

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Environmental cost
recovery clause.

DOCKET NO. 980007-EI
ORDER NO. PSC-98-1764-FOF-EI
ISSUED: December 31, 1998

The following Commissioners participated in the disposition of
this matter:

SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.

APPEARANCES:

MATTHEW M. CHILDS, ESQUIRE, Steel Hector & Davis, 215 South
Monroe Street, Suite 601, Tallahassee, Florida 32301
On behalf of Florida Power & Light Company (FPL).

JEFFREY A. STONE, ESQUIRE, and RUSSELL A. BADDERS, Esquire,
Beggs & Lane, Post Office Box 12950, Pensacola, Florida 32576
On behalf of Gulf Power Company (GULF).

LEE L. WILLIS, ESQUIRE, and JAMES D. BEASLEY, ESQUIRE, Ausley
& McMullen, Post Office Box 391, Tallahassee, Florida 32302
On behalf of Tampa Electric Company (TECO).

JOHN W. McWHIRTER, ESQUIRE, McWhirter Reeves McGlothlin
Davidson Decker Kaufman Arnold & Steen, P.A., Post Office Box
3350, Tampa, Florida, 33601-3350; and JOSEPH A. MCGLOTHLIN,
ESQUIRE, and VICKI GORDON KAUFMAN, ESQUIRE, McWhirter Reeves
McGlothlin Davidson Decker Kaufman Arnold & Steen, P.A., 117
South Gadsden Street, Tallahassee, Florida 32301
On behalf of Florida Industrial Power Users Group (FIPUG).

JOHN ROGER HOWE, ESQUIRE, Office of Public Counsel c/o the
Florida Legislature, 111 West Madison Street, Room 812,
Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida (OPC).

LESLIE J. PAUGH, ESQUIRE, Florida Public Service Commission,
2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Commission Staff.

DOCUMENT NUMBER-DAT

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FPSC-RECORDS/REPORTING

ORDER APPROVING PROJECTED EXPENDITURES AND TRUE-UP AMOUNTS
FOR ENVIRONMENTAL COST RECOVERY FACTORS

As part of the Commission's continuing fuel cost recovery, conservation cost recovery, purchased gas adjustment and environmental cost recovery proceedings, a hearing was held on November 23, 1998, in this docket and in Docket Nos. 980001-EI, 980002-EG, and 980003-GU. The hearing addressed the issues set out in the body of the Prehearing Order. The parties have stipulated to several of the issues. They are described below.

Return On Equity

During the pendency of the proceeding, an issue was raised by the Office of Public Counsel regarding utilities' return on equity. The issue asked: "[s]hould the Commission consider whether approval of environmental cost recovery factors will enable electric utilities to earn excessive returns on equity under currently prevailing financial market conditions?" In their Prehearing Statements, Gulf and TECO responded in the negative, stating that the issue was decided in Docket No. 930613-EI, Order No. PSC-94-0044-FOF-EI, issued January 12, 1994 (Order). At the hearing, FPL expressed its position on this issue which concurred with those of Gulf and TECO. OPC responded to the issue in the affirmative stating that both Section 366.8255(5), Florida Statutes, and the Order enable the Commission to evaluate whether approval of environmental cost recovery factors will enable a utility to earn an excessive return on equity. FIPUG agreed with OPC's position.

During the hearing, we heard oral argument from the parties on the return on equity issue. In addition, staff provided an oral recommendation. A bench decision was rendered to deny the issue for the reasons set forth herein. We have established an authorized return on equity for each utility. The return on equity is presumed reasonable until it is changed in a base rate proceeding. If, as a result of the base rate proceeding, the return on equity is adjusted, the adjustment is made for all regulatory purposes and is not specific to any cost recovery clause proceeding. Therefore, we find that the recovery clauses are not the proper forum to evaluate utilities' earnings on a current market basis for the purpose of determining whether projects should be removed from recovery under a clause.

The resolution of the return on equity issue impacted OPC and FIPUG's positions on 14 fallout issues in this docket. Following the bench decision to deny, OPC and FIPUG stated that they would change their positions on the fallout issues to 'No position.' (TR pgs. 53 & 56) The stipulations set forth below reflect the change of position of OPC and FIPUG.

In addition to the return on equity issue, issues were raised by staff addressing minimum filing requirements and filing dates for new projects for which utilities will seek recovery for through the environmental cost recovery clause. By agreement of the parties, the issues were withdrawn and will be addressed at a staff workshop in early 1999. In addition to the procedural matters to be addressed at the workshop, policy issues pertaining to possible double recovery by the utilities will be discussed. These policy issues may be presented to the Commission in a future proceeding. The resolution of the policy issues may affect the amount of the recovery granted herein, and may therefore be subject to true-up during a subsequent proceeding.

Generic Environmental Cost Recovery Issues

We approve as reasonable the following stipulations as to the estimated environmental cost recovery true-up amounts for the period October, 1997, through December, 1998.

FPL: \$886,387 overrecovery.
GULF: \$3,673,682 overrecovery.

We approve as reasonable the following stipulation as to the estimated environmental cost recovery true-up amounts for the period April, 1998, through December, 1998.

TECO: \$ 1,381,012 overrecovery.

We approve as reasonable the following stipulations as to the appropriate projected environmental cost recovery amounts for the period January, 1999, through December, 1999.

FPL: \$17,070,550
GULF: \$8,438,148
TECO: \$4,464,300

We approve as reasonable the following stipulation as to the appropriate recovery period to collect the total environmental cost

recovery true-up amounts. The appropriate recovery period to collect the total environmental cost recovery true-up amounts (the sum of the final true-up amounts as approved in Order No. PSC-98-1224-FOF-EI, issued September 17, 1998, Docket No. 980007-EI, and the estimated true-up amounts) is the twelve month period from January, 1999, through December, 1999.

We approve as reasonable the following stipulation as to the effective date of the environmental cost recovery factors for billing purposes. The factor shall be effective beginning with the specified environmental cost recovery cycle and thereafter for the period January, 1999, through December, 1999. Billing cycles may start before January 1, 1999, and the last cycle may be read after December 31, 1999, so that each customer is billed for twelve months regardless of when the adjustment factor became effective.

We approve as reasonable the following stipulation as to the depreciation rates used to develop the depreciation expense included in the total environmental cost recovery true-up amounts to be collected. The depreciation rates used to calculate the depreciation expense shall be the rates that are in effect during the period the allowed capital investment is in service.

We approve as reasonable the following stipulations as to the appropriate Environmental Cost Recovery Factors for the period January, 1999, through December, 1999, for each rate group.

FPL:	Rate Class	Environmental Recovery Factor (\$/KWH)
	RS1	0.00022
	GS1	0.00021
	GSD1	0.00019
	OS2	0.00026
	GSLD1/CS1	0.00019
	GSLD2/CS2	0.00018
	GSLD3/CS3	0.00014
	ISST1D	0.00025
	SST1T	0.00013
	SST1D	0.00019
	CILC D/CILC G	0.00018
	CILC T	0.00014
	MET	0.00019
	OL1/SL1	0.00017
	SL2	0.00017

GULF:

RATE CLASS	ENVIRONMENTAL COST RECOVERY FACTORS ¢/KWH
RS, RST	0.096
GS, GST	0.096
GSD, GSDT	0.086
LP, LPT	0.077
PX, PXT, RTP, SBS	0.072
OSI, OSII	0.057
OSIII	0.076
OSIV	0.128

TECO:	Rate Class	Factor (¢/KWH)
	RS, RST	0.028
	GS, GST, TS	0.028
	GSD, GSDT, EVX	0.028
	GSLD, GSLDT, SBF, SBFT	0.027
	IS1, IST1, SB11, SBIT1, IS3, IST3, SBI3, SBIT3	0.026
	SL, OL	0.027

Company - Specific Environmental Cost Recovery Issues

FLORIDA POWER & LIGHT COMPANY

I. Wastewater/Stormwater Discharge Elimination Project

We approve as reasonable the following stipulations as to Florida Power & Light Company's request for recovery of costs of the Wastewater/Stormwater Discharge Elimination Project through the Environmental Cost Recovery Clause.

