

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Environmental cost recovery clause.

DOCKET NO. 100007-EI
ORDER NO. PSC-10-0683-FOF-EI
ISSUED: November 15, 2010

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
NATHAN A. SKOP
RONALD A. BRISÉ

APPEARANCES:

R. ALEXANDER GLENN and JOHN T. BURNETT, ESQUIRES, Progress Energy Service Company, LLC, Post Office Box 14042, St. Petersburg, Florida 33733-4042; GARY V. PERKO, ESQUIRE, Hopping, Green & Sams, P.A., Post Office Box 6526, Tallahassee, Florida 32314-6526
On behalf of Progress Energy Florida, Inc. (PEF)

JAMES D. BEASLEY and J. JEFFRY WAHLEN, ESQUIRES, Ausley & McMullen, Post Office Box 391, Tallahassee, Florida 32302
On behalf of Tampa Electric Company (TECO)

JEFFREY A. STONE, RUSSELL A. BADDERS, and STEVEN R. GRIFFIN, ESQUIRES, Beggs & Lane, Post Office Box 12950, Pensacola, Florida 32591-2950
On behalf of Gulf Power Company (GULF)

VICKI GORDON KAUFMAN and JON C. MOYLE, JR., ESQUIRES, Keefe, Anchors, Gordon & Moyle, P.A., 118 North Gadsden Street, Tallahassee, Florida 32312
On behalf of the Florida Industrial Power Users Group (FIPUG)

PATRICIA A. CHRISTENSEN, CHARLIE BECK and J.R. KELLY, ESQUIRES, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida (OPC)

KAREN WHITE and CAPTAIN SHAYLA L. MCNEILL, USAF, ESQUIRES, c/o AFLSA/JACL-ULFSC, 139 Barnes Drive, Suite 1, Tyndall Air Force Base, Florida 32403-5319
On behalf of the Federal Executive Agencies (FEA)

DOCUMENT NUMBER: DATE

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FPSC-COMMISSION CLERK

MARTHA CARTER BROWN and ANNA R. WILLIAMS, ESQUIRES, Florida
Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida
32399-0850
On behalf of the Florida Public Service Commission (Staff)

MARY ANNE HELTON, Assistant General Counsel, Florida Public Service
Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
Advisor to the Florida Public Service Commission.

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

BY THE COMMISSION:

I. BACKGROUND:

As part of our ongoing environmental cost recovery proceedings, a hearing was held on November 1, 2010, in this docket. At the hearing, the parties addressed the issues set out in Order No. PSC-10-0640-PHO-EI, the Prehearing Order. Part II of this Order addresses the stipulated generic issues in the case and Part III addresses the stipulated company-specific issues in the case. We have authority pursuant to Section 366.8255, Florida Statutes (F.S.).

II. STIPULATED GENERIC ENVIRONMENTAL COST RECOVERY ISSUES

A. We approve as reasonable the following final environmental cost recovery true-up amounts for the period ending December 31, 2009.

PEF: \$4,562,177 over-recovery.

TECO: \$831,312 over-recovery.

GULF: \$9,744,785 over-recovery.

B. We approve as reasonable the following estimated environmental cost recovery true-up amounts for the period January 2010 through December 2010.

PEF: \$34,319,509 over-recovery.

TECO: \$3,155,800 over-recovery.

GULF: \$234,779 under recovery.

- C. We approve as reasonable the following projected environmental cost recovery amounts for the period January 2011 through December 2011.

PEF: \$213,059,829.

TECO: \$80,007,468.

GULF: \$157,338,278.

- D. We approve as reasonable the following environmental cost recovery amounts, including true-up amounts, for the period January 2011 through December.

PEF: \$174,303,552.

TECO: \$76,075,090.

GULF: \$147,934,709.

- E. We approve as reasonable the determination that the depreciation rates used to calculate the depreciation expense should be the rates that are in effect during the period the allowed capital investment is in service.

- F. We approve as reasonable the following jurisdictional separation factors for the projected period January 2011 through December 2011.

