that also is a stipulated issue.

21 Other preliminary matters.

22 **MS. JAYE:** Yes, Commissioner. On Issue 14E
23 we also have some proposed stipulation language. That
24 language reads, "the \$24,864 ECRC adjustment reflected
25 on Page 42-2E of Karen Zwolak's testimony should be

1 \$5,840.

2 **COMMISSIONER DEASON:** Mr. Beasley.

3 **MR. BEASLEY:** We're in agreement with that.

4 And I show those in parenthesis, is that correct?

5 **MS. JAYE:** Yes.

6 **MR. BEASLEY:** Thank you. We're in agreement
7 with that, Commissioners.

8 **COMMISSIONER DEASON:** Okay. Any other
9 parties have an objection or alternative position on
10 that issue? Very well. We can show then that that
11 issue is also stipulated. That is Issue 14E, correct?

12 **MS. JAYE:** Yes, sir.

13 **COMMISSIONER DEASON:** Very well.

14 **MS. JAYE:** Commissioner, it is my
15 understanding that FIPUG has a change to make to its
16 position on 14G in order to make the position comport
17 with the question as it was reworded at the prehearing
18 conference.

19 **COMMISSIONER DEASON:** Ms. Kaufman.

20 **MS. KAUFMAN:** Yes, Commissioner. At the
21 prehearing conference the wording of that issue was
22 changed and I believe that I neglected to get our
23 language to Ms. Jaye. But our position on that issue
24 should be, "cost of the scrubber should not be
25 recovered until savings from the scrubbers

1 materialize."

2 **COMMISSIONER DEASON:** Very well. Staff.

3 **MS. JAYE:** We will reflect that in the
4 order.

5 **COMMISSIONER DEASON:** Okay. And that is
6 Issue 14G?

7 **MS. JAYE:** Yes, sir.

8 **COMMISSIONER DEASON:** Let me ask this. How
9 then does -- with that position that is being taken by
10 FIPUG, how does that effect the issue for purposes of
11 today's proceeding?

12 **MS. KAUFMAN:** It is not a stipulated issue.
13 We have testimony on that issue.

14 **COMMISSIONER DEASON:** Very well. Okay.
15 Other preliminary matters?

16 **MS. JAYE:** None that Staff is aware of,
17 Commissioner.

18 **COMMISSIONER DEASON:** Okay. I'm sorry.
19 Just one question, then I'll get to you, Mr. Beasley.
20 Issue 8 then is being contested as well as Issue 14G,
21 correct?

22 **MS. JAYE:** Yes, Commissioner.

23 **COMMISSIONER DEASON:** And, of course, there
24 could be fallout effects of that and I understand
25 that. Are there other contested issues other than 8

1 and 14G?

2 **MS. JAYE:** Yes, Commissioner. Issue 13. I
3 understand also that 14H and 14I are also still
4 contested.

5 **COMMISSIONER DEASON:** Okay. Mr. Beasley.

6 **MR. BEASLEY:** I'd like to show Witness
7 Barringer as the witness addressing Issue 14I, as
8 opposed to Witness Zwolak.

9 **COMMISSIONER DEASON:** I'm sorry. That was
10 which witness, Mr. Beasley?

11 **MR. BEASLEY:** Witness Barringer for
12 Issue 14I on Page 25.

13 **COMMISSIONER DEASON:** Okay. Other
14 preliminary matters? Mr. McWhirter.

15 **MR. MCWHIRTER:** Mr. Childs comes first. He
16 had his hand up.

17 **COMMISSIONER DEASON:** Mr. Childs.

18 **MR. CHILDS:** Commissioner, I believe for
19 Florida Power & Light Company that the only issues
20 remaining are fallout issues and they haven't, to my
21 knowledge, been incorporated in this most current
22 draft of the prehearing order. We had one witness and
23 I believe that potentially that witness would have
24 addressed Issue 11 but that's been taken care of I
25 think already.

1 So what I do is ask if we can double check
2 whether all of our matters have been resolved and then
3 rather than putting our witness on, we just insert
4 that into the record and mark the documents for
5 identification.

6 **COMMISSIONER DEASON:** Let me ask then. Do
7 any of the parties have objections to the position
8 taken by FPL and their witness, and if so, can you
9 indicate what those objections are? Any objections to
10 those? Very well then. Mr. Childs, I take it then
11 that in due course then when we get to the testimony
12 of the witnesses it will be permissible to simply
13 insert the testimony of your witness --

14 **MR. CHILDS:** All right.

15 **COMMISSIONER DEASON:** -- at that time.
16 There should be no objection.

17 **MR. CHILDS:** Thank you.

18 **COMMISSIONER DEASON:** Okay. Mr. McWhirter.

19 **MR. MCWHIRTER:** Mr. Chairman, FIPUG raised
20 an issue in this case that was present at the time of
21 the preliminary issue statement, and that issue was,
22 should the Commission approve Tampa Electric Company's
23 request for recovery of costs of the Big Bend Unit 1
24 and 2 flue gas desulfurization project through the
25 environmental cost recovery clause.

1 Essentially, our position was that under the
2 statute if base rates are adequate to cover that cost,
3 you shouldn't have an environmental surcharge as well.
4 The prehearing officer ruled that this issue was res
5 adjudicata as a result of the Commission's ruling last
6 spring when Tampa Electric originally raised the
7 request that the cost recovery clause be used. We
8 respectfully take exception to that ruling and would
9 like to post our exception on the record of this case.

10 **COMMISSIONER DEASON:** Well, you've just done
11 that, haven't you?

12 **MR. MCWHIRTER:** Beg your pardon?

13 **COMMISSIONER DEASON:** You've just stated
14 that, correct, your objection to that?

15 **MR. MCWHIRTER:** Yes, sir.

16 **COMMISSIONER DEASON:** Very well. I think
17 that will be incorporated into the record.

18 Other preliminary matters?

19 **MR. BEASLEY:** Commissioner, I had a
20 preliminary matter. If I could have some documents
21 distributed. We had joined in Staff's request that
22 you take official recognition of certain prior orders
23 of the Commission. We believe that these orders and
24 the plain language of Section 366.8255 make it clear
25 that two of the issues listed in the prehearing order,

1 as a matter of law, don't need to be issues in this
2 proceeding.

3 The first one of those is Issue 14I, which
4 has to do with the question of what return on equity
5 should be applied to the recovery of Tampa Electric's
6 FGD system or its scrubber, if you will. Section
7 366.8255, which is the first document in that stack
8 that was distributed to you, says that you should
9 allow the utility's last authorized rate of return on
10 equity for in-place plant investments. And the first
11 order in those documents is your order in 1993 for
12 Florida Power & Light Company where you construed that
13 to mean the midpoint of Florida Power & Light
14 Company's last authorized rate of return.

15 The second order is the Gulf order of 1994
16 which is probably the most specific order on how to
17 implement Section 366.8255. In that proceeding, two
18 of the parties argued that Gulf Power should be
19 allowed to earn an 11%, which is the bottom of its
20 last authorized zone of return on equity. And the
21 Commission looked at the statute, Section 366.8255,
22 and said it clearly requires that you use the midpoint
23 and not the bottom of the last authorized return on
24 equity.

25 Since then, you're 1996 order, which was

1 Tampa Electric's ECRC order, required that Tampa
2 Electric use the midpoint, 11.75% of its last
3 authorized return on equity. Your December 1998 order
4 in the ECRC docket states that a utility's return on
5 equity is set for all regulatory purposes and is not
6 specific to any cost recovery clause proceeding.

7 Commissioners, Issue 14I has been
8 specifically raised in a prior proceeding. It's been
9 resolved in favor of the use of the midpoint of the
10 last authorized return on equity. The law hasn't
11 changed since those decisions were made, and we
12 submit, to you that Issue 14I does not need to be
13 heard today.

14 We have -- I'd be happy to respond to
15 questions on that. We have a similar argument to
16 present with respect to issue 14G. That's an issue
17 raised by FIPUG having to do with when the collection
18 of FGD system costs should commence. The statute says
19 that if the compliance activity is approved by the
20 Commission the Commission shall allow recovery of the
21 utility's prudently incurred compliance costs.

22 In January of this year, the Commission said
23 that Tampa Electric's FGD system clearly qualifies --
24 clearly qualifies a recovery through the ECRC and that
25 cost recovery would be addressed in the 1999 hearing.

1 We could have requested that our cost recovery
2 commence upon the Commission's approval of the FGD
3 system for cost recovery, but we didn't.
4 Conservatively we wanted to wait until the unit was
5 going to be placed into service, which we have.

6 It comes on line in less than a month and
7 neither the statute nor the Commission orders that
8 we've talked about impose any kind of cost recovery
9 criteria or constraint having to do with when the
10 benefits accrued.

11 The look at benefits and costs is something
12 that's done when a decision is being made as between
13 competing alternatives to accomplish compliance.
14 That's been done. And the Commission, back in
15 January, found that this FGD system is the most
16 cost-effective alternative for Tampa Electric Company.

17 Cost recovery project like this is not some
18 sort of discretionary proposal that a utility advances
19 in hopes of bringing some economic benefits to its
20 customers. It is something the utility has to do and
21 the cost recovery statute says, allow the costs that
22 have to be incurred.

23 The benefit of compliance is being in
24 compliance with the law, if you will. We have to be
25 in compliance with the law beginning January 1, 2000,

1 and this project is going to be on line in less than a
2 month and will enable us to do that. So the time for
3 cost recovery is now.

4 So we would suggest to you that Issue 14G
5 raises a question which is not relevant to the purpose
6 of this proceeding. We would ask that you omit both
7 of those issues, 14G and 14I, and we can proceed
8 without delay.

9 **COMMISSIONER DEASON:** Okay. We'll address
10 Issue 14G to begin with. Ms. Kaufman, Mr. McWhirter.

11 **MR. MCWHIRTER:** Mr. Chairman, I'd like to
12 address it. We filed testimony on this to provide the
13 Commission with insight as to the rationale for
14 postponing the surcharge on customers until the time
15 that customers receive the savings.

16 As you know, in a cost-effectiveness study,
17 cost-effectiveness is based on a net present value
18 study over the life of the asset. What happens is in
19 the early years you have high cost and in the later
20 years you have low cost because Tampa Electric is able
21 to use low sulfur coal. And therefore, fuel costs go
22 down, and as a result, the net present value over the
23 whole period is substantially shows it to be
24 cost-effective. However, for the people who are alive
25 today and the people who are customers today, they're

1 going to get the brunt of all that impact and the
2 customers who will be around in future years will get
3 the savings.

4 And so our concept, the concept that's
5 expressed in the testimony, would be that there be a
6 matching between the savings and fuel cost with the
7 imposition of the surcharge. It's very similar to the
8 proposal that you use when you normalize taxes. The
9 utility presently takes accelerated depreciation on
10 its assets, and therefore, its tax bill that it
11 actually pays is lower than the tax bill charged to
12 customers. And the theory is that present customers
13 should pay an average depreciation or pay taxes based
14 on average depreciation and these credits build up
15 that will be amortized at a later time.

16 We think the same philosophy for tax
17 normalization should equally be employed for these
18 very very expensive improvements to the system. This
19 is a \$24 million increase. \$18 million of it comes
20 about as a result of these scrubbers. They're going
21 to be some savings in the future if what Tampa
22 Electric tells us is true.

23 **COMMISSIONER DEASON:** Mr. McWhirter, what if
24 there were -- the cost of the scrubbers were such that
25 there would never be any savings at you all and it was

1 just -- the costs were being incurred because there
2 has to be compliance with the environmental law?

3 **MR. MCWHIRTER:** In that instance, I would
4 think you would still use the same concept to amortize
5 that cost in a way that would be equalized among the
6 different generations of ratepayers. This asset will
7 last for 30 years. And it will be paid for over a 30
8 year period. The early customers get the big interest
9 hit. They get the big return on capital hit, and the
10 later customers not only get the fuel savings but they
11 also get reduced return and reduced depreciation
12 expense, and we think the rationale of matching and
13 barely placing cost with the charge is a reasonable
14 one.

15 **COMMISSIONER DEASON:** Okay. Mr. Beasley,
16 let me ask. Obviously, this issue is listed in the
17 prehearing order. Was this issue addressed at the
18 prehearing conference and did you raise the question
19 as to whether this issue should be included for this
20 proceeding?

21 **MR. BEASLEY:** Yes, we did and I think we
22 stated that it shouldn't be an issue in this
23 proceeding.

24 **COMMISSIONER DEASON:** And the prehearing
25 officer ruled that it should be an issue in this

1 proceeding?

2 **MR. BEASLEY:** It's in the prehearing order.

3 **COMMISSIONER CLARK:** I don't recall you
4 raising it in the same way that -- I mean, we had an
5 issue that was there and there was a motion to strike
6 it and the motion was granted. I don't remember this
7 being raised in the same way.

8 **MR. BEASLEY:** My comments here can be
9 treated as a request to either take the issue out or
10 just rule as a matter of law that these issues have
11 been decided; summary judgment, if you will. But it's
12 not something that bears testimony. It's something
13 that based on the actual statute language -- clear
14 language in the statute, holds that the company -- the
15 statute says you even do it on cost projected be
16 incurred during the next period. We've also extended
17 the bulk of the cost of this project. We could have
18 asked to have it collected earlier, but we wanted to
19 wait and make it phase in with the benefits of lower
20 cost fuel that we'll get with the scrubber and that's
21 what we did. It has a lessening -- less of a rate
22 shock. That's the only reason why we deferred that.
23 But I think the statute is clear and it's just not
24 something that bears testimony. It's not an issue of
25 fact.

1 **COMMISSIONER DEASON:** Mr. McWhirter, you
2 disagree with that? You think this is an issue that
3 bears testimony in the order and is factually based?

4 **MR. MCWHIRTER:** Yes, sir.

5 **COMMISSIONER DEASON:** Okay. Staff.

6 **MR. BURGESS:** Commissioner?

7 **COMMISSIONER DEASON:** Mr. Burgess.

8 **MR. BURGESS:** My I address it on behalf of
9 the Public Counsel's Office?

10 **COMMISSIONER DEASON:** You listed no
11 position. Are you taking a position at this time?
12 This is 14G.

13 **MR. BURGESS:** Okay. You're not --

14 **COMMISSIONER DEASON:** We're not on 14 --

15 **MR. BURGESS:** -- all as one, all the ones
16 that TECO asked for official notice to be taken of
17 certain statutes and orders.

18 **COMMISSIONER DEASON:** Well, right now we're
19 on 14G and I think that as far as the reference to the
20 statutes, and I'm not the sure if that was -- I think
21 that was primarily 14I. Would it also include 14G?

22 **MR. BEASLEY:** It also included 14G because
23 it talks about current recovery of costs required to
24 be expended.

25 **COMMISSIONER DEASON:** Okay. Mr. Burgess, if

1 you want to go ahead and address that now, I'll
2 certainly give you that latitude.

3 **MR. BURGESS:** The only point that I wanted
4 to raise as an issue of procedure, and as Mr. Beasley
5 indicated, he is basically raising a motion for
6 summary judgment based on certain legal theory and
7 documents that he's distributed today and I would
8 suggest that it would be more proper to allow the
9 issue to be heard because -- and allow the parties to
10 address them in post hearing propositions rather than
11 foreclose it now based on argument that is being
12 raised according to the prehearing officer was not
13 raised at the prehearing.

14 **COMMISSIONER DEASON:** Staff.

15 **MS. JAYE:** Staff would certainly wait on the
16 Commission -- the Commission's pleasure in this, but
17 we are not adverse to allowing the testimony to go
18 ahead on these two issues.

19 **COMMISSIONER DEASON:** We also have in
20 question Issue 14I and I think that Mr. McWhirter's
21 comments initially were Issue 14G and I would allow
22 Mr. McWhirter or Ms. Kaufman to address Mr. Beasley's
23 comments in relation to Issue 14I. This is the return
24 on equity issue, 14I.

25 **MR. MCWHIRTER:** The return on equity is a

1 matter of philosophy. You have a range of
2 reasonableness. In this instance you concluded that
3 the midpoint is 11.75. And the question is, should
4 the midpoint be used or under the circumstances and
5 the fact that this is a special surcharge, should a
6 lower sum be used, and we've provided factual
7 information to help you with that policy decision and
8 we think our factual information is entitled to be
9 considered in your judgment.

10 **COMMISSIONER DEASON:** And you think that
11 this factual situation is different from the precedent
12 which has been cited by Mr. Beasley in previous cases?

13 **MR. MCWHIRTER:** Mr. Beasley didn't favor us
14 with the opportunity to examine this until the last
15 minute and a half or five minutes maybe now, and I
16 would suggest to you that it is a legal issue. We can
17 address it in briefing. My recollection of those
18 cases is not quite the way his recollection is, but I
19 haven't looked at them in a year, Your Honor.

