

# Hopping Green & Sams

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March 29, 2012

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**BY HAND DELIVERY**

Ann Cole  
Office of the Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Re: Docket No. 120007-EI  
Petition of Progress Energy Florida, Inc., to Modify Scope of Existing  
Environmental Program

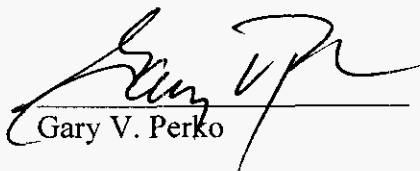
Dear Ms. Cole:

On behalf of Progress Energy Florida, Inc. ("PEF"), I have enclosed for filing the original and fifteen copies of the PEF's Petition to Modify Scope of Existing Environmental Program.

Please stamp and return the enclosed extra copy of this filing. If you have any questions regarding this filing, please call either of us at 222-7500.

Very truly yours,

HOPPING GREEN & SAMS, PA.

By:   
Gary V. Perko

GVP/mee  
Enclosure  
cc: all counsel of record

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**BEFORE THE PUBLIC SERVICE COMMISSION**

In re: Environmental Cost Recovery Clause

DOCKET NO. 120007-EI

FILED: March 29, 2012

**PROGRESS ENERGY FLORIDA, INC.'S PETITION TO MODIFY  
SCOPE OF EXISTING ENVIRONMENTAL PROGRAM**

Progress Energy Florida, Inc. ("PEF" or "Company"), pursuant to Section 366.8255, Florida Statutes, and Florida Public Service Commission Order Nos. PSC-94-0044-FOF-EI and PSC-99-2513-FOF-EI, hereby petitions the Commission to modify the scope of its previously approved Integrated Clean Air Compliance Program to encompass additional activities such that the costs associated with such activities may be recovered through the Environmental Cost Recovery Clause ("ECRC"). In support, PEF states:

1. Petitioner. PEF is a public utility subject to the regulatory jurisdiction of the Commission under Chapter 366, Florida Statutes. The Company's principal offices are located at 299 First Avenue North, St. Petersburg, Florida.
2. Service. All notices, pleadings and other communications required to be served on the petitioner should be directed to:

Gary V. Perko  
Hopping Green & Sams, P.A.  
119 S. Monroe St., Suite 300  
P.O. Box 6526 (32314)  
Tallahassee, FL 32301  
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3. Cost Recovery Eligibility. As further discussed below, the U.S. Environmental Protection Agency ("EPA") recently issued new air emission standards for coal and oil-fired electric generating units ("EGUs"). As a result of the new regulations, PEF will incur costs for

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new environmental compliance activities related to its previously approved Integrated Clean Air Compliance Program. As detailed below, the new compliance activities meet the criteria for cost recovery established by the Commission in Order No. PSC-94-0044-FOF-EI in that:

- (a) all expenditures will be prudently incurred after April 13, 1993;
- (b) the activities are legally required to comply with a governmentally imposed environmental regulation that was created, became effective, or whose effect was triggered after the company's last test year upon which rates are based; and
- (c) none of the expenditures are being recovered through some other cost recovery mechanism or through base rates.

The information provided below for each program satisfies the minimum filing requirements established in Part VI of Order No. PSC-99-2513-FOF-EI.

4. PEF's Approved Integrated Clean Air Compliance Plan. In the 2007 ECRC Docket, the Commission approved PEF's Integrated Clean Air Compliance Plan (Plan D) as a reasonable and prudent means to comply with the requirements of the Clean Air Interstate Rule (CAIR), the Clean Air Mercury Rule (CAMR), the Clean Air Visibility Rule (CAVR), and related regulatory requirements. See Order No. PSC-07-0922-FOF-EI, at 8 (Nov. 16, 2007). In each subsequent ECRC docket, the Commission approved PEF's annual review of the Integrated Clean Air Compliance Plan, concluding that the Plan remains the most cost-effective alternative for achieving and maintaining compliance with the applicable air quality regulatory requirements. See Order No. PSC-11-0553-FOF-EI, at 13-14 (Dec. 7, 2011); Order No. PSC-10-0683-FOF-EI, at 6-7 (Nov. 15, 2010); Order No. PSC-09-0759-FOF-EI, at 18 (Nov. 18, 2009); Order No. 08-0775-FOF-EI, at 11 (Nov. 24, 2008).

5. New Environmental Requirements. As the Commission is aware, in February 2008, the U.S Circuit Court of Appeals for the District of Columbia vacated the CAMR regulation and rejected EPA's delisting of coal-fired EGUs from the list of emission sources that are subject to Section 112 of the Clean Air Act. See Order No. PSC-09-0759-FOF-EI, at pp. 15, 18 (Nov. 18, 2009). As a result, in lieu of CAMR, the EPA was required to adopt new emissions standards for control of hazardous air pollutant emissions from coal-fired EGUs. Id. The EPA issued its proposed rule to replace CAMR on March 16, 2011, with publication following in the *Federal Register* on May 3, 2011. See 76 Fed. Reg. 24976 (May 3, 2011). Following the public comment period on the proposed rule, the EPA released the final rule on December 21, 2011, with publication in the *Federal Register* following on February 16, 2012. See 77 Fed. Reg. 9304 (Feb. 26, 2012).