PEF: The jurisdictional energy separation factor is calculated for each month based on retail kWh sales as a percentage of projected total system kWh sales.
Transmission Average 12 CP demand jurisdictional factor – 68.113%
Distribution Primary demand jurisdictional factor – 99.624%
Jurisdictional Separation Study factors were used for production demand jurisdictional factor as:
Production Base – 91.089%
Production Intermediate – 58.962%
And, Production Peaking – 91.248%
Production A&G – 87.691%

TECO: The demand jurisdictional separation factor is 96.74819 %. The energy jurisdictional separation factors are calculated for each month based on projected retail kWh sales as a percentage of projected total system kWh sales.

GULF: The demand jurisdictional separation factor is 96.44582%. Energy jurisdictional separation factors are calculated each month based on retail KWH sales as a percentage of projected total territorial KWH sales.

- G. We approve as reasonable the following environmental cost recovery factors for the period January 2011 through December 2011 for each rate group.

PEF:

Rate Class	ECRC Factors 12CP & 1/13 AD
Residential	0.491 cents/kWh
General Service Non-Demand	
@ Secondary Voltage	0.482 cents/kWh
@ Primary Voltage	0.477 cents/kWh
@ Transmission Voltage	0.472 cents/kWh
General Service 100% Load Factor	0.463 cents/kWh
General Service Demand	
@ Secondary Voltage	0.471 cents/kWh
@ Primary Voltage	0.466 cents/kWh
@ Transmission Voltage	0.462 cents/kWh
Curtable	
@ Secondary Voltage	0.464 cents/kWh
@ Primary Voltage	0.459 cents/kWh
@ Transmission Voltage	0.455 cents/kWh
Interruptible	
@ Secondary Voltage	0.451 cents/kWh
@ Primary Voltage	0.446 cents/kWh
@ Transmission Voltage	0.442 cents/kWh
Lighting	0.470 cents/kWh

TECO:

<u>Rate Class</u>	<u>Factor at Secondary Voltage (¢/kWh)</u>
RS	0.404
GS, TS	0.403
GSD, SBF	
Secondary	0.402
Primary	0.398
Transmission	0.394
IS	
Secondary	0.396
Primary	0.392
Transmission	0.388
LS1	0.402
Average Factor	0.403

GULF:

<u>RATE CLASS</u>	<u>ENVIRONMENTAL COST RECOVERY FACTORS</u> <u>¢/KWH</u>
RS, RSVP	1.343
GS	1.335
GSD, GS DT, GSTOU	1.324
LP, LPT	1.295
PX, PXT, RTP, SBS	1.278
OS-I/II	1.286
OSIII	1.306

- H. For billing purposes, the new environmental cost recovery factors shall be effective beginning with the specified environmental cost recovery cycle and thereafter for the period January 2011 through December 2011. Billing cycles may start before January 1, 2011 and the last cycle may be read after December 31, 2011, so that each customer is billed for twelve months regardless of when the adjustment factor became effective.

III. STIPULATED COMPANY-SPECIFIC ISSUES

PEF

A. We approve the following stipulation regarding whether we should grant PEF's Petition for approval of cost recovery for the Effluent Limitation Guidelines-related Information Collection Request (ELG-ICR) Project:

Yes. Section 304 of the Clean Water Act directs the Environmental Protection Agency (EPA) to develop and periodically review regulations, called effluent guidelines, to limit the amount of pollutants that are discharged to surface waters from various point source categories. In October 2009, EPA published in the Federal Register a proposed information collection request (ICR) to collect information to support the development of revised effluent guidelines for the steam electric power generating category. (74 Fed. Reg. 55837) On June 18, 2010, PEF received notification that the Crystal River Energy Complex, Suwannee River Plant and the Hines Energy Complex are required to complete the ICR and submit responses to EPA within 90 days. Collection and submittal of the requested information is mandatory under Section 308 of the Clean Water Act. The Commission has previously held that the costs of complying with a similar ICR related to the EPA's development of air emissions standards are recoverable under the ECRC.¹

PEF estimates the total project costs to be approximately \$60,000 for 2010. Such estimates are based on the cost estimates published by EPA and PEF's estimate of contractor support costs. PEF currently anticipates that all costs for complying with the new ICR will be incurred in 2010, and the Company expects that all of these costs will be subject to audit by the Commission.

