

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of
Consumptive Use-Shield Water
Substitution Project as new
program for cost recovery
through Environmental Cost
Recovery Clause by Gulf Power
Company.

DOCKET NO. 010562-EI
ORDER NO. PSC-01-1788-PAA-EI
ISSUED: September 4, 2001

The following Commissioners participated in the disposition of
this matter:

E. LEON JACOBS, JR., Chairman
J. TERRY DEASON
LILA A. JABER
BRAULIO L. BAEZ
MICHAEL A. PALECKI

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING PETITION FOR COST RECOVERY THROUGH THE
ENVIRONMENTAL COST RECOVERY CLAUSE

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 April 20, 2001, Gulf Power Company ("Gulf" or "Company")
petitioned for approval of the Company's Consumptive Use-Shield
Water Substitution Project as a new program for cost recovery
through the Environmental Cost Recovery Clause ("statute" or
"ECRC").

Section 366.8255, Florida Statutes, the ECRC, gives the
Commission the authority to review and decide whether a utility's
environmental compliance costs are recoverable through the ECRC.

DOCUMENT NUMBER-DATE

10930 SEP-4 01

FPSC-COMMISSION CLERK

Electric utilities may petition to recover projected environmental compliance costs required by environmental laws or regulations. See Section 366.8255(2), Florida Statutes. Environmental laws or regulations include "all federal, state or local statutes, administrative regulations, orders, ordinances, resolutions or other requirements that apply to electric utilities and are designed to protect the environment." Section 366.8255(1)(c). If we approve the utility's petition for cost recovery through this clause, only prudently incurred costs shall be recovered. See Section 366.8255(2) Florida Statutes.

The Consumptive Use-Shield Water Substitution Project ("Shield Water Project") is a water conservation and consumptive use efficiency program. Gulf is required to reduce its demand for groundwater at Plant Smith by 25% by December 31, 2004. This requirement is Specific Condition 6 of Gulf's individual water use permit for Plant Smith, Permit No. 850073, issued August 26, 1999 by the Northwest Florida Water Management District ("NFWFMD"). Rule 40A-2.381, Florida Administrative Code, provides the specific basis for the NFWFMD's authority to impose a condition on any permit issued by the NFWFMD. Gulf attested that similar water conservation requirements are likely to be imposed at other power plants as the individual water use permits are renewed.

The primary reason Gulf is required to reduce groundwater usage at Plant Smith is to reduce the potential for saltwater intrusion. NFWFMD established a goal of a 25% reduction by the end of 2004. The proposed Shield Water Project is estimated to achieve a 15% reduction in groundwater usage at Plant Smith. Gulf has not decided on the method of achieving the remaining 10% reduction in groundwater usage required by the NFWFMD.

The Shield Water Project consists of adding a 7.5 HP centrifugal pump, piping, valves and controls at Plant Smith to reclaim water from the ash pond. The reclaimed ash pond water will displace groundwater that is currently used as shield water within the boilers of Smith Unit 1 and Smith Unit 2. The water in the boiler bottoms shields the boiler bottoms from molten slag and cinders that occur during combustion, hence the name "shield water." The estimated cost for the Shield Water Project pump, piping, valves, and controls is approximately \$50,000. The annual operation and maintenance costs are estimated to be \$2,000.

As of June 22, 2001, Gulf reviewed two other options that, in addition to the Shield Water Project, may reduce groundwater usage at Plant Smith by approximately 25%. Desalinization is the most costly alternative reviewed. A 250 gallon per minute desalinization facility has an estimated capital cost of \$2,500,000 and annual operation and maintenance expenses of approximately \$200,000 not including potential waste disposal. A Water Cooler System is another project that Gulf is reviewing to achieve reduction in groundwater usage. Currently, groundwater is used to cool samples of the water used in the steam cycle. Gulf's Water Cooler System would use alternate water sources instead of groundwater to cool the water samples. Alternate water sources are still being evaluated. Estimated construction costs for the Water Cooler System total \$100,000 and annual operation and maintenance costs are approximately \$15,000. Neither of these additional projects are currently proposed for recovery through the ECRC.

Based on Gulf's actions taken to date, it appears that Gulf has been prudent with respect to selecting a low-cost program. We will continue to monitor and evaluate the prudence matter in the annual ECRC dockets as Gulf's actual costs and other relevant information become available. To insure that the most cost effective compliance action is taken, the Company shall continue to monitor costs, trends, technology, and other relevant factors.

Upon consideration and review, we find that Gulf's Shield Water Project satisfies the requirements of Section 366.8255, Florida Statutes, and qualifies for recovery through the ECRC. The actual expenditures and expenses will be addressed in an up-coming true-up cycle and will be subject to audit. Issues that will determine the specific amount recoverable through the ECRC, such as whether specific costs were prudently incurred and whether they have already been recovered in other mechanisms, will be further examined and resolved in the Docket No. 010007-EI. Gulf is not requesting a change in the ECRC factors that have been approved for 2001. Based on the information currently available, it appears that there is no potential for a significant rate impact. Therefore, the review of Gulf's expenses shall be addressed at the November 2001 ECRC hearing.

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Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Gulf Power Company's Petition for approval of its Consumptive Use-Shield Water Substitution Project is granted. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" 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 4th day of September, 2001.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records and Hearing
Services

(S E A L)

MKS

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 that is available under Section 120.57, 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 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. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on September 25, 2001.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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.