BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition to establish an environmental cost recovery clause pursuant to Section 366.8255, Florida Statutes by Gulf Power Company.	DOCKET NO. 930613-EI ORDER NO. PSC-94-0345-FOF-EI ISSUED: 03/28/94

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK
JULIA L. JOHNSON
LUIS J. LAUREDO

ORDER DENYING FLORIDA INDUSTRIAL POWER USERS GROUP'S AND GULF POWER COMPANY'S MOTION FOR RECONSIDERATION

BY THE COMMISSION:

On June 22, 1993, Gulf Power Company (Gulf) filed a petition to establish an environmental cost recovery clause (ECR) pursuant to Section 366.8255, Florida Statutes. Gulf requested that its petition be considered during the fuel adjustment hearings scheduled for August 18-19, 1993. Gulf also requested that it be allowed to implement initial ECR factors concurrent with new fuel cost recovery factors that would become effective October 1, 1993. We denied Gulf's request to collect revenues through implementation of proposed ECR factors effective October 1, 1993 prior to a showing that the costs were necessary or prudent. (Order No. PSC-93-1283-FOF-EI, issued September 2, 1993) A formal administrative hearing was held on December 8-9, 1993 to consider Gulf's petition. We approved Gulf's recovery of certain environmental compliance costs during the December 21, 1993 agenda conference. (Order No. PSC-94-0044-FOF-EI, issued January 12, 1994) (Attachment 1)

On January 26, 1994, Florida Industrial Power Users Group (FIPUG) filed a Motion for Reconsideration of Order No. PSC-94-0044-FOF-EI and Request for Oral Argument. (Attachment 2) Specifically, FIPUG requested us to reconsider the Order and to order Gulf to allocate the costs of environmental compliance approved in this proceeding on the basis of the allocation methodology approved for similar environmental expenses in Gulf's last rate case. On February 14, 1994, Gulf joined FIPUG's Motion for Reconsideration and Request for Oral Argument. Gulf also requested to participate in oral argument. (Attachment 3) The requests for oral argument were denied at the March 8, 1994 agenda conference.

The appropriate standard for review is that which is set forth in Diamond Cab Co. v. King, 146 So. 2d 889 (Fla. 1962). The purpose of a motion for reconsideration is to bring to the attention of the Commission some material and relevant point of fact or law which was overlooked, or which it failed to consider when it rendered the order in the first instance. See Diamond Cab Co. v. King, 146 So. 2d 889 (Fla. 1962); Pingree v. Quaintance, 394 So. 2d 161 (Fla. 1st DCA 1981). It is not an appropriate venue for rehashing matters which were already considered, or for raising immaterial matters which even if adopted would not materially change the outcome of the case.

In Order No. PSC-94-0044-FOF-EI, we decided to allocate the costs incurred by Gulf Power Company to comply with the Clean Air Act Amendments of 1990 among customer classes on the basis of their energy consumption.

FIPUG asserted that we should reconsider our decision so as to remove the impact of mistaken reliance on the order approved in TECO's rate case. (Docket No. 920324-EI, Order No. PSC-93-0165-FOF-EI) FIPUG argued that, in support of the decision, we twice referred to the order in TECO's last rate case regarding allocation of the cost of TECO's scrubber for the Big Bend 4 unit. FIPUG asserted that we approved a settlement and stipulation of the parties on issues regarding cost of service and rate design that expressly stated that it was to have no precedential effect.

We, however, based our decision regarding allocation to rate classes on our evaluation of the evidence of record and not on the decision in TECO's rate case. On page 23 of the order, we clearly provide the reasons for our decision:

> We find that those costs required for compliance with the Clean Air Act Amendments of 1990 (CAAA) shall be allocated to the rate classes on an [sic] per kilowatt hour, or energy basis. Such an energy allocation is appropriate because the purpose of the CAAA is to reduce the level of emissions of air pollutants such as sulphur dioxide and nitrogen oxides. The level of emissions of such pollutants is dependent in large part on how many kilowatt hours are generated. (TR 396) Consequently, we find that an energy allocation method results in the most equitable apportionment of these particular compliance costs. We have adopted this treatment of environmental compliance costs . . . in the past: in Tampa Electric Company's last rate case, the approved cost of service study classified and allocated the costs of the scrubber

> on its Big Bend 4 coal plant on an energy basis. (Docket No. 920324-EI) (emphasis added)

The last sentence was not the basis of our decision in Gulf's case and merely refers to the fact that this type of allocation had occurred previously: essentially, this reference to the TECO rate case is merely dicta. In fact, this reference could be deleted without materially affecting our decision regarding cost allocation.

Likewise, our reference to the TECO rate case on page 24 occurs as part of a larger discussion regarding FIPUG's objection to "carving out" of specific types of costs and allocating them on an energy basis. Again, we merely recited a fact and did not rely upon this reference to form our decision. Rather, the preceding paragraph on page 24 explains that many of the costs associated with CAAA compliance are fixed costs and sized to meet peak demands, but this does not dictate that such costs should be allocated on peak demand. The order, on page 24, provides that such costs were incurred to meet the requirements of legislation enacted to solve the specific problem of excessive emission of pollutants.

> The emission of these pollutants by the electric industry is in large part a function of the number of kilowatt hours produced. In this respect, these capital items are different from other production plant items and thus should be treated differently.

FIPUG also argued that Section 366.8255, Florida Statutes, requires the Commission to apply the same criteria to a request for recovery of environmental costs through the clause as it would in a base rate proceeding. FIPUG asserted that the legislative intent is to promote consistency and continuity in the allocation of significant environmental expenses for individual utilities during periods between rate cases. FIPUG further argued that this limits our discretion.

We disagree with FIPUG's argument. Section 366.8255(4), Florida Statutes, provides that costs recovered through an environmental cost recovery factor "shall be allocated to the customer classes using the same criteria set out in s. 366.06(1), taking into account, the manner in which similar types of investment or expense were allocated in the company's last rate case." (emphasis added) In other words, the statute does not require us to allocate costs in the same manner as the company's previous rate case; instead, it merely provides that we consider it.

In addition, although CAAA costs are environmental costs, they are not "similar" to costs in Gulf's last rate case. As noted above, we found that, indeed, CAAA compliance costs should be treated differently. Also, we found that

> due to the strong nexus between the level of emissions which the CAAA seeks to reduce and the number of kilowatt hours generated, the costs associated with compliance with the CAAA shall be allocated to the rate classes on an energy basis because it is the most equitable way to apportion the compliance costs associated with the CAAA. (Order, page 25)

In its motion to join FIPUG, Gulf addressed items that we have already considered. Specifically, Gulf reargued its position regarding cost allocation by citing to the testimony of its witnesses. It is for this Commission, not FIPUG or Gulf, "to assess the reliability of the testimony and other evidence adduced." International Minerals and Chemical Corporation v. Mayo, 336 So. 2d 548, 553 (Fla. 1976).

Accordingly, we find that FIPUG's and Gulf's Motion for Reconsideration regarding allocation of environmental compliance costs associated with the CAAA in this proceeding shall be denied. We relied upon and evaluated the evidence of record to form our decision and did not rely on the TECO rate case order as asserted by FIPUG. In the final order, we have provided our rationale regarding allocation of CAAA environmental costs. We also have the authority provided by Section 366.8255, Florida Statutes, to allocate compliance costs accordingly.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Power Users Group's and Gulf Power Company's Motion for Reconsideration of Order No. PSC-94-0044-FOF-EI, issued January 12, 1994, is hereby denied. It is further

ORDERED that this docket shall be closed.

By ORDER of the Florida Public Service Commission, this 28TH day of MARCH, 1994.

STEVE TRIBBLE, Acting Director
Division of Records and Reporting

(S E A L)
DLC:bmi

NOTICE OF 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.

Any party adversely affected by the Commission's final action in this matter may request 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 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.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition to establish an environmental cost recovery clause pursuant to Section 366.8255, Florida Statutes by Gulf Power Company.	DOCKET NO. 930613-EI ORDER NO. PSC-94-0044-FOF-EI ISSUED: January 12, 1994

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK
JULIA L. JOHNSON
LUIS J. LAUREDO

ORDER REGARDING GULF POWER COMPANY'S PETITION FOR ENVIRONMENTAL COMPLIANCE COST RECOVERY

BY THE COMMISSION:

On April 13, 1993, Section 366.8255, Florida Statutes, was enacted into law, establishing an environmental cost recovery clause. The new statute authorizes the recovery of prudently incurred environmental compliance costs through the environmental cost recovery factor.

On June 23, 1993, Gulf Power Company (Gulf) filed a petition to establish an environmental cost recovery clause (ECR) pursuant to Section 366.8255, Florida Statutes. Gulf requested that its petition be considered during the fuel adjustment hearings scheduled for August 18-19, 1993. Gulf also requested that it be allowed to implement initial ECR factors concurrent with new fuel cost recovery factors that would become effective October 1, 1993. The Commission denied Gulf's request to collect revenues through implementation of proposed ECR factors effective October 1, 1993 prior to a showing that the costs are necessary or prudent. (Order No. PSC-93-1283-FOF-EI, issued September 2, 1993) A formal administrative hearing was held on December 8-9, 1993 to consider Gulf's petition.

ANALYSIS OF POLICY

Effective Date of Legislation

One issue before us is whether it is appropriate to recover costs through the Environmental Cost Recovery Clause (ECRC) that were incurred before the effective date of the ECRC legislation. We shall only approve recovery of expenses incurred after April 13, 1993 for Gulf Power Company. Statutes are applied on a prospective

basis unless there is a specific exception within the language of the statute. Thus, costs incurred prior to the effective date of the statute would not be eligible for recovery through the clause. The allowance of expenses incurred prior to the establishment of an environmental cost recovery clause is inappropriate.