In Order No. PSC-98-1224-FOF-EI, this issue was deferred from the August, 1998, Environmental Cost Recovery Clause hearing. After conducting the deposition of FPL Witness LaBauve and receiving the appropriate supporting documentation through discovery, it was determined that the proposed Wastewater/Stormwater Discharge Elimination Project meets the criteria for recovery through the ECRC, as established in Order No. PSC-94-0044-FOF-EI. As explained below, the estimated operation and maintenance (O&M) expense amount should be \$2,149,000 for the purpose of setting FPL's 1999 ECRC factors. In addition, if the final SPDES permits at any of the remaining six affected plants are not issued by December 31, 1999, or do not require BMP3 Plans as expected, then the respective portion of the amount approved for recovery at those plants should be refunded with interest to FPL's ratepayers in 2000.

Project Description: According to FPL Witness LaBauve's Late-Filed Deposition Exhibit No. 3, Attachment 3 (Hearing Exhibit No. 21) this project involves activities such as ash basin lining, installation of retention tanks, tank coating, sump construction, installation of pumps, motor, and piping, boiler blowdown recovery, site preparation, separation of stormwater and ashwater systems, separation of potable and service water systems, and engineering and design work.

Legally Required: Witness LaBauve states that this project is legally required to comply with environmental regulations imposed by the Environmental Protection Agency (EPA). Pursuant to 33 U.S.C. Section 1342 (Federal Water Pollution Control Act Section 402) and Title 40 Code of Federal Regulations Section 122, FPL is required to obtain National Pollutant Discharge Elimination System (NPDES) permits for each of its power plant facilities. Under current law, these permits must be renewed every five years. According to FPL, each new permit issued will require them to develop and implement a Best Management Practice Pollution Prevention Plan (BMP3 Plan) to minimize or eliminate, whenever feasible, the discharge of regulated pollutants, including fuel oil and ash, to surface waters. These BMP3 Plans are to be submitted to the Florida Department of Environmental Protection (FDEP) since the EPA delegated administration of the NPDES permit program to the state. Under state implementation of the program, these permits are referred to as State Pollutant Discharge Elimination System (SPDES) permits.

Final SPDES permits, which contain BMP3 Plan requirements, have been issued at the Port Everglades, Fort Lauderdale, Riviera, and Fort Myers plants, but final SPDES permits have not been issued at the remaining six affected FPL plants. (Mr. LaBauve's Deposition Transcript p. 61-62; Hearing Exhibit No. 21) Witness LaBauve expects that BMP3 Plans will be required upon the issuance of the final SPDES permits at these remaining six locations as well; therefore, FPL has taken steps to comply with expected BMP3 Plan requirements at these plants. (Mr. LaBauve's Deposition Transcript p. 70; Hearing Exhibit No. 21) If the final SPDES permits at the remaining six affected plants do not require BMP3 Plans as expected, the costs of implementing such plans should be refunded with interest to FPL's ratepayers in the year 2000.

According to FPL, this project also meets two other environmental requirements which were applied to FPL in 1997. First, the Federal Ambient Water Quality Criteria requires FPL to meet surface water standards for any wastewater discharges to groundwater. For many pollutants, the surface water standards are more stringent than current groundwater standards. Second, the Dade County Department of Environmental Resource Management (DERM) requires FPL to obtain multi-source permits for its Cutler and Turkey Point plants, the only FPL plants located in Dade County. DERM considers the cooling canals at Turkey Point to be waters of Dade County and thus requires the plant's wastewater discharges into the canals to meet water quality standards in Section 24-11, Code of Metropolitan Dade County.

Double Recovery: According to FPL's November 10, 1998, testimony, all costs requested for recovery are projected for the period beginning January, 1999. Therefore, the costs requested for recovery will be incurred after the effective date of Section 366.8255, F.S. In addition, Witness LaBauve stated that the costs are not being recovered through any other recovery mechanism. (Mr. LaBauve's June 29, 1998, Direct Testimony p. 10; Hearing Exhibit No. 21)

Project Cost Estimate: FPL has requested recovery of \$3,145,000 of O&M expenses projected to be incurred in calendar year 1999. No capital costs were projected for this period. According to Witness LaBauve's Late-Filed Deposition Exhibit No. 3, Attachment 3 (Hearing Exhibit No. 21) FPL estimates that the total cost of this project will be approximately \$13 million, further broken down into approximately \$8 million in capital costs and approximately \$5 million in O&M expenses over the life of the project. Witness

LaBauve summarized the alternatives evaluated by FPL and demonstrated why the chosen option was the most viable, cost-effective means for compliance. (Mr. LaBauve's June 29, 1998 Direct Testimony pp. 7-9; Hearing Transcript pgs. 73-75)

We find the estimated project costs to be incurred for calendar year 1999 should be reduced in the amount of \$996,000 (not jurisdictionalized). As shown in the table below, FPL provided two different total cost estimates of the proposed project, one as a response to Staff's First Request for Production of Documents No. 8, Attachment 1, and a later one as Mr. LaBauve's Late-Filed Deposition Exhibit No. 3, Attachment 3; Hearing Exhibit No. 21.

Source	Description	Capital (\$000)	O&M (\$000)	Total (\$000)
FPL Response to Staff's 1st Request for PODs, No. 8, Attachment 1, p. 1 (date: 8/19/98)	Subtotal	\$6,200	\$4,204	\$10,404
	Engineering	\$525	\$200	\$725
Late-Filed Depo. Exh. 3, Attachment 3 (date: 9/30/98), Hearing Exh. No. 21.	Subtotal	\$6,200	\$3,004	\$9,204
	Engineering	\$525	\$1,196	\$1,721

FPL removed \$1.2 million of O&M expenses for organo clay filters from the first O&M cost estimate of \$4,204,000 to arrive at the later O&M estimate of \$3,004,000. Despite this decrease in O&M expenses, engineering expenses attributed to the O&M portion of the total project cost estimate increased significantly, from \$200,000 to \$1,196,000. This increase in engineering expenses has not been justified by FPL at this time. Therefore, the difference of \$996,000 between the engineering cost estimates in the two total project cost estimates provided by FPL should be credited to the estimated project costs of \$3,145,000 for the upcoming calendar year. This reduction of projected costs will result in a revised estimate of \$2,149,000 in expenses to be incurred in 1999 for FPL's proposed project.

Conclusion: For the reasons stated above, we find that the Wastewater/Stormwater Discharge Elimination Project and prudently incurred costs are appropriate for recovery through the ECRC. Witness LaBauve stated that FPL would notify the Commission of any changes in scope to the project. (Mr. LaBauve's Deposition Transcript p. 88; Hearing Exhibit No. 21) The project is expected to be completed by approximately December 2000. (Mr. LaBauve's Deposition Transcript p. 89; Hearing Exhibit No. 21) Final disposition of the costs incurred in this activity will be subject to audit.

II. Method For Calculating Return On Average Net Investments

We approve as reasonable the following stipulation as to the appropriate method for calculating the return on average net investment for Environmental Cost Recovery Clause projects as established by Order No. PSC-97-1047-FOF-EI, issued September 5, 1997, Docket No. 970007-EI.

Due to our decision to require utilities to file projected costs for recovery through the ECRC on an annual, calendar year basis in Order No. PSC-98-0691-FOF-PU issued May 19, 1998, Docket No. 980269-PU, the appropriate method for calculating FPL's return on average net investment for ECRC projects should be changed. The currently prescribed methodology was established in Order No. PSC-97-1047-FOF-EI. We find that FPL's use of the June, 1998, capital cost rates for its October 5, 1998, projection filing for calendar year 1999 was appropriate since the June, 1998, rates were the most recent actual capital cost rates before the filing of the projected period data. The use of these same rates for both the estimated/actual true-up and the final true-up for the calendar year 1999 period is appropriate.

On a going forward basis, FPL shall use the current year's June cost of capital rates for both the debt and equity components for the projection filing for the upcoming calendar year. The same cost of capital rates for both debt and equity shall be used for the estimated/actual true-up filing and the final true-up filing which represent costs for the same calendar year. The use of the same capital cost rates for the projected period, the estimated/actual period, and the final true-up period should facilitate comparison and explanation of cost variances. The appropriate cost of capital rates are reported on a 13-month average, FPSC-adjusted basis as filed in the monthly Earnings Surveillance Reports filed with the Commission. The relative ratios of capital components are

consistent with the capital structure approved in FPL's last rate case in Order Nos. 13537, issued July 24, 1984, Docket No. 830465-EI, and 13948, issued December 28, 1984, Docket No. 830465-EI.