20 **MR. BEASLEY:** Commissioner, that's why
21 Ms. Jaye filed a notice of request to have the
22 Commission take official recognition and that's why we
23 did the same. I mean, Mr. McWhirter has had an
24 opportunity to follow up on that.

25 **MR. MCWHIRTER:** But you didn't file your

1 motion at that time to tell us that you were going to
2 seek a summary judgment at the outset before hearing
3 testimony on the subject. And I certainly agree that
4 the Commission should give consideration to these
5 orders in its ultimate decision.

6 **COMMISSIONER DEASON:** Okay. Let me -- I
7 will certainly entertain any comments from fellow
8 Commissioners. It seems to me that probably the best
9 way to proceed is to allow these issues and indicate
10 that the Commission certainly reserves the ability to
11 have a bench decision today and not even have briefing
12 on these issues. That's the latitude that we will
13 retain and we will go forward with the issues as
14 they're stated. Any objection to that procedure?

15 **COMMISSIONER JACOBS:** That's fine.

16 **COMMISSIONER DEASON:** Very well.

17 **COMMISSIONER CLARK:** Mr. Chairman, just so
18 I'm clear. It's Issue 8, 13, and then G, H and I --
19 14G, H and I?

20 **COMMISSIONER DEASON:** That's what I have
21 listed. Are there other issues that are being
22 contested in the 07 docket, other than Issues 8, 13,
23 14G, H, and I?

24 **MS. JAYE:** Staff is not aware of any other
25 issues.

1 **COMMISSIONER DEASON:** Very well. Other
2 preliminary matters in the 07 docket? I know
3 Mr. Childs, when we get to the witnesses, you have a
4 matter that you wish to address. Anything else before
5 we get to witnesses?

6 **MR. STONE:** Commissioner, there were two
7 errors in our position or in the stipulated positions,
8 but I will take them up with Ms. Grace following the
9 hearing. They're just minor typographical errors.

10 **COMMISSIONER DEASON:** Very well. Are we
11 prepared at this time then to go forward with
12 testimony? Very well. No objection to that.

13 I'm going to ask all witnesses in the 07
14 docket, please stand and raise your right hand.

15 (Witnesses collectively sworn.)

16 **COMMISSIONER DEASON:** Mr. Childs, let's go
17 ahead and address your witness at this time.

18 **MR. CHILDS:** Commissioner, Florida Power &
19 Light has one witness, K.M. Dubin. I believe that all
20 of the issues except fallout issues have been
21 resolved. If they haven't and I'm mistaken, I don't
22 think that Ms. Dubin's testimony is going to help on
23 the fallout issues at this point anyway. So that
24 being the case, what I'd like and move is that the
25 prepared testimony of Witness Dubin be admitted into

1 the record as though read.

2 **COMMISSIONER DEASON:** Without objection.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF KOREL M. DUBIN

DOCKET NO. 990007-EI

OCTOBER 1, 1999

Q. Please state your name and address.

A. My name is Korel M. Dubin and my business address is 9250 West Flagler Street, Miami, Florida, 33174.

Q. By whom are you employed and in what capacity?

A. I am employed by Florida Power & Light Company (FPL) as a Principal Rate Analyst in the Rates and Tariff Administration Department.

Q. Have you previously testified in this docket?

A. Yes, I have.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present for Commission review and approval proposed Environmental Cost Recovery Clause (ECRC) factors for the January 2000 through December 2000 billing period, including the costs to be recovered through the clause. In addition, I am presenting the

1 estimated/actual costs for the January 1999 through December 1999
2 period with an explanation of significant project variances for the period.

3

4 **Q. Is this filing by FPL in compliance with Order No. PSC-93-1580-FOF-**
5 **EI, issued in Docket No. 930661-EI?**

6 A. Yes, it is. The costs being submitted for recovery for the projected period
7 are consistent with that order. The costs reflected in the true-up amount
8 are those approved for recovery by the Commission in Order No. PSC-96-
9 0361-FOF-EI dated March 13, 1996.

10

11 **Q. Have you prepared or caused to be prepared under your direction,**
12 **supervision or control an exhibit in this proceeding?**

13 A. Yes, I have. It consists of fifteen documents, PSC Forms 42-1P through
14 42-7P provided in Appendix I and PSC Forms 42-1E through 42-8E
15 provided in Appendix II. Form 42-1P summarizes the costs being present-
16 ed for recovery at this time, Form 42-2P reflects the total jurisdictional
17 recoverable costs for O&M activities, Form 42-3P reflects the total
18 jurisdictional recoverable costs for capital investment projects, Form 42-4P
19 consists of the calculation of depreciation expense and return on capital
20 investment, Form 42-5P gives the description and progress of
21 environmental compliance activities and projects to be recovered through
22 the clause for the projected period, Form 42-6P reflects the calculation of
23 the energy and demand allocation percentages by rate class and 42-7P

1 reflects the calculation of the ECRC factors. In addition, Forms 42-1E
2 through 42-8E reflect the true-up and variance calculations for the prior
3 period.

4
5 **Q. Please describe Form 42-1P.**

6 A. Form 42-1P provides a summary of the costs being requested for recovery
7 through the Environmental Cost Recovery Clause. Total environmental
8 costs, adjusted for revenue taxes, amount to \$13,395,287 and include
9 \$14,019,901 of environmental project costs decreased by the estimat-
10 ed/actual overrecovery of \$157,015 for the January 1999 - December 1999
11 period and the final overrecovery of \$678,159 for the period October 1997
12 – December 1998 as filed on April 1, 1999.

13
14 On March 17, 1999, per Order No. PSC-99-0519-AS-EI, the PSC approved
15 a stipulation and settlement filed by FPL, the Office of Public Counsel,
16 FIPUG and the Coalition for Equitable Rates. The stipulation requires that
17 FPL's recovery of costs through the Environmental Cost Recovery Clause
18 for the year 2000 cannot exceed \$12.8 million including true-up amounts.

19
20 Since the recovery cap for January 2000 - December 2000 is \$12,800,000
21 and total projected costs for this period are \$13,395,287, the amount that
22 will be recovered for the period January 2000 through December 2000 is
23 the allowed cap of \$12,800,000. This amount will be split between demand
24 and energy using the same allocation ratios realized in the calculation of

1 the \$13,395,287.

2

3 **Q. Please describe Forms 42-2P and 42-3P.**

4 A. Form 42-2P presents the O&M project costs to be recovered in the
5 projected period along with the calculation of total jurisdictional recoverable
6 costs for these projects, classified by energy and demand.

7

8 Form 42-3P presents the capital investment project costs to be recovered
9 in the projected period along with the calculation of total jurisdictional
10 recoverable costs for these projects, classified by energy and demand.

11

12 Forms 42-2P and 42-3P present the method of classifying costs consistent
13 with Order No. PSC-94-0393-FOF-EI.

14

15 **Q. Are all costs listed in Forms 42-1P through 42-8P attributable to**
16 **Environmental Compliance projects previously approved by the**
17 **Commission?**

18 A. Yes.

19

20 **Q. Please describe Form 42-6P.**

21 A. Form 42-6P calculates the allocation factors for demand and energy at
22 generation. The demand allocation factors are calculated by determining
23 the percentage each rate class contributes to the monthly system peaks.

1 The energy allocators are calculated by determining the percentage each
2 rate contributes to total kWh sales, as adjusted for losses, for each rate
3 class.

4

5 **Q. Please describe Form 42-7P.**

6 A. Form 42-7P presents the calculation of the proposed ECRC factors by rate
7 class.

8

9 **Q. How do the estimated/actual project expenditures for January 1999
10 through December 1999 period compare with original projections?**

11 A. Form 42-4E shows that total O&M project costs were \$232,270 or 1.8%
12 greater than projected and Form 42-6E shows that total capital investment
13 project costs were \$298,502 or 4.3% lower than projected. Below are
14 variance explanations for those O&M Projects and Capital Investment
15 Projects with significant variances. Individual project variances are
16 provided on Forms 42-4E and 42-6E. Return on Capital Investment,
17 Depreciation and Taxes for each project for the estimated/actual period
18 January 1999 through December 1999 are provided as Form 42-8E, pages
19 1 through 20.

20

21 **1. Air Operating Permit Fees - O & M**

22 Project expenditures are estimated to be \$71,034 or 3.6% greater than
23 previously projected. The projections are based on fees paid the previous

1 year. Permit fees are based on tons of pollutants discharged from the
2 fossil fuel fired power plants. These emissions are proportionate to the
3 amount of time and the type of fuel used at each plant. These variables
4 fluctuate daily based on weather conditions and fuel type.

5

6 **2. Continuous Emission Monitoring Systems - O & M**

7 Project expenditures are estimated to be \$103,007 or 8.2% lower than
8 previously projected. This variance is primarily due to delays in the
9 "hybrid" Appendix D Conversion and EDR 2.1 projects. Delays in each
10 project were caused by an approximate four-month delay in the publication
11 of the final law related to both projects. The delays have effectively shifted
12 the start and end dates of both projects out six months, as well as the
13 payment of related funds.

14

15 **3. Maintenance of Stationary Above Ground Fuel Storage Tanks** 16 **- O&M**

17 Project expenditures are estimated to be \$109,853 or 6.3% lower than
18 previously projected. This variance is due to the elimination of the
19 requirement to make storm water modifications on the Putnam Plant light
20 oil tank dike. FPL has obtained an alternate procedure from the Florida
21 Department of Environmental Protection to install a double bottom leak
22 detection system in light oil tanks in lieu of a secondary containment dike
23 liner. The cost of the lead detection system has been included instead of
24 the cost of the dike.

1 **4. NPDES Permit Fees - O&M**

2 Project expenditures are estimated to be \$14,400 or 11.3% lower than
3 previously projected. This variance is primarily due to an incorrect posting
4 of \$11,500 that will be corrected in the true-up.

5

6 **5. Wastewater Discharge Elimination & Reuse - O&M**

7 Project expenditures are estimated to be \$382,446 or 17.8% greater than
8 previously projected. Engineering and design was accomplished utilizing
9 existing on-site equipment where feasible. The benefits realized using on-
10 site equipment increased project activities under O&M and reduced capital
11 improvements.

12

13 **6. Low Nox Burner Technology - Capital**

14 Depreciation and Return are estimated to be \$230,925 or 7.8% lower than
15 previously projected. This reduction is due to lower depreciation rates as
16 authorized in Order No. PSC-99-0073-FOF-EI and a reduction in ROE per
17 Order No. PSC-99-0519-AS-EI.

18

19 **7. Maintenance of Stationery Above Ground Fuel Storage Tanks**
20 **- Capital**

21 Depreciation and Return are estimated to be \$179,748 or 9.8% lower than
22 previously projected. This variance is due to lower depreciation as
23 authorized in Order No. PSC-99-0073-FOF-EI, lower ROE as authorized

1 in Order No. PSC-99-0519-AS-EI, and the elimination of the requirement
2 to install a light oil secondary containment dike liner at the Putnam Plant.

3 FPL has obtained an alternate procedure from the Florida Department of
4 Environmental Protection to install a double bottom leak detection system
5 in the light oil tanks in lieu of a secondary containment dike liner.

6

7 **8. Oil Spill Cleanup/Response Equipment - Capital**

8 Depreciation and Return are estimated to be \$36,004 or 28.2% greater
9 than previously projected. This increase is primarily due to expenditures for
10 additional response equipment, as well as higher depreciation rates as
11 authorized in Order No. PSC-99-0073-FOF-EI, partially offset by lower
12 ROE as authorized in Order No. PSC-99-0519-AS-EI. The original OPA'90
13 regulations required a 25% increase in response resources in 1998 and
14 again in 2003. In early 1998 the response industry requested that the
15 requirement be eliminated or reduced by the USCG, EPA and DOT.
16 However, the regulatory agencies failed to reach concurrence on a change
17 in the response resources and the requirement was left intact. Therefore
18 in late 1998 FPL proceeded to comply with the regulatory requirements,
19 placing an additional 25% more response equipment into service by April
20 1999. These additions were not included in the projection filed 10/5/98.

21

22 **9. Disposal of Noncontainerized Liquid Waste - Capital**

23 Depreciation and Return are estimated to be \$58,981 or 138.5% greater
24 than previously projected. This increase is due to higher depreciation rates

1 as authorized by Order No. PSC-99-0073-FOF-EI, partially offset by lower
2 ROE as authorized by Order No. PSC-99-0519-AS-EI.

3

4 **Q. Does this conclude your testimony?**

5 **A. Yes, it does.**

1 **MR. CHILDS:** And that the four documents
2 she's sponsoring, KMD-1 through 4 be marked for
3 identification and entered into the record.

4 **COMMISSIONER DEASON:** Okay. KMD-1 through 4
5 will be identified as Composite Exhibit No. 1, and
6 likewise, without objection shall be admitted into the
7 record.

8 **MR. CHILDS:** Thank you.

9 (Exhibit No. 1 marked for identification and
10 received in evidence.)

11 **COMMISSIONER DEASON:** Okay. Mr. Stone.

12 **MR. STONE:** Commissioner, that takes us to
13 Mr. Vick who is presenting testimony on Issue 13, the
14 other issues having either been stipulated or fallouts
15 of Issue 13. Issue 8 was mistakenly listed as his
16 issue. Although he is available to answer questions
17 on Issue 8, it primarily is Ms. Ritenour's issue.

18 **COMMISSIONER DEASON:** Very well. Want to
19 call your witness?

20 **MR. STONE:** Yes.

21 **COMMISSIONER DEASON:** This is for purposes
22 of Issue 13.

23 **COMMISSIONER CLARK:** Mr. Chairman, just so
24 I'm clear, the testimony will all be stipulated into
25 the record?

1 **COMMISSIONER DEASON:** Well, I think we'll
2 probably get to the point where it will be stipulated
3 in the record. Let me ask this question. If there
4 are -- and I want to ask all the parties to pay
5 particular attention to this request.

6 If there are witnesses that are listed in
7 the prehearing order for which you do not have
8 questions, please indicate so that we can just go
9 ahead and have those witnesses' testimony inserted
10 into the record. Obviously, if you've got questions
11 for these witnesses, a full opportunity will be
12 afforded all parties to engage in cross examination.

13 So let me ask. Are there any witnesses for
14 which you do not plan to cross examine? If you could
15 so indicate to me at this time, it may be that some of
16 these witnesses could be excused, and it may not be.
17 I'm just asking the question for information purposes.

18 Ms. Kaufman, do you have questions for all
19 of the witnesss that are listed?

20 **MS. KAUFMAN:** No, sir. We don't have any
21 questions for Mr. Vick or for Ms. Ritenour. I don't
22 know what the status of Ms. Lee is now that Issue 10
23 is stipulated.

24 **COMMISSIONER DEASON:** Could you address --
25 Staff, could you address the status of Witness Lee?

1 **MS. JAYE:** If we could have the testimony
2 stipulated into the record as -- for these other
3 witnesses who are testifying on stipulated issues,
4 that would be Staff's request.

5 **COMMISSIONER DEASON:** But you've indicated
6 that for Witness Vick and Ritenour there are no
7 questions from FIPUG.

8 **MS. KAUFMAN:** That's correct.

9 **COMMISSIONER DEASON:** Okay. But you do have
10 witnesses for the remaining witnesses.

11 **MS. KAUFMAN:** That's correct. We have
12 questions for Ms. Zwolak, Mr. Barringer, and
13 Mr. Taylor is our witness.

14 **COMMISSIONER DEASON:** Okay. What about
15 Witness Pless?

16 **MS. KAUFMAN:** I believe they already
17 stipulated Mr. Nelson and Mr. Pless.

18 **COMMISSIONER DEASON:** But you have no
19 questions for Nelson or Pless; is that correct?

20 **MS. KAUFMAN:** Correct.

21 **COMMISSIONER DEASON:** Okay. And let me ask,
22 Mr. Burgess?

23 **MR. BURGESS:** We don't have any questions
24 intended for any of the witnesses that up to this
25 point have been indicated they could otherwise be

1 stipulated.

2 **COMMISSIONER DEASON:** Okay. Staff.

3 **MS. JAYE:** Commissioner, Staff has questions
4 for Mr. Vick and we would also like to -- we've spoken
5 with the company involved, Tampa Electric Company. We
6 would also like to include in the record the
7 depositions of Mr. Nelson and Mr. Pless with certain
8 exhibits attached thereto, and we have -- we
9 understand that there would be no objection to that.

10 **MR. BEASLEY:** That's correct.

11 **COMMISSIONER DEASON:** Okay. But you have
12 questions for Mr. Vick, right?

13 **MS. JAYE:** Yes, sir.