When determining whether a cost has been incurred prior to April 13, 1993, we made a distinction between the carrying costs associated with capital investments and other O&M expenses. Carrying costs represent compensation to the utility for making a capital investment., Carrying costs include a return on investment plus depreciation. We considered the date the carrying cost is incurred by the utility rather than when the actual capital investment was made when determining whether an environmental cost is incurred after April 13, 1993. It is possible for an investment to have occurred prior to April 13, 1993 and still have carrying costs which can be recovered through the environmental cost recovery factor. Carrying costs incurred after April 13, 1993 shall be allowed through the environmental cost recovery factor even if the actual capital expenditure is made prior to April 13, 1993 if the capital expenditure is associated with an activity which meets our definition of recoverability through the clause.

Cost Recovery through the Clause

The parties agreed that we should not allow recovery of costs for environmental compliance activities which are currently being recovered through base rates or are currently being recovered through another cost recovery mechanism. However, the parties disagreed as to how to determine which costs are "currently being recovered," which will be discussed subsequently in this Order.

Section 366.8255(2) provides that if approved, the Commission shall allow recovery of costs through an environmental recovery factor that is separate and apart from the utility's base rates and that, in the petition, an adjustment shall be made for the level of costs currently being recovered through base rates or other rate-adjustment clauses. Also, Section 366.8255(5) provides that any costs recovered in base rates may not also be recovered in the environmental cost recovery clause.

Accordingly, we find that the recovery of costs for environmental compliance activities which are currently being recovered through base rates or are currently being recovered through another cost recovery mechanism shall not be allowed for Gulf Power Company.

Recovery of Costs Currently Being Recovered

We find that Gulf Power Company has requested recovery of costs for environmental compliance activities which are currently being recovered through base rates or are currently being recovered through another cost recovery mechanism. Gulf has requested recovery of the cost of activities included in the test year of its last rate case for which no new legal requirements were enacted to justify any increased level of expenditures. The cost of these activities is being recovered through base rates and to allow recovery of these costs through the environmental cost recovery clause would amount to double recovery. This will be discussed subsequently in this Order.

Recovery Through the ECRC If Utility is Earning a Fair Rate of Return

During a rate case, a test year is used to represent the costs and volume of sales that a utility will experience during a typical year. Base rates are set, on a cents/kWh basis, to adequately compensate the utility for all carrying costs and O&M expenses of the test year at the given volume of kWh sales. No one expects that individual expense items will remain constant in future years. Some costs will increase and some costs will decrease. In addition, kWh sales will be different in subsequent years, usually increasing because Florida is a growth state.

In regulatory theory, an allowed return on equity range is established which resolves the problems associated with setting base rates for future years. This Commission establishes a range of ROEs, not a single number, to allow the utility an opportunity to earn a fair rate of return on its investment. If it is earning in the allowed range, the utility is receiving the Commission approved amount of revenue to compensate it for all carrying costs and O&M expenses incurred. If the utility earns above or below the set range, this would indicate the utility is over- or under-earning. In Gulf's case, the allowed range is 11% to 13%, with a mid-point of 12%. On a monthly basis, we receive a surveillance report which considers all revenues and expenses incurred by the utility and calculates an overall rate of return earned by the utility.

Public Counsel argued that if a utility is earning within its allowed return on equity range, it is already being compensated for all environmental expenses, and it should not be allowed to recover any costs through the environmental cost recovery clause. Public Counsel maintains that it does not matter whether the environmental activity was included in the test year of the utility's last rate

case. The utility should only be allowed to recover costs through the clause if the utility is under-earning and if the environmental expenses are the cause of the under-earning. OPC argued that to allow any recovery through the clause if the utility is not under-earning would amount to double recovery.

Although regulatory philosophy indicates that OPC is theoretically correct, we must consider the legislation establishing the environmental cost recovery clause. The statute contains a non-exclusive list of the types of expenses which should be recoverable through the clause. (Section 366.8255(1)(d), Florida Statutes). The enumerated expenses are:

1. In-service capital investments, including the utility's last authorized rate of return on equity;
2. Operation and maintenance expenses;
3. Fuel procurement costs;
4. Purchased power costs;
5. Emission allowance costs; and,
6. Direct taxes on environmental equipment.

The statute also states in Section 366.8255(2), Florida Statutes, that

> (a)n adjustment for the level of costs currently being recovered through base rates or other rate-adjustment clauses must be included in the filing.

Finally, the statute provides that

> (r)ecovery of environmental compliance costs under this section does not preclude inclusion of such costs in base rates in subsequent rate proceedings, if that inclusion is necessary and appropriate; however, any costs recovered in base rates may not also be recovered in the environmental cost-recovery clause. (Section 366.8255(5), Florida Statutes).

Thus, we find that the legislature clearly intended the recovery of investment carrying costs and O&M expenses through the environmental cost recovery clause. For this reason, Public Counsel's argument must be rejected.

Accordingly, we find that if the utility is currently earning a fair rate of return that it should be able to recover, upon petition, prudently incurred environmental compliance costs through the ECRC if such costs were incurred after the effective date of

the environmental compliance cost legislation and if such costs are not being recovered through any other cost recovery mechanism.

Implementation of Policy for Plant-In Service

The parties differ as to how we should implement the environmental cost recovery factor. The major difference among the policies is how we should determine whether specific costs are being recovered by the utility through base rates, and if so, how the amount being recovered through base rates should be determined.

The utility is being compensated for any environmental compliance activity which was included in the utility's test year. The actual expenses of such activities in subsequent years will be larger, or smaller, than what was included in rate base, but the utility is recovering the Commission approved revenues for these activities if it is earning in the allowed range of ROE. The costs of activities that were included in the test year shall not be recovered through the environmental cost recovery clause unless all other costs, and revenues, approved in the utility's last rate case are also adjusted.

Gulf's witness Scarbrough agreed that recovery of any costs through the environmental cost recovery clause would have the effect of increasing the utility's return on equity. This indicates that our actions in this docket will affect the rate of return we established in Gulf's last rate case.

Double recovery of expenses must be avoided. The question becomes, how should we include rate case type expenses in the environmental cost recovery clause while at the same time ensure that the utility is not double recovering such expenses. Staff witness Pass proposed that the solution is to allow recovery of costs associated with activities which were not included in the test year of the utility's last rate case. This proposal satisfies the legislative intent and is consistent with regulatory theory.

A problem arises if a new environmental regulation requires the utility to increase the scope of an activity which was considered in the last rate case. Regulatory theory indicates that the utility is already being compensated for such changes in scope. But the legislative intent is to allow utilities to recover increased costs due to new environmental requirements. We find that the cost of the scope change shall be allowed for recovery through the environmental cost recovery clause, because we consider the scope change to be a new activity.

FIPUG argued that the change in kWh sales should be considered determining what level of costs are currently be recovered for activities included in the utility's last test year, because base rates are set on a cents/kWh basis. If kWh sales increase, the utility is actually recovering more dollars than were included in the last test year. This argument is theoretically correct but should only be applied if our policy were to "true-up" all environmental activities included in base rates. This kWh adjustment is not needed if only activities included in the test year and which experience a change of scope mandated by new environmental regulations are considered. There are a limited number of activities that fit into this category and the impact is smaller. Any difference is off-set by increases and decreases in other environmental costs which are recovered through base rates and not included in the environmental cost recovery factor.

Gulf Power maintained that we should "true-up" all environmental costs incurred during the recovery period with environmental costs included in the Company's last test year and recovered through base rates. Gulf argued that we should determine the amount recovered through base rates to be the amount included in the last test year. Gulf's witness agreed that this methodology would, in effect, increase the realized earnings of the Company. We reject Gulf's proposal and find that the Company is already recovering the costs of activities included in the utility's last test year for the reasons previously discussed.

We find that all costs associated with activities included in the test year of the utility's last rate case are being recovered in base rates unless there have been new legal requirements which caused costs to change from the level included in the test year. If new legal requirements cause an increase, or decrease, in costs from the level included in the test year of the utility's last rate case, the amount recovered through base rates shall be determined to be the amount included in the test year.

We find that the following policy is the most appropriate way to implement the intent of the environmental cost recovery statute:

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

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, became effective, or whose effect was triggered after the company's last test year upon which rates are based; and,

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

In addition, we shall consider that all costs associated with activities included in the test year of the utility's last rate case are being recovered in base rates unless there have been new legal environmental requirements which change the scope of previously approved activities and caused costs to change from the level included in the test year. If new legal requirements cause an increase, or decrease, in costs from the level included in the test year of the utility's last rate case, the amount recovered through base rates should be the determined to be the amount included in the test year.

Implementation of Policy for Construction Work in Progress

It is our practice to include CWIP that does not earn AFUDC in rate base and to include additional CWIP, that would not otherwise earn AFUDC, in an amount needed to assure adequate financial integrity. (TECO, Docket No. 920324-EI, Order No. PSC-93-0169-FOF-EI, (2/2/93).

The utility's investment in plant under construction can be accounted for by either of two methods. An Allowance for Funds Used During Construction (AFUDC) may be applied to the balance to be capitalized and later recovered through depreciation charges once the plant is placed in service. When this method is chosen, the financial statements of the utility reflect income 'credits' associated with AFUDC, but the utility realizes no current cash earnings from the investment in CWIP. Alternatively, CWIP may be included as a portion of rate base. Where the latter treatment is allowed, CWIP generates cash earnings, which provide cash flow and an increase in coverage ratios. No AFUDC is taken on that portion of CWIP which is included in rate base. (FPUC-Marianna Division, Docket No. 9300400-EI, Order No. PSC-93-1640-FOF-EI (11/8/93).

Public Counsel asserted that the statute only permits recovery of in-service capital investments. However, the statute provides a non-exclusive list of costs or expenses that a utility may include in its petition for cost recovery. The statute provides that

"(e)nvironmental compliance costs" includes all costs or expenses incurred by an electric utility in complying with environmental laws or regulations, including but not limited to:

1. In-service capital investments,. . .

(Section 366.8255(1)(d), Florida Statutes, Emphasis Added).