GULF POWER COMPANY

I. Crist Units 4-7 Ash Pond Diversion Curtains

We approve as reasonable the following the stipulations as to Gulf Power Company's request for recovery of costs of the Crist Units 4-7 Ash Pond Diversion Curtains project through the Environmental Cost Recovery Clause.

The proposed project is a budgeted item to address the potential costs due to new requirements which are expected in the new NPDES permit which will be issued by the FDEP. The estimated O&M cost for the project should be \$66,000. However, if the final permit is not issued by December 31, 1999, or does not contain any of the expected new requirements, then any amount approved for recovery plus interest should be refunded to Gulf's customers in 2000.

Project Description: The proposed project titled "Plant Crist Units 4-7 Ash Pond Diversion Curtains" consists of adding three flow obstructions or curtains to the ash pond. (Memorandum to Rachel Allen Terry from John M. Dominey dated October 22, 1998; Mr. Vick's Deposition Transcript p. 53; Hearing Exhibit No. 20) The new curtains create a maze which is intended to slow the flow of industrial wastewater through the pond. Slowing the effluent provides for more time for suspended solids to precipitate out and settle to the bottom of the pond.

Legally Required: The environmental compliance issue Gulf is addressing is lower quantification limits for metal analysis of the waste water discharges from the Crist ash pond which are expected to be included in the new NPDES permit. The FDEP is expected to issue the permits by year end. (Mr. Vick's Direct Testimony p. 4; Hearing Testimony pg. No. 81; Mr. Vick's Deposition Transcript pp. 26, 28, 29, and 46; Hearing Exhibit No. 20) Gulf has been in the permit renewal process for about two years. (Mr. Vick's Deposition Transcript p. 46; Hearing Exhibit No. 20) Therefore, Gulf should be well-informed of the changes which are likely to appear in the new permit.

However, we find that all costs for this project which are recovered through the ECRC shall be refunded with interest to the ratepayers if the permit is not issued by year-end 1999. In addition, project costs shall be refunded with interest if the issued permit does not contain any of the expected new requirements. Granting cost recovery during 1999 shall be contingent upon the requirement of the incursion of the expenses by an environmental law or regulation as defined in Section 366.8255(1)(c), Florida Statutes. Absent a legal requirement, there are no environmental compliance costs to be allocated to the ratepayers.

Double Recovery: The scope and the costs of this project are defined by changes in technologies and rule changes since Gulf's 1990 rate case test year. (Mr. Vick's Direct Testimony p. 4; Hearing Transcript pg. 81; Mr. Vick's Late-Filed Deposition Exhibit 1; Hearing Exhibit No. 20) Therefore, we find that recovery of the proposed project costs would not cause Gulf to recover the same costs through the ECRC and base rates or any other rate-adjustment clause.

Project Cost Estimate: The estimated cost for the project should be \$66,000 based on the following statement found in a Gulf Power Company internal memorandum to Rachel Allen Terry from John M. Dominey dated October 22, 1998 (Hearing Exhibit No. 20):

When the Plant's Draft NPDES Permit recently came out requiring new MDLs and PQLs for metals, I decided that we needed to budget for the installation of three more curtains that would further lower metals concentrations. The \$100,000 we budgeted in 1999's Capital Budget was based on the one curtain installed in 1994 costing just over \$22,000.

While it is prudent for GULF to budget and plan for potential costs, the estimate in this case is not appropriate for determining projected costs for recovery through the ECRC. Instead, the amount of \$66,000 based on the scope of the proposed project being three times a similar 1994 project with actual costs of approximately \$22,000 is appropriate.

Also, there appears to be a question with respect to whether or not the project should be capitalized. Mr. Vick's direct testimony, page 4, (Hearing Transcript pg. 70) discusses the project as a capital project. However, Ms. Cranmer's revised

November 9, 1998, direct testimony exhibits, Bates stamp pages 3 and 30, (Hearing Exhibit No. 20) indicate the project is an O&M activity. Gulf's response to whether or not the project should be capitalized is found in Late-Filed Deposition Exhibit 11, (Hearing Exhibit No. 20) which states in part:

The ash pond curtains at Plant Crist are not a retirement unit code and should be classified as an expense item. When Gulf filed its projection for 1999, we were in the early stages of the planning cycle and projected that this would be a capital item.

Therefore, we find that all costs approved for recovery for the new ash pond curtains should be reported as an O&M expense rather than as a capital item.

Conclusion: For the reasons stated above, we find that the Crist Units 4-7 Ash Pond Diversion Curtains Project and prudently incurred costs are appropriate for recovery through the ECRC. The estimated O&M cost for the project should be \$66,000 instead of the proposed \$100,000. However, if the final permit is not issued by December 31, 1999 or does not contain any of the expected new requirements, then any amount approved for recovery plus interest shall be refunded to Gulf's customers in the year 2000. This project is expected to be completed in May of 1999. (Ms. Cranmer's Revised November 9, 1998, Direct Testimony Exhibits, Form 42-2P; Hearing Exhibit No. 20)) Final disposition of the costs incurred in this activity will be subject to audit.

Allocation: We approve as reasonable the following stipulation as to the manner in which the newly proposed environmental costs for the Crist Units 4-7 Ash Pond Diversion Curtains project shall be allocated to the rate classes. The costs of the Crist Units 4-7 Ash Pond Diversion Curtains project should be allocated on an energy basis.

II. Plant Smith Unit 1 Low NO_x Burner Tips

We approve as reasonable the following stipulation as to whether it is appropriate for Gulf Power Company to recover costs for low NO_x burner tips on Plant Smith Unit 1 through the Environmental Cost Recovery Clause. This project is substantially the same as the project that was approved by us for Crist Units 4 and 5 in Order No. PSC-98-0803-FOF-EI issued June 9, 1998, Docket No. 980345-EI.

The Clean Air Act Amendments of 1990 (CAAA) imposed stricter environmental standards on electric utility power plants, including new NO_x emission specifications which will become effective in the year 2000 under Title IV Acid Rain Phase II of the CAAA. Specifically, Gulf Power must comply with Phase II Low NO_x rules and regulations under 40 CFR Part 72, 40 CFR Part 76, and Rule 62-214.420(3), Florida Administrative Code. The installation of low NO_x burner tips on Smith Unit 1 is the most cost-effective way in which to achieve compliance with the new standards. Low NO_x burner tips are primarily a low cost option for small boilers. The burner tips have a low installation cost as compared to other available compliance technologies such as full low NO_x burners and selective catalytic reduction. The project to upgrade Smith Unit 1 to incorporate low NO_x burner tips is an operation and maintenance item which includes both material and labor costs. The low NO_x burner tips will be installed on Smith Unit 1 during the Fall 1999 boiler outage.

In order to recover environmental compliance costs through the ECRC, a proposed project must meet the specific criteria listed in Order No. PSC-94-0044-FOF-EI. The three components are as follows: (1) such costs were prudently incurred after April 13, 1993; (2) the activity is legally required to comply with a governmentally imposed environmental regulation enacted, which became effective, or whose effect was triggered after the Company's last test year upon which rates are based, and (3) such costs are not recovered through some other cost recovery mechanism or through base rates. The first threshold is met because the upgrades to incorporate low NO_x burner tips are being performed during a boiler outage in 1999, therefore, the costs for this project will be incurred after the effective date of Section 366.8255, Florida Statutes. The second component of the criteria for recovery is also met because the project is the most cost-effective approach for compliance with Phase II of the CAAA, whose effect was triggered after the Company's last test year upon which rates are based. Finally, the third component of the criterion for recovery is met because the expenses for the upgrade to low NO_x burner tips are not recovered through any other cost recovery mechanism or through base rates.

Allocation: We approve as reasonable the following stipulation as to the manner in which the environmental costs for the low NO_x burner tips on Plant Smith Unit 1 should be allocated to the rate classes. The costs of the low NO_x burner tips on Plant Smith Unit 1 shall be allocated on an energy basis.

