

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for approval of) DOCKET NO. 960688-EI
certain environmental compliance) ORDER NO. PSC-96-1048-FOF-EI
activities for purposes of cost) ISSUED: August 14, 1996
recovery by Tampa Electric)
Company.)
_____)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
J. TERRY DEASON
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING RECOVERY OF ENVIRONMENTAL
COMPLIANCE ACTIVITIES BY TAMPA ELECTRIC COMPANY

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

On May 31, 1996, Tampa Electric Company (TECO) filed a petition for approval of certain environmental compliance activities for purposes of cost recovery through the Environmental Cost Recovery Clause (ECRC) pursuant to Section 366.8255, Florida Statutes. TECO requests that an environmental cost recovery factor be established for the October 1996 through March 1997 billing period in order to recover environmental compliance costs for the June 1996 through March 1997 projection period.

In Order No. PSC-96-0670-S-EI, issued on May 20, 1996, we approved a stipulation resolving issues regarding TECO's overearnings and the disposition of those overearnings for the period 1995 through 1998. As part of that stipulation, TECO agreed not to use the various recovery clauses to recover capital items that normally would be recovered through base rates. However, TECO would be allowed to recover prudently incurred expenditures made to comply with environmental laws and regulations through the ECRC. TECO further agreed that, during the term of the stipulation, the

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ECRC would not be used to recover any of the costs relating to Polk Power Station, except costs attributable to changes in environmental laws or regulations or any change in the application or enforcement thereof occurring after October 15, 1996. The three environmental compliance activities included in TECO's petition do not include environmental costs associated with the Polk Power Station.

The three compliance activities included in TECO's petition are shown in Attachment I. TECO's projected costs for these activities, for the period June 1996 through March 1997, total \$2,788,832 (jurisdictional, adjusted for taxes). Page one of Attachment I shows the revenue requirements resulting from capital and O&M expenditures for each activity. Page two shows the calculation of the Environmental Cost Recovery Factor. A brief description of each of the environmental compliance activities follows.

Big Bend Unit 3 Flue Gas Desulfurization Integration

This project allows for scrubbing of the flue gas from Big Bend Unit 3 by taking advantage of the existing Big Bend Unit 4 Flue Gas Desulfurization system capabilities. This project includes capital costs for modifications to the existing Big Bend Unit 4 system as well as operation and maintenance costs. TECO requests approval to recover a total of \$2,079,257 (jurisdictional) for this project for the current projection period. This total includes \$922,541 in capital costs and \$1,156,716 in O&M expenses.

This project satisfies the requirements of both Phase I and Phase II of the Clean Air Act Amendments of 1990 (CAAA). TECO had previously chosen fuel blending with lower sulfur coal as the most cost effective option for Phase I compliance and had anticipated the need for a new flue gas desulfurization system on Big Bend Unit 3 by the year 2000 for Phase II compliance. Based on TECO's system revenue requirement analysis, implementing the integration project in 1995 compared to delaying this integration results in a net savings of \$34.2 million (in 1994 dollars). Based on review of this analysis, we believe this project is a cost effective alternative for compliance with the CAAA. Finally, TECO maintains that the costs of this project are not presently recovered in base rates or any other cost recovery mechanism. These costs will be addressed in the audit for the true-up period.

Big Bend Units 1 & 2 Flue Gas Conditioning

TECO requests recovery of \$634,802 (jurisdictional) in the current projection period, including \$564,602 in capital costs and

\$70,200 in O&M expenses, for the project entitled Big Bend Units 1 & 2 Flue Gas Conditioning. This project is also necessary to meet requirements of the CAAA. In order to meet the SO₂ emissions reductions called for by the CAAA, TECO chose fuel blending with low sulfur coals as the most cost effective option at Big Bend Units 1 & 2. Since the analysis supported the continued use of low sulfur fuel blending at Units 1 & 2, TECO had to consider alternatives for correcting the resulting loss of efficiency of the current precipitators in the removal of flyash from the exhaust gases. This loss in precipitator efficiency is due to the different fly ash characteristics of various lower sulfur coals compared to the higher sulfur coals for which the precipitators were originally designed. After considering both the costs and the impacts of the alternatives of installing bag houses, larger electrostatic precipitators, and flue gas conditioning, TECO chose flue gas conditioning at Big Bend Units 1 & 2 as the most cost effective and reliable option for compliance. According to TECO, the costs of this project are not presently recovered in base rates or through any other cost recovery mechanism.

Big Bend Unit 4 Continuous Emissions Monitoring Installation

As a result of the CAAA, stricter requirements were imposed concerning Continuous Emissions Monitoring systems (CEMs) in 40 CFR 75. TECO undertook the project entitled Big Bend Unit 4 CEM Installation to meet the more stringent requirements. Big Bend Unit 4 was considered a Phase II boiler; therefore, these new requirements had to be met by January 1, 1995. TECO maintains that modification of the existing system was impractical due to the specificity of the requirements and that the installed system was the only one the company believed could be installed and certified in time to meet these regulations. Therefore, TECO contends that the company had no other options by which to compare the prudence of the project chosen.