We therefore find that it is appropriate to allow the recovery of carrying costs associated with CWIP through the environmental cost recovery factor.

PRUDENCE OF PROGRAMS

None of the parties disputes the prudence of any program or activity included in Gulf's petition. Originally, ORGULF and UMWA disputed the prudence of certain expenditures associated with Gulf's Clean Air Act Compliance strategy of switching from high-sulfur to low-sulfur coal. By the end of the hearing, ORGULF and UMWA determined that this docket was not the appropriate docket to question Gulf's Clean Air Act Compliance plan or fuel costs. Both parties changed their positions to "No position."

We shall not make a specific finding of prudence for any activity included in Gulf's petition at this time. There are several reasons for this. First, many of the costs included in Gulf's petition are based on projections, and some of the projects have not yet been implemented. Thus, it is premature to establish prudence for a project that has not been completed. Second, the environmental cost recovery clause, like the fuel cost recovery clause, will be an on-going docket involving truing-up projected costs. We retain jurisdiction in the fuel cost recovery clause because of the true-up provisions associated with fuel filings.

APPLICATION OF POLICY

Analysis of Plant-In-Service and Construction Work in Progress Activities

Our analysis of Gulf's activities contains a project-by-project discussion of which capital investment activities should be eligible for recovery through the environmental cost recovery clause. Since the decision of whether to include a project will affect the our findings regarding Construction Work In Progress (CWIP), CWIP figures are analyzed in this section.

Gulf Power's request for capital investment through the environmental cost recovery factor includes activities which were included the Company's rate base and activities which have been implemented that are not necessary to comply with any environmental regulation. We have removed those programs that are included in

rate base for which no new environmental regulation justifies a change in scope.

Gulf Power's capital investment request also includes costs associated with research and development (R&D) projects which are commendable but not necessary to comply with any governmentally imposed environmental compliance mandate. These projects were implemented at management's discretion. We find that it is not appropriate to pass any R&D costs through the environmental cost recovery clause. The statute specifically states in Section 366.8255(1)(c), Florida Statutes, that

> "(e)nvironmental compliance costs" includes all costs or expenses incurred by an electric utility in complying with environmental laws or regulations . . .

R&D efforts are discretionary, and they are not necessary to comply with environmental regulations. Compliance with future environmental requirements of Phase II of the Clean Air Act Amendments of 1990 are premature and cannot be determined at this time. (TR 320) These costs must be excluded to comply with the intent of Section 366.8255, Florida Statutes.

We shall allow recovery of carrying costs associated with plant-in-service and CWIP for projects that qualify for recovery through the environmental cost recovery clause. To qualify for recovery, these projects must not have been included in Gulf's last rate case and they must be required to comply with a governmentally imposed environmental regulation. The net effect of applying our policy to Gulf's petition is a decrease in both plant-in-service and CWIP. Plant-in-service and CWIP costs are not recovered through the environmental recovery clause. The carrying costs associated with these investments are the expenses recovered through the clause. The reductions in plant-in-service and CWIP cause a reduction in the carrying costs associated with this project.

We shall reduce plant-in-service by $54,870,000 (system) and CWIP by ($3,925,000) on a cumulative basis for the recovery period. The impact on revenue requirement is discussed subsequently in this Order.

We find that the following capital projects are recoverable through the clause because each project is required to comply with the Clean Air Act Amendments of 1990. None of these projects were considered during Gulf's last rate case and none of the carrying costs of these projects are included in base rates. (TR 173-5, TR 246, TR 247, TR 354, EX 6)

Recoverable Clean Air Act Amendment Capital Activities
July 1993 through September 1994 Totals
($000)

PE No.	Activity/Project	Plant in Service	Construction Work in Progress Non Interest Bearing
1216	Crist 7 Precipitator Upgrade	164,460	-
1238	Crist 7 Flue Gas Conditioning	31,920	-
1236	Crist 7 Low NOx Burners	116,368	8,312
1258	Crist 7 Over-Fire Air	2,789	11,014
1240	Crist 7 CEMs	8,850	-
1243	Crist 6 Precipitator Replace.	14,763	102,362
1242	Crist 6 Low NOx Burners	5,933	34,112
8220	Crist 6 Over-Fire Air	-	120
1245	Crist 6 CEMs	5,410	3,509
6220	Crist 5 CEMs	-	300
6219	Crist 4 CEMs	-	300
6218	Crist 3 CEMs	-	300
6217	Crist 2 CEMs	-	300
6216	Crist 1 CEMs	-	300
1323	Scholz 1 CEMs	10,982	214
1330	Scholz 2 CEMs	1,243	50
1459	Smith 1 CEMs	5,750	890
1460	Smith 2 CEMs	8,750	890
1558	Plant Daniel CEMs	-	6,922
1006	Air Quality Assurance Testing	3,390	-
		377,588	168,895

We also find the following capital projects are recoverable through the clause because each project is in response to new environmental regulations (other than the CAAA) and the activities were not considered during Gulf's last rate case. None of the carrying costs associated with these projects are being recovered through base rates. (TR 217, TR 250, TR 252, TR 253, TR 265, TR 298, TR 393)

Other Recoverable Environmental Compliance Capital Activities
July 1993 through September 1994 Totals
($000)

PE No.	Activity/Project	Plant in Service	Construction Work in Progress Non Interest Bearing
1232	Crist Cooling Tower Cell	13,485	-
1466	Smith Waste Water Facility	1,250	475
4397	Underground Fuel Tank Replacement	4,018	342
1535	Daniel Ash Management Project	10,898	-
		29,651	817

We find the following capital projects are disallowed because they relate to activities which were considered during Gulf's last rate case or are discretionary R&D projects. The SCR Clean Coal Technology project is discretionary R&D and not mandated by any environmental regulation and, thus, it is disallowed. (TR 230, EX 8) The remaining projects listed in the table below were considered in Gulf's last rate case. The carrying costs associated with these projects are being recovered through base rates. There has not been any new environmental regulation to justify costs exceeding those included in the 1990 test year. (TR 178, TR 179, TR 235, TR 236, TR 250, TR 251, TR 254, TR 255, TR 256, TR 320, TR 349, TR 381-2, TR 384)

Capital Activities Disallowed
July 1993 through September 1994 Totals
($000)

PE No.	Activity/Project	Plant in Service	Construction Work in Progress Non Interest Bearing
1194	SCR Clean Coal Technology	7,995	0
1463	Smith 1 Precip. Plates & Wires	15,000	1,185
1449	Smith 2 Precip. Plates & Wires	24,585	0
1210	Crist Coal Yard Sump Pump	1,020	0
1259	Crist Coal Yard Sump	770	280
1257	Crist 465 Service Water System	5,500	1,360
6336	Scholz Ash Sluice Recycle System	0	150
		54,870	3,925

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Therefore, we find that $407,239,000 (system plant-in-service) capital expenditure shall be used in determining the environmental cost recovery factor. This represents a decrease of $54,870,000 (system plant-in-service) from Gulf's request.

We also find that the carrying costs associated with CWIP investment shall be recoverable through the environmental cost recovery clause. We approve the monthly amounts of CWIP as reflected in the following table:

CONSTRUCTION WORK IN PROGRESS (non-interest bearing) ($000)							
6/93	7/93	8/93	9/93	10/93	11/93	12/93	1/94
9,198	9,831	1,971	2,358	3,487	4,705	4,834	5,634
2/94	3/94	4/94	5/94	6/94	7/94	8/94	9/94
11,134	13,434	17,206	20,926	23,248	23,767	24,607	1,672

Depreciation

The amount of accumulated depreciation applied to investment in the environmental cost recovery factor is a calculation based on the depreciation rates in effect during the period the allowed capital investments are in service. Company Witness Cranmer testified that the depreciation rates used to calculate the depreciation expense and the accumulated depreciation reserve should be the rates that are in effect during the period the allowed capital investment is in service. (TR 393-394) This includes the new depreciation rates approved in Docket No. 930221-EI and adjustments addressed in other issues. (Order No. PSC-93-1808-FOF-EI, issued December 20, 1993)

Accordingly, we find that the appropriate amount of accumulated depreciation is $1,798,000 as reflected in the following table:

ACCUMULATED DEPRECIATION ($000)							
6/93	7/93	8/93	9/93	10/93	11/93	12/93	1/94
819	865	923	994	1,065	1,117	1,212	1,273
2/94	3/94	4/94	5/94	6/94	7/94	8/94	9/94
1,334	1,395	1,456	1,517	1,578	1,639	1,700	1,798

Working Capital

There was no controversy among the parties at this hearing as to the appropriate amount of working capital. The parties agreed, and we approve, that the appropriate amount of working capital is $3000. The $3,000 included in working capital represents the allowances purchased at the EPA's first auction and include a credit for what Gulf received for its share of withheld allowances at the EPA auction. (TR 384-385)

Net Environmental Investment

Based on our findings, we approve the monthly amounts of new environmental investment as reflected in the following table:

NET ENVIRONMENTAL INVESTMENT ($000)							
6/93	7/93	8/93	9/93	10/93	11/93	12/93	1/94
23,836	24,426	24,825	25,246	26,304	27,798	29,891	31,530
2/94	3/94	4/94	5/94	6/94	7/94	8/94	9/94
35,969	38,208	42,019	45,578	47,837	48,297	49,076	60,406

Rate of Return on Equity

It is Gulf Power's position that it be allowed to earn its last authorized rate of return on common equity. Pursuant to the stipulation we approved in Order No. PSC-93-0771-FOF-EI (Docket No. 930221-EI), this rate is 12.01. In addition, it is Gulf Power's position that the proceeding related to the environmental cost

recovery factor is not the proper forum for the Commission to address possible changes to a utility's authorized ROE. (TR 50-51)

It is OPC's and UMWA's position that the bottom of the allowed range of return on equity be used for purposes of quantifying an environmental cost recovery factor. OPC maintained in its basic position that "the Commission implement Section 366.8255, Florida Statutes, as it is written, not as the Commission believes it understands the legislative intent to be." OPC stated that if a utility is earning at or above the bottom of the allowed range of return on equity, all costs are, by definition, being currently recovered. A separate environmental cost recovery factor is justified only when increased environmental costs would either cause the utility to earn less than the bottom of the allowed range or cause further erosion in an equity return already below the range. Therefore, OPC asserted that the bottom of Gulf Power's allowed range of 11.01 should be used for purposes of quantifying an environmental cost recovery factor.