III. Purchase Of Additional Mobile Groundwater Treatment System

We approve as reasonable the following stipulation as to whether it is appropriate for Gulf Power Company to recover costs for the purchase of an additional mobile groundwater treatment system through the Environmental Cost Recovery Clause.

The additional mobile groundwater treatment system that Gulf purchased in the last quarter of 1997 has been placed in-service as part of Gulf Power's approved Groundwater Monitoring environmental compliance activity. This activity is associated with the monitoring and remediation of groundwater at numerous substation sites. The Groundwater Monitoring environmental activity was approved for cost recovery through the Environmental Cost Recovery Clause in Order No. PSC-94-0044-FOF-EI which was issued in response to Gulf Power's initial petition seeking to establish the recovery clause for environmental compliance costs. The activity, as originally approved, involved Gulf Power's lease of a mobile groundwater treatment system for use at the Company's Lynn Haven substation site. Gulf's subsequent purchase of the first mobile groundwater treatment system was addressed in Gulf Power's projection filing for the October, 1995, through September, 1996, recovery period which was approved in Order No. PSC-95-1051-FOF-EI, issued July 24, 1995, Docket No. 950007-EI. The original mobile groundwater treatment system is still in-service at the Lynn Haven substation site. The second mobile groundwater treatment system that is the subject of this request was purchased in part because the first system is still in-service and also because greater treatment capacity is needed for other sites. This second trailer is currently in-service at the Company's Fort Walton Beach substation site. The costs associated with the new mobile groundwater treatment system have been prudently incurred after April 13, 1993, and are necessary to comply with governmentally imposed environmental requirements that have become effective after the Company's last test year upon which its base rates were established. These costs are not recovered through any other cost recovery mechanism or through base rates and are therefore appropriate for recovery through the Environmental Cost Recovery Clause.

IV. Adjustment To ECRC For Replaced Fuel Storage Tanks

An issue was raised regarding what adjustment, if any, should be made to the Environmental Cost Recovery Clause to reflect an amount which may be in base rates for the costs of the underground

fuel storage tanks which have been replaced by aboveground fuel storage tanks as reported in Audit Disclosure No. 1 of the Florida Public Service Commission's Environmental Cost Recovery Clause Audit Report for the Period Ended September 30, 1997. We find that no adjustment is necessary at this time. The policy question that underlies this issue should be addressed on a generic basis as part of the workshop that will be held during early 1999 to address the other ECRC policy and procedural questions raised by Staff (i.e. the timing of petitions for new projects and minimum filing requirements). If the parties are unable to resolve this issue by agreement following such workshop, then the issue may be presented to the Commission for resolution in a future proceeding. The parties agree that the retroactive effect of an adjustment, if any, to ECRC recoverable plant investment that may occur as part of the ultimate resolution of this issue will extend back to September 1998.

TAMPA ELECTRIC COMPANY

I. Big Bend Unit 1 Classifier Replacement

We approve Tampa Electric Company's request for recovery of costs of the Big Bend Unit 1 Classifier Replacement project through the Environmental Cost Recovery Clause. The proposed project is a budgeted item to address a reduction of nitrous oxides (NO_x) emissions required by Title IV of the Clean Air Act Amendments of 1990. The project plant-in-service beginning amount for purposes of setting the 1999 factors shall be \$1,217,716.

Project Description: Big Bend Unit 1 has older and smaller style classifiers which are being replaced by the more advanced technologies. (Mr. Nelson's Deposition Transcript pp. 27, 29, 31, 37, 39; Hearing Exhibit No. 19) The new classifiers will ensure that only the appropriate coal particle size goes to the burners. The smaller coal particle size and uniformity are needed to lower NO_x emissions. (Mr. Nelson's Deposition Exhibit 13, pp. 12-14; Hearing Exhibit No. 19) The installation of new classifiers will require modification to the existing coal piping, hangers, and other existing facilities within the vicinity of the coal pulverizers. (Mr. Nelson's Late-Filed Exhibit 14; Mr. Nelson's Deposition Transcript pp. 29, 30; Hearing Exhibit No. 19) However, if the present NO_x reduction efforts cannot meet EPA's limit, TECO may implement other retrofit options such as water injection, over-fire air, and selective catalytic reduction. (Mr. Nelson's Deposition Exhibit 13, pp. 6-7; Hearing Exhibit No. 19) The

project is estimated to be completed by December 1998. (Ms. Zwolak's Deposition Exhibit 2, p. 1; Mr. Nelson's Late-Filed Deposition Exhibit 3; Hearing Exhibit No. 19)

Legally Required: The classifier replacement project is part of TECO's NO_x compliance strategy for Phase II of the CAAA. (Mr. Nelson's Deposition Exhibit 13, pp. 4-7; Hearing Exhibit No. 19)

Double Recovery: TECO believes that all of its projected costs are not being recovered through some other cost recovery mechanism or through base rates. (Ms. Zwolak's Direct Testimony, pp. 9-10; Hearing Transcript pgs. 114-115) However, the scope and costs of this project may include some costs which are included in TECO's base rates and some new costs which are not addressed in TECO's last rate case. The following table indicates the items and amounts which appear to be both in TECO's base rates and in the estimated costs for the Big Bend 1 Classifier Replacement.

Source	Description	Amount
Mr. Nelson's Late-Filed Deposition Exhibit 1; Hearing Exhibit No. 19	In-House Payroll	\$ 139,365
Mr. Nelson's Late-Filed Deposition Exhibit 5; Hearing Exhibit No. 19	Plant-in-Service being replaced	\$ 34,549
	Total downward adjustment for base rates items	\$ 173,914
KOZ-1, Document 4, p. 4, Line 2 (Zwolak testimony 11/12/98); Hearing Exhibit No. 15	Beginning of the period Amount	\$1,391,630
	Total downward adjustment for base rates items	\$ 173,914
Approved Amount	Beginning of the period Amount	\$1,217,716

Therefore, we find that a downward adjustment of \$173,914 to TECO's beginning plant-in-service of \$1,391,630 is appropriate for purposes of setting the 1999 ECRC factors. Absent the adjustment, it appears that TECO may recover the same costs through both base rates and the ECRC.

Project Cost Estimate: As previously stated, a downward adjustment to TECO's beginning plant-in-service is appropriate. The project plant-in-service beginning amount for purposes of setting the 1999 factors should be \$1,217,716. Otherwise, TECO's project cost estimates are reasonable. Mr. Nelson's Deposition Exhibit 13 and Late-Filed Deposition Exhibits 1, 3, 5, 10, and 14 (Hearing Exhibit No. 19) provide summary statements of the detailed reviews TECO has performed supporting its project. As indicated in these documents, alternatives were evaluated and considered with the proposed classifier project being the least cost option.

Conclusion: For the reasons stated above, we find that the Big Bend Unit 1 Classifier Replacement and prudently incurred costs are appropriate for recovery through the ECRC. The beginning plant-in-service amount should be \$1,217,716. Final disposition of the costs incurred in this project will be subject to audit.

OPC and FIPUG took no position on the dollar amounts and did not endorse the stipulated resolution set forth herein.

Allocation: We approve as reasonable the following stipulation as to the allocation of the newly proposed environmental costs for the Big Bend Unit 1 Classifier Replacement project being allocated to the rate classes. The Big Bend Unit 1 Classifier Replacement, which is a project being done to meet the requirements of the Clean Air Amendments of 1990, shall be allocated to the rate classes on an energy basis as set forth in previous orders by this Commission.

II. Big Bend Unit 2 Classifier Replacement

We approve as reasonable the following stipulation as to Tampa Electric Company's request for recovery of costs of the Big Bend Unit 2 Classifier Replacement project through the Environmental Cost Recovery Clause. The proposed project is a budgeted item to address a reduction of NO_x emissions required by Title IV of the Clean Air Act Amendments of 1990. The project plant-in service beginning amount for purposes of setting the 1999 factors shall be \$815,104.