TECO requests recovery of \$72,452 (jurisdictional) in the current projection period which consists solely of capital costs. These capital costs include the costs of materials and subcontracted services. Since O & M costs for the old CEM system are already included in base rates and the O&M costs for the new system are expected to be similar, TECO is not requesting recovery of any incremental O&M expenses through the ECRC. The net book value of the CEMs that these new CEMs replaced is currently being recovered through base rates and is shown as a deduction from the net investment for this new CEM project. The costs of the new CEM project are not presently recovered in base rates or through any other cost recovery mechanism.

In Order No. PSC-94-0044-FOF-EI we established the following criteria for allowing cost recovery through the ECRC: (1) The costs were prudently incurred after April 13, 1993; (2) The activity is legally required to comply with a governmentally imposed environmental regulation enacted, became effective, or whose effect was triggered after the company's last test year upon which rates are based; and (3) The costs are not recovered through some other cost recovery mechanism or through base rates. Upon consideration, we find that the costs associated with the three projects discussed above appear to meet these criteria. Thus, we approve TECO's request for cost recovery of these projects through the ECRC.

We note that TECO inadvertently omitted SO₂ Emission Allowances from its petition filed in this docket. TECO is currently recovering these costs and revenues through the Fuel and Purchased Power Cost Recovery Clause. In Order No. PSC-95-0450-FOF-EI, we directed that costs for emission allowances should be removed from the fuel clause and placed in the Environmental Cost Recovery Clause upon a company's participation in the Environmental Cost Recovery Clause. Instead of submitting a revised filing to correct this oversight, TECO will include SO₂ Emission Allowances in its next projection filing for the April 1997 through September 1997 period. At that time, TECO will also remove this item from the Fuel and Purchased Power Cost Recovery Clause.

The appropriate Environmental Cost Recovery Factors for the period October 1996 through March 1997 for each rate group are shown below. These factors were calculated based on TECO's projected sales for the period October 1996 through March 1997 and TECO's projected cost data for the period June 1996 through March 1997. These factors will be reflected in the upcoming biannual ECRC hearing on August 29, 1996. Page 2 of Attachment I shows the calculation of the factors.

Rate Class	Factor (cents per kWh)
RS, RST	0.041
GS, GST, TS	0.041
GSD, GSDT	0.041
GSLD, GSLDT, SBF	0.040
IS1, IST1, SBI1, SBIT1, IS3, IST3, SBI3, SBIT3	0.039
SL, OL	0.041

The factors shall be effective beginning with the specified environmental cost recovery cycle and thereafter for the period October 1996 through March 1997. Billing cycles may start before October 1, 1996, and the last cycle may be read after March 31, 1997, so that each customer is billed for six months regardless of when the adjustment factor became effective.

The projected environmental costs should be allocated to the rate classes on an energy (per kilowatt hour) basis. This treatment is consistent with our Order No. PSC-94-0044-FOF-EI.

With respect to the rates of return for the recovery of capital investment costs associated with the three projects, we find that 2.82% is the appropriate weighted rate of return for the debt component and 8.82% is the appropriate weighted rate of return for the equity component. These returns are reported on a 13-month average, FPSC adjusted basis consistent with the capital structure approved in TECO's last rate case. The debt component return is based on the cost rates approved in Order No. PSC-93-0165-FOF-EI. The equity component return is based on the allowed return on equity of 11.75% approved in Order No. PSC-95-0580-FOF-EI and the cost rate for preferred stock approved in Order No. PSC-93-0165-FOF-EI. The methodology used to calculate the component returns is consistent with the methodology we approved in Order No. PSC-94-0044-FOF-EI for Gulf Power Company.

Finally, we direct that the time for requesting a Section 120.57 hearing shall be 14 days from the issuance of this Order. Pursuant to Rule 25-22.029(4), Florida Administrative Code, any person whose substantial interests are affected by the proposed agency action has 21 days to file a request for a section 120.57 hearing. For good cause shown, the time for requesting a section 120.57 hearing shall be shortened to 14 days.

Having approved TECO's request for recovery of environmental compliance activities through the ECRC, the resulting factors will be included at the upcoming fuel/ECRC hearing to be held on August 29, 1996. A 14-day protest period will assure that the action approved herein will become final, if no protest is timely filed, prior to the fuel/ECRC hearing.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Tampa Electric Company may recover projected environmental compliance costs totalling \$2,788,832 for the period June 1996 through March 1997 through the Environmental Cost Recovery Clause as set forth in the body of this Order. It is further

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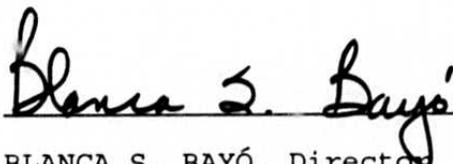
ORDERED that the Environmental Cost Recovery Factors shown in the body of this order are hereby approved, effective for the period October 1996 through March 1997. It is further

ORDERED that the period of time for filing a petition to request a hearing on the action proposed herein shall be 14 days from the issuance of this order. It is further

ORDERED that the provisions of this order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that in the event this order becomes final, this Docket shall be closed.