Each time we approve a clause for the recovery of utility expenses or capital costs, the overall volatility of the utility's earnings before interest and taxes (EBIT) is reduced. This has the effect of reducing business risk. This reduced risk should then result in a lower average cost of capital (required rate of return) over the long run. While it can be argued that currently authorized ROEs may not reflect the reduced risk resulting from the guaranteed recovery of prudently incurred environmental costs, ROEs set prospectively should reflect this reduced risk.

Section 366.8255(1)(d)(1), Florida Statutes, clearly states that an electric utility be allowed to earn its last authorized rate of return on equity on in-service capital investments incurred by the utility in complying with environmental laws or regulations. Based on the record in this proceeding, we find that Gulf Power shall be allowed to earn its currently authorized ROE of 12.01 on capital investment costs.

Overall Rate of Return for Capital Investments

In its filing, Gulf Power has requested an after-tax rate of return of 10.5770% for purposes of quantifying an environmental cost recovery factor. This rate of return was calculated using the jurisdictional capital structure and cost rates for each component of the capital structure (except for common equity) approved by the Commission in the Company's last rate case in Order No. 23573 (Docket No. 891345-EI). As discussed previously, Gulf Power has used 12.01 as the cost of common equity capital pursuant to the

stipulation we approved in Order No. PSC-93-0771-FOF-EI. (TR 50-51, 119-132)

A second option we could consider is the rate of return that would be produced by using current cost rates in the capital structure approved in Gulf Power's last rate case. If the current cost rates from Gulf Power's September Surveillance report (EX 1, Schedule 4) were plugged into the capital structure from the Company's filing (EX 17, Schedule 3), the after-tax rate of return would be 10.1360%. We employed this methodology to determine the rate of return Florida Power & Light (FPL) would be allowed to earn on its environmental compliance costs. (Order No. PSC-93-1580-FOF-EI, Docket No. 930661-EI, issued October 29, 1993) Company witness Scarbrough argued, however, that it would be inappropriate to update the cost rates without also updating the capital structure, and vice versa. (TR 127-132, 536-538)

The final option we could consider is using the current rate of return as reflected in Gulf Power's most recent Surveillance report. Based on the information filed in the September 30, 1993 Surveillance report, the Company's after-tax rate of return is 10.7467%. (EX 1, Schedule 4) Witness Scarbrough testified that the Company would have no objection to using the current cost rates and capital structure. (TR 127)

Because Gulf Power used the ROE of 12.0% we approved in Order No. PSC-93-0771-FOF-EI in its filing, the ROE under all three options is the same. The primary difference between the rate of return requested by Gulf Power based on its 1989 rate case and the rate of return reflected in its September 1993 Surveillance report is the change in the Company's capital structure. The capital structure approved in Order No. 23573 consisted of 42.2% common equity, 9.1% preferred stock, and 49.7% long-term debt. (EX 17, Schedule 3) Gulf Power's current capital structure consists of 49.2% common equity, 9.8% preferred stock, and 41.0% long-term debt. (EX 1, Schedule 4) Although the cost of long-term debt and preferred stock has declined since the last rate case, the relative percentage of common equity and preferred stock in the capital structure has increased such that the overall cost of capital on an after-tax basis has increased.

Witness Scarbrough testified that because of the decline in capital costs over the last few years, the Company has been able to refinance several debt and preferred stock issues which save the Company and its ratepayers approximately $7 million a year. (TR 537) However, because there has not been a commensurate decrease in the Company's ROE, the overall cost of capital on an after-tax basis has increased with the increase in the Company's equity

ratio. While we are concerned that Gulf Power's overall cost of capital has increased since its last rate case despite the fact that the Company has been operating in a declining capital cost environment, this situation should be addressed in a separate proceeding.

After reviewing the options, the capital structure and cost rates, except for ROE, approved in Gulf Power's last rate case shall be used to determine the appropriate rate of return for Gulf Power Company. Gulf Power shall be allowed to earn its last authorized ROE of 12.0%. Witness Scarbrough testified that this methodology is consistent with the approach used in the fuel cost recovery clause and the conservation cost recovery clause. In addition, he explained that this approach would simplify the administration of the true-up mechanism and the audit requirements associated with the clause. (TR 50-51, 130-133)

We agree with Gulf Power that potentially controversial and time consuming evidentiary debates regarding the appropriate capital structure and ROE should be the subject of other proceedings. In addition, we agree with the Company that the administration of the true-up mechanism and the audit requirements would be simplified if the quantification of the environmental cost recovery factor is consistent with how the other cost recovery clauses are administered. Therefore, we approve an overall rate of return of 10.5778% for the recovery of capital investment costs for Gulf Power Company.

Operating and Maintenance Expenses

Gulf Power has requested recovery of operating and maintenance expense (O&M) through the environmental cost recovery factor for 19 different activities. The types of activities for which Gulf sought recovery included those activities that were included in Gulf's 1990 test year, activities that have been implemented and are not necessary for compliance of environmental regulations and activities included in the last test year that have been modified to comply with new governmental regulations. For the latter type of activity, we find that only the costs associated with the increased level of costs (over the test year expense) necessary to comply with the new regulation shall be allowed for recovery through the environmental cost recovery clause. We deny recovery of the costs associated with nine of the requested programs because they are activities that were included in the 1990 test year. One program is disallowed because it is an elective R&D project is not needed to comply with any legal environmental regulation as analyzed previously in this Order. We also deny recovery of the costs of five categories that have been implemented since Gulf's

last rate case. For four projects, we approve partial recovery because, although they were included in the 1990 test year, there has been a change in project scope due to new environmental regulations.

The net effect of applying our policy to Gulf's request is a slight increase in O&M expenses over the amount requested. This is because the cost of several of the programs included in Gulf's 1990 test year have declined. This increase is more than offset by the reduction in carrying costs for capital investments.

Thus, we find that $2,265,000 (system) of operation and maintenance expense shall be allowed for recovery through the environmental cost recovery factor based on the policy set forth in this Order. This represents an increase of $74,000 (system) over Gulf's request.

Analysis of each activity included in Gulf's request is set forth below:

SULFUR: All sulfur costs are approved for recovery. Sulfur injection is required at Crist Unit 7 due the low sulfur coal which will be burned to comply with Phase I of the Clean Air Act Amendments of 1990 (CAAA). (TR 157, EX 12) We approve this activity and the period total cost of $22,979.

GENERAL AIR QUALITY: This category includes costs which were included in the 1990 test year but contains certain costs associated with scope changes resulting from compliance with the CAAA. We approve those costs associated with the scope change. All other costs are being recovered through base rates.

Gulf included costs associated with ambient air monitoring systems, air operating permits, and air permit renewals in this category. (TR 157) We approve only the air emission fees that are activities due to Clean Air Act Amendments of 1990 requirements. (TR 256, EX 12) We also approve $226,950 for the period total cost allowance. All remaining activities included in the General Air Quality category are being recovered in base rates and accordingly, we disallow. (TR 260-262, EX 11, LFE 13)

EMISSION MONITORING: This activity was included in Gulf's last rate case but new legislation has caused a change in scope. We approve only those increased costs necessary to comply with new regulations. Gulf witness Vick stated that the Emission Monitoring category includes costs associated with CEMs. (TR 158) However, at hearing Gulf revised its original estimated cost for CEM activity at Plant Crist and Plant Daniel from $62,500 to $135,021 without

changing Gulf's original estimate for this category. (EX 11, EX 12, LFE 13) Accordingly, we approve for recovery only costs for CEM activity at Plant Crist and Plant Daniel and find that the original estimates shall be used to set the recovery factors for the current period. All other activities included in the Emission Monitoring category are being recovered in base rates and shall be disallowed. (TR 260-262, EX 11, LFE 13)

CLEAN COAL TECHNOLOGY : The Clean Coal Technology category is a research and development and demonstration project which is not needed for compliance with existing environmental requirements. (TR 158, 232, TR 235, TR 236, EX 8, EX 6) Therefore, this activity and its costs shall be disallowed because they do not qualify for recovery pursuant to 366.8255, Florida Statutes.

PARTICULATE EMISSION TESTING: This activity was included in Gulf's last rate case, but the costs associated with this activity have increased because of new environmental regulations. The costs associated with the scope change are approved for recovery and all other costs are disallowed because they are being recovered through base rates. Gulf included a CAAA requirement activity in the Particulate Emission Testing category called Relative Accuracy Test Audits. (TR 244, TR 245, EX 12) We approve the Relative Accuracy Test Audits activity which has a period total projected cost of $102,280, and it shall be included with the activities and costs related to compliance with the CAAA. All other activities and costs included in the Particulate Emission Testing category are being recovered in base rates and are disallowed. (TR 260-262, EX 11, LFE 13)

GENERAL WATER QUALITY: The General Water Quality category includes four activities due to environmental requirement changes since the last rate case which are Surface Water Quality, Ground Water Monitoring Plan Revisions, Dechlorination and Soil Contamination Studies. Gulf's revised 19 month cost projections for these activities are $30,436 more than the earlier projections without any change to Gulf's original estimate of the total costs for all activities included in this category. (EX 11, EX 12, LFE 13) We approve the Surface Water Quality, Ground Water Monitoring Plan Revisions, Dechlorination and Soil Contamination Studies activities and shall use Gulf's first response of $907,911. All other costs for activities included in the General Water Quality category are being recovered in base rates and are disallowed. (TR 260-262, EX 11, LFE 13)

ASH POND MAINTENANCE: Gulf witness Lee indicates the activities and costs included in this category are due to the construction and installation of a new dry ash collection system at Plant Daniel.