Project Description: Big Bend Unit 2 also has older and smaller style classifiers which are being replaced by the more advanced technologies. (Mr. Nelson's Deposition Transcript pp. 27, 29, 31, 37, 39; Hearing Exhibit No. 19) The new classifiers will ensure that only the appropriate coal particle size goes to the burners. The smaller coal particle size and uniformity are needed to lower NO_x emissions. (Mr. Nelson's Deposition Exhibit 13, pp. 12-14; Hearing Exhibit No. 19) The installation of new classifiers will require modification to the existing coal piping, hangers, and other existing facilities within the vicinity of the coal pulverizers. (Mr. Nelson's Late-Filed Deposition Exhibit 14; Mr. Nelson's Deposition Transcript pp. 29, 30; Hearing Exhibit No. 19) However, if the present NO_x reduction efforts cannot meet EPA's limit, TECO may implement other retrofit options such as water injection, over-fire air, and selective catalytic reduction. (Mr. Nelson's Deposition Exhibit 13, pp. 6-7; Hearing Exhibit No. 19) The project was completed in May of 1998. (Ms. Zwolak's Deposition Exhibit 2, p. 2; Mr. Nelson's Late-Filed Deposition Exhibit 3; Hearing Exhibit No. 19)

Legally Required: The classifier replacement project is part of TECO's NO_x compliance strategy for Phase II of the CAAA. (Mr. Nelson's Deposition Exhibit 13, pp. 4-7; Hearing Exhibit No. 19)

Double Recovery: TECO believes that all of its projected costs are not being recovered through some other cost recovery mechanism or through base rates. (Ms. Zwolak's Direct Testimony, pp. 9-10; Hearing Transcript pgs. 114-115) However, we find that the scope and costs of this project include some costs which are included in TECO's base rates and some new costs which are not addressed in TECO's last rate case. The following table indicates the items and amounts which we find to be both in TECO's base rates and in the estimated costs for the Big Bend Unit 2 Classifier Replacement.

Source	Description	Amount
Mr. Nelson's Late-Filed Deposition Exhibit 1; Hearing Exhibit No. 19	In-House Payroll	\$ 109,676
Mr. Nelson's Late-Filed Deposition Exhibit 5; Hearing Exhibit No. 19	Plant-in service being replaced	\$ 60,290
	Total downward adjustment for base rates items	\$ 169,966
KOZ-1, Document 4, p. 5, Line 2 (Zwolak testimony 11/12/98); Hearing Exhibit No. 15	Beginning of the period Amount	\$ 985,070
	Total downward adjustment for base rates items	\$ 169,966
Approved Amount	Beginning of the period Amount	\$ 815,104

Based on the foregoing, we find a downward adjustment of \$169,290 to TECO's beginning plant-in service of \$985,070 is appropriate for purposes of setting the 1999 ECRC factors. Absent the adjustment, TECO will recover the same costs through both base rates and the ECRC.

Project Cost Estimate: As previously stated, a downward adjustment to TECO's beginning plant-in service is appropriate. The project plant-in service beginning amount for purposes of setting the 1999 factors shall be \$815,104. Otherwise, it appears that TECO's project cost estimates are reasonable. Mr. Nelson's Deposition Exhibit 13 and Late-Filed Deposition Exhibits 1, 3, 5, 10, and 14 (Hearing Exhibit No. 19) provide summary statements of the detailed reviews TECO has performed supporting its project. As indicated in these documents, alternatives were evaluated and considered with the proposed classifier project being the least cost option.

Conclusion: For the reasons stated above, we find the Big Bend Unit 2 Classifier Replacement and prudently incurred costs are appropriate for recovery through the ECRC. The beginning plant-in service amount shall be \$815,104. Final disposition of the costs incurred in this project will be subject to audit.

OPC and FIPUG took no position on the dollar amounts and did not endorse the stipulated resolution set forth herein on the Big Bend Unit 2 Classifier Replacement project.

Allocation: We approve as reasonable the following stipulation as to the allocation to the rate classes of the newly proposed environmental costs for the Big Bend Unit 2 Classifier Replacement project. The Big Bend Unit 2 Classifier Replacement, which is a project being done to meet the requirements of the Clean Air Amendments of 1990, should be allocated to the rate classes on an energy basis as set forth in previous orders by this Commission.

III. Gannon Unit 5 Classifier Replacement

We approve as reasonable the following stipulation as to Tampa Electric Company's request for recovery of costs of the Gannon Unit 5 Classifier Replacement project through the Environmental Cost Recovery Clause. The proposed project is a budgeted item to address a reduction of NO_x emissions required by Title IV of the CAAA. The project plant-in service beginning amount for purposes of setting the 1999 factors should be \$1,129,039.

Project Description: Gannon Unit 5 also has older and smaller style classifiers which are being replaced by the more advanced technologies. (Mr. Nelson's Deposition Transcript pp. 27, 29, 31, 37, 39; Hearing Exhibit No. 19) The new classifiers will ensure that only the appropriate coal particle size goes to the burners. The smaller coal particle size and uniformity are needed to lower NO_x emissions. (Mr. Nelson's Deposition Exhibit 13, pp. 12-14; Hearing Exhibit No. 19) The installation of new classifiers will require modification to the existing coal piping, hangers, and other existing facilities within the vicinity of the coal pulverizers. (Mr. Nelson's Late-Filed Deposition Exhibit 14; Mr. Nelson's Deposition Transcript pp. 29, 30; Hearing Exhibit No. 19) However, if the present NO_x reduction efforts cannot meet EPA's limit, TECO may implement other retrofit options such as water injection, over-fire air, and selective catalytic reduction. (Mr. Nelson's Deposition Exhibit 13, pp. 6-7; Hearing Exhibit No. 19) The project was completed in December 1997. (Ms. Zwolak's

Deposition Exhibit 2, p. 3; Mr. Nelson's Late-Filed Deposition Exhibit 3; Hearing Exhibit No. 19)

Legally Required: The classifier replacement project is part of TECO's NO_x compliance strategy for Phase II of the CAAA. (Mr. Nelson's Deposition Exhibit 13, pp. 4-7; Hearing Exhibit No. 19)

Double Recovery: TECO believes that all of its projected costs are not being recovered through some other cost recovery mechanism or through base rates. (Ms. Zwolak's Direct Testimony, pp. 9-10; Hearing Transcript pgs. 114-115) However, we find the scope and costs of this project include some costs which are included in TECO's base rates and some new costs which are not addressed in TECO's last rate case. The following table indicates the items and amounts which appear to be both in TECO's base rates and in the estimated costs for the Gannon Unit 5 Classifier Replacement.

Source	Description	Amount
Mr. Nelson's Late-Filed Deposition Exhibit 1; Hearing Exhibit No. 19	In-House Payrol ¹	\$ 130,368
Mr. Nelson's Late-Filed Deposition Exhibit 14; Hearing Exhibit No. 19	Plant-in service being replaced Ball mill recharge	\$ 81,116
Mr. Nelson's Late-Filed Deposition Exhibit 5; Hearing Exhibit No. 19	Plant-in service being replaced	\$ 18,517
	Total downward adjustment for base rates items	\$ 230,001
KOZ-1, Document 4, p. 6, Line 2 (Zwolak testimony 11/12/98); Hearing Exhibit No. 15	Beginning of the period Amount	\$1,359,040
	Total downward adjustment for base rates items	\$ 230,001

Source	Description	Amount
Approved Amount	Beginning of the period Amount	\$1,129,039

Therefore, we find a downward adjustment of \$230,001 to TECO's beginning plant-in service of \$1,359,040 is appropriate for purposes of setting the 1999 ECRC factors. Absent the adjustment, it appears that TECO will recover the same costs through both base rates and the ECRC.

Project Cost Estimate: As previously stated, a downward adjustment to TECO's beginning plant-in service is appropriate. The project plant-in service beginning amount for purposes of setting the 1999 factors should be \$1,129,039. Otherwise, we find TECO's project cost estimates are reasonable. Mr. Nelson's Deposition Exhibit 13 and Late-Filed Deposition Exhibits 1, 3, 5, 10, and 14 (Hearing Exhibit No. 19) provide summary statements of the detailed reviews TECO has performed supporting its project. As indicated in these documents, alternatives were evaluated and considered with the proposed classifier project being the least cost option.

Conclusion: For the reasons stated above, we find the Gannon Unit 5 Classifier Replacement and prudently incurred costs are appropriate for recovery through the ECRC. The beginning plant-in service amount shall be \$1,129,039. Final disposition of the costs incurred in this project will be subject to audit.

