

FLORIDA PUBLIC SERVICE COMMISSION
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M E M O R A N D U M

August 1, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO) *DW*

FROM: DIVISION OF ELECTRIC & GAS (BASS, BREMAN, TEW, WHEELER) *963 43 RLT*
DIVISION OF LEGAL SERVICES (JOHNSON) *JD*
DIVISION OF AUDITING & FINANCIAL ANALYSIS (HICKS, LEE, MAUREY, REVELL) *APC*
ROMIG JS

RE: DOCKET NO. 960688-EI - TAMPA ELECTRIC COMPANY - PETITION
FOR APPROVAL OF CERTAIN ENVIRONMENTAL COMPLIANCE
ACTIVITIES FOR PURPOSES OF COST RECOVERY *ALM*

AGENDA: AUGUST 13, 1996 - REGULAR AGENDA - PROPOSED AGENCY ACTION
- INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\960688EI.RCM

CASE BACKGROUND

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

DOCUMENT NUMBER-DATE

08039 AUG-1 96

FP-C-RECORDS/REPORTING

DISCUSSION OF ISSUES

ISSUE 1: Tampa Electric Company has requested to recover \$2,788,832 (jurisdictional, adjusted for taxes) through the Environmental Cost Recovery Clause for three environmental compliance activities. Are these compliance costs appropriate for recovery through the Environmental Cost Recovery Clause?

RECOMMENDATION: Yes. Tampa Electric Company's projected environmental compliance costs for the period June 1996 through March 1997 totalling \$2,788,832 (jurisdictional, adjusted for taxes) are appropriate for recovery through the Environmental Cost Recovery Clause. (Tew, Breman)

STAFF ANALYSIS: Tampa Electric Company (TECO) has petitioned to recover \$2,788,832 relating to three different environmental compliance activities. Staff recommends that the Commission approve TECO's request because these environmental compliance activities appear to meet the criteria determined by the Commission in Order No. PSC-94-0044-FOF-EI as a basis for allowing cost recovery through the Environmental Cost Recovery Factor:

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

On May 20, 1996, the Commission issued Order No. PSC-96-0670-S-EI approving a stipulation that resolved the issues regarding Tampa Electric Company's overearnings and the disposition of those overearnings for the period 1995 through 1998. As part of that stipulation, TECO agreed not to use the various recovery clauses to recover capital items that normally would be recovered through base rates. However, TECO would be allowed to recover its prudent expenditures associated with compliance with environmental laws and regulations through the environmental cost recovery clause. TECO further agreed that, during the term of the stipulation, the environmental cost recovery clause would not be used to recover any of the costs incurred relative to Polk Power

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

The three environmental compliance activities included in TECO's petition are shown in Attachment I. The first page of Attachment I shows the revenue requirements resulting from capital and O&M expenditures for each activity. The second page shows the calculation of the Environmental Cost Recovery Factor. These environmental compliance activities require the utility to incur expenses that comply with the statutory mandates of Section 366.8255, Florida Statutes. A brief description of each of the environmental compliance activities follows.

Big Bend Unit 3 Flue Gas Desulfurization Integration

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

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

Big Bend Units 1 & 2 Flue Gas Conditioning

TECO requests recovery of \$634,802 (jurisdictional) in the current projection period, including \$564,602 in capital costs and \$70,200 in O&M expenses, for the project entitled Big Bend Units 1 & 2 Flue Gas Conditioning. This project is also necessary to meet requirements of the CAAA. In order to meet the SO₂ emissions reductions called for by the CAAA, TECO chose fuel blending with low sulfur coals as the most cost effective option at Big Bend Units 1 & 2. Since the analysis supported the continued use of low sulfur fuel blending at Units 1 & 2, TECO had to consider alternatives for correcting the resulting loss of efficiency of the current precipitators in the removal of flyash from the exhaust gases. This loss in precipitator efficiency is due to the different fly ash characteristics of various lower sulfur coals compared to the higher sulfur coals for which the precipitators were originally designed. After considering both the costs and the impacts of the alternatives of installing bag houses, larger electrostatic precipitators, and flue gas conditioning, TECO chose flue gas conditioning at Big Bend Units 1 & 2 as the most cost effective and reliable option for compliance. According to TECO, the costs of this project are not presently recovered in base rates or through any other cost recovery mechanism.