(TR 304) The new dry ash collection system at Plant Daniel is also known as capital project PE 1535 Daniel Ash Management Project. Because we approved the capital project, the incidental O&M activities and costs to accomplish the project are also approved. The period July 1993 through September of 1994 allowance amount is $140,850.

GROUNDWATER MONITORING: This activity was included in Gulf's last rate case, but the costs associated with this activity have increased because of new environmental regulations. Gulf witness Vick indicated various activities have increased since Gulf's last rate case, such as groundwater investigations and studies. (TR 161) Similarly, Ross Burnaman testified to the increased groundwater investigations and studies in which Gulf engaged to acquired permits from the Florida Department of Environmental Protection. (TR 37) This O&M category was addressed in the last rate case and Gulf budgeted $408,040 in the test year. Gulf's current projection over 15 months for all activities including the new level of activities is $1,047,581. (JOV-1 Schedule 2) The net O&M which Gulf is requesting for groundwater monitoring is the difference between the 15 month total and what was included in the test year budget adjusted to a 15 month value. (TR 378, SDC-2 Schedule 4) We approve recovery only of the incremental O&M due to the incremental activities. Gulf's methodology for estimating the incremental cost is consistent with ours. The 15 month allowance is $537,511 and is calculated below:

$537,511 = $1,047,561 - (15/12) x $408,040

ENVIRONMENTAL AUDITING: We approve the environmental auditing project. Gulf witness Vick made many notable comments regarding the prudence of maintaining an environmental auditing administrative program which appear to be supported by Ross Burnaman's testimony. Witness Vick stated,

> (I)n today's environment of much increasing emphasis on enforcement and environmental laws and regulations, it would be extremely imprudent of a company not to have an active environmental auditing and assessment program in place. (TR 180 Lines 14-18)

Gulf has implemented this program in the last 12 to 14 months, therefore, these are new activities and new costs since the last rate case. (TR 239) We shall allow the 15 month projected total of $219,064 for the environmental auditing administrative program.

SOLID & HAZARDOUS WASTE: We approve this activity. Gulf witness Vick indicated the various activities include the collection,

storage, transport and disposal of hazardous wastes. (TR 165) The cost of these environmental compliance activities have increased since the last rate case. Gulf budgeted $88,799 in the rate case test year. Gulf's current projections over 15 months is $160,101. (JOV-1 Schedule 2) The net O&M which Gulf is requesting for solid & hazardous waste is the difference between the 15 month total and what was included in the test year budget adjusted to a 15 month value. (TR 378, SDC-2 Schedule 4) Thus, we find that Gulf shall recover only the incremental O&M due to the incremental cost of compliance. Gulf's methodology for estimating the incremental cost is consistent with ours. The 15 month allowance is $49,102 and is calculated as shown below:

$49,102 = $160,101 - (15/12) x $88,799

The last nine O&M categories are disallowed because all activities included in each of the following categories are being recovered in base rates. (TR 260-262, EX 11, LFR 13) The fact that Gulf's current cost projections is different today for the same activities addressed in the last rate case is not an increase in compliance requirements but an adjustment to reflect changes in projections. (TR 449)

ASBESTOS: This category "continues as an on-going activity" as indicated by Gulf witness Lee. (TR 302) However, Gulf witness Vick contradicted Mr. Lee when Mr. Vick stated that these are new activities and costs. (TR 492) Mr. Vick also indicated that this category contains both insurance and asbestos disposal costs. (TR 496) Insurance and asbestos disposal costs are already addressed in matters regarding decommissioning. Therefore, these activities and costs are disallowed because appropriate recovery mechanisms already exist for the costs associated with asbestos removal insurance and asbestos disposal.

ENVIRONMENTAL AFFAIRS ADMINISTRATION: Gulf requested recovery for the costs associated with adding six professionals and upgrading a secretarial position to that of an administrative secretary. (TR 243) We find that Gulf has not shown that establishing the positions and the payroll amount for each position is an environmental regulatory requirement, and thus, we deny recovery for these costs.

ATMOSPHERIC FLUIDIZED BED: This activity was included in the 1990 test year and has not changed in scope as a result of new environmental regulations. In addition, the Atmospheric Fluidized Bed is a research and development and demonstration activity which is not needed for compliance with existing environmental requirements. (TR 158, 232, TR 235, TR 236, EX 8, EX 6)

Therefore, this activity and its costs are disallowed because they do not qualify for recovery pursuant to 366.8255, Florida Statutes, as discussed previously.

PRECIPITATOR MAINTENANCE: The costs associated with this activity were included in Gulf's test year and are being recovered through base rates. Gulf witness Vick stated that these activities are to maintain and repair the electrostatic precipitators at Crist Unit 4 and Smith Unit 1 and keep them functional pursuant to air operating permits. (TR 158) However, the requirements for air operating permits have not changed since the last rate case. (TR 254) The CAAA was passed in November 1990 after the last rate case. Therefore, these activities cannot be considered CAAA compliance requirements because there has not been a change in the air operating permits since the last rate case. Also, all costs for activities in this category are being recovered in base rates. (TR 260-262, EX 11, LFE 13) Therefore, we find that all activities and costs included in the Precipitator Maintenance category are disallowed.

The costs associated with the activities below were included in Gulf's test year and current costs of these ongoing programs are being recovered through base rates: WATER MONITORING EQUIPMENT; COOLING TOWER MAINTENANCE; ELECTROMAGNETIC FIELDS; RESIDUAL ASH EXPENSES; and ASH PROCEEDS. (TR 260-2, EX 11)

Depreciation/Amortization Expense

The calculation of depreciation/amortization expense is a calculation based on the depreciation rates in effect during the period the allowed capital investments are in service. Company witness Cranmer testified that the depreciation rates used to calculate the depreciation expense and the accumulated depreciation reserve should be the rates that are in effect during the period the allowed capital investment is in service. (TR 393-394) We agree. This includes the new depreciation rates approved in Docket No. 930221-EI and adjustments addressed in other issues. Thus, we find that the appropriate amount of depreciation/amortization expense that Gulf shall recover is $979,000.

Taxes

Section 366.8255 (1)(d), Florida Statutes, specifically identifies "direct taxes on environmental equipment" as one of the costs eligible for recovery consideration through the environmental compliance cost-recovery factor. At the Prehearing Conference, held on November 22, 1993, all parties agreed that there are no property taxes in the Company's request and that the appropriate

amounts of income taxes and revenue taxes are dependent upon the resolution of other issues. We agree that there are no property taxes included in the Company's request. However, based on the revenue requirement of $8,123,000, income taxes are $1,193,000 and revenue taxes representing 1.5% gross receipts tax and .085% regulatory assessment fees are $129,000. Both the amount of income tax expense and the amount of revenue taxes will vary as the revenue requirement varies.

Environmental Expenses

Based upon our previous findings, we find the appropriate amount of environmental expense is $3,247,000.

Revenue Tax Expansion Factor

The Company requested a revenue tax expansion factor of 1.01609, which includes Gross Receipts Taxes of 1.5% and Regulatory Assessment Fees of .085% calculated as follows:

		Percent
1.	Revenue Requirement	100.0000
2.	FPSC Assessment Fee	0.0853
3.	Gross Receipts Tax	1.5000
4.	Net (1) - (2) - (3)	98.4147
5.	Revenue Expansion Factor (100% / Line 4)	1.01609

At the Prehearing Conference, held on November 22, 1993, all parties agreed that 1.01609 was the appropriate revenue tax expansion factor. We agree that 1.01609 is the appropriate revenue tax expansion factor and, accordingly, approve the revenue tax expansion factor as filed.

Revenue Requirements

Based upon our findings, we find that the appropriate system revenue requirements are $8,123,000. (Attachment 1)

Jurisdictional Separation Factors

The Company has proposed a jurisdictional separation factor of .9651588. This number represents the retail customers' percentage of total coincident peak kilowatts. Gulf has developed this factor by using the same methodology approved in the last rate case; however, 1991 actual load data was used in the derivation. (TR 386)

The new load data was taken from the load research the utility is required to file with this Commission every two years. Updating the split between retail and wholesale coincident peak kW ensures that the retail customers pay no more or less than should be allocated to them. This is an important consideration if the company has lost a large retail customer or has gained additional wholesale customers since the last rate case.

We agree with Gulf that .9651588 is the appropriate jurisdictional separation factor for costs that are allocated to the customer classes using a demand allocator. We, however, find that costs which are allocated to the customer classes using an energy allocator shall be separated with a factor of .9656060. This factor represents the percentage of retail kWh sales to total kWh sales projected for the recovery period (TR 401). Variances between the projected percentages of retail kWh sales and actual retail kWh sales are later captured in the final true-ups. This practice is consistent with the methodology used in other energy allocated adjustment clauses such as the Oil Backout Clause.

Allocation to Rate Classes

We find that those costs required for compliance with the Clean Air Act Amendments of 1990 (CAAA) shall be allocated to the rate classes on an per kilowatt hour, or energy basis. Such an energy allocation is appropriate because the purpose of the CAAA is to reduce the level of emissions of air pollutants such as sulphur dioxide and nitrogen oxides. The level of the emissions of such pollutants is dependent in large part on how many kilowatt hours are generated. (TR 396) Consequently, we find that an energy allocation method results in the most equitable apportionment of these particular compliance costs. We have adopted this treatment of environmental compliance costs has been adopted in the past: in Tampa Electric Company's last rate case, the approved cost-of-service study classified and allocated the costs of the scrubber on its Big Bend 4 coal plant on an energy basis. (Docket No. 920324-EI)

Gulf has proposed allocating all capital expenses related to CAAA compliance using the approved demand allocation methodology used for production plant in its last rate case, the 12 CP and 1/13 AD method. This method allocates most costs (12/13ths) based on each class's contribution to the 12 monthly system peak hours. (TR 395)

Gulf's witness Cranmer indicated that this treatment is appropriate because it is consistent with the approved cost-of-service methodology used in Gulf's last rate case. (TR 380) It is

important to note, however, that there were no capital costs associated with CAAA compliance included in the cost-of-service study in Gulf's last rate case, which used a 1990 test year, and, thus, we have never specifically addressed the treatment of such costs for Gulf.