OPC and FIPUG took no position on the dollar amounts and did not endorse the stipulated resolution set forth herein on the Gannon Unit 5 Classifier Replacement project.

Allocation: We approve as reasonable the following stipulation as to the allocation to the rate classes of the newly proposed environmental costs for the Gannon Unit 5 Classifier Replacement project. The Gannon Unit 5 Classifier Replacement, which is a project being done to meet the requirements of the Clean Air Amendments of 1990, shall be allocated to the rate classes on an energy basis as set forth in previous orders by this Commission.

IV. Gannon Unit 6 Classifier Replacement

We approve as reasonable the following stipulation as to Tampa Electric Company's request for recovery of costs of the Gannon Unit 6 Classifier Replacement project through the Environmental Cost Recovery Clause. The proposed project is a budgeted item to address a reduction of NO_x emissions required by Title IV of the Clean Air Act Amendments of 1990. The project plant-in service beginning amount in June of 1999 for purposes of setting the 1999 factors shall be \$1,318,752.

Project Description: Gannon Unit 6 also has older and smaller style classifiers which are being replaced by the more advanced technologies. (Mr. Nelson's Deposition Transcript pp. 27, 29, 31, 37, 39; Hearing Exhibit No. 19) The new classifiers will ensure that only the appropriate coal particle size goes to the burners. The smaller coal particle size and uniformity are needed to lower NO_x emissions. (Mr. Nelson's Deposition Exhibit 13, pp. 12-14; Hearing Exhibit No. 19) The installation of new classifiers will require modification to the existing coal piping, hangers, and other existing facilities within the vicinity of the coal pulverizers. (Mr. Nelson's Late-Filed Deposition Exhibit 14; Mr. Nelson's Deposition Transcript pp. 29, 30; Hearing Exhibit No. 19) However, if the present NO_x reduction efforts cannot meet EPA's limit, TECO may implement other retrofit options such as water injection, over-fire air, and selective catalytic reduction. (Mr. Nelson's Deposition Exhibit 13, pp. 6-7; Hearing Exhibit No. 19) The project is expected to be completed in June 1999. (Ms. Zwolak's Deposition Exhibit 2, p. 4; Mr. Nelson's Late-Filed Deposition Exhibit 3; Hearing Exhibit No. 19)

Legally Required: The classifier replacement project is part of TECO's NO_x compliance strategy for Phase II of the CAAA. (Mr. Nelson's Deposition Exhibit 13, pp. 4-7; Hearing Exhibit No. 19)

Double Recovery: TECO believes that all of its projected costs are not being recovered through some other cost recovery mechanism or through base rates. (Ms. Zwolak's Direct Testimony, pp. 9-10; Hearing Transcript pgs. 114-115) However, the scope and costs of this project include some costs which are included in TECO's base rates and some new costs which are not addressed in TECO's last rate case. The following table indicates the items and amounts which staff believes to be both in TECO's base rates and in the estimated costs for the Gannon Unit 5 Classifier Replacement.

Source	Description	Amount
Mr. Nelson's Late-Filed Deposition Exhibit 1; Hearing Exhibit No. 19	In-House Payroll	\$ 160,568
Mr. Nelson's Late-Filed Deposition Exhibit 5; Hearing Exhibit No. 19	Plant-in service being replaced	\$ 27,797
	Total downward adjustment for base rates items	\$ 188,365
KOZ-1, Document 4, p. 7, Line 2 (Zwolak testimony 11/12/98); Hearing Exhibit No. 15	June 1999 Plant-in service Estimated Amount	\$1,507,117
	Total downward adjustment for base rates items	\$ 188,365
Approved Amount	June 1999 Plant-in service Estimated Amount	\$1,318,752

Therefore, we find a downward adjustment of \$188,365 to TECO's estimated June 1999 plant-in service of \$1,507,117 is appropriate for purposes of setting the 1999 ECRC factors. Absent the adjustment, it appears that TECO will recover the same costs through both base rates and the ECRC.

Project Cost Estimate: As previously stated, a downward adjustment to TECO's estimated plant-in service is appropriate. The estimated June 1999 plant-in service amount for purposes of setting the 1999 factors shall be \$1,318,752. Otherwise, TECO's project cost estimates are reasonable. Mr. Nelson's Deposition Exhibit 13 and Late-Filed Deposition Exhibits 1, 3, 5, 10, and 14 provide summary statements of the detailed reviews TECO has performed supporting its project. As indicated in these documents, alternatives were evaluated and considered with the proposed classifier project being the least cost option.

Conclusion: For the reasons stated above, we find the Gannon Unit 6 Classifier Replacement and prudently incurred costs are appropriate for recovery through the ECRC. The estimated June, 1999, plant-in service amount should be \$1,318,752. Final disposition of the costs incurred in this project will be subject to audit.

OPC and FIPUG took no position on the dollar amounts and did not endorse the stipulated resolution of the Gannon Unit 6 Classifier Replacement project.

Allocation: We approve as reasonable the following stipulation as to the allocation to the rate classes of the newly proposed environmental costs for the Gannon Unit 6 Classifier Replacement project. The Gannon Unit 6 Classifier Replacement, which is a project being done to meet the requirements of the Clean Air Amendments of 1990, shall be allocated to the rate classes on an energy basis as set forth in previous orders by this Commission.

V. Gannon Coal Crushers

The proposed project is a budgeted item to address increased operational costs due to using PRB coal. The project contributes to an overall reduction of NO_x emissions as required by Title IV of the CAAA. The project estimated plant-in service amount for purposes of setting the 1999 factors is \$3,953,481 for July, 1999.

Project Description: The Gannon Coal Crusher Addition project is the addition of two crushers at the Gannon Station. (Mr. Nelson's Deposition Exhibit 14, pp. 8-9; Mr. Nelson's Deposition Exhibit 13, pp. 16; Hearing Exhibit No. 19) The additional crushers will be located in the Gannon Station Coalfield. (Mr. Nelson's Deposition Exhibit 14, pp. 8-9; Mr. Nelson's Deposition Transcript pp. 51; Mr. Nelson's Deposition Exhibit 13, pp. 16; Hearing Exhibit No. 19) The project is expected to be completed in July, 1999. (Ms. Zwolak's Deposition Exhibit 2, p. 5; Hearing Exhibit No. 19)

Legally Required: We do not know if the additional Gannon coal crushers were initially intended as part of TECO's overall NO_x compliance strategy for Phase II of the CAAA. At deposition, Mr. Nelson was asked to read TECO's internal program scope approval for this project. TECO's program scope approval listed the consequences of not adding additional Gannon coalfield crushers. (Mr. Nelson's Deposition Transcript, p. 59; Hearing Exhibit No.

19) The items listed as short-term and long-term consequences of not implementing the project were extended bunkering times due to capacity deficiencies, poor combustion, loss of class revenue, risk of fires due to finding shortfalls (LOI), and excessive maintenance on crushers and ash handling equipment. There was no mention of noncompliance with the CAAA. (Mr. Nelson's Deposition Transcript, p. 59; Hearing Exhibit No. 19) In addition, the extent to which TECO will continue to use PRB coal at Gannon is uncertain because TECO's PRB coal purchases through September, 1998, have been 100% spot purchases. (Mr. Nelson's Late-Filed Deposition Exhibit 12, p. 6; Hearing Exhibit No. 19)

However, it appears that additional crushers at the Gannon Station will contribute in the overall efforts to achieve lower NO_x emissions if TECO continues to use PRB coal at Gannon. This is because TECO will be able to better control NO_x emissions and maintain unit efficiency while continuing to use PRB coal at the Gannon Station. (Mr. Nelson's Deposition Transcript, pp. 207-209; Mr. Nelson's Deposition Exhibit 13, p. 16; Hearing Exhibit No. 19)

Double Recovery: TECO believes that all of its projected costs are not being recovered through some other cost recovery mechanism or through base rates. (Ms. Zwolak's Direct Testimony, pp. 9-10; Hearing Transcript pgs. 114-115) However, the scope and costs of this project appear to include some costs which are included in TECO's base rates and some new costs which are not addressed in TECO's last rate case. The following table indicates the items and amounts which appear to be both in TECO's base rates and in the estimated costs for the Gannon Coal Crusher Addition.