14 **COMMISSIONER DEASON:** Okay. But as I --
15 according to the notes I've just taken there are no
16 questions from any party for witness Ritenour, Nelson
17 and Pless assuming that the deposition just indicated
18 by Staff counsel for Nelson and Pless can be admitted
19 into the record; is that correct?

20 **MS. JAYE:** That's correct.

21 **COMMISSIONER DEASON:** Okay. Given that
22 situation, Mr. Stone, before we proceed with
23 Mr. Vick's testimony I would entertain a motion to
24 have the testimony of Witness Ritenour admitted into
25 the record.

1 **MR. STONE:** I would so move that
2 Ms. Ritenour's direct testimony be inserted into the
3 record.

4 **COMMISSIONER DEASON:** Without objection show
5 that testimony inserted into the record.

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GULF POWER COMPANY

Before the Florida Public Service Commission
Direct Testimony of
Susan D. Ritenour
Docket No. 990007-EI
Date of Filing: October 1, 1999

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Q. Please state your name, business address and occupation.

A. My name is Susan Ritenour. My business address is One Energy Place, Pensacola, Florida 32520-0780. I hold the position of Assistant Secretary and Assistant Treasurer for Gulf Power Company.

Q. Please briefly describe your educational background and business experience.

A. I graduated from Wake Forest University in Winston-Salem, North Carolina in 1981 with a Bachelor of Science Degree in Business and from the University of West Florida in 1982 with a Bachelor of Arts Degree in Accounting. I am also a Certified Public Accountant licensed in the State of Florida. I joined Gulf Power Company in 1983 as a Financial Analyst. Prior to assuming my current position, I have held various positions with Gulf including Computer Modeling Analyst, Senior Financial Analyst, and Supervisor of Rate Services.

1 My responsibilities include supervision of:
2 tariff administration, cost of service activities,
3 calculation of cost recovery factors, the regulatory
4 filing function of the Rates and Regulatory Matters
5 Department, and various treasury activities.

6

7 Q. Have you previously filed testimony before this
8 Commission in connection with Gulf's Environmental
9 Cost Recovery Clause (ECRC)?

10 A. Yes, I have.

11

12 Q. What is the purpose of your testimony?

13 A. The purpose of my testimony is to present both the
14 calculation of the revenue requirements and the
15 development of the environmental cost recovery factors
16 for the period of January 2000 through December 2000.

17

18 Q. Have you prepared an exhibit that contains information
19 to which you will refer in your testimony?

20 A. Yes, I have. My exhibit consists of 15 schedules,
21 each of which were prepared under my direction,
22 supervision, or review.

23

24

25

1 Counsel: We ask that Ms. Ritenour's Exhibit
2 consisting of 15 schedules be marked
3 as Exhibit No. 2 (SDR-2).
4

5 Q. What environmental costs is Gulf requesting for
6 recovery through the Environmental Cost Recovery
7 Clause?

8 A. As discussed in the testimony of J. O. Vick, Gulf is
9 requesting recovery for certain environmental
10 compliance operating expenses and capital costs that
11 are consistent with both the decision of the
12 Commission in Docket No. 930613-EI and with past
13 proceedings in this ongoing recovery docket. The
14 costs we have identified for recovery through the ECRC
15 are not currently being recovered through base rates
16 or any other recovery mechanism.
17

18 Q. What has Gulf calculated as the total true-up to be
19 applied in the period January 2000 through December
20 2000?

21 A. The total true-up for this period is a decrease of
22 \$354,185. This includes a final true-up under-
23 recovery of \$14,963 for the period October 1997
24 through September 1998, and a final true-up over-
25 recovery of \$65,238 for the period October through

1 December 1998 as shown on lines 3a and 3b of Schedule
2 42-1P. It also includes an estimated over-recovery of
3 \$303,910 for the period January 1999 through December
4 1999 as shown on line 2 of Schedule 42-1P. The
5 detailed calculations supporting the estimated true-up
6 are contained in Schedules 42-1E through 42-8E.

7

8 Q. How was the amount of projected O & M expenses to be
9 recovered through the ECRC calculated?

10 A. Mr. Vick has provided me with projected recoverable
11 O & M expenses for January 2000 through December 2000.
12 Schedule 42-2P of my exhibit shows the calculation of
13 the recoverable O & M expenses broken down between the
14 demand-related and energy-related expenses. Also,
15 Schedule 42-2P provides the appropriate jurisdictional
16 factors and amounts related to these expenses. All
17 O & M expenses associated with compliance with the
18 Clean Air Act Amendments of 1990 were considered to be
19 energy-related, consistent with Commission Order No.
20 PSC-94-0044-FOF-EI. The remaining expenses were
21 broken down between demand and energy consistent with
22 Gulf's last approved cost-of-service methodology in
23 Docket No. 891345-EI.

24

25

1 Q. Please describe Schedules 42-3P and 42-4P of your
2 exhibit.

3 A. Schedule 42-3P summarizes the monthly recoverable
4 revenue requirements associated with each capital
5 investment for the recovery period. Schedule 42-4P
6 shows the detailed calculation of the revenue
7 requirements associated with each investment. These
8 schedules also include the calculation of the
9 jurisdictional amount of recoverable revenue
10 requirements. Mr. Vick has provided me with the
11 expenditures, clearings, retirements, salvage, and
12 cost of removal related to each capital project and
13 the monthly costs for emission allowances. From that
14 information, I calculated Plant-in-Service and
15 Construction Work In Progress-Non Interest Bearing
16 (CWIP-NIB). Depreciation and dismantlement expense
17 and the associated accumulated depreciation balances
18 were calculated based on Gulf's approved depreciation
19 rates and dismantlement accruals. The capital
20 projects identified for recovery through the ECRC are
21 those environmental projects which are not included in
22 the approved projected 1990 test year on which present
23 base rates were set.

24

25

1 Q. What is the appropriate methodology for making an
2 adjustment to ECRC project costs to reflect the
3 retirement of replaced plant-in-service that is being
4 recovered through base rates?

5 A. It is not necessary or appropriate to make an
6 adjustment to the total costs associated with a
7 capital project recoverable through the ECRC. Under
8 utility accounting, the impact on net plant-in-service
9 when a project is retired is \$0, because both plant-
10 in-service and accumulated depreciation are decreased
11 by the original cost of the retired equipment. Then,
12 when a new capital item is placed in service, net
13 plant is increased by the total cost of that new
14 capital addition. Stated another way, Gulf's rate
15 base is increased by the total cost of the new capital
16 project. The entire original investment still must be
17 recovered through depreciation expense. Any
18 depreciation reserve deficiency caused by premature
19 retirements will result in additional depreciation
20 expense in future depreciation studies. Gulf should
21 be allowed to recover the carrying costs associated
22 with this increase in rate base that was a direct
23 result of a new or expanded environmental requirement.

24

25

1 Q. What is the appropriate methodology for making an
2 adjustment to ECRC project costs to reflect
3 capitalized payroll charges that are being recovered
4 through base rates?

5 A. No adjustment should be made to reduce total ECRC
6 project costs by the cost of capitalized payroll
7 charges. These costs are incremental costs necessary
8 for placing a capital item in service. Gulf staffs
9 for a normal level of operations; therefore, due to
10 workload and specialized skills required, contract
11 labor is usually used for environmental capital
12 projects. If a project is deemed appropriate for
13 recovery through the ECRC, all capital costs required
14 to complete the project should be included.

15
16 Q. How was the amount of Property Taxes to be recovered
17 through the ECRC derived?

18 A. Property taxes were calculated by applying the
19 applicable tax rate to taxable investment. In
20 Florida, pollution control facilities are taxed based
21 only on their salvage value. For the recoverable
22 environmental investment located in Florida, the
23 amount of property taxes is estimated to be \$0. In
24 Mississippi, there is no such reduction in property
25 taxes for pollution control facilities. Therefore,

1 property taxes related to recoverable environmental
2 investment at Plant Daniel are calculated by applying
3 the applicable millage rate to the assessed value of
4 the property.

5

6 Q. What capital structure and return on equity were used
7 to develop the rate of return used to calculate the
8 revenue requirements?

9 A. The rate of return used is based on Gulf's capital
10 structure as approved in Gulf's last rate case, Docket
11 No. 891345-EI, Order No. 23573, dated October 3, 1990.
12 This rate of return incorporates a return on equity of
13 12.0% as approved by Commission Order No. PSC-93-0771-
14 FOF-EI, dated May 20, 1993. The use of this rate of
15 return for the calculation of revenue requirements for
16 the ECRC was approved by the Commission in Order No.
17 PSC-94-0044-FOF-EI dated January 12, 1994 in Docket
18 No. 930613-EI.

19

20 Q. How was the breakdown between demand-related and
21 energy-related investment costs determined?

22 A. The investment-related costs associated with
23 compliance with the Clean Air Act Amendments of 1990
24 (CAAA) were considered to be energy-related,
25 consistent with Commission Order No. PSC-94-0044-FOF-

1 EI, dated January 12, 1994 in Docket No. 930613-EI.
2 The remaining investment-related costs of
3 environmental compliance not associated with the CAAA
4 were allocated 12/13th based on demand and 1/13th
5 based on energy, consistent with Gulf's last cost-of-
6 service study. The calculation of this breakdown is
7 shown on Schedule 42-4P and summarized on
8 Schedule 42-3P.

9

10 Q. What is the total amount of projected recoverable
11 costs related to the period January 2000 through
12 December 2000?

13 A. The total projected jurisdictional recoverable costs
14 for the period January 2000 through December 2000 are
15 \$11,743,141 as shown on line 1c of Schedule 42-1P.
16 This includes costs related to O & M activities of
17 \$3,475,258 and costs related to capital projects of
18 \$8,267,883 as shown on lines 1a and 1b of Schedule
19 42-1P.

20

21 Q. What is the total recoverable revenue requirement and
22 how was it allocated to each rate class?

23 A. The total recoverable revenue requirement including
24 revenue taxes is \$11,570,838 for the period January
25 2000 through December 2000 as shown on line 5 of

1 Schedule 42-1P. This amount includes the recoverable
2 costs related to the projection period and the total
3 true-up cost to be refunded. Schedule 42-1P also
4 summarizes the energy and demand components of the
5 requested revenue requirement. I allocated these
6 amounts to rate class using the appropriate energy and
7 demand allocators as shown on Schedules 42-6P and
8 42-7P.

9

10 Q. How were the allocation factors calculated for use in
11 the Environmental Cost Recovery Clause?

12 A. The demand allocation factors used in the ECRC were
13 calculated using the 1997 load data filed with the
14 Commission in accordance with FPSC Rule 25-6.0437.
15 The energy allocation factors were calculated based on
16 projected KWH sales for the period adjusted for
17 losses. The calculation of the allocation factors for
18 the period is shown in columns 1 through 9 on
19 Schedule 42-6P.

20

21 Q. How were these factors applied to allocate the
22 requested recovery amount properly to the rate
23 classes?

24 A. As I described earlier in my testimony, Schedule
25 42-1P summarizes the energy and demand portions of the

1 total requested revenue requirement. The energy-
2 related recoverable revenue requirement of \$7,152,437
3 for the period January 2000 through December 2000 was
4 allocated using the energy allocator, as shown in
5 column 3 on Schedule 42-7P. The demand-related
6 recoverable revenue requirement of \$4,418,401 for the
7 period January 2000 through December 2000 was
8 allocated using the demand allocator, as shown in
9 column 4 on Schedule 42-7P. The energy-related and
10 demand-related recoverable revenue requirements are
11 added together to derive the total amount assigned to
12 each rate class, as shown in column 5.

13

14 Q. What is the monthly amount related to environmental
15 costs recovered through this factor that will be
16 included on a residential customer's bill for 1,000
17 kwh?

18 A. The environmental costs recovered through the clause
19 from the residential customer who uses 1,000 kwh will
20 be \$1.25 monthly for the period January 2000 through
21 December 2000.

22

23 Q. When does Gulf propose to collect its environmental
24 cost recovery charges?

25

1 A. The factors will be effective beginning with the first
2 Bill Group for January 2000 and continuing through the
3 last Bill Group for December 2000.

4
5 Q. Should the Commission set minimum filing requirements
6 (MFRs) for utilities upon a petition for approval of
7 recovery of new projects through the ECRC?

8 A. The request for cost recovery of a new activity
9 through the ECRC should include information showing
10 that the activity meets the statutory criteria for
11 ECRC recovery. This includes a copy of the legal
12 requirement being met, a description of the activity
13 and why it was chosen as the best option for
14 compliance. This minimum required information should
15 be described in terms of the questions it needs to
16 answer, not the form it should take. This recognizes
17 that environmental compliance activities are diverse,
18 and detailed studies such as a cost-benefit analysis
19 may be appropriate for one activity and not for
20 another. In summary, any MFRs set by the Commission
21 should address questions to be answered such as what
22 legal requirement is being met and what alternatives,
23 if any, were available. They should not take the
24 shape of a prescriptive set of forms to be filled out
25 with data requests that may not be applicable or

1 pertinent.

2

3 Q. Should the Commission require utilities to petition
4 for approval of recovery of new projects through the
5 ECRC prior to the due date for filing projection
6 testimony when the Company becomes aware that a
7 project will be necessary in the upcoming projection
8 period?

9 A. There should be no requirement that a utility petition
10 prior to the projection filing for approval of a new
11 activity expected in the projection period in order
12 for that project to be allowed for recovery. At the
13 time a company becomes aware that a project will be
14 necessary, sufficient data may not yet be available to
15 provide a good estimate of costs and timing of
16 expenditures. However, recognizing the relatively
17 short item period Staff has for analyzing projection
18 filings, it is appropriate to expect utilities to
19 informally (perhaps by letter of transmittal rather
20 than petition) provide information to the Staff about
21 upcoming new projects as soon as reliable details are
22 known. Between the time this information is provided
23 and the time of the projection filing, the utilities
24 should be able to update cost estimates and
25 implementation plans if necessary.

1 Q. Ms. Ritenour, does this conclude your testimony?

2 A. Yes, it does.

3

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1 **COMMISSIONER DEASON:** We need also to
2 identify exhibits.

3 **MR. STONE:** Those would be SDR-1 and SDR-2.

4 **COMMISSIONER DEASON:** They will be
5 identified as Composite Exhibit 2.

6 **MR. STONE:** And we ask that those be
7 inserted into the record.

8 **COMMISSIONER DEASON:** They likewise will be
9 inserted into the record without objection.

10 (Exhibit No. 2 marked for identification and
11 received in evidence.)

12 **COMMISSIONER DEASON:** Okay. Mr. Beasley,
13 Witness Nelson.

14 **MR. BEASLEY:** We ask that his testimony be
15 inserted and his exhibit as well.

16 **COMMISSIONER DEASON:** Okay. The testimony
17 without objection for Witness Nelson will be inserted
18 into the record.

19

20

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25

TAMPA ELECTRIC COMPANY
DOCKET NO. 990007-EI
FILED: 10/1/99

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **PREPARED DIRECT TESTIMONY**

3 **OF**

4 **GREGORY M. NELSON**

5
6 **Q.** Please state your name, address, occupation and employer.

7
8 **A.** My name is Gregory M. Nelson. My business address is 702
9 North Franklin Street, Tampa, Florida 33602. I am
10 employed by Tampa Electric Company ("Tampa Electric" or
11 "Company") in the position of Manager, Environmental
12 Planning in the Environmental and Fuels Department.

13
14 **Q.** Please provide a brief outline of your educational
15 background and business experience.

16
17 **A.** I received a Bachelor Degree in Mechanical Engineering
18 from the Georgia Institute of Technology in 1982 and a
19 Masters of Business Administration from the University of
20 South Florida in 1987. I am a registered Professional
21 Engineer in the State of Florida. I began my engineering
22 career in 1982 in Tampa Electric's Engineering
23 Development Program. In 1983, I went to work in the
24 Production Department where I was responsible for power
25 plant performance projects. Since 1986, I have held

1 various environmental permitting and compliance
2 positions. In 1997, I was promoted to Administrator -
3 Air Programs in the Environmental Planning Department.
4 In this position, I was responsible for all air
5 permitting and compliance programs. In 1998, I was
6 promoted to Manager, Environmental Planning. My present
7 responsibilities include the management of all Tampa
8 Electric environmental permitting and compliance
9 programs, with the exception of environmental auditing.

10
11 **Q.** What is the purpose of your testimony in this proceeding?
12

13 **A.** The purpose of my testimony is to present, for Florida
14 Public Service Commission ("Commission") review and
15 approval, estimated project costs associated with the
16 company's continuing environmental projects previously
17 approved for cost recovery through the Environmental Cost
18 Recovery Clause ("ECRC"). The amounts included will be
19 for the period January 1, 2000 through December 31, 2000.
20 I will also include estimated project costs for two
21 projects currently being reviewed by the Commission in
22 Docket No. 990976-EI. I will identify the environmental
23 requirements for these two projects along with the
24 company's Big Bend Unit 1 and 2 Flue Gas Desulfurization
25 System ("FGD system"). Finally, my testimony will

1 identify the variances between actual and estimated
2 capital and operating and maintenance ("O&M") project
3 costs from the January 1999 through December 1999 period
4 which are calculated in Schedules 42-4E through 42-8E
5 sponsored by Tampa Electric witness Karen O. Zwolak. I
6 will provide an explanation for significant project
7 variances.

