ORIGINAL

State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: November 17, 1998

TO: Matthew M. Childs, Esquire
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FROM: Leslie J. Paugh, Senior Attorney, Division Of Legal Services RVE FOR

RE: 980007-EI - Environmental cost recovery clause.

Via Facsimile

The following is draft stipulation language resulting from yesterday's prehearing conference relating to outstanding issues for Tampa Electric Company. Please direct any comments to Jim Breman at (850) 413-6664 or Katrina Tew at (850) 413-6656.

ACK ____
AFA ____
APP ____
CAF ____
CMU ____
CTR ____
EAG ____
LEG ____
LIN ____
OPC ____
RCH ____
SEC 1
WAS ____
OTH ____

ISSUE 2: **What are the appropriate projected environmental cost recovery amounts for the period January, 1999, through December, 1999?**

STAFF: TECO: $4,497,293.

ISSUE 6: **What are the appropriate Environmental Cost Recovery Factors for the period January, 1999, through December, 1999, for each rate group?**

STAFF: TECO:

Rate Class	Factor (¢/kWh)
RS, RST	0.029
GS, GST, TS	0.028
GSD, GSDT, EVX	0.028
GSLD, GSLDT, SBF, SBFT	0.028
IS1, IST1, SBI1, SBIT1, IS3, IST3, SBI3, SBIT3	0.026
SL, OL	0.027

ISSUE 10: **Should the Commission approve Tampa Electric Company's request for recovery of costs of the Big Bend Unit 1 Classifier Replacement project through the Environmental Cost Recovery Clause?**

STAFF: Yes. The proposed project is a budgeted item to address a reduction of nitrous oxides (NO_x) emissions required by Title IV of the Clean Air Act Amendments of 1990 (CAAA). The project plant-in-service beginning amount for purposes of this clause should be $1,217,716.

Project Description

Big Bend Unit 1 has older and smaller style classifiers which are being replaced by the more advanced technologies. (Mr. Nelson's Deposition Transcript pp. 27, 29, 31, 37, 39) The new classifiers will ensure that only the appropriate coal particle size goes to the burners. The smaller coal particle size and uniformity are needed to lower NO_x emissions. (Mr. Nelson's Deposition Exhibit 13, pp. 12-14) The installation of new classifiers will require modification to the existing coal piping, hangers, and other existing facilities

within the vicinity of the coal pulverizers. (Mr. Nelson's Late-Filed Exhibit 14; Mr. Nelson's Deposition Transcript pp. 29, 30) However, if the present NO_x reduction efforts cannot meet EPA's limit, TECO may implement other retrofit options such as water injection, over-fire air, and selective catalytic reduction. (Mr. Nelson's Deposition Exhibit 13, pp. 6-7) The project is estimated to be completed by December 1998. (Ms. Zwolak's Deposition Exhibit 2, p. 1; Mr. Nelson's Late-Filed Deposition Exhibit 3)

Legally Required

The classifier replacement project is part of TECO's NO_x compliance strategy for Phase II of the CAAA. (Mr. Nelson's Deposition Exhibit 13, pp. 4-7)

Double Recovery

TECO believes that all of its projected costs are not being recovered through some other cost recovery mechanism or through base rates. (Ms. Zwolak's Direct Testimony, pp. 9-10) However, staff believes the scope and costs of this project include some costs which are included in TECO's base rates and some new costs which are not addressed in TECO's last rate case. The following table indicates the items and amounts which staff believes to be both in TECO's base rates and in the estimated costs for the Big Bend 1 Classifier Replacement.

Source	Description	Amount
Mr. Nelson's Late-Filed Deposition Exhibit 1	In-House Payroll	$ 139,365
Mr. Nelson's Late-Filed Deposition Exhibit 5	Plant-in-Service being replaced	$ 34,549
	Total downward adjustment for base rates items	$ 173,914
KOZ-1, Document 4, p. 4, Line 2	Beginning of the period Amount	$1,391,630
	Total downward adjustment for base rates items	$ 173,914
Staff Recommendation	Beginning of the period Amount	$1,217,716

Therefore, staff believes a downward adjustment of $173,914 to TECO's beginning plant-in-service of $1,391,630 is appropriate. Absent the adjustment, TECO will recover the same costs through both base rates and the ECRC.