B. We approve the following stipulation regarding how the costs associated with PEF's proposed ELG-ICR Project should be allocated to the rate classes:

The costs associated with the ELG-ICR project are O&M casts, which should be allocated to rate classes on an energy basis.

C. We approve the following stipulation regarding whether we should approve PEF's Updated Review of Integrated Clean Air Compliance Plan that was submitted on April 1, 2010:

Yes. PEF remains confident that its Integrated Clean Air Compliance Plan will have the desired effect of achieving timely compliance with the applicable regulations in a cost-effective manner. PEF has achieved significant project milestones, including execution of all major contracts and commencement of construction activities, including installation of steel support for the Crystal River Units 4 and 5 control projects. No new or revised environmental regulations have been adopted that have a direct bearing on

¹ Order No. PSC-09-0759-FOF-EI, issued November 18, 2009, in Docket No. 090007-EI, In Re: Environmental Cost Recovery Clause.

PEF's compliance plan. PEF shall file, as part of its true-up testimony in the ECRC, a yearly review of the efficacy of its plan and the cost-effectiveness of PEF's retrofit options for each generating unit in relation to expected changes in environmental regulations.

GULF

A. We approve the following stipulation regarding whether we should approve Gulf's Environmental Compliance Program Update for the Clean Air Interstate Rule (CAIR) and Clean Air Visibility Rule (CAVR) that was submitted on April 1, 2010:

Yes. Gulf's Compliance Program Update identifies the timing and current estimates of costs for specific projects planned by the Company in order to comply with CAIR and CAVR requirements along with information regarding the relative value of the planned projects compared to other viable compliance alternatives, if any. It includes the description and results of the evaluation process that lead Gulf to conclude that the chosen means of compliance is the most reasonable, cost-effective alternative and that the affected generating units remain economically viable as a source of energy to Gulf's retail customers with the addition of the emission controls. Gulf's Compliance Program represents the most cost-effective alternative for the Company to ensure environmental compliance at this time. Gulf shall file, as part of its annual ECRC true-up testimony, an update of the efficacy of its Environmental Compliance Program and the cost-effectiveness of its compliance options for each generating unit in relation to changes in environmental regulations.

B. We approve the following stipulation regarding whether we should grant Gulf's Petition for approval of the inclusion of the Plant Daniel Units 1 and 2 Selective Catalytic Reduction Systems (SCRs) in the Company's Compliance Program and for recovery of the associated costs through the ECRC:

Yes. Gulf's petition is related to a 2007 stipulation negotiated between Gulf, the Office of Public Counsel, and the Florida Industrial Power Users Group, which was approved by the Commission in Order No. PSC-07-0721-S-EI.² In that order, the Commission approved Phase I of Gulf's Compliance Program. With respect to Phase II components, which included the Plant Daniel Units 1 and 2 SCRs, of the Compliance Program, the Commission stated "... once Gulf makes a decision to proceed with implementation, Gulf agrees to make a supplementary filing in the ECRC docket ... that will identify the timing of the planned implementation and updated estimates prior to incorporating them in the normal projection or true-up filings under the ECRC." On April 1, 2010, Gulf filed a Second Supplemental Petition regarding its CAIR/CAVR Environmental Compliance Program to request approval of the inclusion of the Plant Daniel Units 1 and 2 SCRs in the Compliance Program, and recovery of the associated

² Order No. PSC-07-0721-S-EI, issued on September 5, 2007, in Docket No. 070007-EI, In Re: Environmental Cost Recovery Clause.

costs through the ECRC. On May 19, 2010, the Commission issued a procedural Order,³ setting June 30, 2010 as the deadline for the Commission Staff or other interested parties to raise objections, if any, to Gulf's Second Supplemental Petition. No such objections were raised by the Staff or interested parties.