8
9 Q. Have you prepared an exhibit to support your testimony?

10
11 A. Yes, I have. My Exhibit No. 3 (GMN-1) was prepared
12 under my direction and supervision and consists of two
13 documents.

14
15 Q. Please describe the nature of any new expenditures for
16 environmental compliance projects projected for recovery
17 through the ECRC for the periods January 1999 through
18 December 1999 and January 2000 through December 2000.

19
20 A. The newest project that Tampa Electric is seeking cost
21 recovery for, beginning in December 1999 and continuing
22 in the projected period January through December 2000, is
23 its FGD system. Estimated project costs associated with
24 the FGD system are addressed in the testimony of Tampa
25 Electric's witness Donald E. Pless. The FGD system is

1 under construction in order to comply with Phase II of
2 the Clean Air Act Amendments ("CAAA") required by January
3 1, 2000. The CAAA impose sulfur dioxide or SO₂ emissions
4 limits on existing steam electric units with an output
5 capacity of greater than 25 megawatts and all new utility
6 units. Tampa Electric conducted an exhaustive analysis
7 of options to comply with Phase II of the CAAA that
8 culminated in the selection of the FGD project to serve
9 Big Bend Units 1 and 2. The Commission, in Order No.
10 PSC-99-0075-FOF-EI issued January 11, 1999 in Docket No.
11 980693-EI, found that the FGD project is the most cost
12 effective alternative for compliance with the SO₂
13 requirements of Phase II of the CAAA.

14
15 Tampa Electric has also sought approval of two additional
16 environmental projects that will commence in 1999. On
17 July 28, 1999 the company, in Docket No. 990976-EI,
18 petitioned the Commission to approve for cost recovery
19 through the ECRC two new environmental compliance
20 programs. The programs consist of the Environmental
21 Protection Agency ("EPA") Section 114 Mercury Emissions
22 Information Collection Effort and the Gannon
23 Electrostatic Precipitator Optimization ("ESP") Study.
24 On September 23, 1999 in Docket No. 990976-EI Staff
25 recommended approval of the company's petition. This

1 recommendation is scheduled for consideration at the
2 Commission's October 5, 1999 Agenda Conference. Tampa
3 Electric will include 1999 costs associated with the
4 approved programs in the true up for 1999. Capital and
5 O&M expenditures for these environmental compliance
6 projects will be incurred commencing in 1999. The
7 company has also estimated that costs for the EPA Mercury
8 Emissions Information Collection Effort will continue
9 through early 2000. Recoverable O&M costs resulting from
10 the EPA Mercury Emissions Information Collection Effort
11 and the Gannon ESP study for the remainder of 1999 are
12 shown on Form 42-5E and on Form 42-2P for the year 2000.
13 The capital costs incurred in 1999 from the EPA Mercury
14 Emissions Information Collection Effort are summarized on
15 Form 42-7E and on Form 42-3P for costs incurred in 2000.
16 These forms are presented in Ms. Zwolak's testimony.

17
18 **Q.** Are there any other projects with capital expenditures
19 projected for the period January 2000 through December
20 2000?

21
22 **A.** Of the seven capital projects that were approved in
23 Docket No. 980007, Order No. PSC-98-1764-FOF-EI, issued
24 December 31, 1998, only two, the Gannon Unit 5 Stack
25 Extension and the Gannon Unit 6 Stack Extension, will

1 continue to incur construction costs. Tampa Electric is
2 seeking continued cost recovery for the remaining five
3 projects approved in December 1998 as well as the eight
4 projects approved in previous cost recovery proceedings.
5 These projected expenses are summarized in Ms. Zwolak's
6 testimony on Forms 42-3P and 42-4P.

7
8 **Q.** Are there other projects with O&M expenses projected for
9 the period January 2000 through December 2000?

10
11 **A.** Yes. Tampa Electric has estimated costs for continued
12 recovery of O&M expenses previously approved by the
13 Commission in prior ECRC orders associated with four
14 projects; the Big Bend Unit 3 Flue Gas Desulfurization
15 Integration, the Big Bend Units 1 and 2 Flue Gas
16 Conditioning, the National Pollutants Discharge
17 Elimination System (NPDES) Permit Fees, and recovery of
18 SO₂ Emission Allowance costs. In addition to the
19 continuation of these projects, Tampa Electric has
20 projected O&M expenses associated with the FGD system,
21 which will commence in 2000, and O&M expenses associated
22 with the EPA Mercury Emissions Information Collection
23 Effort, commencing in 1999 and ending in early 2000. The
24 O&M expenses are summarized on Form 42-2P in Ms. Zwolak's
25 testimony and projected O&M costs for the FGD system are

1 discussed in the testimony of Tampa Electric witness
2 Donald E. Pless.

3
4 **Q.** Are the projected costs associated with these
5 environmental compliance activities appropriate?

6
7 **A.** Yes. The identified activities and related project costs
8 are legally required by environmental regulations that
9 are either new or whose scope has changed to become more
10 stringent. The projected environmental compliance costs
11 were developed by Tampa Electric's engineering and
12 environmental staff and were provided to Ms. Zwolak for
13 calculation of the environmental factors. As indicated
14 in Ms. Zwolak's testimony in this proceeding, the
15 expenditures are appropriate for recovery through the
16 ECRC.

17
18 **Q.** How do the variances of actual capital project
19 expenditures for January 1999 through December 1999
20 compare with the original projections?

21
22 **A.** As shown on Form 42-6E, overall actual/estimated
23 recoverable costs were \$28,948 more than originally
24 projected.

25

1 Q. Please explain any variances in excess of five percent of
2 recoverable costs to those originally projected as shown
3 on Form 42-6E.

4
5 A. There are eight projects with variances of recoverable
6 costs to those originally projected that exceed five
7 percent:

8
9 1. The Gannon Ignition Oil Tank recoverable costs are
10 estimated to be \$48,862 or 14.1% lower than
11 originally projected. This variance is due to a
12 correction in depreciation expense resulting from
13 the Commission's ECRC Audit Report, Control No. 99-
14 042-2-1.

15 2. The Big Bend Fuel Oil Tank #2 Upgrade recoverable
16 costs are estimated to be \$110,092 or 5.7% lower
17 than originally projected. This variance is due to
18 deferred payment of 1998 project expenses and an
19 extended project completion date into 1999.

20 3. The Phillips Upgrade Tank #1 recoverable costs are
21 estimated to be \$7,679 or 38.2% greater than
22 originally projected. This variance is due to
23 delays by the supplier of cathodic protection
24 equipment that resulted in additional costs to
25 secure the equipment and effect the installation.

- 1 4. The Gannon Unit 5 Classifier Replacement recoverable
2 costs are estimated to be \$206,916 or 24.1% greater
3 than projected due to the inclusion of payroll costs
4 and full recovery of the replaced asset. These
5 issues are scheduled to be addressed in the upcoming
6 hearing.
- 7 5. The Gannon Unit 6 Classifier Replacement recoverable
8 costs are estimated to be \$96,680 or 29.1% lower
9 than projected due to a correction in the
10 calculation for return on investment for projects
11 with construction work-in-progress related expenses.
- 12 6. The Big Bend Unit 2 Classifier Replacement
13 recoverable costs are estimated to be \$144,903 or
14 22.5% higher as a result of Tampa Electric's
15 inclusion of payroll costs and full recovery of the
16 replaced asset. These issues are scheduled to be
17 addressed in the upcoming hearing.
- 18 7. The Gannon Unit 5 Stack Extension recoverable costs
19 are estimated to be \$0 or 100% lower than originally
20 projected. The variances for this project is due to
21 revised in-service dates resulting from additional
22 pre-construction requirements from the United States
23 Environmental Protection Agency (USEPA). In a
24 letter date-stamped April 13, 1999, the USEPA, under
25 its permitting authority, requested that a fluid

1 model study be completed in order to justify
2 increasing the Gannon stacks to the proposed stack
3 height of 110 meters. A copy of this letter is set
4 forth as Document 1 of my exhibit. Only one
5 contractor, Colorado State University, was qualified
6 to conduct the specific fluid modeling required by
7 USEPA. A copy of the proposal provided by Colorado
8 State University is provided as Document 2 of my
9 exhibit. At this time, the modeling is being
10 conducted and the results will be subject to the
11 USEPA's review. The timing for the USEPA's review
12 is not known at this time.

13 8. The Gannon Unit 6 Stack Extension recoverable costs
14 are estimated to be \$0 or 100% lower than originally
15 projected for the reasons included for the Gannon 5
16 Stack Extension.

17
18 Q. How do the variances of actual O&M expenses for January
19 1999 through December 1999 compare with the original
20 projections?

21
22 A. As shown on Form 42-4E, overall actual/estimated project
23 expenses were \$1,345,938 more than originally projected.
24
25

1 Q. Please explain any variances in excess of five percent of
2 actual expenses to those originally projected and shown
3 on Form 42-4E.

4
5 A. There are three projects with variances of actual
6 expenses to those originally projected which exceed five
7 percent:

8
9 1. The Big Bend Units 1 and 2 Flue Gas Conditioning
10 expenses are estimated to be \$35,070 or 15.2% less
11 than originally projected. This variance is due to
12 a projected decrease in the use of the flue gas
13 conditioning process as a result of start-up and
14 check-out of the new Big Bend Units 1 and 2 FGD
15 System.

16 2. The SO₂ Emission Allowance expenses are estimated to
17 be \$3,120,826 or 77.2% greater than originally
18 projected. This variance is due to a significant
19 decrease in the amount of economy sales transactions
20 which correspondingly decreased the emission
21 allowance credits to ratepayers.

22 3. The NPDES Annual Surveillance Fee expenses are
23 estimated to be \$39,100 or 29.2% lower than
24 originally projected. The variance is due to the
25 delay in delegation to the Florida Department of

1 Environmental Protection of the NPDES program from
2 the USEPA for the Gannon facility.

3

4 **Q.** Please summarize your testimony.

5

6 **A.** In total, Tampa Electric has estimated costs associated
7 with 20 environmental projects, including its Big Bend 1
8 and 2 FGD system, for the year 2000. All but four of the
9 projects are required by the company to comply with
10 either CAAA or Clean Water Act requirements. The
11 remaining four projects are requirements under the
12 Florida Department of Environmental Protection's Above-
13 Ground Storage Tank System Rule, Florida Administrative
14 Code, Rule 62-762. Projected costs associated with these
15 environmental compliance activities are appropriate and
16 have been included in ECRC schedules sponsored by Ms.
17 Zwolak.

18

19 **Q.** Does this conclude your testimony?

20

21 **A.** Yes, it does.

22

23

24

25

1 **COMMISSIONER DEASON:** And we need to
2 identify the prefiled exhibits. That is GMN-1,
3 correct?

4 **MR. BEASLEY:** Yes, sir.

5 **COMMISSIONER DEASON:** Okay. That will be
6 identified as Exhibit 3 and without objection that
7 exhibit, likewise, will be admitted into the record.

8 (Exhibit No. 3 marked for identification and
9 received in evidence.)

10 **MR. BEASLEY:** I would also ask that Witness
11 Pless' testimony be inserted into the record as though
12 read.

13 **COMMISSIONER DEASON:** Okay. That testimony
14 without objection shall be admitted into the record.

15
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1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 PREPARED DIRECT TESTIMONY

3 OF

4 DONALD E. PLESS

5
6 Q. Please state your name, address and occupation.

7
8 A. My name is Donald E. Pless. My business address is 702
9 North Franklin Street, Tampa, Florida 33602. I am
10 Director, Advanced Technology for Tampa Electric Company
11 ("Tampa Electric" or "company").

12
13 Q. Please furnish a brief outline of your educational
14 background and business experience.

15
16 A. I graduated from Purdue University in 1966 with a
17 Bachelor of Science degree in Mechanical Engineering. I
18 am a Registered Professional Engineer in Florida and
19 Indiana. I spent the first eight years of my career
20 working for a midwest electric utility performing
21 engineering and construction management on new coal fired
22 units and also environmental retrofit projects. I began
23 my career with Tampa Electric Company in 1974 as a
24 construction supervisor for the new coal fired unit, Big
25 Bend Unit 3. Since that time, I have been in a position

1 of increasing responsibility for most of Tampa Electric's
2 new unit additions and major environmental retrofit
3 projects. I held the positions of Director of Power
4 Plant Engineering from 1980 to 1987 and Director of Fuels
5 from 1987 to 1990 for Tampa Electric. I was Director of
6 Advanced Technologies for TECO Energy's affiliate, TECO
7 Power Services, from 1990 to 1997. In 1997, I was named
8 Director, Advanced Technology for Tampa Electric Company.
9 As part of my current role, I am the Project Manager for
10 the Big Bend 1 and 2 Flue Gas Desulfurization project
11 ("FGD system").

12
13 **Q.** What is the purpose of your testimony?

14
15 **A.** The purpose of my testimony is to describe Tampa
16 Electric's FGD system that is under construction to serve
17 Big Bend Units 1 and 2 and to demonstrate that the costs
18 related to the FGD system are reasonable and prudent. I
19 will describe Tampa Electric's progress to date in the
20 construction of this FGD system and I will identify
21 actual expenditures of the project to date. I will also
22 compare the budgeted total cost of the project with
23 updated total cost projections and explain any
24 significant variances. Finally, I will address projected
25 net operating costs associated with the system and

1 compare them to Tampa Electric's original estimate. My
2 testimony is submitted for the purpose of supporting
3 costs attributable to the FGD system as well as the costs
4 the company proposes for Environmental Cost Recovery
5 Clause ("ECRC") recovery in the upcoming January 2000
6 through December 2000 cost recovery period.
7

8 Q. Have you prepared an exhibit to support your testimony?
9

10 A. Yes, I have. My Exhibit No. ____ (DEP-1) was prepared
11 under my direction and supervision and consists of two
12 documents.
13

14 **The FGD System Project**

15 Q. What has been your role in the FGD system project?
16

17 A. In late 1997, I was assigned the position of Project
18 Manager of the Big Bend 1 and 2 FGD system project. In
19 this role, I am responsible for the overall management of
20 the engineering, construction, and start-up of the FGD
21 installation.
22

23 Q. Please describe the FGD system and explain how it
24 operates.
25

1 **A.** An FGD system or "scrubber" consists of equipment capable
2 of removing SO₂ from the flue gas generated by the
3 combustion of coal. The flue gas is directed to an
4 absorber tower where it is treated with a slurry spray of
5 limestone and water. The SO₂ in the flue gas is absorbed
6 by the slurry to form an acid that is then neutralized by
7 the dissolved limestone. The reaction of the SO₂ and
8 limestone produces calcium sulfite that is then oxidized
9 by the introduction of air into the reaction tank. The
10 product of this forced oxidation is gypsum which is then
11 precipitated out of the solution. The resulting gypsum
12 slurry is then de-watered to produce a near-dry gypsum
13 cake that is sold as a raw material, predominantly to
14 wallboard producers.

15
16 **Q.** Please describe the costs of the project and its expected
17 in-service date compared to the company's projections
18 that supported approval of the project in Order No. PSC-
19 99-0075-FOF-EI dated January 11, 1999 in Docket No.
20 980693-EI?

21
22 **A.** Tampa Electric had originally projected the system to be
23 in service in June 2000 with an expected cost of almost
24 \$82 million without allowance for funds used during
25 construction ("AFUDC"). Tampa Electric expects to

1 complete the construction of the FGD system at the budget
2 that supported Commission approval of this project. The
3 project is expected to undergo a final operational
4 checkout beginning in late November and the system is
5 scheduled to be in full operation on December 18, 1999,
6 about six months earlier than originally projected in
7 Docket No. 980693-EI. I will describe this in more
8 detail later in my testimony.

9
10 **FGD Expenditures**

11 **Q.** What has Tampa Electric done to manage and control the
12 costs of the FGD system?

13
14 **A.** As with any major engineering project, in order to
15 develop appropriate design parameters, and prior to
16 committing major capital resources on the construction of
17 the FGD system for Big Bend Units 1 and 2, Tampa Electric
18 conducted detailed testing based on prior successes on
19 Big Bend Units 3 and 4 to determine design, construction,
20 and operating and maintenance ("O & M") parameters which
21 would optimize the total installed cost of the system.
22 The results of these tests were then made a part of the
23 design specifications used by bidders seeking to supply
24 and erect the FGD system.

