

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Gulf Power Company for approval of cost recovery for a new environmental program entitled "Upgrade to Incorporate Low NO_x Burners at Crist Units 4 & 5."

DOCKET NO. 980345-EI
ORDER NO. PSC-98-0803-FOF-EI
ISSUED: June 9, 1998

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING APPROVAL FOR RECOVERY OF COSTS
FOR THE UPGRADE AT CRIST UNITS 4 & 5

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

On February 12, 1998, Gulf Power Company (Gulf Power) filed a petition in Docket No. 980007-EI for approval of cost recovery of a new environmental program through the Environmental Cost Recovery Clause (ECRC). The project is the upgrade of the existing burners at Crist Steam Plant Units 4 and 5 to incorporate low NO_x burner tips. Since Gulf Power has requested that the costs of this project be handled at the next regularly scheduled hearing as part of the true-up, it is appropriate to consider the petition in a separate docket.

The Clean Air Act Amendments of 1990 (CAAA) imposed stricter environmental standards on electric utility power plants, including new NO_x emission specifications which will become effective in the year 2000 under Title IV Acid Rain Phase II of the CAAA. Specifically, Gulf Power must comply with Phase II Low NO_x rules

DOCUMENT NUMBER-DATE

06138 JUN-98

PSC-REPORTS/REPORTING

and regulations under 40 CFR Part 72, 40 CFR Part 76, and Rule 62-214.420(3), Florida Administrative Code. In response to interrogatories, Gulf Power stated that the installation of low NO_x burner tips on Crist Units 4 and 5 was the most cost-effective way in which to achieve compliance with the new standards. The company maintained that low NO_x burner tips are primarily a low cost option for small boilers and that the burner tips have a low installation cost as compared to other available compliance technologies such as full low NO_x burners and selective catalytic reduction.

The project to upgrade Crist Units 4 and 5 to incorporate low NO_x burner tips is an operation and maintenance item which includes both material and labor costs. The low NO_x burner tips were installed on Crist Unit 4 during the spring 1998 turbine/boiler outage. It took three weeks to perform the upgrade on this unit. Although the upgrade on Crist Unit 5 was scheduled for a May 1998 boiler outage, it has been postponed to a subsequent boiler outage in the spring of 1999. Asbestos insulation was identified behind the boiler casing on Crist Unit 5. This asbestos must be removed before the installation of the burner tips on that unit.

In order to recover environmental compliance costs through the ECRC, a proposed project must meet the specific criteria listed in Order No. PSC-94-0044-FOF-EI. The three components are as follows: (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 triggered after the company's last test year upon which rates are based, and (3) such costs are not recovered through some other cost recovery mechanism or through base rates.

The first threshold is met because the upgrades to incorporate low NO_x burner tips are being performed during boiler outages in 1998 and 1999, therefore, the costs for this project will be incurred after that date. The second component of the above referenced criteria for recovery is also met. Based on the company's responses to interrogatories, we find that the project is the most cost-effective approach for compliance with Phase I of the CAAA, whose effect was triggered after the company's last test year upon which rates are based. Finally, the company's petition addresses the third component of the above referenced criterion for recovery and states that the expenses for the upgrade to low NO_x burner tips are not recovered through any other cost recovery mechanism or through base rates. Accordingly, we find that this project be approved for recovery through the ECRC. The prudence of

ORDER NO. PSC-98-0803-FOF-EI
DOCKET NO. -980345-EI
PAGE 3

the costs associated with this project will be determined by the Commission in a subsequent ECRC hearing. Final disposition of these costs will be subject to audit.

According to Gulf Power's petition, "the expenses associated with this new environmental activity would not have a material impact on the environmental cost recovery clause sufficient to warrant a mid-course correction." This statement was made with the assumption that both upgrades would be completed during existing planned turbine/boiler outages in the spring of 1998. Since the time the petition was filed, however, Gulf Power has decided to delay the upgrade at Crist Unit 5 to a subsequent outage in the spring of 1999. Therefore, the costs of the upgrade at Crist Unit 5 will be included in the upcoming projections, and the amount of this project to be recovered in the upcoming true-up has been reduced to the costs of the upgrade at Crist Unit 4 only. The total projected costs to be recovered through the ECRC for the upgrades to Crist Units 4 and 5 remain at \$986,000 as stated in Gulf Power's petition. We have reviewed the costs of the project and believe that a midcourse correction to Gulf Power's ECRC factors is not warranted in this instance.

Therefore, we further find that approval of the petition does not require a midcourse correction to Gulf Power Company's ECRC factors set by the Commission in Order No. PSC-97-1047-FOF-EI, issued on September 5, 1997.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Gulf Power Company's petition for recovery of costs of the upgrade to incorporate low NO_x burner tips at Crist Units 4 & 5 through the Environmental Cost Recovery Clause, is approved. It is further

ORDERED that Approval of the petition does not require a midcourse correction to Gulf Power Company's current Environmental Cost Recovery Clause factors. It is further

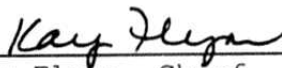
ORDER NO. PSC-98-0803-FOF-EI
DOCKET NO. -980345-EI
PAGE 4

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that in the event this Order becomes final, this Docket shall be closed.

By ORDER of the Florida Public Service Commission this 9th day of June, 1998.

BLANCA S. BAYÓ, Director
Division of Records and Reporting



Kay Flynn, Chief
Bureau of Records

(S E A L)

JCB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing 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.

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

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 30, 1998.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by 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 of the effective date 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.