6. The final rule establishes new Mercury and Air Toxics Standards ("MATS") for emissions of various metals and acid gases from both coal and oil-fired EGUs, including, potentially, units at PEF's Crystal River Plant (Units 1, 2, 4, and 5), Anclote Plant (Units 1 and 2), and Suwannee Plant (Units 1, 2, and 3). The Clean Air Act generally provides a 3-year time frame to comply with MATS, although the permitting agency has the authority to add one year, and the President has the authority to add up to two additional years.

7. New Compliance Activities for Anclote Units 1 and 2. Anclote Units 1 and 2 currently have a maximum summer rating of 500MW and 510 MW, respectively. The current natural gas firing capability for each unit is limited to 40% of the total heat input. Because the balance of the heat input is from heavy fuel oil, the units would be subject to the new MATS for oil-fired EGUs. However, PEF has determined that the most cost-effective compliance option

for PEF's Anclote Units 1 and 2 is to convert the units to fire 100% natural gas and thereby remove the units from the scope of the new MATS regulation.

8. PEF considered two compliance alternatives for the Anclote units. The first option would achieve compliance with the new MATS through use of emissions controls, specifically low NOx burners and an electrostatic precipitator ("ESP"). The second option would achieve compliance through conversion of the units to operation on natural gas as the single fuel.<sup>1</sup> After estimating the capital costs and unit performance implications of the two options, PEF determined that the natural gas option has economic benefits in terms of both capital costs and fuel savings. Based on conservative cost estimates associated with the emissions controls that would be necessary to achieve oil-fired compliance, the capital cost of the gas conversion is expected to be at least \$12 million less than the capital costs for the emissions controls. PEF also estimated the fuel cost differential of the two options, primarily to ensure that implementation of the gas conversion would not cause an increase in system fuel costs. The analysis demonstrates that the net impact on system cost is positive (savings), indicating an additional benefit.

9. Preliminary studies indicate that the addition of three levels of fuel gas burners in combination with the existing natural gas burners will be required to provide full output on 100% natural gas. Thermal analysis of the boiler for operation on 100% natural gas indicates that a portion of the lower horizontal superheater will need to be removed to limit heat absorption and manage superheater tube metal temperatures. In addition, the gas supply line measurement and regulation ("M&R") facilities will require upgrades to support operation on 100% gas. Finally,

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<sup>1</sup> A third option, discontinuation of heavy fuel oil use without conversion, was rejected because of its negative effect on fleet capacity and the resulting requirement to purchase or construct additional generation to meet reserve margin and operational requirements, including potential system reliability impacts

the finishing horizontal superheater for each unit will require metallurgy upgrades to accommodate the peak temperatures resultant from the gas conversion. While the additional burners and the replacement superheater form the majority of the boiler work required, other areas of the boiler and its control system may require configuration changes to complete the conversion based on ongoing boiler engineering analysis and condition assessment.

10. Cost Estimates. PEF expects to incur approximately \$79 million in total capital costs to convert the Anclote units to fire 100% natural gas. PEF expects to incur approximately \$26 million in 2012 and the remainder (approximately \$53 million) in 2013. PEF currently anticipates that both converted units will be placed in service by the end of 2013.

11. Prudence of Expenditures. As discussed above, in order to ensure that the costs incurred to comply with the new regulation are prudent and reasonable, PEF performed a comparative analysis and determined that the natural gas conversion project is the most cost-effective compliance option for Anclote Units 1 and 2. To ensure that actual expenditures are reasonable, PEF will competitively bid procurement of major boiler equipment to boiler original equipment manufacturers (OEMs).

12. No Base Rates Recovery of Program Costs. None of the costs for which PEF seeks recovery by this Petition were included in the MFRs that PEF filed in its last ratemaking proceeding in Docket No. 090079-EI. Therefore, the costs are not recovered in PEF's base rates.

13. No Change in Current ECRC Factors. PEF does not seek to change the ECRC factors currently in effect for 2012. The Company proposes to include in its estimated true-up filing for 2012 all program costs incurred subsequent to the filing of this petition through the end of 2012. PEF expects that all of these costs will be subject to audit by the Commission and that

the appropriate allocation of program costs to rate classes will be addressed in connection with subsequent filings.

14. No Material Facts in Dispute. PEF is not aware of any dispute regarding any of the material facts contained in this petition. The information provided in this petition demonstrates that the programs for which approval is requested meets the requirements of Section 366.8255 and applicable Commission orders for recovery through the ECRC.


WHEREFORE, PEF requests that the Commission modify the scope of PEF's previously approved Integrated Clean Air Compliance Program to encompass additional activities associated with the Anclote MATS compliance project described above, such that the costs associated with such activities reasonably may be recovered through the ECRC.

RESPECTFULLY SUBMITTED this 29<sup>th</sup> day of March, 2012.

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Attorneys for PROGRESS ENERGY FLORIDA, INC.

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished to all counsel of record and interested parties as listed below via regular U.S. mail this 29th day of March, 2012.

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