

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Environmental Cost
Recovery Clause.

DOCKET NO. 970007-EI
ORDER NO. PSC-97-1047-FOF-EI
ISSUED: September 5, 1997

APPEARANCES:

MATTHEW M. CHILDS, Esquire, Steel Hector & Davis, LLP, 215
South Monroe Street, Suite 601, Tallahassee, Florida 32301
On behalf of Florida Power & Light Company (FPL).

JEFFREY A. STONE, Esquire, and RUSSELL A. BADDERS, Esquire,
Beggs & Lane, Post Office Box 12950, Pensacola, Florida 32576
On behalf of Gulf Power Company (Gulf).

LEE L. WILLIS, Esquire, and JAMES D. BEASLEY, Esquire, Ausley
& McMullen, Post Office Box 391, Tallahassee, Florida 32302
On behalf of Tampa Electric Company (TECO).

JOSEPH A. MCGLOTHLIN, Esquire, and VICKI GORDON KAUFMAN,
Esquire, McWhirter Reeves McGlothlin Davidson Rief & Bakas,
P.A., 117 South Gadsden Street, Tallahassee, Florida 32301
On behalf of the Florida Industrial Power Users Group (FIPUG).

STEVE BURGESS, Esquire, Office of Public Counsel, 111 West
Madison Street, Room 812, Tallahassee, Florida 32399
On behalf of the Citizens of Florida (OPC).

LESLIE J. PAUGH, Esquire, Florida Public Service Commission,
2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Commission Staff (Staff).

The following Commissioners participated in the disposition of
this matter:

JULIA L. JOHNSON, Chairman
SUSAN F. CLARK
JOE GARCIA

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

BY THE COMMISSION:

As part of the Commission's continuing fuel, energy
conservation, purchased gas, and environmental cost recovery
proceedings, a hearing was held on August 14, 1997, in this docket

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

and Docket No. 970001-EI. The hearing addressed the issues set out in the Prehearing order, Order No. PSC-97-0977-PHO-EI, issued August 13, 1997. The parties stipulated to a resolution of all of the issues presented. They are as described below.

Generic Environmental Cost Recovery Issues

The parties agreed to, and we approve as reasonable, the following final environmental cost recovery true-up amounts for the period ending September 30, 1996:

FPL: \$ 69,606 overrecovery.

GULF: \$525,673 overrecovery.

The parties agreed to, and we approve as reasonable, the following final environmental cost recovery true-up amounts for the period ending March 31, 1997:

TECO: \$156,449 overrecovery.

The parties agreed to, and we approve as reasonable, the following estimated environmental cost recovery true-up amounts for the period October 1996 through September 1997:

FPL: \$2,137,290 underrecovery for the period including interest.

GULF: \$88,687 overrecovery.

The parties agreed to, and we approve as reasonable, the following estimated environmental cost recovery true-up amounts for the period April 1997 through September 1997:

TECO: \$843,546 underrecovery.

The parties agreed to, and we approve as reasonable, the following total environmental cost recovery true-up amounts to be collected during the period October 1997 through September 1998:

FPL: \$2,067,684 net underrecovery.

GULF: \$614,360 overrecovery.

The parties agreed to, and we approve as reasonable, the following total environmental cost recovery true-up amounts to be collected during the period October 1997 through March 1998:

TECO: \$687,097 net underrecovery.

The parties agreed to, and we approve as reasonable, the following projected environmental cost recovery amounts for the period October 1997 through September 1998:

FPL: \$22,228,780.

GULF: \$11,291,801.

The parties agreed to, and we approve as reasonable, the following projected environmental cost recovery amounts for the period October 1997 through March 1998.

TECO: \$3,837,658.

We find that the effective date of the new environmental cost recovery factors for billing purposes for Florida Power & Light Company and Gulf Power Company shall 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.

We find that the effective date of the new environmental cost recovery factors for billing purposes for Tampa Electric Company shall 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.

We approve as reasonable the parties' stipulation that the depreciation rates used to develop the depreciation expense, which is included in the total environmental cost recovery true-up amounts to be collected during the period beginning October 1997, shall be the rates that are in effect during the period the allowed capital investment is in service.

We approve as reasonable the parties' stipulation that the newly proposed environmental costs shall be allocated to the rate classes as follows:

- 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.

The parties agreed to, and we approve as reasonable, the following Environmental Cost Recovery Factors for the period beginning October 1997 for each rate group:

FPL:

<u>Rate Class</u>	<u>Environmental Recovery Factor (\$/KWH)</u>
RS1	0.00030
GS1	0.00028
GSD1	0.00025
OS2	0.00069
GSLD1/CS1	0.00024
GSLD2/CS2	0.00023
GSLD3/CS3	0.00016
ISST1D	0.00050
SST1T	0.00021
SST1D	0.00025
CILC D/CILC G	0.00023
CILC T	0.00015
MET	0.00027
OL1/SL1	0.00021
SL2	0.00021

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GULF:

<u>Rate Class</u>	<u>Environmental Recovery Factor (¢/KWH)</u>
RS, RST	0.138
GS, GST	0.136
GSD, GSDT	0.118
LP, LPT	0.111
PX, PXT, RTP	0.101
OSI, OSII	0.082
OSIII	0.107
OSIV	0.154
SBS	0.112

