

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

THE COPY

In re: Environmental Cost  
Recovery Clause.

DOCKET NO. 970007-E1

FILED: JULY 28, 1997

STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-97-0001-PCO-EI, issued January 2, 1997, the Staff of the Florida Public Service Commission files its Prehearing Statement.

a. All Known Witnesses

Staff has no witnesses at this time.

b. All Known Exhibits

Composite exhibit regarding Tampa Electric Company consisting of FPSC Environmental Cost Recovery Audit Report - period ending March 31, 1997, and correspondence dated July 14, 1997, from Mr. Chronister, Tampa Electric Company's Manager of Financial Reporting to Mr. Breman, FPSC staff.

Composite exhibit regarding Gulf Power Company consisting of FPSC Environmental Cost Recovery Audit Report - period ending September 30, 1996, and correspondence dated February 2, 1995, from Mr. Stone representing Gulf Power Company to Ms. Johnson, FPSC staff counsel.

ACK \_\_\_\_\_

AFA \_\_\_\_\_ c.

Staff's Statement of Basic Position

APP \_\_\_\_\_

Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

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FPSC-RECORDS/REPORTING

d. Staff's Position on the Issues

Generic Environmental Cost Recovery Issues

**ISSUE 1:** What are the appropriate final environmental cost recovery true-up amounts for the period ending September 30, 1996?

**STAFF:** FPL: \$69,606 overrecovery.  
GULF: \$525,673 overrecovery.

**ISSUE 1A:** What are the appropriate final environmental cost recovery true-up amounts for the period ending March 31, 1997?

**STAFF:** TECO: \$156,449 overrecovery.

**ISSUE 2:** What are the estimated environmental cost recovery true-up amounts for the period October 1996 through September 1997?

**STAFF:** FPL: No position at this time pending resolution of a company-specific issue.  
GULF: \$88,687 overrecovery.

**ISSUE 2A:** What are the estimated environmental cost recovery true-up amounts for the period April 1997 through September 1997?

**STAFF:** TECO: \$843,546 underrecovery.

**ISSUE 3:** What are the total environmental cost recovery true-up amounts to be collected during the period October 1997 through September 1998?

**STAFF:** FPL: No position at this time pending resolution of other issues.

GULF: \$614,360 overrecovery.

**ISSUE 3A:** What are the total environmental cost recovery true-up amounts to be collected during the period October 1997 through March 1998?

**STAFF:** TECO: \$687,097 net underrecovery.

**ISSUE 4:** What are the appropriate projected environmental cost recovery amounts for the period October 1997 through September 1998?

**STAFF:** FPL: No position at this time pending resolution of a company-specific issue.

GULF: No position at this time pending resolution of other issues.

**ISSUE 4A:** What are the appropriate projected environmental cost recovery amounts for the period October 1997 through March 1998?

**STAFF:** TECO: \$3,837,658.

**ISSUE 5:** What should be the effective date of the new environmental cost recovery factors for billing purposes?

**STAFF:** FPL: The factor should be effective beginning with the specified environmental cost recovery cycle and thereafter for the period October 1997 through September 1998. Billing cycles may start before October 1, 1997, and the last cycle may be read after September 30, 1998, so that each customer is billed for twelve months

regardless of when the adjustment factor became effective.

GULF: The factor should be effective beginning with the specified environmental cost recovery cycle and thereafter for the period October 1997 through September 1998. Billing cycles may start before October 1, 1997, and the last cycle may be read after September 30, 1998, so that each customer is billed for twelve months regardless of when the adjustment factor became effective.

TECO: The factor should be effective beginning with the specified environmental cost recovery cycle and thereafter for the period October 1997 through March 1998. Billing cycles may start before October 1, 1997, and the last cycle may be read after March 31, 1998, so that each customer is billed for six months regardless of when the adjustment factor became effective.

**ISSUE 6:** What depreciation rates should be used to develop the depreciation expense included in the total environmental cost recovery true-up amounts to be collected during the period beginning October 1997?

**STAFF:** 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.

**ISSUE 7:** How should the newly proposed environmental costs be allocated to the rate classes?

**STAFF:** FPL: The O&M costs associated with substation pollution discharge prevention and removal should be allocated based on the non-coincident peak demands of each class.

GULF: The costs of the Above Ground Storage Tank Integrity Inspections and Secondary Containment Upgrades should be allocated on a 100% demand basis.

**ISSUE 8:** What are the appropriate Environmental Cost Recovery Factors for the period beginning October 1997 for each rate group?

**STAFF:** FPL: No position at this time pending resolution of a company-specific issue.

GULF: No position at this time pending resolution of other issues.

TECO:

Rate Class	Environmental Cost Recovery Factors ¢/KWH
RS, RST	.054
GS, GST, TS	.054
GSD, GSDT	.054
GSLD, GSLDT, SBF, SBFT	.053
IS1, IST1, SBI1, IS3, IS3T, SBI3	.052
SL/OL	.054

**Company - Specific Environmental Cost Recovery Issues**

Florida Power & Light Company

**ISSUE 9:** Should the Commission approve Florida Power & Light Company's request for recovery of costs of the Substation Pollutant Discharge Prevention and Removal Project through the Environmental Cost Recovery Clause?

**STAFF:** No position at this time pending outstanding discovery.

**ISSUE 9A:** Has Florida Power & Light Company correctly calculated the Return on Average Net Investment for each of the projects?

**STAFF:** No position pending evidence adduced at hearing.

Gulf Power Company

**ISSUE 10:** Should the Commission approve Gulf Power Company's request to recover the cost of Above Ground Storage Tank Integrity Inspections and Secondary Containment Upgrades through the Environmental Cost Recovery Clause?

