

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Gulf Power Company for approval of Plant Smith Sodium Injection system as new program for cost recovery through environmental cost recovery clause.

DOCKET NO. 990667-EI  
ORDER NO. PSC-99-1954-PAA-EI  
ISSUED: October 5, 1999

The following Commissioners participated in the disposition of this matter:

JOE GARCIA, Chairman  
J. TERRY DEASON  
SUSAN F. CLARK  
JULIA L. JOHNSON  
E. LEON JACOBS, JR.

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING PETITION FOR APPROVAL OF PLANT SMITH SODIUM  
INJECTION SYSTEM AS NEW PROGRAM FOR COST RECOVERY THROUGH  
ENVIRONMENTAL COST RECOVERY CLAUSE

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.

I. Introduction

Pursuant to Section 366.8255, Florida Statutes, and Order No. PSC-94-0044-FOF-EI, issued January 12, 1994, in Docket No. 930613-EI, and Order No. PSC-94-1207-FOF-EI, issued October 3, 1994, in Docket No. 940042-EI, on May 24, 1999, Gulf Power Company (Gulf) filed a Petition for Approval of New Environmental Program for Cost Recovery Through the Environmental Cost Recovery Clause.

Gulf seeks approval of the proposed Plant Smith Sodium Injection System as an environmental compliance program appropriate for recovery through the Environmental Cost Recovery Clause (ECRC). Gulf states that the instant project is a capital project with projected expenditures of \$77,000 for calendar year 1999. Gulf

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also seeks to include the actual 1999 program expenditures in their 1999 ECRC true-up amounts.

Order No. PSC-94-0044-FOF-EI, issued January 12, 1994, in Docket No. 930613-EI, sets forth the criteria we use to administer Section 366.8255, Florida Statutes. Under our interpretation of the statute as expressed in Order No. PSC-94-044-FOF-EI, we must first determine whether the project is eligible for recovery through the ECRC before cost recovery occurs. In addition, Order No. PSC-94-1207-FOF-EI, issued October 3, 1994, in Docket No. 940042-EI, requires that a utility's petition for cost recovery must describe the proposed activities and projected costs, not costs that have already been incurred. Therefore, pursuant to these Orders and Section 366.8255, Florida Statutes, the instant docket was opened to address the eligibility of Gulf's project for recovery through the ECRC.

The costs included in ECRC true-up amounts are typically addressed in the ongoing ECRC docket. The 1999 ECRC hearing in Docket Number 990007-EI is scheduled for November 22-23, 1999.

## II. Criteria for Cost Recovery

The criteria we use to determine whether a project's cost are to be recovered in the ECRC are addressed in two Commission orders.

First, Order No. PSC-94-1207-FOF-EI provides, in part, that ". . . a utility's petition for cost recovery must describe proposed activities and projected costs, not costs that have already been incurred." (p. 5)

Second, Order No. PSC-94-0044-FOF-EI enumerates the following criteria for cost recovery:

- (1) such costs were prudently incurred after April 13, 1993;
- (2) the activity is legally required to comply with governmentally imposed environmental regulation enacted, became effective, or whose effect was triggered after the company's last test year upon which rates are based; and,
- (3) such costs are not recovered through some other cost recovery mechanism or through base rates. (p. 6-7)

The following analysis presents a discussion of each criterion respectively.

A. Description of proposed activities and projected costs

Gulf's petition characterizes the proposed project as the construction of a sodium injection system at Plant Smith with projected capital costs of \$77,000 in 1999. In response to discovery, Gulf provided an updated itemized list of all costs related to the construction of the Plant Smith Sodium Injection System. The updated estimate of the construction cost is \$87,488 based on preliminary bids. The updated total includes costs for mechanical and electrical work of \$33,567 and \$53,921 for equipment purchases. The primary equipment components are:

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

Gulf's discovery responses also indicated that there will be associated O&M costs of approximately \$100,000 annually for the purchase of sodium.

Therefore, the scope of the proposed construction activities and projected construction costs, including O & M expenses, necessary to complete the project are clear and well known. We believe Gulf has satisfied the requirements in Order No. PSC-94-1207-FOF-EI.

B. Costs prudently incurred after April 13, 1993

This criterion has two inflections. One inflection is with respect to timing relative to the enactment of the ECRC. Clearly the projected 1999 costs for the project will be incurred after April 13, 1993.