25

1 Prudent selection of the architectural engineering (A/E)
2 and construction management (C/M) company was
3 accomplished by Tampa Electric's established bid process.
4 Based on a preliminary conceptual scope of work, bids
5 were received from several pre-qualified A/E's. The
6 eventual award for the A/E and C/M services was based on
7 the lowest evaluated pricing, coupled with a proposed
8 action plan for achieving project completion. The
9 selected A/E had just completed a similar retrofit for a
10 major FGD installation.

11
12 The contract was structured to include incentive payments
13 that encouraged the contractor to meet his obligations in
14 ways that would help Tampa Electric meet its overall
15 project objectives related to total installed cost,
16 schedule completion, and satisfactory unit performance.
17 In this arrangement, a portion of the contractor's profit
18 was contingent upon his successfully using his prior
19 experience and expertise to meet these pre-established
20 and agreed upon targets.

21
22 In this manner, the A/E was incented to use prudent and
23 effective conceptual, preliminary, and detailed
24 engineering in order to optimize the complex interactions
25 between design, construction, and operational cost and

1 schedule factors. The A/E would be encouraged and
2 rewarded to achieve all the process design requirements
3 and accelerate the project schedule, all while not going
4 over the pre-determined project cost of almost \$82
5 million excluding AFUDC. This was anticipated to ensure
6 environmental compliance at the lowest reasonable cost.

7
8 **Q.** What are the currently projected total capital
9 expenditures of the project and how do they compare to
10 the total budgeted costs as presented by Tampa Electric
11 in Docket No. 980693-EI?

12
13 **A.** Document No. 1 of my exhibit presents an updated,
14 detailed A/E engineering estimate of the total project
15 costs without AFUDC, compared to the estimate provided in
16 Docket No. 980693-EI. This document shows that the total
17 currently projected capital expenditures of the project
18 without AFUDC are expected to be almost equal to those
19 previously projected costs upon which the Commission's
20 decision was based.

21
22 **Q.** Please discuss the acceleration in the project schedule.

23
24 **A.** In the proceeding for Docket No. 980693-EI, Tampa
25 Electric indicated that it would proceed on a schedule to

1 place the system in service in June of 2000. The company
2 also indicated it would attempt to achieve an earlier in-
3 service date. The company has been able to accomplish
4 this goal and plans to place this system into commercial
5 operation on December 18, 1999.

6
7 **Net Operating Costs**

8 Q. What are the projected O & M costs for the FGD system?

9
10 A. The projected annual O & M costs for the Big Bend Units 1
11 and 2 FGD system are \$4,275,272.

12
13 Q. How were the projected O & M costs developed?

14
15 A. The projected O & M costs were developed based upon
16 forecasted SO₂ emissions, SO₂ removals, correlated usage
17 of consumables, proposed budget plans and outage
18 schedules, and from previous years' experiences on the
19 existing FGD equipment.

20
21 Q. What additional payroll costs do you anticipate with the
22 new FGD system and what functions will any additional
23 personnel perform?
24
25

1 A. Tampa Electric will require additional personnel,
2 including training, to operate the new FGD system. Four
3 positions will be created to handle the increased
4 equipment operational needs.

5
6 Q. Overall, were there any changes in the project
7 assumptions from the original estimates for O & M?

8
9 A. Yes. The most significant change was associated with
10 design development associated with the wastewater
11 treatment system, and its need for additional reagent,
12 and the unavailability of county recycled water.
13 However, the anticipated higher O & M expense for the
14 year 2000 will decrease in 2001 after installation of an
15 alternative water source is completed.

16
17 Q. You mentioned that the FGD system operations result in a
18 by-product, gypsum. What are the expected revenues for
19 2000 from the sale of gypsum and how was this determined?

20
21 A. The company's expected revenues from commercial-grade
22 gypsum sales will be approximately \$800,000 for the year
23 2000. This is based upon established contracted prices.

24

25

1 Q. What are the currently projected net operating costs of
2 the project and how do they compare to the total budgeted
3 costs as presented by Tampa Electric in Docket No.
4 980693-EI?

5
6 A. Document No. 2 of my exhibit presents an updated estimate
7 of annual net operating costs compared to the estimate
8 provided in Docket No. 980693-EI. This document shows
9 that the total currently projected net operating costs of
10 the project are expected to be almost equal to those
11 previously projected costs upon which the Commission's
12 decision was based.

13
14 Q. Please summarize the costs for which Tampa Electric seeks
15 recovery in the January 2000 through December 2000 ECRC
16 cost recovery period.

17
18 A. Total capital costs for the FGD system are expected to be
19 \$81,871,387 without AFUDC and \$83,394,877 with AFUDC.
20 Net operating costs are expected to be \$3,475,272, which
21 is comprised of projected O & M of \$4,275,272 less
22 projected gypsum revenues of \$800,000. These estimates
23 have been provided to Tampa Electric witness Karen O.
24 Zwolak for inclusion in the company's ECRC schedules.

25

1 Q. Please summarize your testimony.

2

3 A. The original conceptual cost estimate for this project
4 was \$82 million excluding AFUDC. The originally planned
5 in-service date was June 2000. The company now estimates
6 that project expenditures will be almost at the original
7 \$82 million estimate while placing the unit in service
8 approximately six months ahead of schedule. The company
9 also expects net operating costs, consisting of O & M of
10 about \$4.275 million less projected gypsum revenues of
11 \$800,000, to be almost equal to those originally
12 projected.

13

14 Based upon the above, Tampa Electric proposes that all
15 expenditures and costs for the Big Bend 1 and 2 FGD
16 system be deemed by this Commission to be reasonable and
17 prudent.

18

19 Q. Does that conclude your testimony?

20

21 A. Yes, it does.

22

23

24

25

1 **MR. BEASLEY:** And that his exhibit be marked
2 for identification and inserted into the record.

3 **COMMISSIONER DEASON:** That is DEP-1 and that
4 will be identified as Exhibit 4, and likewise, without
5 objection admitted into the record.

6 (Exhibit No. 4 marked for identification and
7 received in evidence.)

8 **MR. BEASLEY:** Thank you.

9 **COMMISSIONER DEASON:** We need to identify
10 the exhibits at the depositions? Staff counsel?

11 **MS. JAYE:** Commissioner, Staff counsel
12 suggests that this -- the transcripts of these two
13 depositions and the Tampa Electric audit report and
14 TECO's response, which is an exhibit to them, be
15 identified as a composite exhibit and I think we're on
16 5.

17 **COMMISSIONER DEASON:** Okay. The matters
18 just addressed by Staff will be identified as
19 Composite Exhibit No. 5. Without objection. Hearing
20 no objection --

21 **MR. BURGESS:** May I get clarification on
22 that? Is that the deposition transcript of
23 Mr. Nelson?

24 **MS. JAYE:** Mr. Pless.

25 **COMMISSIONER DEASON:** Nelson and Pless.

1 **MR. BURGESS:** Oh, both of them have been
2 identified as Exhibit 5.

3 **COMMISSIONER DEASON:** Would you prefer to
4 have separate numbers? We can do that, Mr. Burgess.

5 **MR. BURGESS:** It doesn't matter.

6 **COMMISSIONER DEASON:** Well, Staff requested
7 a composite. We'll do that. And that also includes
8 the audit report and response thereto?

9 **MS. JAYE:** Yes, sir.

10 **COMMISSIONER DEASON:** All of that
11 constitutes Composite Exhibit 5. And without
12 objection show then that Composite Exhibit 5 is
13 admitted into the record.

14 (Exhibit No. 5 marked for identification and
15 received in evidence.)

16 **COMMISSIONER DEASON:** Okay. I think now we
17 can proceed with Mr. Vick's testimony.

18 **COMMISSIONER CLARK:** Mr. Chairman, I just
19 had a question. For Ms. Ritenour, was that her
20 rebuttal also?

21 **MR. STONE:** No, Commissioner. At least it
22 wasn't from our perspective because she's presenting
23 testimony in her rebuttal on Issue 8 which is a
24 contested issue.

25 **COMMISSIONER DEASON:** Let me ask that

1 question. Are there questions for Witness Ritenour?
2 And I'm probably pronouncing that wrong, but,
3 nevertheless, for the rebuttal testimony which
4 addresses Issue 8, are there questions?

5 **MS. KAUFMAN:** No, sir.

6 **COMMISSIONER DEASON:** Mr. Burgess,
7 questions?

8 **MR. BURGESS:** No.

9 **COMMISSIONER DEASON:** Staff?

10 **MS. JAYE:** No.

11 **MR. STONE:** We would be asked that
12 Ms. Ritenour have an opportunity to present her
13 summary to the Commission on the rebuttal with regard
14 to --

15 **COMMISSIONER CLARK:** I've read the
16 testimony. It's pretty --

17 **MR. STONE:** With that -- it's just a
18 request. If you deny it, I understand.

19 **COMMISSIONER DEASON:** We're going to deny
20 that. We're going to proceed. But you can certainly
21 have the testimony inserted into the record, and is
22 that your request at this time?

23 **MR. STONE:** Yes, please.

24 **COMMISSIONER DEASON:** Very well. Show that
25 testimony inserted into the record without objection.

Before the Florida Public Service Commission
Rebuttal Testimony of
Susan D. Ritenour
Docket No. 990007-EI
Date of Filing: October 29, 1999

5 Q. Please state your name, business address and
6 occupation.

7 A. My name is Susan Ritenour. My business address is
8 One Energy Place, Pensacola, Florida 32520-0780. I
9 hold the position of Assistant Secretary and
10 Assistant Treasurer for Gulf Power Company.

11

12 Q. Are you the same Susan Ritenour that prepared direct
13 testimony in this docket?

14 A. Yes, I am.

15

16 Q. What is the purpose of your rebuttal testimony in
17 this proceeding?

18 A. The purpose of my rebuttal testimony is to respond to
19 certain assertions made in the direct testimony
20 offered by two witnesses sponsored by the staff of
21 the Florida Public Service Commission and one witness
22 on behalf of the Florida Industrial Power Users Group
23 (FIPUG).

24

1 Q. What has been your involvement with the Environmental
2 Cost Recovery Clause (ECRC) on behalf of Gulf Power?

3 A. I was one of Gulf's witnesses in Docket No. 930613-EI
4 which was docketed in response to the first petition
5 to establish an Environmental Cost Recovery Clause
6 pursuant to Section 366.8255, Florida Statutes. In
7 that docket, the Commission issued Order No.
8 PSC-94-0044-FOF-EI which, among other things,
9 established the Commission's policy for determining
10 which environmental compliance costs qualify for
11 recovery through the ECRC. Since the issuance of
12 that order, I have been one of Gulf's principal
13 witnesses in all Commission proceedings affecting the
14 ECRC including Docket No. 940042-EI, Docket No.
15 950007-EI, Docket No. 960007-EI, Docket No.
16 970007-EI, Docket No. 980007-EI and Docket No.
17 990007-EI. As part of my professional
18 responsibilities at Gulf, I am responsible for
19 staying up to date on statutory requirements and
20 Commission policies and procedures related to all of
21 the cost recovery clauses in general and the ECRC in
22 particular. As part of that responsibility I have
23 been an active participant in all Commission
24 workshops, hearings and other proceedings involving
25 or affecting the ECRC.

1 Q. During this proceeding, an issue has been raised
2 regarding the appropriate adjustment to the ECRC for
3 costs being recovered through base rates. What does
4 Section 366.8255, F.S., Environmental Cost Recovery
5 say about this?

6 A. Paragraph (2) of the statute states: "An adjustment
7 for the level of costs currently being recovered
8 through base rates or other rate-adjustment clauses
9 must be included in the filing." Further, paragraph
10 (5) states that ". . . any costs recovered in base
11 rates may not also be recovered in the environmental
12 cost recovery clause."

13
14 Q. How did the Commission ensure that this requirement
15 was met in its policy for implementing the intent of
16 the environmental cost recovery statute as set forth
17 in Order No. PSC-44-0044-FOF-EI in Docket No.
18 930613-EI (the initial order implementing ECRC cost
19 recovery for Gulf)?

20 A. In that order, the Commission examined each
21 environmental activity to determine if the activity
22 was included in the 1990 test year that was the basis
23 for Gulf's last rate case, Docket No. 891345-EI. The
24 Commission acknowledged that the legislature intended
25 through Section 366.8255, F.S., that utilities be

1 allowed to recover increased costs due to new
2 environmental requirements. The Commission
3 recognized that, in order to avoid double recovery of
4 expenses, ". . . the solution is to allow recovery of
5 costs associated with activities which were not
6 included in the test year of the utility's last rate
7 case. This proposal satisfies the legislative intent
8 and is consistent with regulatory theory." [emphasis
9 added] The Commission then articulated the
10 following policy as ". . . the most appropriate way
11 to implement the intent of the environmental cost
12 recovery statute:

13 Upon petition, we shall allow the recovery of
14 costs associated with an environmental compliance
15 activity through the environmental cost recovery
16 factor if:

- 17 1. such costs were prudently incurred after
18 April 13, 1993 [the enactment date of
19 Section 366.8255, F.S.];
- 20 2. the activity is legally required to comply
21 with a governmentally imposed environmental
22 regulation enacted, became effective, or
23 whose effect was triggered after the
24 company's last test year upon which rates
25 are based; and,

1 3. such costs are not recovered through some
2 other cost recovery mechanism or through
3 base rates."

4 The Commission further states in Order No.
5 PSC-94-0044-FOF-EI that ". . .we shall consider all
6 costs associated with activities included in the test
7 year of the utility's last rate case are being
8 recovered in base rates unless there have been new
9 legal environmental requirements which change the
10 scope of previously approved activities and caused
11 costs to change from the level included in the test
12 year."

13 In this fashion, as affirmed by subsequent
14 Commission decisions in the ongoing ECRC dockets, the
15 Commission's policy for making "[a]n adjustment for
16 the level of costs currently being recovered through
17 base rates or other rate-adjustment clauses" has been
18 to determine first whether the activity proposed as
19 qualifying for recovery through ECRC is a completely
20 new activity since the utility's last rate case test
21 year. If it is a completely new activity, then it is
22 clearly not part of the utility's base rates and
23 therefore constitutes a "qualifying activity" (so
24 long as it meets the other requirements in Order No.
25 PSC-94-0044-FOF-EI related to compliance with

1 environmental laws or regulations) for which no
2 adjustment related to the level of costs currently
3 recovered through base rates is either necessary or
4 appropriate. If the proposed activity is the result
5 of a "scope change" as defined in Order No.
6 PSC-94-0044-FOF-EI, then an adjustment for the level
7 of costs that existed in the test year is appropriate
8 to ensure that only the incremental cost associated
9 with the scope change is recovered through ECRC. The
10 manner for this type of adjustment is set forth in
11 Order No. PSC-94-0044-FOF-EI at pages 19 and 20 under
12 the headings "GROUNDWATER MONITORING" and "SOLID &
13 HAZARDOUS WASTE".

14
15 Q. Do you have any comments in response to
16 Mr. Slemkewicz's statement that in the past, base
17 rates were frequently revised and updated through the
18 traditional ratemaking mechanism of the full revenue
19 requirements rate case?

20 A. Yes. First, it should be pointed out that for many
21 years now, adjustments of base rates through a full
22 revenue requirements rate case have not been frequent
23 occurrences. In Gulf's case, the last so called full
24 revenue requirements rate case was in Docket No.

1 891345-EI. Even in that case, the revenue
2 requirements associated with fuel and purchased power
3 activities and the energy conservation cost recovery
4 clause were excluded from the determination of new
5 "base rates" that went into effect in September 1990.
6 Prior to Docket 891345-EI, Gulf Power's last previous
7 base rate adjustment occurred as a result of the rate
8 case in Docket No. 840086-EI, a full five years
9 earlier.

10 It was against this backdrop of decreasing rate
11 case frequency that the legislature adopted Section
12 366.8255, F.S., in 1993. In fact, the goal of
13 minimizing the need for expensive rate case
14 proceedings was part of the justification for
15 providing a separate recovery mechanism for
16 environmental compliance costs. The separate
17 recovery mechanism allowed for utilities to recover
18 costs driven by new environmental requirements
19 without the regulatory lag associated with
20 traditional rate cases. The ECRC, like the other
21 cost recovery clauses, protects customers because
22 only the actual costs of qualifying activities are
23 recovered through the clause by virtue of the true-up
24 mechanism provided for in cost recovery clauses.

1 Because the effects of costs and revenues
2 addressed through the various cost recovery clauses
3 (including the ECRC) are adjusted out of a utility's
4 net operating income for surveillance purposes, the
5 utility's earnings through "base rates" are properly
6 isolated. The surveillance mechanism thus serves as
7 an effective means of monitoring a utility's base
8 rates to determine whether it is over-earning or
9 under-earning. If a concern about the utility's
10 earnings is identified through the surveillance
11 process, this can trigger the type of formal review
12 of the utility's revenues, expenses and investments
13 that is associated with a rate case. The
14 surveillance process has never been intended as a
15 replacement for the review associated with a full
16 blown rate case when such a review is ultimately
17 determined to be necessary and appropriate.