Source	Description	Amount
Mr. Nelson's Late-Filed Deposition Exhibit 1; Hearing Exhibit No. 19	In-House Payroll	\$ 110,521
	Total downward adjustment for base rates items	\$ 110,521
KOZ-1, Document 4, p. 10, Line 2 (Zwolak testimony 11/12/98); Hearing Exhibit No. 15	July 1999 Plant-in service Estimated Amount	\$4,064,002
	Total downward adjustment for base rates items	\$ 110,521
Approved Amount	July 1999 Plant-in service Estimated Amount	\$3,953,481

Based on the foregoing, a downward adjustment of \$110,521 to TECO's estimated July, 1999, plant-in service of \$4,064,002 is appropriate for purposes of setting the 1999 ECRC factors. Absent the adjustment, it appears that TECO will recover the same costs through both base rates and the ECRC.

Project Cost Estimate: As previously stated, a downward adjustment to TECO's estimated plant-in service is appropriate. The estimated July, 1999, plant-in service amount for purposes of setting the 1999 factors shall be \$3,953,481. Otherwise, TECO's project cost estimates are reasonable. Mr. Nelson's Deposition Exhibit 13 and Late-Filed Deposition Exhibits 1, 6, 10, and 14 (Hearing Exhibit No. 19) provide summary statements of the detailed reviews TECO has performed supporting its project. As indicated in these documents, alternatives were evaluated and considered with the proposed crusher project being the least cost option.

Conclusion: For the reasons stated above, we find that the Gannon Coal Crusher Addition and prudently incurred costs are appropriate for recovery through the ECRC. The estimated July, 1999, plant-in service amount shall be \$3,953,481. Final

disposition of the costs incurred in this project will be subject to audit.

OPC and FIPUG took no position on the dollar amounts and did not endorse stipulated resolution of the Gannon Coal Crusher Addition.

Allocation: We approve as reasonable the following stipulation as to the allocation to the rate classes of the newly proposed environmental costs for the Gannon Coal Crusher project. The Gannon Coal Crusher, which is a project being done to meet the requirements of the Clean Air Amendments of 1990, shall be allocated to the rate classes on an energy basis as set forth in previous orders by this Commission.

VI. Gannon Unit 5 Stack Extensions

We approve as reasonable the following stipulation as to Tampa Electric Company's request for recovery of costs of the Gannon Unit 5 Stack Extensions project through the Environmental Cost Recovery Clause. The proposed project is a budgeted item to address Ambient Air Quality Standards for sulfur dioxide (SO₂) emissions which were discovered during an air operating permit application review by the FDEP. The air operating permit is required by Title V of the CAAA. A downward adjustment to TECO's actual plant-in service for in-house payroll expenses is appropriate. However, no adjustment should be made at this time for purposes of setting the 1999 factors.

Project Description: TECO is proposing to increase the stack height of Gannon Unit 5 by 46 feet. The existing stack will be structurally reinforced to support the additional weight of the extensions. The increased stack height will increase the dispersion of emissions over a larger area. The improved dispersion decreases SO₂ ground level concentrations. (Mr. Nelson's Deposition Exhibit 13, pp. 17-19; Hearing Exhibit No. 19) The project is not estimated to be completed by December of 1999. (Ms. Zwolak's November 23, 1998, Revised Direct Testimony Exhibit KOZ-1, Document 4, p. 8; Hearing Exhibit No. 15)

Legally Required: In a September 30, 1998, letter, TECO was informed by FDEP that there was a potential for the Gannon Station SO₂ emissions to exceed federal and state Ambient Air Quality Standards. (Mr. Nelson's Late-Filed Deposition Exhibit 8, p. 2; Hearing Exhibit No. 19) In the letter, FDEP explains that the

finding occurred during the Department's review of the Gannon Station CAAA Title V Air Operating Permit. TECO reviewed various mitigation options and selected the lowest cost option. (Mr. Nelson's Deposition Exhibit 13, pp. 17-18; Hearing Exhibit No. 19) TECO indicates that FJEP agrees with TECO's approach to meeting the SO₂ emission requirements. (Mr. Nelson's Deposition Exhibit 13, p. 17; Hearing Exhibit No. 19)

Double Recovery: TECO believes that all of its projected costs are not being recovered through some other cost recovery mechanism or through base rates. (Ms. Zwolak's Direct Testimony, pp. 9-10; Hearing Transcript pgs. 114-115) However, it appears that the scope and costs of this project include some costs which are being recovered through TECO's base rates and some new costs which are not addressed in TECO's last rate case. The costs which are already being recovered through base rates are the in-house payroll expenses. Current estimates by TECO show \$28,525 for in-house payroll has been included in the total project estimate. (Mr. Nelson's Late-Filed Deposition Exhibit 1: "In-House Payroll" expenses for Gannon Unit 5 and Gannon Unit 6 were transposed in this exhibit; Hearing Exhibit No. 19) Therefore, a downward adjustment to TECO's actual plant-in service is appropriate. Absent the adjustment, it appears that TECO will recover the same costs through both base rates and the ECRC.

Project Cost Estimate: As previously stated, a downward adjustment to TECO's plant-in service is appropriate. However, no adjustment for in-house payroll should be made for the current projection period because the project will not be completed until a subsequent ECRC period. TECO's request for cost recovery for this project for calendar year 1999 consists of construction work in progress (CWIP). Otherwise, TECO's project cost estimates are reasonable. Mr. Nelson's Deposition Exhibit 13 and Late-Filed Deposition Exhibits 1, 8, 9, and 14 (Hearing Exhibit No. 19) provide summary statements of the detailed reviews TECO has performed supporting their project. As indicated in these documents, alternatives were evaluated and considered with the proposed stack extension project being the least cost option.

Conclusion: For the reasons stated above, we find the Gannon Unit 5 Stack Extension and prudently incurred costs are appropriate for recovery through the ECRC. However, TECO should not recover in-house payroll expenses for this project through the ECRC because those expenses are being recovered through TECO's base rates.

Final disposition of the costs incurred in this project will be subject to audit.

OPC and FIPUG took no position on the dollar amounts and did not endorse the stipulated resolution of the Gannon Unit 5 Stack Extension project.

Allocation: We approve as reasonable the following stipulation as to the allocation to the rate classes of the newly proposed environmental costs for the Gannon Unit 5 Stack Extensions project. The Gannon Unit 5 Stack Extensions, which is a project being done to meet the requirements of the CAAA, shall be allocated to the rate classes on an energy basis as set forth in previous orders by this Commission.

VII. Gannon Unit 6 Stack Extensions

We approve as reasonable the following stipulation as to Tampa Electric Company's request for recovery of costs of the Gannon Unit 6 Stack Extensions project through the Environmental Cost Recovery Clause. The proposed project is a budgeted item to address Ambient Air Quality Standards for SO₂ emissions which became apparent during an air operating permit application review by the FDEP. The air operating permit is required by Title V of the CAAA. The project's estimated plant-in service amount for purposes of setting the 1999 factors shall be \$759,719 for December, 1999.