**STAFF:** No position at this time pending outstanding discovery.

**ISSUE 10A:** Is it appropriate for Gulf Power to earn a return through the Environmental Cost Recovery Clause on the 10% retainage on invoices from construction vendors to ensure contract performance?

**STAFF:** Yes, to the extent that the company practices retainage of 10% on specific projects in the Environmental Cost Recovery Clause.

**ISSUE 10B:** Should an adjustment be made for the recording error made in SO<sub>2</sub> Allowances as reported in Audit Disclosure No. 2 of the Florida Public Service Commission's Environmental Compliance Cost Adjustment Audit Report for the Period Ended September 30, 1996?

**STAFF:** No. The error was due to inappropriate allocation of Plant Daniel's SO<sub>2</sub> Allowances. The company has already made correcting entries for the error.

**ISSUE 10C:** Should legal expenses incurred to assure compliance with revisions to Clean Air Act Amendment Title V provisions be recovered through the Environmental Cost Recovery Clause?

**STAFF:** Yes. Legal expenses directly associated with environmental compliance activities approved by the Commission that are incurred in order to comply with "environmental laws or regulations," as defined by Florida Statutes, Chapter 366.8255, should be recovered through the Environmental Cost Recovery Clause. As stated in Order No. PSC-96-1171-FOF-EI dated September 18, 1996, "However, the Commission will continue to examine each such expenditure on a case-by-case basis in order to determine the prudence of its recovery through the clause."

**ISSUE 10D:** Should an adjustment be made for the O&M expenses reported in Audit Disclosure No. 4 of the Florida Public Service Commission's Environmental Compliance Cost Adjustment Audit Report for the Period Ended September 30, 1996?

**STAFF:** No. It is staff's understanding that the company has made correcting entries, including any applicable interest, for these O&M expense items in June 1997.

In Order No PSC-95-0384-FOF-EI dated March 21, 1995, the Commission approved "...only the meal costs incurred for an employee's own consumption while traveling on environmental cost recovery clause business" for recovery through the Environmental Cost Recovery Clause. In addition, the company agreed in a letter dated February 2, 1995 (EXH. XX) to establish a policy not to recover these types of costs through the clause. Audit Disclosure No. 4 shows that meal costs were among the O&M items included for recovery and later adjusted by the company.

Tampa Electric Company

**ISSUE 11:** What adjustment for SO<sub>2</sub> Allowances, if any, should be made to Tampa Electric Company's Environmental Cost Recovery Factor as a result of the Commission's decision in Docket No. 970171-EU?

**STAFF:** If a true-up amount is determined to be necessary as a result of the Commission's decision in Docket No. 970171-EU, this issue should be deferred to the Spring 1998 Environmental Cost Recovery Clause hearing. This will give staff and the company ample time to resolve the appropriate determination of these expenses and the necessary adjustment.

**ISSUE 11A:** Should an adjustment be made for the expensing of a packing tower through the Environmental Cost Recovery Clause in 1996 which was purchased and charged to an inventory account as reported in Audit Disclosure No. 1 of the Florida Public Service Commission's Environmental Compliance Cost Adjustment Audit Report for the period ended March 31, 1997?

**STAFF:** No. The packing tower is a consumable item that is held in inventory until used. It should be treated in the same manner as fuel inventory and expense. Fuel is placed in an inventory account until it is consumed, at which time the fuel costs are expensed through the fuel cost recovery clause. Therefore, as packing towers are consumed, the cost of that packing tower is appropriately expensed through the Environmental Cost Recovery Clause.

**ISSUE 11B:** Should a portion of gypsum sales revenue be allocated to the Environmental Cost Recovery Clause based on the allocated cost of limestone?

**STAFF:** No. As stated in Audit Disclosure No. 2 of the Florida Public Service Commission's Environmental Compliance Cost Adjustment Audit Report for the period ended March 31, 1997, gypsum sales revenues



are not currently allocated to the ECRC. Gypsum is a by-product of the limestone used in the scrubbing operation for SO<sub>2</sub> removal. Revenues generated from the sale of gypsum, as well as the corresponding O&M costs of the scrubbing process, have historically been included in the calculation of base rates. Provided these O&M costs (with the exception of consumables) associated with the scrubbing process are not recovered through the ECRC, the corresponding revenues likewise should not be recovered through the ECRC.

**ISSUE 11C:**

Should Tampa Electric Company be allowed to recover payroll charges associated with modifications and expansions to employee workload due to the Big Bend Unit 3 Flue Gas Desulfurization Integration Project through the Environmental Cost Recovery Clause?

**STAFF:**

No. As stated in Audit Disclosure No. 3 of the Florida Public Service Commission's Environmental Compliance Cost Adjustment Audit Report for the period ended March 31, 1997, most of the employees whose payrolls are included in the Environmental Cost Recovery Clause were employed by the utility as of the last rate case in substantially the same capacity as their current position. The company stated that no new positions were created for this project. Allowing these payroll charges to be included in the ECRC constitutes double recovery. Therefore, PECO should remove these payroll charges, including any applicable interest, from the Big Bend Unit 3 Flue Gas Desulfurization Integration Project cost recovery request.

e. **Pending Motions**

Florida Power & Light Company's request for confidential treatment of Document No. 06620-97.

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f. Compliance with Order No. PSC-97-0001-PCO-EI

Staff has complied with all requirements of the Order Establishing Procedure entered in this docket.

Respectfully submitted this 28th day of July, 1997.

Respectfully submitted,



LESLIE J. PAUGH  
Staff Counsel

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that one true and correct copy of Staff's Prehearing Statement has been furnished by U.S. Mail this 28th day of July, 1997, to the following:

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