

State of Florida



## Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

**DATE:** October 11, 2013

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Engineering (Graves) *EG*  
Division of Accounting and Finance (Mouring, Prestwood) *TPB*  
Division of Economics (Wu) *Wu* *J.W.D.*  
Office of the General Counsel (Murphy) *MP* *CM*

**RE:** Docket No. 130092-EI – Petition of Gulf Power Company to include the Plant Daniel Bromine and ACI Project, the Plant Crist Transmission Upgrades Project, and the Plant Smith Transmission Upgrades Project in the Company's program, and approve the costs associated with these compliance strategies for recovery through the ECRC.

**AGENDA:** 10/24/13 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Edgar

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ENG\WP\130092.RCM.(2)10-24-13.DOC

### Case Background

On April 1, 2013, in Docket No. 130007-EI, Gulf Power Company (Gulf or Company) filed a petition requesting that the Commission approve Gulf's inclusion of the Plant Daniel Bromine and Activated Carbon Injection (ACI) Project, the Plant Crist Transmission Upgrades Project, and the Plant Smith Transmission Upgrades Project in the Company's Compliance Program and approve recovery of the costs associated with these projects through the

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Environmental Cost Recovery Clause (Petition). On April 29, 2013, Docket No. 130092-EI was established to address Gulf's request.

On August 16, 2013, the Office of Public Counsel filed a Motion to Consolidate Docket Nos. 130140-EI, 130151-EI, and 130092-EI for Purposes of Single Evidentiary Hearing (Motion). On October 10, 2013, the prehearing officer issued Order No. PSC-13-0454-PCO-EI, granting the Motion,<sup>1</sup> which stated:

Docket No. 130092-EI shall remain open for disposition of the regulatory treatment of the Plant Daniel Bromide and ACI Project and the regulatory treatment of Plant Crist and Plant Smith's transmission line upgrades shall be litigated as an issue in [DN 130140-EI].

Therefore, this recommendation only addresses the Plant Daniel Bromine and ACI projects. The Commission has jurisdiction over this subject matter pursuant to the provisions of Section 366.8255, Florida Statutes (F.S.).

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<sup>1</sup> See Order No. PSC-13-0454-PCO-EI, issued October 10, 2013, in Docket Nos. 130140-EI, 130151-EI and 130092-EI, In Re: Petition for rate increase by Gulf Power Company, In Re: 2013 depreciation and dismantlement study by Gulf Power Company, In Re: Petition of Gulf Power Company to include the Plant Daniel Bromine and ACI Project, the Plant Crist Transmission Upgrades Project, and the Plant Smith Transmission Upgrades Project in the Company's program, and approve the costs associated with these compliance strategies for recovery through the ECRC.

### Discussion of Issues

**Issue 1:** Should the Commission approve Gulf's Petition to include Plant Daniel Bromine and Activated Carbon Injection Project in its Environmental Compliance Program and recover the associated cost through the Environmental Cost Recovery Clause?

**Recommendation:** Yes. Based on Gulf's filing and responses to data requests, staff recommends that the proposed Bromine and ACI project will be needed for Gulf to comply with environmental regulations. Staff recommends that the prudently incurred costs associated with the Bromine and ACI project are eligible for cost recovery through the ECRC. (Graves, Wu)

**Staff Analysis:** On February 16, 2012, the Environmental Protection Agency issued the Mercury and Air Toxics Standards (MATS) rule. The MATS rule imposes emissions limits for mercury, acid gases and particulate matter on coal and oil-fired electric utility generating units. Gulf's Plant Daniel units 1 and 2 are subject to the requirements of the MATS rule.<sup>2</sup> The MATS mercury emission limit that Plant Daniel will have to meet is 1.2 lbs/TBtu (pounds/trillion Btu). Compliance for existing sources is required by April 16, 2015, with provisions for one and two year extensions under limited circumstances.<sup>3</sup>

Based on Plant Daniel emissions data, as well as data from similar units, mercury emissions at Plant Daniel are estimated to be 6-8 lbs/TBtu. During 2010, the Company determined that, at a minimum, Plant Daniel units 1 and 2 would require the installation of scrubbers in order to comply with certain environmental regulations. The Plant Daniel scrubbers were approved for cost recovery through the ECRC by the Commission in 2010.<sup>4</sup> The scrubber projects are currently scheduled for completion in 2015.