TECO:

<u>Rate Class</u>	<u>Environmental Recovery Factor (¢/KWH)</u>
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

Florida Power & Light Company requested recovery of costs of the Substation Pollutant Discharge Prevention and Removal Project through the Environmental Cost Recovery Clause. The amounts projected for this project should be adjusted downward by the level of ongoing O&M expense which FPL has historically experienced for substation transformer gasket replacement, substation soil contamination remediation, and the painting of substation transformers. The level of historical expenses for these ongoing O&M activities is assumed to be in base rates. Therefore, an adjustment of \$700,295, for the 15-month period from July, 1997, to September 1998, is required to avoid double recovery.

We approve as reasonable the parties' stipulation that Florida Power & Light Company correctly calculated the Return on Average Net Investment for each of the projects. In its revised June projection filing, the Company made the appropriate corrections to its cost of capital rates. On a going forward basis, the Company has agreed to use the current year's March cost of capital rates for both the debt and equity components to be reported in the twelve month projection period. For the twelve month reprojection period, the Company has agreed to use the prior year's June cost of capital rates for both the debt and equity components. For the twelve month final true-up period, the Company has agreed to use the same cost of capital components as used in the reprojection period. The appropriate cost of capital rates are reported on a 13-month average, FPSC adjusted basis as filed in the monthly Earnings Surveillance Reports filed with the Commission. The relative ratios of capital components are consistent with the capital structure approved in the Company's last rate case in Order Nos. 13537 and 13948 (Docket No. 830465-EI).

Gulf Power Company

We approve as reasonable the parties' stipulation that 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. This activity includes installation of secondary containment facilities, cathodic protection upgrades, and inspection of existing field-erected oil storage tank systems. This activity is a requirement of Chapter 62-762.520(1) of the

Florida Administrative Code, enacted on March 12, 1991. All expenses requested for recovery were projected for the period beginning October 1, 1997, with a compliance deadline of December 31, 1999. Based on analysis of Gulf's responses to Staff's Third Set of Interrogatories, we believe the scope of the activity and projected amounts are reasonable. Gulf maintains that the costs of this project are not presently recovered in base rates or any other recovery mechanism. We believe these are new environmental compliance costs which were not included in Gulf's 1990 rate case test year. Therefore, the project and prudently incurred costs are appropriate for recovery through the Environmental Cost Recovery Clause.

We approve as reasonable the parties' stipulation that it is 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 to the extent that the company practices retainage of 10% on specific projects in the Environmental Cost Recovery Clause.

We approve as reasonable the parties' stipulation that an adjustment need not be made for the recording error made in SO₂ 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. The error was due to inappropriate allocation of Plant Daniel's SO₂ Allowances. The company has already made correcting entries for the error.

We approve as reasonable the parties' stipulation that Gulf Power recover legal expenses incurred to assure compliance with revisions to Clean Air Act Amendment Title V provisions through the Environmental Cost Recovery Clause. 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."

We approve as reasonable the parties' stipulation that an adjustment need not 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. It is our understanding that the Company has made correcting entries, including any applicable interest, for these O&M expense items in June and July 1997.

In Order No PSC-95-0384-FOF-EI dated March 21, 1995, we 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 (Staff Composite Exhibit for Gulf) 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

We hereby defer the issue concerning whether an adjustment for SO₂ Allowances, if any, should be made to Tampa Electric Company's Environmental Cost Recovery Factor as a result of our decision in Docket No. 970171-EU to the August, 1998, Environmental Cost Recovery Clause hearing in order to implement our vote in that docket.

We approve as reasonable the parties' stipulation that an adjustment shall not 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 in 1992 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. 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.

We approve as reasonable the parties' stipulation that a portion of gypsum sales revenue shall not be allocated to the Environmental Cost Recovery Clause based on the allocated cost of limestone. 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 SO₂ 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 Tampa Electric Company's 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.

We approve as reasonable the parties' stipulation that Tampa Electric Company shall not 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. 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, TECO should remove these payroll charges, including any applicable interest, from the Big Bend Unit 3 Flue Gas Desulfurization Integration Project cost recovery request. We shall continue to review payroll expenses on a case-by-case basis.

Based on the foregoing, it is

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

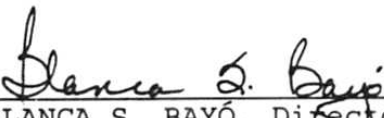
ORDERED that Tampa Electric Company is hereby ordered to apply the environmental cost recovery factors set forth herein during the period October, 1997, through March, 1998, and until such factors are modified by subsequent Order. It is further

ORDERED that Florida Power & Light Company and Gulf Power Company shall apply the environmental cost recovery factors set forth herein during the period October, 1997, through September, 1998, and until such factors are modified by subsequent Order. It is further

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ORDERED that the estimated true-up amounts contained in the environmental cost recovery factors approved herein 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 5th day of September, 1997.



BLANCA S. BAYÓ, 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 120.569(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 Director, Division of Records and Reporting, 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 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.