Gulf has chosen to comply with the sulphur dioxide requirements of the CAAA in part by switching to low sulphur coal. As a result, any increased fuel costs associated with this course of action will be allocated to the rate classes on an energy basis. (TR 397) Gulf's witness indicated that, had Gulf chosen to install scrubbers instead of pursuing a fuel switching strategy, she would advocate allocating the capital costs associated with the scrubber on a demand basis. Using this philosophy, the allocation of CAAA compliance costs is dependant which compliance option is chosen, rather than on an examination of why these costs are being incurred. We find, however, that it is more important to recognize that these compliance costs are being incurred because there is a statutory requirement designed to reduce emissions of pollutants, and that the amount of these pollutants is directly related to the number of kilowatt hours generated.

FIPUG supported the Company's position with regard to the allocation of CAAA costs. FIPUG argued, as did the Gulf, that the capital costs associated CAAA compliance are fixed production plant costs, which are sized based on the maximum capacity of the plant. Thus, FIPUG advocated that they should be allocated using the approved allocation for production plant used in the Company's last rate case, the 12 CP and 1/13 Ab method.

We do not take issue with the fact that many of the costs associated with CAAA compliance are fixed costs, and that they are sized to meet peak demands. However, these facts do not dictate that such costs should be allocated based on peak demand. It is more appropriate to examine why these costs are being incurred. They were incurred to meet the requirements of legislation which was enacted to solve a specific problem: the excessive emission of pollutants. The emission of these pollutants by the electric utility industry is in large part a function of the number of kilowatt hours produced. In this respect, these capital items are different from other production plant items and thus should be treated differently.

FIPUG also objected to the "carving out" of specific types of costs and allocating them on an energy basis. This is precisely what we did with respect to the scrubber costs associated with TECO's Big Bend four plant in TECO's last rate case.

FIPUG has asserted that decisions regarding allocation should be considered in the context of a rate case. FIPUG noted that the capital costs associated with CAAA compliance are substantial. FIPUG argued that considering this allocation issue would somehow "do violence" to decisions made in Gulf's last rate case. We agree that such items should be carefully considered in a rate case as a part of the review of the cost-of-service study. However, since the legislature has mandated that an environmental cost recovery mechanism be established, and Gulf has proposed to recover substantial costs using such a mechanism, these important allocation issues by necessity must be considered outside a rate case.

Accordingly, we find that due to the strong nexus between the level of emissions which the CAAA seeks to reduce and the number of kilowatt hours generated, the costs associated with compliance with the CAAA shall be allocated to the rate classes on an energy basis because it is the most equitable way to apportion the compliance costs associated with the CAAA. We also find that the allocation of the remaining environmental compliance costs made by Gulf is appropriate and approve the allocation proposed by Gulf. Those costs that are allocated on a demand basis shall be allocated using allocators developed from Gulf's latest available load research.

Recovery from Rate Classes

Gulf has proposed to recover environmental costs through a per kilowatt-hour charge for all rate classes. We agree that this is appropriate. This is identical to the way in which costs are recovered in the Capacity Cost Recovery Factor, where costs are allocated on a demand basis. (TR 505) We find that this method is appropriate due to its ease in administration and its understandability.

FIPUG's witness has advocated recovery of environmental compliance costs through a demand charge from those customers in demand metered classes. (TR 429) This assertion is predicated upon the assumption that most of Gulf's costs will be allocated to the rate classes on a demand basis. However, the witness offered no evidence a demand recovery would result in a more equitable apportionment of costs within the demand-metered rate classes.

Effective Date of the Environmental Cost Recovery Factor

Since rate increases are effective at the earliest 30 days from the Commission vote, we find that the factors shall be effective with the beginning of the February 1994 billing cycle. These factors shall be effective for the eight-month period of

February through September 1994, and shall recover actual and projected environmental costs for the period July, 1993 through September 1994. Beginning in October of 1994, the factor shall be established for six-month periods corresponding with the fuel adjustment clause.

An effective date of February 1994 is appropriate because it will implement our decision of the December 21, 1993 agenda conference as soon as practicable. In the interest of fairness to Gulf and to reduce rate shock to the ratepayers, the factors shall be set for a one-time eight-month period of February through September 1994. Following this initial 8-month period, the factors shall be set every six months, coincident with the fuel adjustment factors, as discussed later in this Order.

Environmental Cost Recovery Factors

The approved environmental cost recovery factors are set forth in the chart below and are based upon the eight-month recovery period of February through September 1994:

RATE CLASS	ENVIRONMENTAL COST RECOVERY FACTORS ¢/KWH
RS, RST	0.148
GS, GST	0.147
GSD, GSDT	0.137
LP, LPT	0.130
PX, PXT	0.123
OSI, OSII	0.108
OSIII	0.130
OSIV	0.106
SS	0.123

Subaccounts

Gulf currently maintains subaccounts to record costs associated with conservation cost recovery items pursuant to Rule 25-17.015, Florida Administrative Code (F.A.C.). The Company also

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maintains subaccounts to record not only fuel revenues and expenses but other revenue and expense categories as well. (TR 141) In addition, Rule 25-17.016, F.A.C., requires companies to maintain subaccounts for all back-out cost recovery items.

Gulf asserted that other equally effective mechanisms can be used to track costs and revenues associated with the clause to provide a clear audit trail, such as a work order system.

The requirement to maintain subaccounts associated with environmental costs is consistent with the conservation and oil back-out rules and the recent decision in Docket No. 930661-EI, Order No. PSC-93-1580-FOF-EI, FPL's Petition for Recovery of Environmental Costs. (TR 140-141) This requirement, however, does not preclude the Company from using a work order system to capture the environmental costs as suggested by Gulf.

There are also other reasons why Gulf should be required to maintain separate subaccounts. First, maintenance of subaccounts ensures that there is no double recovery, because it is easier for the auditors to verify that amounts have been removed from the filing when subaccounts are used than when amounts are charged to work orders. Second, use of subaccounts ensures the separation of the ECRC costs from other costs. Third, it is simpler to extract capital costs, revenues and expenses from the computerized general ledger and supporting accounting detail ledger when subaccounts are used.

Accordingly, Gulf shall be required to maintain subaccounts consistent with the Uniform System of Accounts prescribed by this Commission for all items included in the environmental cost recovery factor.

Period of Factor

All parties agreed that we should establish recovery periods for the environmental cost recovery factor which coincide with the periods used in the fuel cost recovery clause. In addition, all parties agree that environmental cost recovery hearings should be held in conjunction with the fuel cost recovery hearings. The only dispute was whether we should establish 6- or 12-month periods.

Gulf Power maintained that administrative and filing expenses can be reduced if we established 12-month periods for the environmental cost recovery clause. FIPUG suggested that a 6-month period will help to reduce excessive over- and under-recoveries because of the shorter projection period.

We find initially that 6-month periods for the environmental cost recovery clause shall be established, beginning in October 1994. This is a new cost recovery mechanism and neither the Company or us have much experience in administering the clause. This does not preclude us from establishing 12-month periods for the environmental cost recovery clause after some experience is gained.

Forecasts

All parties have agreed that the Company's forecast of customers, KWH, and KW for the recovery period is both reasonable and appropriate. We have reviewed the load forecast and found these forecasts to be consistent with historical growth patterns and with economic conditions anticipated for the Gulf service territory. Thus, we approve of the agreement that the forecast is reasonable and appropriate.

Emission Allowances

The only ratemaking issue addressed was the emission allowance inventory. This item was addressed previously in this Order in which we found that the appropriate amount of working capital is $3,000. This represents Gulf's net investment in emission allowances. (TR. 384-385)

The UAWA took the position that we should adopt the ratemaking treatment for allowances adopted by the Georgia PSC in a pending docket. There is no record basis to support this position, and no testimony was presented to explain the treatment in the pending docket before the Georgia Commission.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Gulf Power Company shall be allowed to recover $8,123,000 (system) of expenses through the environmental compliance cost recovery clause which is delineated and discussed within the body of this Order. It is further

ORDERED that Gulf Power Company shall be allowed to earn a rate of return on equity of 12.01 on its capital investments. It is further

ORDERED that the appropriate overall rate of return for the recovery of capital investment costs is 10.57781. It is further

ORDERED that the appropriate jurisdictional seperation factors are .9651588 for demand allocated costs and .9656060 for costs allocated using an energy allocator. It is further

ORDERED that environmental costs associated with compliance with the Clean Air Act Amendments of 1990 shall be allocated to the rate classes on an energy basis. All other costs shall be allocated as proposed by Gulf Power Company. Those costs that are allocated on a demand basis shall be allocated using allocators developed from Gulf Power Company's latest available load research. Environmental compliance costs shall be recovered from all rate classes using a per kilowatt hour factor based upon the approved allocation method. It is further

ORDERED that the effective date for the environmental cost recovery factors begin with the February 1994 billing cycle. These factors shall remain in effect for eight months, through September 1994. Beginning in October 1994, the factors shall be established for six-month periods corresponding with the fuel adjustment clause. The appropriate environmental cost recovery factors are set forth in the body of the Order. It is further

ORDERED that Gulf Power Company shall maintain separate subaccounts consistent with the Uniform System of Accounts prescribed by this Commission for all items included in the environmental compliance cost recovery factor as discussed within the body of this Order.