Plant Daniel consists of two coal-fired EGUs each having a nameplate rating of 548.2 MW. In order to satisfy CAIR and CAVR requirements, these units need to achieve significant SO₂ and NO_x reductions. Gulf has conducted a systematic assessment to compare various options to achieve these goals. The options reviewed include: 1) relying on emission allowance purchases; 2) switching to lower emission fuel; 3) retrofitting of environmental emission controls on existing generating units; 4) retiring existing generating units and replacing with new or purchased generation; and 5) a combination of these options. The results indicate that fuel switching alone will not reduce emissions to the required level. Purchasing emission allowances is too uncertain and risky as a sole compliance option for Gulf and its customers because of the high price volatility and unpredictable availability. Additionally, should allowances not be available, Gulf might be forced to operate higher cost units while curtailing operation of lower cost units in order to maintain compliance. Retiring the Plant Daniel units and replacing them with two combined cycle units would not be economically feasible. The Company has thus concluded that the retrofit of Daniel Units 1 and 2 is the best option. The SCRs will help to achieve the NO_x emission reduction goals set in the CAIR and CAVR requirements. Additionally, SCRs appear to contribute to satisfying the requirements of the anticipated new 8-hour ozone designation standard. Further, these SCRs, along with the Units 1 and 2 scrubbers, will also provide a co-benefit of significantly reducing mercury emissions. This would help Gulf in complying with the MACT Rule for power plant mercury emissions control anticipated to be adopted by the EPA by November 2011. Therefore, the addition of the Plant Daniel Units 1 and 2 SCRs would be the most reasonable, cost-effective alternative available to Gulf for meeting the environmental compliance requirements of CAIR and CAVR. Gulf expects to include the scope, budget, and schedule for the Daniel Units 1 and 2 SCRs Project in its CAIR/CAVR Compliance Program Update in April 2011.

C. We approve the following stipulation regarding whether we approve Gulf's newly proposed Effluent Information Collection Request (Effluent-ICR) Project in its General Water Quality Program for cost recovery:

Yes. Section 304 of the Clean Water Act directs the EPA to develop and periodically review regulations, called effluent guidelines, to limit the amount of pollutants that are discharged to surface waters from various point source categories. In October 2009, EPA published in the Federal Register a proposed information collection request (ICR) to collect information to support the development of revised effluent guidelines for the steam electric power generating category. (74 Fed. Reg. 55837) On

³ Order No. PSC-10-0316-PCO-EI, issued on May 19, 2010, in Docket No. 100007-EI, In Re: Environmental Cost Recovery Clause.

June 18, 2010, Gulf was notified by the EPA that its Plant Crist, Plant Smith, Plant Daniel and Plant Scholz would be required to respond to the ICR. The ICR requires Gulf to collect an extensive amount of data and to respond to hundreds of questions on a broad range of topics related to these plants. Gulf's ICR response must be submitted to the EPA on or before October 15, 2010. The collection and submission of the requested information is mandatory under Section 308 of the Clean Water Act. The Commission has previously held that the costs of complying with a similar ICR related to the EPA's development of air emissions standards are recoverable under the ECRC.⁴ Gulf proposed to include this Effluent-ICR project in its existing General Water Quality Program for cost recovery. The estimated costs associated with the Effluent-ICR Project would be a total of \$159,000 during 2010.

D. We approve the following stipulation regarding how the costs associated with Gulf's proposed Effluent-ICR Project should be allocated to the rate classes:

O&M expenses associated with this project should be allocated to the rate classes on a demand basis.

Based on the foregoing, it is

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

ORDERED that each utility that was a party to this docket shall abide by the stipulations and findings herein which are applicable to it. It is further


ORDERED that the utilities named herein are authorized to collect the environmental cost recovery amounts and use the factors approved herein beginning with the specified environmental cost recovery cycle and thereafter for the period of January 2011 through December 2011. Billing cycles may start before January 1, 2011, and the last cycle may be read after December 31, 2011, so that each customer is billed for 12 months regardless of when the adjustment factor became effective.

⁴ Order No. PSC-09-0759-FOF-EI, issued November 18, 2009, in Docket No. 090007-EI, In Re: Environmental Cost Recovery Clause.

By ORDER of the Florida Public Service Commission this 15th day of November, 2010.

ANN COLE
Commission Clerk

By:


Dorothy E. Manasco
Chief Deputy Commission Clerk

(S E A L)

MCB

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.

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 Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, 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 and/or wastewater utility by filing a notice of appeal with the Office of Commission Clerk, 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.