The second inflection pertains to prudence. To date, we believe that Gulf has been prudent with respect to their proposed project. Gulf is bidding the construction of the necessary equipment. Also, the proposed project appears to be a least cost option to meet current environmental requirements. Gulf determined that coating the lower sulfur coal with sodium carbonate powder will allow the precipitators to operate more efficiently and in a

cost-effective manner. In response to discovery, Gulf stated that no compliance approach other than the sodium injection system was explored because the technology has long been recognized as an industry standard for improving efficiencies of precipitators that collect ash from the burning of low sulfur coals. A report published by the Energy Information Administration (DOE/EIA-0582-97) supports the use of sodium treatment to improve the collection efficiency of precipitators.

However, we believe the determination of prudence is relevant only given conditions and technology today. We recognize that the prudence of any project may change over time. What appears prudent today may not be prudent in the future. It is incumbent upon the Company to continue to monitor costs, trends, technology, and other relevant factors impinging upon the prudence of the means of meeting environmental requirements. Changes which could impact the continuation of any project are appropriate for consideration in the ECRC hearings or other rate-setting proceedings.

C. New legal requirement since setting base rates

To be eligible for ECRC recovery, an activity must be incremental to any environmental compliance activity which existed at the time base rates were last set. In this case, Gulf asserts the proposed project is necessary to comply with the Acid Rain Phase II provisions in Title IV of the Clean Air Act Amendments of 1990 (CAAA). Phase II of the CAAA requires a reduction from Phase I levels in the airborne emissions of SO<sub>2</sub> from electric power plants by January 1, 2000. According to discovery responses, Gulf's Phase II compliance strategy for the foreseeable future is primarily fuel switching (use of lower sulfur coals) because this strategy is the most cost-effective and provides for flexibility to respond to future developments. However, the properties of the lower sulfur coals decrease the efficiency of the Plant Smith Units 1 & 2 precipitators. Decreased precipitator efficiency results in increased air emissions of post-combustion dust particles. The instant project is Gulf's response to both comply with CAAA Phase II requirements and maintain compliance with existing air permit requirements. Also, the CAAA Phase II compliance requirements did not exist at the time Gulf prepared its 1990 rate case test year budget.

Therefore, we conclude that the environmental requirement Gulf is responding to did not exist at the time Gulf's base rates were last set.

D. Costs are not being recovered elsewhere

The Company's petition and responses to discovery assert that the capitalized cost for the Plant Smith Sodium Injection System is not being recovered through any other cost recovery mechanism or through base rates. We agree that the projected 1999 construction costs were not included in Gulf's 1990 rate case test year budget. However, this fact does not mean that current base rates do not provide some level of cost recovery. The difficulty is in determining which incurred costs are incremental to base rates. Since the instant petition is only prospective in nature, no actual or incurred costs are under consideration. How to determine which incurred costs are incremental to base rates is generic and a recurring topic in the ongoing ECRC docket.

Therefore, based on the foregoing review of the criteria we use to administer the Environmental Cost Recovery Clause, we conclude that Gulf's proposed project is eligible for ECRC treatment.

II. Treatment of Expenditures for Cost Recovery

The potential rate impact of a new environmental project should be considered. In response to discovery, Gulf provided updated costs of \$87,488 for construction of the Plant Smith Sodium Injection System and \$100,000 annual O&M costs for the purchase of sodium. In an abundance of caution, \$190,000 was added to Gulf's approved 1999 ECRC amount to determined the potential rate impact. For the purposes of analysis, the \$190,000 amount assumes that Gulf would expense the approximate \$90,000 for new equipment rather than capitalize it. This analysis results in a two cent increase in the typical 1,000 kwh residential bill. We believe the two cent increase demonstrates that there is not a potential for a significant rate impact based on the information currently available.

Therefore, we agree that there is no need for an mid-course correction of the ECRC factors during 1999. The actual program expenditures will be addressed in the ongoing ECRC dockets and will be subject to audit.

We believe that Gulf's petition should be granted because Gulf's proposed new project is eligible for ECRC treatment and because there is no need for a ECRC mid-course correction due to approval of the proposed project.

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Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Petition by Gulf Power Company for Approval of Plant Smith Sodium Injection System as New Program for Cost Recovery Through Environmental Cost Recovery Clause is approved. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, 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" 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 5th day of October, 1999.

BLANCA S. BAYÓ, Director  
Division of Records and Reporting

By: Kay Flynn  
Kay Flynn, Chief  
Bureau of Records

( S E A L )

GAJ

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 that is available under Section 120.57, 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 will be granted or result in the relief sought.

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Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, 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 October 26, 1999

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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.