By ORDER of the Florida Public Service Commission, this 12th day of JANUARY, 1994.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)
DLC:bmi

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

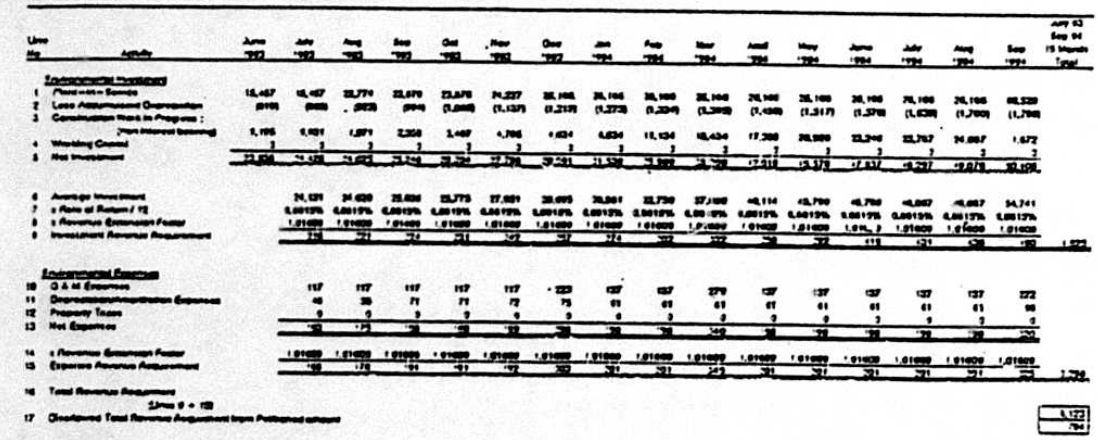
The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. 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.

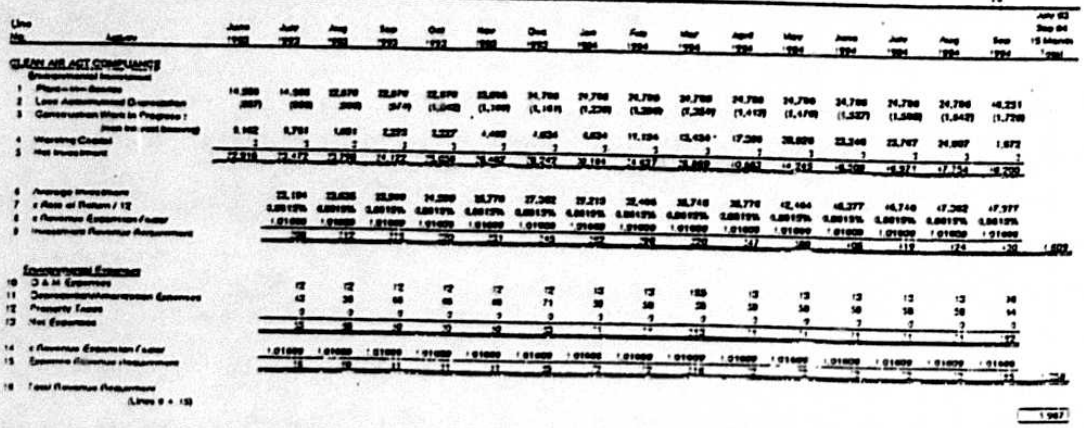
Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 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 or sewer 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 Civil Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

Gulf Power Company
Environmental Cost Recovery Factor

Total Revenue Requirements ($000's)



Gulf Power Company
Environmental Cost Recovery Factor
CLEAN AIR ACT COMPLIANCE
Total Revenue Requirements ($000's)



Gulf Power Company
Environmental Cost Recovery Factor
ALL OTHER - NOT RELATED TO CLEAN AIR ACT COMPLIANCE
Total Revenue Requirements ($000's)

Line No.	Activity	June 1993	July 1993	Aug 1993	Sep 1993	Oct 1993	*Nov 1993	Dec 1993	Jan 1994	Feb 1994	Mar 1994	April 1994	May 1994	June 1994	July 1994	Aug 1994	Sep 1994	July 93 - Sep 94 (3 months / year)
	ALL OTHER - NOT RELATED TO CLEAN AIR ACT COMPLIANCE																	
	Environmental Investments																	
1	Pow-in-Service	899	899	904	1,899	1,899	1,122	1,399	1,399	1,399	1,399	1,399	1,399	1,399	1,399	1,399	12,273	
2	Less Accumulated Depreciation	(12)	(15)	(17)	(20)	(23)	(26)	(31)	(34)	(38)	(41)	(44)	(47)	(51)	(54)	(58)	(72)	
3	Construction Work in Progress (																	
	non-interest bearing)	33	78	140	135	208	212	0	0	0	0	0	0	0	0	0	0	
4	Working Capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
5	Net Investment	920	954	1,027	1,124	1,284	1,308	1,368	1,365	1,362	1,358	1,354	1,352	1,348	1,345	1,341	12,201	
6	Average Investment		937	991	1,076	1,165	1,301	1,338	1,366	1,364	1,361	1,356	1,353	1,350	1,347	1,343	6,764	
7	x Rate of Return / 12		0.00151%	0.00151%	0.00151%	0.00151%	0.00151%	0.00151%	0.00151%	0.00151%	0.00151%	0.00151%	0.00151%	0.00151%	0.00151%	0.00151%	0.00151%	
8	x Revenue Expansion Factor		1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	
9	Investment Revenue Requirement		1	1	1	1	1	2	2	2	2	2	2	2	2	2	10	215
	Environmental Expenses																	
10	O & M Expenses		165	165	162	165	165	211	124	124	124	124	124	124	124	124	124	
11	Depreciation/Amortization Expenses		3	2	3	3	4	4	3	3	3	3	3	3	3	3	14	
12	Property Taxes		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
13	Net Expenses		167	167	165	168	169	215	127	127	127	127	127	127	127	127	138	
14	x Revenue Expansion Factor		1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	
15	Expenses Revenue Requirement		170	170	168	171	172	219	129	129	129	129	129	129	129	129	140	1,940
16	Total Revenue Requirement (Lines 9 + 15)																	2,156

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition to establish an Environmental Cost Recovery clause pursuant to Section 366.8255, Florida Statutes, by Gulf Power Company.	DOCKET NO. 930613-EI FILED: January 26, 1994

THE FLORIDA INDUSTRIAL POWER USERS GROUP'S MOTION FOR RECONSIDERATION

Pursuant to Rule 25-22.060, Florida Administrative Code, the Florida Industrial Power Users Group ("FIPUG"), through its undersigned counsel, files its motion for reconsideration of Order No. PSC-94-0044-FOF-EI, and states:

1. In Order No. PSC-94-0044-FOF-EI, the Commission decided to allocate the costs incurred by Gulf Power to comply with the Clean Air Act Amendments of 1990 among customer classes on the basis of their energy consumption. In support of the decision, the Commission twice referred to the order in Tampa Electric's last rate case. The Commission noted that in the TECO case it approved a cost of service study in which TECO's scrubber was allocated on the basis of energy consumption. However, the Commission overlooked the fact that in the TECO case the Commission approved a settlement and stipulation of parties on issues regarding cost of service and rate design. Like other such settlements, the stipulation represented the result of negotiations designed to produce an overall package and to avoid a litigated result on any particular issue. The stipulation expressly stated that it was to have no precedential effect. In approving the stipulation, the

Commission also necessarily approved that aspect of the settlement.[1]

The Commission should reconsider its decision so as to remove from its decision the impact of its mistaken reliance on the TECO order.

2. On reconsideration, the Commission should recognize that its reference to the TECO example was misplaced in any event. Section 366.0825, Florida Statutes requires the Commission to apply to a request to recover environmental expenses through an extraordinary recovery clause the same criteria it would apply in a base rate proceeding, taking into account the manner in which similar expenses were allocated in the requesting utility's last rate case. The clear legislative intent underlying Section 366.0825, is to promote consistency and continuity in the allocation of significant environmental expenses for individual utilities during periods between base rate cases. By imposing the above requirements, the directives contained in the new statute limit the Commission's discretion; yet, the Commission's order makes no mention of them.

Here, the record establishes that in Gulf Power's last rate case the environmental expenses similar to CAAA costs were allocated on the same basis as production plant. The evidence of record provides no basis for departing from that treatment. By looking instead to the example of a different utility, and by

[1] A copy of the pertinent portion of the stipulation is attached. Unlike most instances, the stipulation was not attached to the final order.

failing to take into account Gulf Power's past treatment of similar expenses, the Commission either disregarded or overlooked the requirements of Section 366.0825, Florida Statutes.

WHEREFORE, FIPUG requests the Commission to reconsider Order No. PSC-94-0044-FOF-EI in light of the above, and order Gulf Power to allocate the costs of environmental compliance approved for recovery in this proceeding on the basis of the allocation methodology approved for similar environmental expenses in its last rate case, consistent with the requirements of Section 366.0825, Florida Statutes.

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Attorneys for the Florida
Industrial Power Users Group

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Florida Industrial Power Users Group's Motion for Reconsideration has been furnished by U.S. Mail or by hand delivery* to the following parties of record, this 26th day of January, 1994.

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Vicki Gordon Kaufman

Vicki Gordon Kaufman

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Tampa Electric Company for authority to increase its rates and charges.

Docket No. 920324-EI

COST OF SERVICE
AND RATE DESIGN
STIPULATION

Tampa Electric Company (the Company), the Florida Industrial Power Users Group, and the District School Board of Pasco County, Florida (collectively, the Parties), by and through their undersigned counsel, hereby stipulate and agree to resolve Issues 100 through 126 contained in the Prehearing Order No. PSC-92-1163-PHO-EI, pertaining to Cost of Service and Rate Design, as follows, provided, however, that while FIPUG takes no position on Issues 102, 103, 112 through 114 and 116 through 126, it does not object to the stipulation of these issues.

ISSUE 100: Are Tampa Electric's separation of amounts for wholesale and retail jurisdictions appropriate?