Big Bend Unit 4 Continuous Emissions Monitoring Installation

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

TECO is requesting recovery of \$72,452 (jurisdictional) in the current projection period which consists solely of capital costs. These capital costs include the costs of materials and subcontracted services. Since O & M costs for the old CEM system are already included in base rates and the O&M costs for the new system are expected to be similar, TECO is not requesting recovery of any incremental O&M expenses through the ECRC. The net book value of the CEMS that these new CEMS replaced is currently being

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recovered through base rates and is shown as a deduction from the net investment for this new CEM project. The costs of the new CEM project are not presently recovered in base rates or through any other cost recovery mechanism.

SO₂ Emission Allowances

TECO inadvertently omitted SO₂ Emission Allowances in its petition for recovery of environmental compliance costs. TECO is currently recovering these costs and revenues through the Fuel and Purchased Power Cost Recovery Clause. According to Order No. PSC-95-0450-FOF-EI, these costs should be removed from the fuel clause and placed in the Environmental Cost Recovery Clause upon a company's participation in the Environmental Cost Recovery Clause. The parties agreed that instead of submitting a revised filing to correct this oversight, TECO will include SO₂ Emission Allowances in its next projection filing for the April 1997 through September 1997 period. At that time, TECO will also remove this item from the Fuel and Purchased Power Cost Recovery Clause.

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ISSUE 2: What are the appropriate Environmental Cost Recovery Factors for the period October 1996 through March 1997 for each rate group?

RECOMMENDATION: The appropriate Environmental Cost Recovery Factors for the period October 1996 through March 1997 for each rate group are as follows:

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

STAFF ANALYSIS: These Environmental Cost Recovery Factors were calculated for the October 1996 through March 1997 recovery period based on TECO's projected sales for the period October 1996 through March 1997 and TECO's projected cost data for the period June 1996 through March 1997. The Environmental Cost Recovery Factors that are approved by the Commission in this docket will be reflected in the upcoming biannual Environmental Cost Recovery Clause hearing on August 29, 1996. Page 2 of Attachment I shows the calculation of the factors shown above.

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ISSUE 3: What should be the effective date of the new Environmental Cost Recovery Factors for billing purposes?

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

STAFF ANALYSIS: TECO should be allowed to recover dollars spent on the environmental compliance activities approved in this docket during the period of October 1996 through March 1997. TECO has requested that the Commission handle the on-going administration of the Environmental Cost Recovery Clause in the biannual hearings established for that purpose and held in conjunction with the biannual fuel hearings as is done for Gulf Power Company and Florida Power and Light Company. At the upcoming biannual hearing on August 29, 1996, the Environmental Cost Recovery Factors reflected in the final order of this docket will be readdressed as TECO will be recognized as a participant in those biannual hearings from that point on. The cycle of true-ups and projections should continue on a six month cycle with hearings held in conjunction with the fuel adjustment hearings. TECO has chosen a six-month recovery period at this time, but if TECO or the Commission wishes to move to annual environmental cost recovery hearings in the future, TECO may then request an annual recovery period.

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ISSUE 4: What are the appropriate weighted rates of return for the recovery of capital investment costs?

RECOMMENDATION: The appropriate weighted rate of return for the debt component is 2.82%. The appropriate weighted rate of return for the equity component is 8.82%. (Maurey)

STAFF ANALYSIS: The recommended returns are reported on a 13-month average, FPSC adjusted basis consistent with the capital structure approved in Tampa Electric's last rate case in Order Nos. PSC-93-0165-FOF-EI and PSC-93-0664-FOF-EI. The debt component return recommended by Staff is the same as the return proposed by Tampa Electric and is based on the cost rates approved in Order No. PSC-93-0165-FOF-EI. The equity component return recommended by Staff is the same as the return proposed by Tampa Electric and is based on the allowed return on equity of 11.75% approved in Order No. PSC-95-0580-FOF-EI and the cost rate for preferred stock approved in Order No. PSC-93-0165-FOF-EI. The methodology Tampa Electric used to calculate the component returns is consistent with the methodology the Commission approved in Order No. PSC-94-0044-FOF-EI in Gulf Power Company's petition for its Environmental Cost Recovery Factor in Docket No. 930613-EI.

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ISSUE 5: How should the newly proposed environmental costs be allocated to the rate classes?

RECOMMENDATION: The newly proposed environmental costs should be allocated to the rate classes on an energy basis. (Wheeler)

STAFF ANALYSIS: The three newly proposed environmental compliance activities are necessary to ensure compliance with the CAAA. The Commission has directed in Order No. PSC-94-0044-FOF-EI that all costs required for compliance with the CAAA shall be allocated to the rate classes on an energy (per kilowatt hour) basis.

