BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Environmental Cost Recovery Clause	) DOCKET NO. 940042-EI) ORDER NO. PSC-94-0393-FOF-EI) ISSUED: April 6, 1994

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
DIANE K. KIESLING

ORDER APPROVING PROJECTED EXPENDITURES AND TRUE-UP AMOUNTS FOR ENVIRONMENTAL COST RECOVERY FACTORS

BY THE COMMISSION:

Pursuant to the provisions of Section 366.8255, Florida Statutes, the Commission has established an environmental cost recovery clause to be administered in conjunction with its continuing fuel cost recovery, oil backout cost recovery, capacity cost recovery, conservation cost recovery and purchased gas cost recovery proceedings. After notice, a hearing was held in this docket on March 9, 1994, along with the hearings held in Dockets No. 940001-EI. 940002-EG, and 940003-GP.

The hearing addressed the issues set out in the body of the Prehearing Order, Order No. PSC-94-0267-PHO-EI, issued March 8, 1994. The participating parties stipulated to a resolution of all but two of the issues presented, and we hereby approve the stipulations of the parties as described below. Our decision on the remaining issues, which involve the allocation and recovery of environmental costs, is also described below.

The parties agreed to, and we approve as appropriate, the following final environmental cost recovery true-up amounts for the period April 13, 1993 through September, 1993:

FPL: $278,250 total recoverable cost for the period including interest.

The parties agreed to, and we approve as appropriate, the following estimated environmental cost recovery true-up amounts for the period October, 1993 through March, 1994:

FPL: $2,077,890 total recoverable cost for the period including interest.

The parties agreed to, and we approve as appropriate, the following total environmental cost recovery true-up amounts to be collected during the period April, 1994 through September, 1994:

FPL: $2,356,140.

The parties agreed to, and we find appropriate, the following projected environmental cost recovery amounts to be included in the recovery factors for the period April 1994 through September 1994:

FPL: $2,024,817 of projected environmental compliance cost for the period April 1994 through September 1994. Together the true-up environmental cost and the projected environmental cost amount to a total of $4,380,957 FPL shall recover during this period.

We approve as appropriate the following Environmental Cost Recovery Factors for the period April, 1994 through September, 1994 for each rate group.

FPL:

RATE CLASS	ENVIRONMENTAL RECOVERY FACTOR ($/KWH)
RS-1, RST-1	0.012
GS-1, GST-1	0.012
GSD-1, GSDT-1	0.011
MET	0.011
OS-2	0.011
GSLD-1,GSLDT-1,CS-1,CST-1	0.011
GSLD-2,GSLDT-2,CS-2,CST-2	0.011
GSLD-3,GSLDT-3,CS-3,CST-3	0.010
CILC-1(D),CILC-1(G),CILC-1(T)	0.010
ISST-1(D)	0.011
SL-1,OL-1	0.009
SL-2	0.010
SST-1(D), SST-1(T)	0.010

In accordance with Order No. PSC-94-0044-FOF-EI, issued January 12, 1994, Gulf's initial environmental cost recovery factors were implemented beginning with the February 1994 billing cycle. The initial factors are effective for the period February 1994 through September 1994, and will be reviewed and adjusted as necessary for the six month period beginning October 1994 during hearings to be held in August 1994. Gulf will submit its initial true-up filing for the environmental cost recovery clause in May

1994. No other utility requested recovery of environmental compliance costs for this recovery period.

We agree with the parties that the utilities shall use the depreciation rates currently prescribed by the Commission for the given investment at the time the filing is prepared to develop the depreciation expense appropriate for recovery under the environmental cost recovery clause.

We also agree with the parties that for billing purposes new environmental cost recovery factors shall be effective beginning with the specified environmental cost recovery cycle and thereafter for the period April, 1994 through September, 1994. Billing cycles may start before April 1, 1994, and the last cycle may be read after September 30, 1994, so that each customer is billed for six months regardless of when the adjustment factor becomes effective. as mentioned above, Gulf's initial environmental cost recovery factors were implemented beginning with the February 1994 billing cycle. The initial factors are effective for the period February 1994 through September 1994. Thereafter review and adjustment of Gulf's environmental cost recovery factors, and its billing cycles, will conform to the generic time periods established for all the utilities.