18

19 Q. Please comment on Mr. Slemkewicz's statement that the
20 revenues, expenses and investment at the time of the
21 most recent revision to base rates should be used to
22 determine whether costs are currently being recovered
23 through base rates.

24 A. For Gulf Power, the most appropriate reference point
25 for determining activities included in base rates

1 continues to be the 1990 test year of its last rate
2 case, Docket No. 891345-EI. During the review
3 process in that rate case docket, Gulf's revenues,
4 expenses and investment were reviewed in detail by
5 the Commission and its Staff and base rates were
6 established using those items deemed to be
7 appropriate for base rate recovery. The type of test
8 year review associated with a rate case has not been
9 undertaken for Gulf since that docket. Although Gulf
10 recently reached an agreement with the Office of
11 Public Counsel, Florida Industrial Power Users Group
12 and the Coalition for Equitable Rates to reduce its
13 base energy charge for its retail customers by .105
14 cents per kWh, there was no detailed rate case type
15 of analysis of revenues, expenses and investment and
16 the associated underlying activities performed to
17 arrive at this reduction. Instead, the agreed upon
18 reduction was one part of a negotiated settlement
19 that included sharing of revenues over a certain
20 level with customers. Therefore, the best indicator
21 of the individual environmental activities included
22 in base rates continues to be the 1990 test year of
23 Gulf's last rate case, in Docket No. 891345-EI.

24
25

1 Q. Does Section 366.8255, F.S., require that
2 environmental compliance costs be included in base
3 rates in a subsequent rate case?

4 A. No. The language in subparagraph (5) indicates that
5 recovery of environmental compliance costs through
6 the ECRC does not ". . . preclude inclusion of such
7 costs in base rates in subsequent rate proceedings,
8 if that inclusion is necessary and appropriate."
9 Clearly this language permits rather than requires
10 the inclusion of environmental compliance costs in
11 base rates in a subsequent rate case. It follows
12 that the decision to move costs from ECRC to base
13 rates would only occur after an explicit
14 determination that such a move was "necessary and
15 appropriate" after a detailed review of the facts and
16 circumstances applicable at that time. No such
17 review has occurred in Gulf Power's case and
18 consequently no such determination has been made.

19
20 Q. What would the impact be on recoverable environmental
21 activities if the Commission adopted the year a
22 utility's base rate energy charges were revised by
23 stipulation as the reference point for determining
24 costs being recovered in base rates, as
25 Mr. Slemkewicz suggests?

1 A. There would be no change in which environmental
2 activities are recoverable based on the logic that
3 the Commission appropriately applied to distinguish
4 between recoverable and non-recoverable environmental
5 activities in Order No. PSC-94-0044-FOF-EI. As I
6 described earlier, the Commission determined that
7 activities included in the last reviewed base rate
8 test year were inappropriate for ECRC recovery
9 (unless a new legal requirement resulted in a change
10 in scope of the activity). I refer to these as
11 "nonqualifying" environmental costs because they do
12 not qualify for ECRC recovery. The costs of
13 environmental activities not included in the last
14 reviewed base rate test year were determined by the
15 Commission to qualify for recovery through the ECRC
16 as long as the remaining statutory requirements were
17 met. I refer to these as "qualifying" costs for ECRC
18 recovery. The investment and expenses covered by
19 base rates in the year a utility's base rate energy
20 charges were revised by stipulation (as reflected in
21 a utility's surveillance reports) include only
22 non-qualifying environmental costs because all
23 qualifying costs are appropriately being recovered
24 through the ECRC consistent with Commission orders.
25 For surveillance purposes, the qualifying

1 environmental costs and the revenues produced through
2 the ECRC factors are adjusted out and are therefore
3 not part of the utility's base rates. The same
4 activities qualifying for ECRC recovery using a last
5 reviewed base rate test year would qualify using an
6 appropriately adjusted "test year" consistent with
7 the year a utility's base rate energy charges were
8 revised by stipulation because these activities are
9 not reflected in base rates in either case. This
10 leads us back to the point that in Gulf's case, the
11 1990 test year is the most appropriate starting point
12 for determining which environmental activities
13 qualify for ECRC recovery because that is the last
14 test period that has been subject to detailed rate
15 case review.

16

17 Q. In her testimony, staff witness Lee proposes an
18 adjustment to the ECRC recovery amount for ECRC
19 projects that result in the replacement of existing
20 assets. What is your opinion regarding the proper
21 cost recovery treatment for such investment?

22 A. The total revenue requirements associated with
23 capital projects meeting the statutory criteria for
24 inclusion in the ECRC should be recovered through the
25 ECRC. Consistent with established Commission policy

1 such capital projects are new activities undertaken
2 in order to comply with a new or expanded
3 environmental requirement. If as a direct and
4 exclusive result of such a regulatory requirement,
5 existing plant that was a prudent base rate
6 investment when placed in service becomes obsolete
7 and must be prematurely retired, that result is
8 irrelevant to the intent of the ECRC. The final
9 outcome is a new activity implemented to comply with
10 a new requirement. Consistent with Order No.
11 PSC-94-0044-FOF-EI, all carrying costs associated
12 with this new activity are recoverable through the
13 ECRC. The costs associated with activities existing
14 in the test year may go up or go down, but they are
15 properly considered in the surveillance report, which
16 summarizes base rate revenues, expenses and
17 investment separate and apart from ECRC revenues,
18 expenses, and investment.

19

20 Q. What is the impact on rate base when plant-in-service
21 is retired?

22 A. Under the rules of utility accounting, there is no
23 reduction in rate base when plant is retired. Both
24 plant-in-service and accumulated depreciation are
25 reduced by the original cost of the plant that is

1 retired. The resulting impact on net plant, and
2 therefore rate base, is \$0. For example, assume
3 Company A has a total rate base of \$1,000,000, made
4 up of \$1,500,000 of plant-in-service less \$500,000 of
5 accumulated depreciation. Further, assume that a
6 piece of equipment with an original cost of \$100,000
7 and related accumulated depreciation of \$40,000 is
8 retired. Both plant-in-service and accumulated
9 depreciation are reduced by \$100,000. Plant-in-
10 service is now \$1,400,000 and accumulated
11 depreciation is \$400,000, resulting in a total rate
12 base of \$1,000,000, the same as before the
13 retirement.

14
15 Q. Adding to the prior example, assume that ECRC-
16 recoverable investment of \$250,000 was made in order
17 to comply with a new law and that the retirement of
18 the \$100,000 equipment was a result of this
19 compliance. How does this impact the utility's total
20 rate base?

21 A. Plant-in-service would increase to \$1,650,000 and
22 total rate base would be \$1,250,000. The rate base
23 has increased by the entire amount of the new
24 investment. The rate base has gone from \$1,000,000
25 to \$1,250,000 after the retirement and capital

1 addition, for an increase of \$250,000. Consistent
2 with the legislative intent behind Section 366.8255,
3 F.S., Company A should be able to earn a return on
4 the entire \$250,000 investment through the ECRC, not
5 merely \$190,000 (\$250,000 less the \$60,000 net
6 investment related to the retired equipment).
7 Company A's rate base increased \$250,000 as a result
8 of required compliance activities, not \$190,000.
9 Allowing a return on only the \$190,000, as the
10 application of Ms. Lee's testimony would suggest,
11 clearly does not provide for the recovery of the
12 incremental costs associated with the new compliance
13 activity. That result would be inconsistent with the
14 legislative intent of Section 366.8255, F.S., as
15 recognized in Order No. PSC-94-0044-FOF-EI.

- 16
- 17 Q. Ms. Lee suggests several options to determine the
18 return on the retiring investment. What rate of
19 return should be used to make adjustments to capital
20 projects if an adjustment is deemed appropriate?
- 21 A. Gulf continues to believe that no adjustment is
22 necessary or appropriate. If an adjustment is deemed
23 appropriate, then that adjustment to revenue
24 requirements associated with capital projects should
25 be made using the same rate of return used in the

1 ECRC to calculate revenue requirements on approved
2 projects. In Order No. PSC-94-0044-FOF-EI, the
3 Commission found that the capital structure and cost
4 rates (except for return on equity, which is based on
5 the latest approved return) approved in Gulf's last
6 rate case were appropriate for calculating the rate
7 of return for the ECRC. This same rate of return
8 should be used to make any adjustment to ECRC cost
9 recovery amounts.

10

11 Q. Do you have any comments regarding the recommendation
12 of FIPUG witness Taylor that there be at least three
13 months between the filing of utility testimony and
14 projections and the due date of intervenor testimony?

15 A. Yes. A quick review of the filing deadlines
16 historically applied in this docket and its
17 predecessors, as well as the other cost recovery
18 clauses, indicates that the time frame between the
19 filing of projection testimony and intervenor
20 testimony has consistently been about a week. The
21 change to a calendar year recovery period has not
22 changed the amount of time between deadlines once the
23 projection testimony is filed. However, the change
24 to calendar year recovery periods does allow seven
25 full months for review of the final true-up prior to

1 the hearings. Before the change to annual recovery
2 periods, there were only three or four months between
3 the final true-up filing and the hearing. If Gulf
4 was required to file projection testimony three
5 months earlier than is provided for under the current
6 schedule, the quality of the data would be severely
7 eroded. The company's budget process for the
8 projection period has hardly begun by July 1st. The
9 Company would be forced to use a budget that would
10 already be almost a year old for O&M expenses and
11 some activities could be missed altogether. This
12 would result in additional petitions for new
13 activities currently being considered for inclusion
14 in the budget and ECRC. The Company is willing to
15 abide by the current schedule. Any issue that is too
16 complicated to be dealt with in the current schedule
17 should be evaluated for a separate docket.

18

19 Q. Ms. Ritenour, does this conclude your testimony?

20 A. Yes, it does.

21

22

23

24

25

1 prefiled direct testimony in this proceeding dated
2 October 1, 1999?

3 A Yes, I am.

4 Q And are there any changes or corrections to
5 your prefiled direct testimony?

6 A No, sir, there are not.

7 MR. STONE: I would ask that Mr. Vick's
8 prefiled directed testimony dated October 1, 1999
9 consisting of 15 pages be inserted into the record as
10 though read.

11 COMMISSIONER DEASON: Without objection it
12 shall be so inserted.

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GULF POWER COMPANY

**Before the Florida Public Service Commission
Prepared Direct Testimony of
James O. Vick
Docket No. 990007-EI
October 1, 1999**

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- Q. Please state your name and business address.**
- A. My name is James O. Vick and my business address is One Energy Place, Pensacola, Florida, 32520**
- Q. By whom are you employed and in what capacity?**
- A. I am employed by Gulf Power Company as the Manager of Environmental Affairs.**
- Q. Mr. Vick, will you please describe your education and experience?**
- A. I graduated from Florida State University, Tallahassee, Florida, in 1975 with a Bachelor of Science Degree in Marine Biology. I also hold a Bachelor's Degree in Civil Engineering from the University of South Florida in Tampa, Florida. In addition, I have a Masters of Science Degree in Management from Troy State University, Pensacola, Florida. I joined Gulf Power Company in August 1978 as an Associate Engineer. I have since held various engineering positions such as Air Quality Engineer and Senior Environmental Licensing Engineer. In 1996, I assumed my present position as Manager of Environmental Affairs.**
- Q. What are your responsibilities with Gulf Power Company?**
- A. As Manager of Environmental Affairs, my primary responsibility is**

1 overseeing the activities of the Environmental Affairs section to ensure the
2 Company is, and remains, in compliance with environmental laws and
3 regulations, i.e., both existing laws and such laws and regulations that may
4 be enacted or amended in the future. In performing this function, I have the
5 responsibility for numerous environmental activities.

6

7 Q. Are you the same James O. Vick who has previously testified before this
8 Commission on various environmental matters?

9 A. Yes.

10

11 A. The purpose of my testimony is to support Gulf Power Company's projection
12 of environmental compliance costs recoverable through the Environmental
13 Cost Recovery Clause (ECRC) for the period from January 2000 through
14 December 2000. I will also provide testimony for the estimated true-up period
15 January 1999 through December 1999.

16

17 Q. Mr. Vick, please identify the capital projects included in Gulf's ECRC
18 calculations.

19 A. A listing of the environmental capital projects which have been included in
20 Gulf's ECRC calculations has been provided to Ms. Ritenour and is included
21 in Schedules 42-3P and 42-4P of her testimony. Schedule 42-4P reflects the
22 expenditures, clearings, retirements, salvage and cost of removal currently
23 projected by month for each of these projects. These amounts were provided
24 to Ms. Ritenour, who has compiled the schedules and calculated the
25 associated revenue requirements for Gulf's requested recovery. All the listed

1 projects are associated with environmental compliance activities which have
2 been previously approved for recovery through the ECRC by this Commission
3 in Docket No. 930613-EI and past proceedings of this ongoing recovery
4 docket or one of several spin-off dockets from the ECRC.

5
6 Q. Mr. Vick, please identify any new capital projects or expansions of previously
7 approved capital projects for the projection period which are required for
8 environmental compliance.

9
10 A. There are no new capital projects scheduled for the projected recovery
11 period. There is one previously approved capital project, CEMS, that will be
12 expanded. An upgrade to the Smith Unit 1 (PE 1441) and Smith Unit 2 (PE
13 1442) Flow Monitors, a component of the CEMS, is scheduled for the
14 upcoming year. Gulf seeks recovery of this upgrade through the ECRC. This
15 project is a replicated project of the Crist Unit 6 flow monitor system which
16 was previously approved by the Commission in Docket No. 960007-EI. The
17 existing Smith Unit 1 and Smith Unit 2 flow monitor systems, a Clean Air Act
18 Amendment (CAAA) requirement, are approaching the end of their useful life.
19 The upgraded flow monitor systems will provide Gulf with the accuracy and
20 reliability necessary to maintain compliance with the CAAA requirements.
21 From an economic standpoint, it is prudent for Gulf to upgrade the flow
22 monitor systems on both Smith Unit 1 and Unit 2 during 2000. The expected
23 savings from upgrading the system outweigh the expected maintenance
24 costs that would be incurred by maintenance of the existing system.
25 Expenditures for this project are expected to be \$300,000. The

1 corresponding retirements of ECRC plant associated with this project are
2 estimated to total \$92,910 (See Form 42-4P, Page 5 of 17 for the monthly
3 details, including the cost of removal and salvage amounts). These
4 expenses will be allocated on an energy basis, as is all other equipment
5 associated with emission monitoring.

6

7 Q. Please compare the Environmental Operation and Maintenance (O&M)
8 activities listed on Schedule 42-2P of Exhibit SDR-2 to the O&M activities
9 approved for cost recovery in past ECRC dockets.

10 A. The O&M activities listed on Schedule 42-2P have all been approved for
11 recovery through the ECRC in past proceedings, with the exception of the
12 Gulf Coast Ozone Study, Line Item 1.17. These O&M activities are all on-
13 going compliance activities and are grouped into four major categories-Air
14 Quality, Water Quality, Environmental Programs Administration, and Solid
15 and Hazardous Waste. In my testimony, I will discuss each O&M activity
16 within each of these major categories and the projected expenses.

17

18 Q. What O&M activities are included in the Air Quality category?

19 A. There are five O&M activities included in this category:

20

21 The first, Sulfur (Line Item 1.1) reflects operational expenses
22 associated with the burning of low sulfur coal. This item refers to the flue gas
23 sulfur injection system needed to improve the collection efficiency of the Crist
24 Unit 7 electrostatic precipitator and is required due to the burning of low sulfur

1 coal at this unit pursuant to the sulfur dioxide requirements of the CAAA.
2 Expenses during the projected recovery period total \$10,500.

3
4 The second activity listed on Schedule 42-2P, Air Emission Fees (Line
5 Item 1.2) represents the expenses projected for the annual fees required by
6 the CAAA. The expenses projected for the recovery period total \$711,000.

7
8 The third activity listed on Schedule 42-2P, Title V Permits (Line Item
9 1.3), represents projected expenses associated with the implementation of
10 the Title V permits. The total estimated expense for the Title V Program
11 during 2000 is \$65,767.

12
13 The fourth activity listed on Schedule 42-2P, Asbestos Fees (Line Item
14 1.4), is required to be paid to the Florida Department of Environmental
15 Protection (FDEP) for the purpose of funding the State's asbestos removal
16 program. The expenses projected for the recovery period total \$5,500.