By ORDER of the Florida Public Service Commission, this 14th day of August, 1996.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

VDJ

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), 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.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on August 28, 1996.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water 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 of the effective date 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.

Tampa Electric Company
 Environmental Cost Recovery Clause
 Calculation of the Projected Period Amount
 June 1996 to March 1997

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	<u>Energy (\$)</u>	<u>Demand (\$)</u>	<u>Total (\$)</u>
Jurisdictional Revenue Requirements for the projected period:			
O&M Activities			
Big Bend Unit 3 Flue Gas Desulfurization Integration	1,156,716	0	1,156,716
Big Bend Units 1 & 2 Flue Gas Conditioning	70,200	0	70,200
Big Bend Unit 4 Continuous Emissions Monitoring Installation	0	0	0
Total Projected O&M Activities	<u>1,226,916</u>	<u>0</u>	<u>1,226,916</u>
Capital Projects			
Big Bend Unit 3 Flue Gas Desulfurization Integration	922,541	0	922,541
Big Bend Units 1 & 2 Flue Gas Conditioning	564,602	0	564,602
Big Bend Unit 4 Continuous Emissions Monitoring Installation	72,452	0	72,452
Total Projected Capital Projects	<u>1,559,595</u>	<u>0</u>	<u>1,559,595</u>
Total Jurisdictional Revenue Requirement to be Recovered/(Refunded) in the period October 1996 - March 1997	2,786,511	0	2,786,511
Total Projected Jurisdictional Amount Adjusted for Taxes (Jurisd. Rev. Req. x Revenue Tax Multiplier adjusted for gross receipts)	<u>2,788,832</u>	<u>0</u>	<u>2,788,832</u>

ATTACHMENT I

TAMPA ELECTRIC COMPANY
ENVIRONMENTAL COST RECOVERY CLAUSE PROJECTION FILING
FOR THE PERIOD: OCTOBER 1996 - MARCH 1997

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(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
DATE SCHEDULE	12 CP LOAD FACTOR	PROJECTED SALES AT METER	PROJECTED AVG 12 CP AT METER	DEMAND LOSS FACTOR	ENERGY LOSS EXPANSION FACTOR	PROJECTED SALES AT GEN.	PROJECTED AVG 12 CP AT GEN.	% OF KWH SALES AT GEN.	% OF 12 CP DEMAND AT GEN.
S, RST	53.58%	2,862,984,000	1,220,010	1.066114	1.059519	3,033,385,945	1,300,670	42.09%	56.45%
S, GST, TS	55.78%	393,450,000	161,041	1.065889	1.059519	416,867,751	171,652	5.78%	7.45%
SD, GSDT	74.11%	1,803,752,000	555,680	1.064600	1.058388	1,909,069,472	591,576.80	26.49%	25.67%
SLD, GSLDT, SBF, SBFT	82.90%	825,434,000	227,329	1.048214	1.042045	860,139,373	238,290	11.93%	10.34%
I&3, IST1&3, SB11&3, SB11&3	97.34%	897,376,000	0	N/A	1.020002	915,325,315	0	12.70%	0.00%
L/OL	819.04%	68,736,000	1,916	1.055556	1.059521	72,827,235	2,022	1.01%	0.09%
TOTAL		<u>6,851,732,000</u>				<u>7,207,615,090</u>	<u>2,304,211</u>	<u>100.00%</u>	<u>100.00%</u>

(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	
DATE SCHEDULE	12 CP & 1/13 ALLOCATION FACTOR	% OF SALES AT GENERATION	% OF DEMAND AT GENERATION	ENERGY RELATED COST	DEMAND RELATED COST	TOTAL CAPACITY COST	PROJECTED SALES AT METER	RECOVERY FACTOR CENTS/KWH
S, RST	55.34%	42.09%	56.45%	\$1,173,819	\$0	\$1,173,819	2,862,984,000	0.041
S, GST, TS	7.32%	5.78%	7.45%	\$161,194	\$0	\$161,194	393,450,000	0.041
SD, GSDT	25.74%	26.49%	25.67%	\$738,762	\$0	\$738,762	1,803,752,000	0.041
SLD, GSLDT, SBF, SBFT	10.46%	11.93%	10.34%	\$332,708	\$0	\$332,708	825,434,000	0.040
I&3, IST1&3, SB11&3, SB11&3	0.98%	12.70%	0.00%	\$354,182	\$0	\$354,182	897,376,000	0.039
L/OL	0.16%	1.01%	0.09%	\$28,167	\$0	\$28,167	68,736,000	0.041
TOTAL	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>\$2,788,832</u>	<u>\$0</u>	<u>\$2,788,832</u>	<u>6,851,732,000</u>	

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ATTACHMENT I