Allocation and Recovery Issues

At the hearing we considered testimony and evidence on the issue of how environmental costs should be allocated to and recovered from rate classes. With respect to the costs associated with FPL's compliance with the Clean Air Act Amendments, the question was whether those costs, which for this period are the costs of installing low NOX burners and emissions monitoring devices, should be allocated on a demand basis, as FPL and FIPUG (The Florida Industrial Power Users Group) advocated, or on an energy basis. FPL and FIPUG took the position that environmental costs should be allocated to rate classes on the basis of the cost of service study used in Florida Power & Light Company's last rate case--12 CP and 1/13th. FIPUG asserted that this method has been approved for allocating all non-nuclear production plant costs and should be used to allocate environmental compliance costs, because those costs are fixed capital costs dependant upon the size of the generating plant. Since plant size is dependent on peak demand, the environmental costs should be allocated on a demand, rather than an energy basis.

We first addressed this allocation issue when we considered Gulf Power Company's environmental cost recovery petition in Docket No. 930613-EI. In that case we held that those costs necessary to insure compliance with the Clean Air Act Amendments should be allocated to the rate classes on an energy (per kilowatt hour) basis. In Order No. PSC-94-0044-FOF-EI, at page 23, we said:

> 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 a 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. Consequently we find that an energy allocation method results in the most equitable apportionment of these particular compliance costs.

We acknowledge the fact that many of the costs associated with Clean Air Act compliance are fixed production plant costs that must be sized to reflect the size of the plant. There is one distinguishing feature of these costs, however, that we believe necessitates an allocation treatment that is different from other production plant costs. The costs at issue here have been incurred to comply with the Clean Air Act Amendments, and one of the purposes of the Clean Air Act Amendments is to reduce pollutants that enter the atmosphere when fuel is burned to generate kilowatt hours. The costs therefore are energy based, not capacity based, and should be allocated and recovered accordingly. We understand that some technologies and programs used to comply with the Clean Air Act may be less directly related to fuel consumption than others. Nevertheless, they are all required to comply with the Clean Air Act Amendments. For that reason, and to create simplicity and clarity in our administration of Clean Air Act compliance costs, we hold that the costs of Clean Air Act Compliance should be allocated on an energy basis, and we further hold that it is appropriate to recover the costs from rate classes on an energy (per Kwh) basis as well.

Company-Specific Environmental Cost Recovery Issues

Florida Power & Light Company

We have reviewed three issues that relate only to Florida Power and Light Company's environmental costs, and we approve the parties' stipulations on those issues. First, we hold that Florida Power and Light Company should record the cost of emission allowances in Account 158.1, Allowances Inventory. Any gains or losses associated with the disposition of allowances should be recorded in Account 254, Other Regulatory Liabilities, or Account 182.3, Other Regulatory Assets, respectively. The above items are properly included in working capital until the applicable allowances are expensed.

Second, we hold that FPL's request to recover the cost of the relocation of stormwater runoff project through the Environmental Cost Recovery Clause is approved. The expenses are required to comply with the effluent discharge limitations in FPL's new National Pollutant Discharge Elimination System Permit, Permit No. FL0002208, for the St. Lucie Plant, issued September 30, 1993, by the United States Environmental Protection Agency. The rerouting of the stormwater is the most cost-effective alternative available. All expenses were incurred after April 13, 1993, are not being recovered in any other cost recovery mechanism, and were not considered at the time of FPL's last rate case.

Finally, we hold that FPL's request to credit the revenues, net of direct and indirect cost, for the rental of Oil Spill Cleanup Equipment to the Environmental Cost Recovery Clause is approved. These revenues relate to the rental of equipment, the cost of which is being recovered through the Environmental Cost Recovery Clause.

In consideration of the above, it is

ORDERED by the Florida Public Service Commission that the findings and stipulations set forth in the body of this Order are hereby approved. It is further

ORDERED that investor-owned electric utilities subject to our jurisdiction are hereby authorized to apply the environmental cost recovery factors set forth herein during the period of April through September, 1994, and until such factors are modified by subsequent Order. It is further

ORDERED that the estimated true-up amounts contained in the above environmental cost recovery factors are hereby authorized subject to final true-up, and further subject to proof of the reasonableness and prudence of the expenditures upon which the amounts are based.

By ORDER of the Florida Public Service Commission, this 6th day of April, 1994.

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BLANCA S. BAYO, Director
Division of Records and Reporting

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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 Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.