17
18 The fifth activity listed on Schedule 42-2P, Emission Monitoring (Line
19 Item 1.5), reflects an ongoing O&M expense associated with the Continuous
20 Emission Monitoring equipment (CEM) as required by the CAAA. These
21 expenses are incurred in response to the federal Environmental Protection
22 Agency's (EPA) requirements that the Company perform Quality
23 Assurance/Quality Control (QA/QC) testing for the CEMs, including Relative
24 Accuracy Test Audits (RATA) and Linearity Tests. The expenses expected to
25 occur during the recovery period for these activities total \$307,389.

1 Q. What O&M activities are included in Water Quality?

2 A. General Water Quality (Line Item 1.6), identified in Schedule 42-2P, includes
3 Soil Contamination Studies, Dechlorination, Groundwater Monitoring Plan
4 Revisions and Surface Water Studies. All the programs included in Line Item
5 1.6, General Water Quality, have been approved in past proceedings. The
6 expenses expected to be incurred during the projection recovery period for
7 these activities total \$563,005.

8

9 The second activity listed in the Water Quality Category, Groundwater
10 Contamination Investigation (Line Item 1.7), was previously approved for
11 environmental cost recovery in Docket No. 930613-EI. This activity is
12 projected to incur incremental expenses totaling \$1,445,670.

13

14 Line Item 1.8, State NPDES Administration, was previously approved for
15 recovery in the ECRC and reflects expenses associated with annual fees for
16 Gulf's three generating facilities in Florida. These expenses are expected to
17 be \$42,000 during the projected recovery period.

18

19 Finally, Line Item 1.9, Lead and Copper Rule, was also previously approved
20 for ECRC recovery and reflects sampling, analytical and chemical costs
21 related to lead and copper in drinking water. These expenses are expected
22 to total \$6,000 during 2000.

23

24 Q. What activities are included in the Environmental Affairs Administration
25 Category?

1 A. Only one O&M activity is included in this category on Schedule 42-2P (Line
2 Item 1.10) of Ms. Ritenour's exhibit. This Line Item refers to the Company's
3 Environmental Audit/Assessment function. This program is an on-going
4 compliance activity previously approved and is projected to incur expenses
5 totaling \$23,000 during the recovery period.

6
7 Q. What O&M activities are included in the Solid and Hazardous Waste
8 category?

9 A. Only one program, General Solid and Hazardous Waste (Line Item 1.11) is
10 included in the Solid and Hazardous Waste category on Schedule 42-2P.
11 This activity involves the proper identification, handling, storage,
12 transportation and disposal of solid and hazardous wastes as required by
13 federal and state regulations. This program is an on-going compliance
14 activity previously approved and is projected to incur incremental expenses
15 totaling \$68,442.

16
17 Q. In addition to the four major O & M categories listed above, are there any
18 other O & M activities which have been approved for recovery?

19 A. Yes. There are five other O & M categories which have been approved in
20 past proceedings. They are Above Ground Storage Tanks, Low NOx, Ash
21 Pond Diversion Curtains, Mercury Emissions and Sodium Injection System.

22
23 Q. What O & M activities are included in the Above Ground Storage Tanks?
24 Only one program, Above Ground Storage Tanks (Line Item 1.12), is included
25 in this category. This project involves the upgrading of above ground

1 petroleum tank storage systems to comply with existing state regulations.

2 This program was completed in 1999 and is not expected to incur any
3 expenses during 2000.

4
5 Q. Please identify the activities included in the Low NOx (Line Item 1.13)
6 category.

7 A. This project refers to the purchase and installation costs of Low NOx burner
8 tips at Plant Crist and Plant Smith to comply with Phase II requirements of the
9 CAAA. There are no expected expenses during the projection period.

10
11 Q. What O & M activity is included in the Ash Pond Diversion Curtains (Line Item
12 1.14) category.

13 A. This project, previously approved by the Commission, refers to the installation
14 of flow diversion curtains in the Plant Crist ash pond to effectively increase
15 water retention time in the ash pond, thereby allowing for the
16 sedimentation/precipitation treatment process to be more effective in reducing
17 levels of suspended particulates from the outfall at the Plant Crist ash pond.
18 The project will be completed in 1999; therefore, there are no expected
19 expenses during 2000.

20
21 Q. Please identify the activity included in the Mercury Emissions (Line Item 1.15)
22 category.

23 A. This program, approved by the Commission for recovery in Docket
24 No. 981973-EI, pertains to requirements for Gulf to periodically analyze coal
25 shipments for mercury and chlorine content. There are no expected

1 expenses during the recovery period. The EPA only mandated that
2 shipments of coal would be analyzed for mercury and chlorine during 1999.
3 No further notices of continued sampling requirements of coal shipments
4 beyond 1999 have been issued by EPA. It is unknown at this time whether
5 EPA will require further sampling during 2000.

6
7 Q. What activity is included in the Sodium Injection (Line Item 1.16) category?

8 A. The sodium injection system, which was recently approved in Docket Number
9 No. 990667-EI for inclusion in the ECRC, involves sodium injection to the
10 coal supply at Plant Smith to enhance precipitator efficiencies when burning
11 low sulfur coal. Projected expenses for the purchase of raw sodium are
12 expected to be \$100,000 in 2000.

13
14 Q. Are there any project or program expenses resulting from either new or more
15 stringent environmental regulations which may significantly increase O&M
16 costs for the recovery period January 2000 through December 2000?

17 A. Yes, one new project under the General Air Quality category will be affected
18 by the anticipated implementation of a more stringent environmental
19 regulation. Specifically, Title I of the Clean Air Act Amendments (CAAA) of
20 1990 specifies ambient air quality standards. Escambia and Santa Rosa
21 counties are identified as potential ozone non-attainment areas to the new
22 eight-hour ambient air ozone standards adopted by the U.S. Environmental
23 Protection Agency (USEPA) in 1997. Gulf Power is a participant in the Gulf
24 Coast Ozone Study (GCOS, Line Item 1.17) which is a joint modeling
25 analysis between Gulf Power and the State of Florida to provide an improved

1 basis for assessment of eight-hour ozone air quality for Northwest Florida.
2 The project will model past episodes of high ozone levels in Northwest
3 Florida. The model will then be used in developing potential control
4 strategies for both stationary and mobile sources to provide a comprehensive
5 evaluation of the area as required under Title I of the Clean Air Act. This will
6 support FDEP's State Implementation Plan (SIP) revisions, which are
7 required by July 2003. This evaluation is considered pre-engineering work
8 necessary to evaluate the most viable, low cost emission control technologies
9 available that may be required to meet the new eight-hour ambient air ozone
10 standard. Expenses for this project, beginning in January 2000, are
11 anticipated to be \$253,000 for the year.

12

13 Q. Mr. Vick, have you reviewed the variances in recoverable costs for the
14 estimated true-up period, January – December 1999?

15

16 A. Yes. I have reviewed schedules 42-4E and 42-6E included in Ms. Ritenour's
17 exhibit to her testimony.

18

19 Q. Are there any expected variances in recoverable costs for 1999 related to
20 capital investment projects?

21 A. Yes. As shown on Schedule 42-6E, five projects reveal variances that are
22 explained in more detail as follows:

23

24 First, Substation Contamination Mobile Groundwater Treatment
25 System (Line Item 1.6), has a variance of \$351. A small unexpected property
addition occurred in November 1998.

1 Second, CEMS, Line Item 1.5, and Daniel Ash Management Project,
2 Line Item 1.15, have variances of \$546 and \$12,673 respectively. Both are
3 the result of an increase in Mississippi property taxes. Property tax rates
4 fluctuate annually, resulting in changes to projected costs from year to year.

5 Next, Smith Sodium Injection System, Line Item 1.12, reflects a
6 variance of \$2,571. This variance is the result of the project not being
7 included in the original projection. This project has been recently approved
8 for recovery by the Commission in Docket No. 990667-EI.

9 Lastly, SO₂ Allowances, Line Item 1.17, reflects a (\$299,951) variance
10 as a result of the proceeds from the EPA auction in the spring. Due to the
11 volatility of the SO₂ allowance market, proceeds from the auction cannot be
12 predicted and are therefore not included in the projection filings.

13
14 **Q.** For the period January 1999 through December 1999, do you anticipate
15 significant variances in O&M expenses and if so, please explain these
16 variances.

17 **A.** With the exception of three categories on Ms. Riteneour's schedule 42-4E,
18 General Water Quality (Line Item 1.6), Groundwater Contamination
19 Investigation (Line Item 1.7) and Environmental Auditing and Assessment
20 (Line Item 1.10), all other categories have significant estimated variances.
21 Each project is discussed in more detail as follows:

22
23 Sulfur, (Line Item 1.1) has a projected variance of \$16,067. This variance is
24 the result of an increase in quantities of sulfur used due to the quality of the
25 coal supply and annual service maintenance of the sodium injection system.

1 Air Emission Fees, (Line Item 1.2), has a projected variance of
2 (\$7,254). Expected annual air emissions fees in the State of Florida are
3 established at a \$25 cost per ton of emissions, estimated based upon the
4 preceding year's emissions. The 1999 emission fees are for actual emissions
5 during 1998 which were projected based on 1997 emissions data. Emissions
6 during 1998 were less than those projected during 1997 and consequently
7 resulted in the variance in 1999 emission fees.

8

9 Title V, (Line Item 1.3) has a projected variance of \$49,038. Title V permits
10 have yet to be issued for Plants Crist, Scholz or Smith. The variance is the
11 result of unresolved issues raised by the FDEP during the final permitting
12 process for Plant Crist and the draft permitting process for Plants Scholz and
13 Smith. The issues include a complete re-modeling for ambient air
14 compliance at Plants Scholz and Smith. The re-modeling efforts will require
15 Plants Scholz and Smith to post no trespassing signs, construct restrictive
16 fencing to prohibit access to plant properties by the general public and to
17 conduct regular patrols of property boundaries. EPA has also vetoed the
18 state issued Title V permit for Plant Crist until certain outstanding issues can
19 be resolved. Once these issues are resolved, FDEP can then issue a final
20 permit for Plant Crist. All costs associated with the new Title V monitoring
21 provisions and reporting requirements are included in these program
22 expenses.

23

24 Asbestos Fees, (Line Item 1.4) reflects an anticipated variance of (\$4,800).
25 This variance is the result of fewer encounters with Asbestos Containing

1 **Materials (ACM) that require special handling and disposal at plant and**
2 **district facilities.**

3
4 **Emission Monitoring, (Line Item 1.5), has an expected variance of**
5 **(\$212,791). This variance is a result of the inadvertent inclusion of non-**
6 **recoverable emission monitoring expenses in our original projection.**

7
8 **State NPDES Administration, Line Item 1.8, reflects a variance of**
9 **(\$15,000). Gulf had anticipated major permit modifications for the existing**
10 **Plant Scholz and Plant Smith NPDES permits. Major modifications requests**
11 **with FDEP are assessed a \$7,500 modification fee. Both requests were**
12 **deemed minor permit modifications by FDEP and consequently, the projected**
13 **expenses were not incurred.**

14
15 **Lead and Copper (Line Item 1.9), reflects a variance of (\$6,148).**
16 **The variance results from reduced water consumption at our facilities,**
17 **specifically the removal of certain water uses from the potable water supply.**
18 **The reduced potable water consumption resulted in a decrease in costs for**
19 **chemical purchases, creating the variance.**

20
21 **General Solid & Hazardous Waste (Line Item 1.11) has a projected variance**
22 **for 1999 of \$45,194. This variance is primarily due to the implementation of**
23 **the Toxic Release Inventory (TRI) reporting requirement which now includes**
24 **electric utilities. Title III of the Superfund Amendment and Reauthorization**
25 **Act (SARA Title III), finalized by EPA in 1986, required certain industries with**

1 certain Standard Industrial Codes (SIC) to report annually the on-site storage
2 and annual use of specific hazardous chemicals and substances identified by
3 EPA. SARA Title III includes Form R reporting of releases of specific
4 chemicals to air, water or land. Prior to January 1, 1999, electric utilities had
5 been exempt from TRI reporting requirements. EPA revised the SIC to
6 include electric utilities subject to TRI Form R reporting requirements.
7 Consequently, Gulf Power incurred expenses to gather pertinent information
8 on toxic releases from affected facilities and to complete and submit the Form
9 R report to EPA.

10
11 Above Ground Storage Tanks (Line Item 1.12) reflects a \$13,971 expected
12 variance. This is the result of contractor expenses being greater than
13 originally projected.

14
15 Low NOx (Line Item 1.13) has a projected variance of \$31,827. This variance
16 is due to contract labor costs for installation of the burner tips being higher
17 than originally expected.

18
19 Ash Pond Diversion Curtains (Line Item 1.14) has a projected variance of
20 \$5,800. The expenses included in the 1999 projection for diversion curtains
21 were based on the purchase price of curtains installed in 1994. The variance
22 is the result of an increase in the cost of curtains from the 1994 prices.

23
24 Mercury Emissions (Line Item 1.15) reflects a variance of \$14,100. This
25 variance is the result of Commission approval of this new project during the

1 current recovery period. There were no anticipated expenses at the time of
2 the original projection testimony for 1999.

3

4 Sodium Injection (Line Item 1.16) has a \$37,000 variance. Again, this
5 variance is the result of Commission approval of this project during the
6 current recovery period. There were no anticipated expenses initially
7 expected in the original projection for 1999.

8 Mr. Vick, does this conclude your testimony?

9 A. Yes.

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1 Q (By Mr. Stone) Mr. Vick, there were no
2 exhibits to your testimony; is that correct?

3 A That's correct.

4 Q Would you please summarize your testimony as
5 it relates to Issue 13?

6 A The Issue 13 is concerning the Gulf Coast
7 Ozone Study. The purpose of the Gulf Coast Ozone
8 Study is to combine the resources of the Gulf Coastal
9 states of Florida, Alabama, Mississippi and Louisiana
10 and the industries within those states to address
11 elevated ozone levels that are occurring from Baton
12 Rouge, Louisiana over to Pensacola. These levels
13 currently exceed the new eight hour average national
14 ambient air quality standard for ozone. And pursuant
15 to the U.S. Environmental Protection Agency
16 designating the attainment status of all areas of the
17 country relative to the new ozone standard, states
18 must make various decision for those areas determined
19 to be nonattainment areas.

20 The work products associated with this
21 project will assist each state in making decisions on
22 how it should proceed to implement any necessary and
23 cost-effective emission reduction strategies. As part
24 of, this EPA will be making those final determinations
25 of the attainment status by July 18th of the year

1 2000.

2 Additionally, these work products will
3 assist Gulf Power to determine how much our respective
4 emissions may be contributing to the ozone situation
5 and to develop our emission control strategies in a
6 cost-effective manner. The combination of state and
7 private support will assure that the work is conducted
8 in a well-balanced objective approach that seeks to
9 provide all stakeholders with the needed information
10 to lower ozone levels to the extent required by law.

11 Now, with that, most of you may be aware the
12 ambient air standard -- new ambient air standard for
13 ozone was recently remanded back to EPA. The appeal
14 of that was also denied. Right now we're in a state
15 of limbo with regard to these standards. We have met
16 with the states in the G-Coast or the Gulf Coast Ozone
17 Study. As I said, those are Louisiana, Mississippi,
18 Alabama and Florida.

19 The agencies representing those states are
20 the Department of Environmental Protection for the
21 state of Florida, the Department of Environmental --
22 Alabama Department of Environmental Management, and
23 then the Department of Environmental Quality for both
24 Louisiana and Mississippi. Those states have decided
25 to continue this effort even though we're somewhat in

1 a state of limbo just due to the history of EPA in
2 similar situations over the years. That at some point
3 in time the states feel, as well as industry, that
4 these standards will be back. There may be some
5 different emission -- what we would call
6 implementation schedules associated with those
7 standards and coming into compliance with them, but
8 right now the states have elected to continue this
9 effort; feel it's a very necessary effort to evaluate
10 and find out exactly what is contributing and causing
11 the ozone problems along the Gulf Coast. That's all I
12 have.

13 **MR. STONE:** We tender Mr. Vick for cross
14 examination.

15 **COMMISSIONER DEASON:** Mr. Burgess, no
16 questions?

17 **MR. BURGESS:** No.

18 **COMMISSIONER DEASON:** Mr. McWhirter?

19 **MR. MCWHIRTER:** No questions.

20 **COMMISSIONER DEASON:** Staff.

21 **CROSS EXAMINATION**

22 **BY MS. JAYE:**

23 **Q** Good morning, Mr. Vick.

24 **A** Good morning.

25 **Q** I have some questions that relate to your

1 prefilled testimony and if you can get that in front of
2 you it might help speed things up. This is the
3 testimony dated October 1, 1999. I would ask you that
4 you turn to Page 9.

5 **A** We're there.

6 **Q** Okay. Beginning on Line 14, you discuss
7 what you believe to be new project costs resulting
8 from either new or more stringent environmental
9 regulations. Are the new or more stringent
10 environmental regulations to which you refer, the
11 EPA's eight-hour ambient air ozone quality standard?