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ISSUE 6: Should the Commission provide that the time for requesting a Section 120.57 hearing be 14 days from the issuance of the notice of proposed agency action?

RECOMMENDATION: Yes, in order to ensure that TECO's Environmental Cost Recovery Factors are approved at the upcoming ECRC hearing and will be implemented for the upcoming cost recovery period, the Commission should allow 14 days, rather than the customary 21 days, for the protest period. (Johnson)

STAFF ANALYSIS: Pursuant to Rule 25-22.029(4), Florida Administrative Code, any person whose substantial interests are affected by the proposed agency action has 21 days to file a request for a section 120.57 hearing. For good cause shown, the Commission may provide the time for requesting a section 120.57 hearing shall be 14 days from issuance of the notice.

In this instance, if TECO's request for recovery of environmental compliance activities through the Environmental Cost Recovery Clause is approved, the resulting factors will be included at the upcoming fuel/ECRC hearing. The fuel/ECRC hearing will be held on August 29, 1996 which is 16 days after the agenda conference to consider this recommendation. Therefore, staff requests that the protest period be shortened to 14 days so that the order approving TECO's recovery of costs through the ECRC and the company's participation in the ECRC docket will become final, if no protest is timely filed, prior to the fuel/ECRC hearing.

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ISSUE 7: Should this docket be closed?

RECOMMENDATION: If Issue 6 is approved, this docket should be closed within 14 days of the issuance of this Order if no timely protests are filed. However, if Issue 6 is not approved, this docket should be closed within 21 days of the issuance of this Order if no timely protests are filed. (Johnson)

STAFF ANALYSIS: If no substantially affected person files a timely request for a Section 120.57, Florida Statutes, hearing, no further action will be required, and this docket should be closed.

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

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

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

RATE SCHEDULE	12 CP LOAD FACTOR	PROJECTED SALES AT METER	PROJECTED AVG 12 CP AT METER	DEMAND LOSS FACTOR	ENERGY LOSS EXPANSION FACTOR	PROJECTED SALES AT GEN	PROJECTED AVG 12 CP AT GEN	% OF KWH SALES AT GEN	% OF 12 CP DEMAND AT GEN	12 CP & 1-13 ALLOCATION FACTOR		% OF SALES AT GENERATION		% OF DEMAND AT GENERATION		ENERGY RELATED COST	DEMAND RELATED COST	TOTAL CAPACITY COS.	PROJECTED SALES AT METER	RECOVERY FACTOR CENTS/KWH
										12 CP & 1-13 ALLOCATION FACTOR	% OF SALES AT GENERATION	% OF DEMAND AT GENERATION								
RS, RST	53.58%	2,862,984,000	1,220,010	1,066,114	1,059,519	3,033,385,945	1,300,670	42.09%	56.45%	55.34%	42.09%	56.45%	\$1,173,819	\$0	\$1,173,819	2,862,984,000	0.041			
GS, GST, TS	55.78%	393,450,000	161,041	1,065,889	1,059,519	416,867,751	171,652	5.78%	7.45%	7.32%	5.78%	7.45%	\$161,194	\$0	\$161,194	393,450,000	0.041			
GSD, GSDT	74.11%	1,803,752,000	555,680	1,064,600	1,058,388	1,969,069,472	591,576,80	26.49%	25.67%	25.74%	26.49%	25.67%	\$738,762	\$0	\$738,762	1,803,752,000	0.041			
GSLD, GSLDT, SBP, SBPT	82.90%	825,434,000	227,329	1,048,214	1,042,045	860,139,375	238,290	11.93%	10.34%	10.46%	11.93%	10.34%	\$332,708	\$0	\$332,708	825,434,000	0.040			
SL, SLT, SLA, SBLA, SBLT, SBLA	0.98%	897,376,000	0	N/A	1,020,002	915,325,315	0	12.70%	0.00%	0.98%	12.70%	0.00%	\$354,182	\$0	\$354,182	897,376,000	0.039			
SL, OL	0.16%	68,736,000	1,916	1,055,556	1,059,521	72,827,215	2,022	0.16%	0.09%	0.16%	1.01%	0.09%	\$28,167	\$0	\$28,167	68,736,000	0.041			
TOTAL	100.00%	6,851,732,000	2,394,211	7,207,615,029	7,207,615,029	2,394,211	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	\$2,288,832	\$0	\$2,288,832	6,851,732,000				

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