Project Description: TECO is proposing to increase the stack height of Gannon Unit 6 by 46 feet. The existing stack will be structurally reinforced to support the additional weight of the extensions. The increased stack height will increase the dispersion of emissions over a larger area. The improved dispersion decreases SO₂ ground level concentrations. (Mr. Nelson's Deposition Exhibit 13, pp. 17-18; Hearing Exhibit No. 19) The project is estimated to be completed by December, 1999. (Ms. Zwolak's November 23, 1998, Revised Direct Testimony Exhibit KOZ-1, Document 4, p. 9; Hearing Exhibit No. 15)

Legally Required: In a September 30, 1998, letter, TECO was informed by FDEP that there was a potential for the Gannon Station SO₂ emissions to exceed federal and state Ambient Air Quality Standards. (Mr. Nelson's Late-Filed Deposition Exhibit 8, pp. 2; Hearing Exhibit No. 19) In the letter, FDEP explains that the finding occurred during the Department's review of the Gannon Station CAAA Title V Air Operating Permit. TECO reviewed various

mitigation options and selected the lowest cost option. (Mr. Nelson's Deposition Exhibit 13, pp. 17-18; Hearing Exhibit No. 19) TECO indicates that FDEP agrees with TECO's approach to meeting the SO₂ emission requirement. (Mr. Nelson's Deposition Exhibit 13, p. 17; Hearing Exhibit No. 19)

Double Recovery: TECO believes that all of its projected costs are not being recovered through some other cost recovery mechanism or through base rates. (Ms. Zwolak's Direct Testimony, pp. 9-10; Hearing Transcript pgs. 114-115) However, it appears that the scope and costs of this project include some costs which are being recovered through TECO's base rates and some new costs which are not addressed in TECO's last rate case. The following table indicates the items and amounts which appear to be both in TECO's base rates and in the estimated costs for the Gannon Unit 6 stack extension. (The "In-House Payroll" expenses for Gannon Unit 5 and Gannon Unit 6 have been transposed in Mr. Nelson's Late-Filed Exhibit 1; Hearing Exhibit No. 19. The December 1999 plant-in service and CWIP amounts have been transposed in Ms. Zwolak's November 12, 1998 Revised Testimony, KOZ-1, Document 4, p. 9; Hearing Exhibit No 15.)

Source	Description	Amount
Mr. Nelson's Late-Filed Deposition Exhibit 1; Hearing Exhibit No. 19	In-House Payroll	\$ 26,661
	Total downward adjustment for base rates items	\$ 26,661
KOZ-1, Document 4, p. 9, Line 4 (Zwolak testimony 11/12/98); Hearing Exhibit No. 15	December 1999 Plant-in service Estimated Amount	\$ 786,380
	Total downward adjustment for base rates items	\$ 26,661
Approved Amount	December 1999 Plant-in service Estimated Amount	\$ 759,719

Based on the foregoing, we find that a downward adjustment of \$26,661 to TECO's estimated December 1999 plant-in service of \$786,380 is appropriate. Absent the adjustment, it appears that TECO will recover the same costs through both base rates and the ECRC.

Project Cost Estimate: As previously stated, a downward adjustment to TECO's beginning plant-in service is appropriate. The project estimated December, 1999, plant-in service amount for purposes of setting the 1999 factors should be \$759,719. Otherwise, TECO's project cost estimates are reasonable. Mr. Nelson's Deposition Exhibit 13 and Late-Filed Deposition Exhibits 1, 8, 9, and 14 (Hearing Exhibit No. 19) provide summary statements of the detailed reviews TECO has performed supporting their project. As indicated in these documents, alternatives were evaluated and considered with the proposed stack extension project being the least cost option.

Conclusion: For the reasons stated above, we find that the Gannon Unit 6 Stack Extension and prudently incurred costs are appropriate for recovery through the ECRC. The estimated December, 1999, plant-in service amount shall be \$759,719. Final disposition of the costs incurred in this project will be subject to audit.

OPC and FIPUG took no position on the dollar amounts and did not endorse the stipulated resolution of the Gannon Unit 6 Stack Extension project.

Allocation: We approve as reasonable the following stipulation as to the allocation to the rate classes of the newly proposed environmental costs for the Gannon Unit 6 Stack Extensions project. The Gannon Unit 6 Stack Extensions, which is a project being done to meet the requirements of the CAAA shall be allocated to the rate classes on an energy basis as set forth in previous orders by this Commission.

VIII. National Pollutant Discharge Elimination System Surveillance Fees

We approve as reasonable the following stipulation as to Tampa Electric Company's request for recovery of costs of the National Pollutant Discharge Elimination System (NPDES) Annual Surveillance Fees through the Environmental Cost Recovery Clause. Tampa Electric Company's request to recover the cost of the NPDES Annual Surveillance Fees through the ECRC are approved. These fees are

paid to the FDEP pursuant to Rule 62-4.052, Florida Administrative Code.

Project Description: These are annual surveillance fees paid to the FDEP associated with TECO's Big Bend, Gannon, Hookers Point, and Sebring Stations. (Ms. Zwolak's Deposition Exhibit 2, p. 10; Hearing Exhibit No. 19)

Legally Required: Chapter 62-4.052, Florida Administrative Code implements the annual regulatory program and annual surveillance fees for wastewater permits. These fees are in addition to the application fees described in Rule 62-4.050, Florida Administrative Code. (Ms. Zwolak's Deposition Exhibit 2, p. 10; Hearing Exhibit No. 19)

Double Recovery: All costs requested for recovery are projected for the period beginning January, 1999. (Ms. Zwolak's Deposition Exhibit 2, p. 10; Hearing Exhibit No. 19) Therefore, the costs requested for recovery will be incurred after the effective date of Section 366.8255, Florida Statutes. In addition, the rule which requires payment of these surveillance fees was promulgated in 1995 and became effective in 1996. Both of these dates are subsequent to TECO's last rate case in 1992. (Ms. Zwolak's Deposition Exhibit 2, p. 10; Hearing Exhibit No. 19) Therefore, it appears that the costs projected for this proposed project are not being recovered through some other cost recovery mechanism or through base rates.

Project Cost Estimate: TECO has requested recovery of \$55,200 of prospective O&M expenses projected to be incurred in calendar year 1999. (Ms. Zwolak's November 12, 1998, Revised Direct Testimony, KOZ-1, Document 2; Hearing Exhibit No. 15; Ms. Zwolak's Deposition Exhibit 2, p. 10; Hearing Exhibit No. 19)

Conclusion: For the reasons stated above, we find the NPDES Surveillance Fees activity and prudently incurred costs are appropriate for recovery through the ECRC. Final disposition of the costs incurred in this project will be subject to audit.

OPC and FIPUG took no position on the dollar amounts and did not endorse the stipulated resolution the NPDES fees.

Allocation: We approve as reasonable the following stipulation as to the allocation to the rate classes of the newly proposed environmental costs for the NPDES Annual Surveillance Fees. The NPDES Annual Surveillance Fees shall be allocated to the rate

classes on a demand basis as specified in TECO's last cost of service study which was approved in its last rate case.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that utilities' return on equity for purposes of cost recovery under the Environmental Cost Recovery Clause shall continue to be calculated in the manner set forth in Order No. PSC-94-0044-FOF-EI, issued January 12, 1994, Docket No. 930613-EI. It is further

ORDERED that the stipulations set forth in the body of this Order are hereby approved. It is further

ORDERED that Florida Power & Light Company, Gulf Power Company, and Tampa Electric Company shall apply the environmental cost recovery factors set forth herein during the period January 1, 1999, through December 31, 1999, and until such factors are modified by subsequent Order. It is further

ORDERED that the estimated true-up amounts contained in the environmental cost recovery factors approved herein are hereby authorized, subject to final true-up, and further subject to proof of the reasonableness and prudence of the expenditures upon which the amounts are based. It is further

ORDERED that Florida Power & Light Company's Wastewater/Stormwater Discharge Elimination project and prudently incurred costs are appropriate for recovery through the Environmental Cost Recovery Clause as set forth herein. It is further

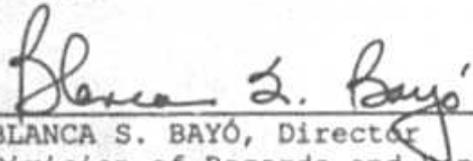
ORDERED that Gulf Power Company's Plant Crist Units 4 - 7 Ash Pond Diversion Curtains project, Plant Smith Unit 1 Low NO_x Burner Tips project, and Additional Mobile Groundwater Treatment System project and prudently incurred costs are appropriate for recovery through the Environmental Cost Recovery Clause as set forth herein. It is further

ORDERED that Tampa Electric Company's Big Bend Unit 1 Classifier Replacement project, Big Bend Unit 2 Classifier Replacement project, Gannon Unit 5 Classifier Replacement project, Gannon Unit 6 Classifier Replacement project, Gannon Coal Crushers project, Gannon Unit 5 Stack Extension project, Gannon Unit 6 Stack Extension project, and National Pollutant Discharge Elimination

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System Surveillance Fees project and prudently incurred costs are appropriate for recovery through the Environmental Cost Recovery Clause as set forth herein.

By ORDER of the Florida Public Service Commission this 31st day of December, 1998.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32309-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.