12 **A** That is correct.

13 **Q** Turning now to Page 10, Lines 3 through 7 of
14 your October 1, 1999 testimony, you state that the
15 study effort will support FDEP's state implementation
16 plan revisions which are due July of 2003. Could you
17 please explain what an FDEP SIP is?

18 **A** The state implementation plan that is
19 developed by DEP is a requirement of Title 1 of the
20 Clear Air Act. Title 1 requires that all states must
21 prepare a state implementation plan determining how
22 they are going to be in compliance with new standards
23 that come along as EPA promulgates these standards,
24 particularly ambient air standards. The 2003 date
25 specifically applies to the ambient air -- the new

1 ambient air standard for ozone.

2 That would be the time that the state has to
3 submit this plan that basically says how the state is
4 going to come into compliance with the new standard.
5 This has been done -- never has it been done in
6 Florida because we've also been in compliance with the
7 ambient air standards here in Florida.

8 But as another example, I can give you
9 Atlanta or Birmingham, who are in nonattainment for
10 the one hour ozone standard. The states are now
11 implementing or proposing revisions to the state
12 implementation plans in those states on how those
13 states and area in those states are going to come into
14 compliance with the one hour ozone standard, and
15 that's the old standard that has been around for some
16 period of time.

17 Q Staff is handing around copies of the
18 deposition transcript from your deposition taken at
19 the instance of Staff on October 27, 1999, and also
20 your Late-filed Exhibit No. 3 to that deposition. I
21 have a series of questions to ask you concerning these
22 documents.

23 I believe during the deposition you
24 characterized the EPA's eight-hour ambient air ozone
25 standards as being in limbo. That's a term that I've

1 heard again here today. And that Gulf is uncertain
2 about what is going to happen.

3 On Pages 16 and 21, you refer to this being
4 an uncertain standard. Could you tell me if this
5 means that the EPA may propose a different standard
6 than the eight-hour standard?

7 A That possibility does exist. We feel that
8 EPA right now has two ways to go based on the -- their
9 loss at the Court of Appeals. As I understand it,
10 they can go ahead and take this to the Supreme Court
11 or they can try and comply with the remand.

12 As I understand it, they're going to pursue
13 to -- proceed ahead to the Supreme Court and see if
14 they cannot get a ruling out of the Supreme Court.
15 Assuming they lose there, I think what you will see
16 is -- or even if they do lose, you will see something
17 in the form of another ozone standard. Whether it's
18 an eight-hour standard or three-hour standard, I'm not
19 sure. As to whether or not it's the exact same
20 standard, which right now is 80 parts per billion over
21 that eight-hour average, it may be something different
22 from that also.

23 As I said, we're just real unsure as to
24 which way EPA is going to go at this point. We do
25 feel as well as the regulatory agencies in the state

1 feel that EPA will be backed with some form of an
2 ozone standard. If it's the same one, we just don't
3 know.

4 Q Mr. Vick, on Page 11 of your deposition,
5 Lines 14 through 19, you represented that Gulf's
6 projected costs for this Gulf Coast Ozone Study has
7 been determined pursuant to an MOU; is that correct?

8 A Yes, that is correct. There was a
9 memorandum of understanding between the five major
10 parties that originally started this study. I told
11 you the four states. There was also the Southern
12 Company acting on behalf of Alabama Power and
13 Mississippi Power and Gulf Power.

14 Q Continuing on with Page 11 to your
15 deposition, Lines 8 through 13, you indicate that
16 there would not be a rule permit or agreement that
17 Gulf would violate if Gulf did not participate in the
18 Gulf Coast Ozone Study; is that correct?

19 A That is correct. There is not an
20 environmental regulation or rule out there that says
21 we have to participate in the Gulf Coast Ozone Study.
22 As I indicated somewhere on another page I believe --
23 it was actually in my testimony, prefiled testimony,
24 that the Gulf Coast Ozone Study is very similar to
25 what I would refer to as preengineering work on the

1 best way to deal with a given project.

2 If we were required to put on some type of
3 pollution control technology on any of our units, we
4 would obviously do a very serious evaluation on what
5 is going to be the most effective.

6 Modeling -- computer modeling for ambient
7 air standards has been around forever. A lot of
8 states require that in their -- before their SIP gets
9 revised so that EPA has additional information which
10 they can basically make an evaluation on whether or
11 not the SIP meets with their requirements.

12 I think that in this case, the Gulf Coast
13 Ozone Study is just a prelude to the implementation
14 plan being -- the state implementation plan being
15 developed at some point in time. We just don't know
16 when that will be. Right now it's supposedly 2003.
17 That may get moved back. It could get -- I don't
18 think it's going to get moved forward, but it could be
19 the same or get moved back. But the purpose of the
20 study was to go ahead and let's find out what's out
21 there, what's causing the problem, let's get some
22 science on the table to see if we do implement some
23 type of control technology, whether or not it's going
24 to work or not.

25 There's a lot of dollars at stake here on the

1 types of control technologies that are available to
2 us, and I think we need to know whether or not if we
3 do something on one of Gulf's units whether or not
4 it's going to have any impact on the ozone levels or
5 not, and modeling will tell us that.

6 Q In light of your response, Mr. Vick, could
7 you please explain the basis for the Commission
8 finding that the Gulf Coast Ozone Study would cause
9 Gulf to incur environmental compliance costs?

10 A I'm sorry. Could you repeat the first part
11 of that?

12 Q Certainly. In light of your response to
13 previous questions in which you have indicated that
14 Gulf would not be in violation of a rule permit or
15 agreement if it did not participate in the Gulf Coast
16 Ozone Study, could you please explain to the
17 Commission the basis for the Commission finding that
18 the Gulf Coast Ozone Study is imperative in order for
19 Gulf to not violate a rule permit or agreement?

20 A At some point in time there's going to be a
21 state implementation plan revision in the state of
22 Florida to address the ozone situation on the Gulf
23 Coast. As I said, I don't know when that will occur.
24 When it does occur, there's going to be a lot of
25 scrambling around from both stationary sources,

1 stationary sources being like our power plants, as
2 well as mobile sources such as vehicular traffic.
3 You'll have the metropolitan planning organization
4 scrambling around, everybody is going to be trying to
5 figure out what is the best way to work with the state
6 to come up with a plan to get the Gulf Coast back in
7 attainment for whatever that ozone standard ends up
8 being.

9 It's kind of a case of pay me now or pay me
10 later. We've already -- we've got one year of this
11 under our belts already. We've made great strides,
12 great progress. We were on track to try and wrap up
13 in the year 2000 with this project and this is where
14 most of the costs will be incurred. We've done a lot
15 of preliminary stuff as far as the computer modeling
16 is concerned. We'll be getting down to the different
17 types of control strategies that the computer will be
18 running for us. Those strategies that the computer
19 will run are really going to tell us whether or not
20 Gulf Power puts on control technologies on its
21 coal-fired units, whether or not it's going to have an
22 impact over all on the ozone levels.

23 We are also going to be looking at vehicular
24 traffic. If we go -- switch to low sulfur fuel or low
25 sulfur gasoline in the Escambia, Santa Rosa County

1 area, is that going to have an impact on the ozone
2 levels. Those are all things that the state is going
3 to have to do in conjunction with industry and the
4 metropolitan planning organizations to figure out what
5 is the best solution, the most cost-effective solution
6 to get that area back in attainment.

7 The modeling effort is just part of that
8 process. That is the tools you have to get -- that
9 tells you how we're going to get into compliance and
10 the most cost-effective way of being in compliance
11 once that standard becomes effective.

12 Q Mr. Vick, I would ask you to turn to bate
13 stamp Page 13 of the Exhibit 3 to your deposition. I
14 understand that this exhibit comprises the entire MOU;
15 is that correct?

16 A There is another exhibit, as a matter of
17 fact I was noticing this this morning, that is not
18 attached. It's Exhibit 2, which is basically the
19 scope of work that was prepared by the consultant to
20 do this work. It's the technical scope of work and
21 that is not attached.

22 Q However, Mr. Vick, what is presented there
23 is true and correct to the best of your knowledge and
24 belief?

25 A Yes. That's correct. Exhibit 1 here is

1 correct.

2 Q On Page 13 there's an amount of \$200,000
3 shown as the amount of Southern Company Services'
4 commitment to the GCOS; is that correct?

5 A That number is the initial dollar value that
6 was agreed upon by Southern and Gulf Power to get this
7 kicked off; got us through basically the first year
8 and is anticipated to get us through some of next
9 year.

10 As I said, the real meat of the modeling is
11 going to be occurring next year. This is where the
12 different various scenarios will be run to determine
13 what is going to work and what isn't. The \$200,000
14 got us the four -- basically the four episodes that
15 will be evaluated. When I say an episode, it goes
16 back in history and looks at four episodes where a
17 particular area had ozone exceedances of the standard.

18 Once we've got those -- all the data in for
19 all those episodes -- and these episodes can go over
20 like a five, maybe 10 day period of time, anywhere
21 from probably a three day period I think is the
22 smallest time frame, up to seven or eight, nine days.

23 Once you've got the base case then you can
24 start running your scenarios. This \$200,000 was just
25 to identify the episodes and get those in the computer

1 base.

2 What we'll be doing in the year 2000 is
3 coming up with the different control strategies and
4 control scenarios for vehicular traffic for utility
5 sources, for other industrial sources that will
6 identify what works and what doesn't work and that's
7 where, as you're aware, we're asking I think for like
8 230 something thousand through the recovery clause for
9 the year 2000. That includes some of this -- about
10 \$100,000 -- not \$100,000, but Gulf's share of this is
11 \$100,000 it will be for next year, plus all the
12 different scenarios that Gulf Power will want to be
13 running. The state of Florida is also going to incur
14 similar charges to be -- to running different
15 scenarios on their part also. So this is just the
16 base case here.

17 **Q** Is Southern Company Services' commitment to
18 the GCOS shared among Southern's affiliates in
19 Alabama, Mississippi and Florida?

20 **A** Just those three. Georgia and the other
21 subsidiaries are not participating.

22 **Q** On this same page, bate stamp Page 13, it is
23 shown that four states, Alabama, Mississippi,
24 Louisiana and Florida, agree to contribute a total of
25 \$600,000 to the study. Based on each state's

1 contribution, Florida's pro rata share is two-fifths
2 of the total contribution made by the three states
3 that Southern operates in. Based on that allocation
4 should Gulf's share be \$80,000?

5 **A** Gulf's share of the Southern Company
6 Services \$200,000?

7 **Q** Yes.

8 **A** Actually, Gulf's share is probably going to
9 be somewhat less because if you may recall in reading
10 through this, there was a Phase 1 and a Phase 2 of
11 this study. Gulf was solely participating on its own
12 in Phase 1, and initially getting a lot of the
13 information up front. And I think the paragraph right
14 below says now that Southern Company Services is
15 currently funding work and has done so since late
16 1998. That was primarily through Gulf Power that we
17 were doing that or -- excuse me. It was Gulf Power
18 that was funding Southern Services at that point in
19 time.

20 **Q** Mr. Vick, it is unclear to Staff how you
21 arrived at the number of \$253,000 for the year 2000.
22 Could you please run through that number?

23 **A** We have a portion of the \$200,000 for the
24 Southern Company Services it says -- but it's going to
25 be split equally about \$100,000 each year. If I

1 recall right, Gulf's fair share, I think we were
2 splitting that just about equally between the
3 operating companies. So I think our fair share in the
4 year 2000 will be about \$33,000, somewhere in that
5 neighborhood. The rest of it, it's budgeted into that
6 \$253,000, are for the different runs, scenarios,
7 control strategy technology runs that we will be
8 running once we've got the model in place to see
9 what's going to work and what isn't going to work.

10 Q Continuing on with Page 13 of this exhibit,
11 it is stated that these totals are for the entire
12 length of the study and are split between two fiscal
13 years. What would be the proper amount for Gulf's
14 share of setting the year 2000 ECRC factors?

15 A For the year 2000, it would be \$253,000 as
16 requested.

17 MS. JAYE: Commissioners, I would like to
18 get those two exhibits marked. I believe we're on No.
19 6 and 7 have and have them moved into the record.

20 COMMISSIONER DEASON: Okay. The deposition
21 transcript will be Exhibit 6 and the Late-filed
22 Exhibit No. 3 will be Exhibit 7.

23 (Exhibits 6 and 7 marked for
24 identification.)

25 MR. STONE: Commissioner Deason, just for

1 the record, the deposition transcript that was handed
2 out, just for clarification, had Docket No. 98-1042 on
3 the top and that should be today's docket, 99-0007.

4 **COMMISSIONER DEASON:** Very well. No further
5 questions?

6 **MS. JAYE:** No further questions.

7 **COMMISSIONER DEASON:** Redirect?

8 **MR. STONE:** No redirect.

9 **COMMISSIONER DEASON:** Okay. Mr. Vick,
10 before you leave the stand, I'd like to get some
11 clarification. Gulf's pro rata share of Southern
12 Company Services payment is approximately one-third of
13 that amount, so for one year -- one fiscal year that
14 would be approximately \$33,000; is that correct?

15 **WITNESS VICK:** Yes, Commissioner, that's
16 correct.

17 **COMMISSIONER DEASON:** Now, what constitutes
18 the difference between that and the \$253,000 which you
19 indicated?

20 **WITNESS VICK:** Once we have the base case
21 with the four -- we all agreed that we would look at
22 four episodes, so we would have a good representation
23 of what was actually going on meteorologically and so
24 on and so forth with regard to the modeling effort.

25 Once that was done we did not want to put

1 additional cost into the -- into this agreement that
2 would be incurred equally by all parties in order to
3 evaluate each individual area's control strategies.
4 In other words, the state of Florida may decide to
5 spend \$200,000, \$300,000, \$400,000 on making
6 individual runs on this computer model to identify
7 what they need to do in the Pensacola, Escambia, Santa
8 Rosa County.

9 You don't want that cost being incurred by
10 Louisiana, obviously. So what this addition -- this
11 original \$800,000 was to come up with the base case.
12 That was to identify the four episodes, get the model
13 in place. And then once the states and or industry
14 got to that point where we had the base case in
15 place -- and what we wanted to do was look at
16 contracting with the consultant here, SAI, on an
17 individual basis to run the models that particularly
18 pertains to like a Plant Crist in Pensacola. And
19 that's where these additional dollars that we're
20 asking for are budgeted for next year.

21 **COMMISSIONER DEASON:** That's just a budget
22 at this point?

23 **WITNESS VICK:** It's a budget, but we're
24 going to go ahead with this. We feel like it's in the
25 best interest of the company. We need to know what's

1 going to work at Plant Crist and what won't.

2 **COMMISSIONER JACOBS:** How is it that -- that
3 you can be sure that the factors or the profile of
4 Plant Crist will be included in the model? I'm
5 assuming that this is going to be looking at plants
6 over all these states, right?

7 **WITNESS VICK:** Well, what you can do is once
8 have you the model in place you can basically shrink
9 the grid to just a small area. Right now we're all
10 the way from Baton Rouge to basically Fort Walton
11 Beach, in a fairly large grid looking at fairly
12 complex meteorological conditions over that -- over
13 the last three, four year time frame in identifying
14 those four episodes.

15 Once you've got an area that you want to
16 look at, you can basically narrow the focus of the
17 model to just like the area around Plant Crist. You
18 could just have it in Escambia and Santa Rosa County,
19 look at just the sources, both mobile sources and
20 stationary sources in those two counties.

21 And determine -- say, like if I want to put
22 selective catalytic reduction on all of the coal-fired
23 units in Plant Crist, do that and then run the model.
24 Basically the model will say, "well, does that do
25 anything? Does it help you out? Does the ozone get

1 better or does it get worse or does it stay the same?"

2 **COMMISSIONER JACOBS:** Is that relative to
3 the entire area that you're studying or -- in other
4 words, you're looking at measures that you can
5 implement at there, but that would have, I say, a
6 measurable impact in this whole study zone. Would
7 that be a correct statement?

8 **WITNESS VICK:** Yes. Right. You can look at
9 the whole zone all the way from Baton Rouge to Florida
10 and look at various control technologies or scenarios
11 that various companies may put on and see what that
12 does to the overall picture, or you can focus in on a
13 small area also.

14 **COMMISSIONER JACOBS:** Okay. Thank you.

15 **COMMISSIONER DEASON:** Any redirect?

16 **MR. STONE:** No redirect.

17 **COMMISSIONER DEASON:** Very well. Thank you,
18 Mr. Vick. Before we call the next witness we're going
19 to take a recess. We will reconvene at 11:15.

20 (Brief recess.)

21

22 (Transcript continues in sequence in
23 Volume 2.)

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