PROPOSED STIPULATION: Parties stipulate to the separation studies provided by Witness Gower in his Deposition Exhibit #3, which separate the cost to the four firm Schedule D customers on the basis of all generating plant. The 1994 study will be revised to include the St. Cloud contract.

ISSUE 101: Should the interruptible service rate classes be treated in the cost of service study based on the class' load characteristics and be provided a credit based on the avoided cost?

ISSUE 108: What is the appropriate level of credit per coincident KW for interruptible service (IS-1 and IS-3)?

ISSUE 109: Should the credits for interruptible service be distributed to IS customers on the basis of billing KW? If so, what is the appropriate level of credit per billing KW?

ISSUE 105: What is the appropriate cost of service methodology to be used in designing the rates of Tampa Electric?

ISSUE 106: Should the rate base for environmental investment, including the pollution control equipment, for Big Bend 4, be classified as energy related?

PROPOSED STIPULATION: Parties stipulate to the use of the 12 CP and 1/13th weighted average demand method with the scrubber portion of the environmental equipment for Big Bend 4 classified as energy related. The cost study will be provided as the company's response to Interrogatory 94 (Staff's 13th Set). The 1994 study will be revised to include the City of St. Cloud contract in the non-jurisdictional portion.

ISSUE 107: Should lower load factor GSD customers have the option of paying an energy charge which is 120 percent of the GS energy charge in lieu of the GSD demand and energy charges as the company has proposed?

STIPULATED POSITION: Yes. This rate design is a reasonable step toward making low load factor Customer rates more cost based.

ISSUE 111: Is Tampa Electric's proposal to state the power factor as a range of 85% to 90%, with a penalty for a power factor below 85% and a credit for a power factor above 90% appropriate?

STIPULATED POSITION: Yes.

ISSUE 126: What is the correct method to determine the amount of CIAC a customer is required to contribute to purchase a Time-of-Day meter?

STIPULATED POSITION: The amount required should be equal to the difference in current cost between a regular meter and a Time-of-Day meter.

The term 'cost of service study' as used herein is intended by the parties to refer to a compliance cost of service study prepared by the company which incorporates the Commission's decisions on all issues in this proceeding affecting the company's revenue requirements or billing determinants. The parties recognize, however, that due to the timing of the Commission's decisions, that such full compliance cost of service study may not be available for such use. In that event, the parties intend that the cost of service study prepared by the company based on the Staff's recommendations regarding revenue requirements issues, as adjusted by Staff to reflect the Commission's decisions, will be used. Any adjustment made by Staff as a result of the Commission's vote on revenue requirements which differs from normal Commission procedure and which affects allocation of those revenue requirements to the rate classes will be provided to interested parties.

For 1994, the compliance cost of service will be a full compliance cost of service study, reflecting revenues for sales of electricity based on the rates approved by the Commission for 1993. The Company will provide revised E-16A, E-16C and E-16D Schedules for 1994 based on the 1993 rates approved by the Commission with its compliance cost of service study. The final agenda for the approval of 1994 rates will occur at the next available Agenda Conference, taking into consideration the staff's requirement to review the 1994 compliance cost of service study and prepare a recommendation.

Each of the general provisions set forth in the issues covered by this stipulation have been negotiated as essential, interdependent components to a comprehensive settlement of the cost of service and rate design issues identified, and therefore, collectively constitute a single stipulation between the parties. As such, the parties agree that if this Stipulation is not approved by the Commission in its entirety, it shall be null and void and of no binding effect on the parties. The parties further agree that this Stipulation is for settlement purposes only, shall have no precedential value, and shall be without prejudice to the right and the opportunity of the parties to present and argue cost of service and rate design considerations and rate levels they deem appropriate in future rate proceedings before this Commission.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition to establish an Environmental Cost Recovery clause pursuant to Section 366.8255, Florida Statutes, by Gulf Power Company.	DOCKET NO. 930613-EI FILED: January 26, 1994

FLORIDA INDUSTRIAL POWER USERS GROUP'S REQUEST FOR ORAL ARGUMENT

The Florida Industrial Power Users Group (FIPUG), pursuant to Rule 25-22.058, Florida Administrative Code, hereby requests oral argument on its Motion for Reconsideration of Order No. PSC-94-0044-FOF-EI. As grounds therefore, FIPUG states:

1. FIPUG has simultaneously filed a Motion for Reconsideration of Order No. PSC-94-0044-FOF-EI as it relates to the Commission's decision to allocate the costs incurred by Gulf Power to comply with the Clean Air Act Amendments of 1990 among customer classes on the basis of energy consumption.

2. The order for which FIPUG seeks reconsideration deals with an important cost of service issue which directly impacts the fair and equitable allocation of costs among rate classes. Additionally, the Gulf Power order is the first order in which the Commission has addressed this important allocation issue.

3. Oral argument will aid the Commission in insuring that it reaches the appropriate decision on an issue which has far reaching ramifications for all Gulf Power customers.

WHEREFORE, FIPUG requests that the Commission grant oral argument of 15 minutes per side on its Motion for Reconsideration.

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Attorneys for the Florida
Industrial Power Users Group

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Florida Industrial Power Users Group's Request for Oral Argument has been furnished by U.S. Mail or by hand delivery* to the following parties of record, this 26th day of January, 1994.

Donna Canzano*
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition to establish an environmental cost recovery clause pursuant to Section 366.8255, Florida Statutes, by Gulf Power Company	Docket No. 930613-EI Date Filed: 2/15/94

JOINDER OF GULF POWER COMPANY IN THE FLORIDA INDUSTRIAL POWER USERS GROUP'S MOTION FOR RECONSIDERATION

GULF POWER COMPANY ["Gulf Power", "Gulf", or "the Company"], joins in the Florida Power Industrial Users Group's ["FIPUG"] Motion for Reconsideration previously filed in the above docket, and in support thereof states:

1. FIPUG'S Motion requests reconsideration of that portion of Florida Public Service Commission ["Commission"] Order No. PSC-94-0044-FOF-EI, issued on January 12, 1994 in this docket, which provided that costs incurred by Gulf in compliance with the Clean Air Act Amendments of 1990 ["CAAA"] were to be allocated on the basis of energy consumption.

2. In its initial Petition filed in this docket, Gulf Power proposed to allocate all compliance costs, including CAAA compliance costs, based on the same allocation method prescribed in Gulf's last rate case, Docket No. 891345-EI. At the hearings conducted December 8-9, 1993, Gulf's witness Ms. Cranmer presented testimony supporting Gulf's proposed allocation methodology. As Ms. Cranmer testified, in a full revenue requirements rate case the Commission has the opportunity to fully consider important cost-of-service policy issues in determining an appropriate allocation

methodology. [R. 389-390] The allocation methodology adopted by the Commission after due consideration of all relevant factors in the last rate case, therefore, should not be changed in a limited proceeding such as this docket. Gulf's proposed allocation methodology properly reflects the cost causation principle which guided the Commission's determination in the Company's last rate case. [R. 389, 398] Further, both Mr. Vick and Ms. Cranmer testified that plant-related expenses associated with Clean Air Act compliance are incurred by the Company irrespective of the number of kilowatt hours generated by the plant. [R. 209-211, 391, 396] Thus, these expenses are properly classified as production related, and should be allocated on the basis of the demand allocator. [R. 391-392]

3. Gulf Power agrees with FIPUG that based on the record developed in this docket and the language of Section 366.8255, the Commission should utilize the allocation methodology prescribed for Gulf Power in the Company's last rate case.

WHEREFORE, Gulf Power Company joins in the Florida Industrial Power Users Group's request that the Commission reconsider Order No. PSC-94-0044-FOF-EI and allow Gulf to allocate Clean Air Act-related environmental compliance costs in a method consistent with the methodology approved for similar expenses in the Company's last rate case.

Respectfully submitted this 15th day of February, 1994.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition to establish an environmental cost recovery clause pursuant to Section 366.8255, Florida Statutes, by Gulf Power Company	)	Docket No. 930613-EI Date Filed:

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by U.S. Mail or hand delivery to the following parties to this docket, this 15th day of February, 1994.

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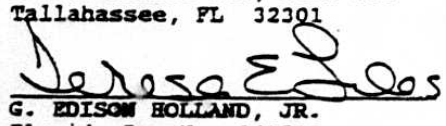

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition to establish an environmental cost recovery clause pursuant to Section 366.8255, Florida Statutes, by Gulf Power Company	)	Docket No. 930613-EI Date Filed: 2/15/94

JOINDER OF GULF POWER COMPANY IN THE FLORIDA INDUSTRIAL POWER USERS GROUP'S REQUEST FOR ORAL ARGUMENT AND REQUEST TO PARTICIPATE IN ORAL ARGUMENT

GULF POWER COMPANY ["Gulf Power", "Gulf", or "the Company"], joins in the request of the Florida Industrial Power Users Group that oral argument be granted and requests that it be allowed to participate in such oral argument if permitted, and in support of this request states:

1. Gulf has, simultaneously with the filing of this request, filed a joinder in the Florida Industrial Power Users Group's ["FIPUG"] motion for reconsideration in this docket.

2. FIPUG has requested that oral argument be allowed in support of its motion, asserting that the issue of Clean Air Act compliance cost allocation is one of great importance, and that oral argument will aid this Commission in reaching a decision on this issue.

3. Gulf supports and joins in FIPUG's request for oral argument, and requests that FIPUG's request be granted, and that Gulf Power be allowed the opportunity to participate.

WHEREFORE, Gulf Power Company requests that the Commission grant FIPUG's request for oral argument, and further that Gulf be allowed to participate in oral argument if allowed in this docket.

Respectfully submitted this 15th day of February, 1994.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition to establish an environmental cost recovery clause pursuant to Section 366.8255, Florida Statutes, by Gulf Power Company	)	Docket No. 930613-EI Date Filed:

CERTIFICATE OF SERVICE

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