Gulf asserted that the scrubbers will allow Plant Daniel to achieve compliance with the particulate matter limit of the MATS rule; however, additional environmental controls are necessary to achieve compliance with mercury limits.<sup>5</sup> Gulf concluded that Bromine and ACI, in conjunction with the scrubbers, rather than more capital intensive controls such as baghouses with ACI, will be sufficient to comply with MATS rules.<sup>6</sup> The capital cost of the Bromine and ACI project is projected to be approximately \$135 million less than the baghouse installation cost.<sup>7</sup>

The Bromine injection system would add Bromine to the coal supply, which would cause mercury to be oxidized after combustion. Oxidized mercury can then be collected in the scrubbers. The ACI system is based on injecting powdered activated carbon into the duct work

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<sup>2</sup> Gulf owns 50 percent of Daniel units 1 and 2. Plant Daniel is located in Mississippi and is operated by Mississippi Power.

<sup>3</sup> National Emission Standards for Hazardous Air Pollutants, 77 Fed. Reg. 9304 (Feb.16, 2012) (codified at 40 C.F.R. pt. 63, subpart UUUUU).

<sup>4</sup> See Order No. PSC-10-0683-FOF-EI, issued November 15, 2010, in Docket No. 100007-EI, In re: Environmental cost recovery clause.

<sup>5</sup> See Petition, p. 7.

<sup>6</sup> See Gulf's 2013 Environmental Compliance Program Update, p. 21.

<sup>7</sup> Id.

where it mixes with flue gas to absorb elemental mercury which is then captured in the precipitator.

Engineering, procurement, and construction of the Plant Daniel Bromine and ACI systems are scheduled to begin in January 2014. Both injection systems will be placed in-service with the scrubbers during the fourth quarter of 2015. The planned addition of the scrubber plus the bromine injection and activated carbon injection are expected to reduce mercury emissions by up to 90 percent, allowing Gulf to operate the Plant Daniel Units in compliance with the MATS rule.

ECRC Eligibility

Based on the Petition and the Company's responses to data requests, staff recommends that Gulf's proposed Bromine and ACI project is not discretionary or voluntary. Instead, it is an essential program that would not be carried out but for Gulf's obligation to comply with a government-imposed environmental regulation. The need for this compliance program has been triggered after the Company's last test year upon which rates are currently based. Further, the costs of the proposed compliance project are not recovered through some other cost recovery mechanism or through base rates. Thus, staff recommends that the proposed program meets the criteria for ECRC cost recovery established by the Commission by Order No. PSC-94-0044-FOF-EI, in that:

- (a) All expenditures will be prudently incurred after April 13, 1993.
- (b) The activities are legally required to comply with a governmentally imposed environmental regulation that was created, became effective, or whose effect was triggered after the company's last test year upon which rates are based.
- (c) None of the expenditures are being recovered through some other cost recovery mechanism or through base rates.<sup>8</sup>

Staff recommends that Gulf's decision to install Bromine and ACI appears to be the most cost-effective approach to meeting the compliance standards set forth in the MATS rule. Staff also recommends that the Commission approve Gulf's proposed project for ECRC recovery pursuant to Section 366.8255, F.S.

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<sup>8</sup> See Order No. PSC-94-0044-FOF-EI, issued January 12, 1994, in Docket No. 930613-EI, In Re: Petition to establish an environmental cost recovery clause pursuant to Section 366.0825, Florida Statutes by Gulf Power Company.

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**Issue 2:** Should this docket be closed?

**Recommendation:** If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (Murphy)

**Staff Analysis:** At the conclusion of the protest period, if no protest is filed this docket should be closed upon the issuance of a consummating order.