Project Cost Estimate

As previously stated, a downward adjustment to TECO's beginning plant-in-service is appropriate. The project plant-in-service beginning amount for purposes of this clause should be $1,217,716. Otherwise, staff believes TECO's project cost estimates are reasonable. Mr. Nelson's Deposition Exhibit 13 and Late-Filed Deposition Exhibits 1, 3, 5, 10, and 14 provide summary statements of the detailed reviews TECO has performed supporting its project. As indicated in these documents, alternatives were evaluated and considered with the proposed classifier project being the least cost option.

Conclusion

For the reasons stated above, staff believes the Big Bend Unit 1 Classifier Replacement and prudently incurred costs are appropriate for recovery through the ECRC. The beginning plant-in-service amount should be $1,217,716. Final disposition of the costs incurred in this project will be subject to audit.

ISSUE 10B: **Should the Commission approve Tampa Electric Company's request for recovery of costs of the Big Bend Unit 2 Classifier Replacement project through the Environmental Cost Recovery Clause?**

STAFF: Yes. The proposed project is a budgeted item to address a reduction of nitrous oxides (NO_x) emissions required by Title IV of the Clean Air Act Amendments of 1990 (CAAA). The project plant-in-service beginning amount for purposes of this clause should be $815,104.

Project Description

Big Bend Unit 2 has older and smaller style classifiers which are being replaced by the more advanced technologies. (Mr. Nelson's Deposition Transcript pp. 27, 29, 31, 37, 39) The new classifiers will ensure that only the appropriate coal particle size goes to the burners. The smaller coal particle size and uniformity are needed to lower NO_x emissions. (Mr. Nelson's Deposition Exhibit 13, pp. 12-14) The installation of new classifiers will require modification to the existing coal piping, hangers, and other existing facilities within the vicinity of the coal pulverizers. (Mr. Nelson's Late-Filed Deposition Exhibit 14; Mr. Nelson's Deposition Transcript pp. 29, 30) However, if the present NO_x reduction efforts cannot meet EPA's limit, TECO may implement, other retrofit options such as water injection, over-fire air, and selective catalytic reduction. (Mr. Nelson's Deposition Exhibit 13, pp. 6-7) The project was completed in May 1998. (Ms. Zwolak's Deposition Exhibit 2, p. 2; Mr. Nelson's Late-Filed Deposition Exhibit 3)

Legally Required

The classifier replacement project is part of TECO's NO_x compliance strategy for Phase II of the CAAA. (Mr. Nelson's Deposition Exhibit 13, pp. 4-7)

Double Recovery

TECO believes that all of its projected costs are not being recovered through some other cost recovery mechanism or through base rates. (Ms. Zwolak's Direct Testimony, pp. 9-10) However, staff believes the scope and costs of this project include some costs which are included in TECO's base rates and some new costs which are not addressed in TECO's last rate case. The following table indicates the items and amounts which staff believes to be both in TECO's base rates and in the

estimated costs for the Big Bend Unit 2 Classifier Replacement.

Source	Description	Amount
Mr. Nelson's Late-Filed Deposition Exhibit 1	In-House Payroll	$ 109,676
Mr. Nelson's Late-Filed Deposition Exhibit 5	Plant-in-Service being replaced	$ 60,290
	Total downward adjustment for base rates items	$ 169,966
KOZ-1, Document 4, p. 5, Line 2	Beginning of the period Amount	$ 985,070
	Total downward adjustment for base rates items	$ 169,966
Staff Recommendation	Beginning of the period Amount	$ 815,104

Therefore, staff believes a downward adjustment of $169,290 to TECO's beginning plant-in-service of $985,070 is appropriate. Absent the adjustment, TECO will recover the same costs through both base rates and the ECRC.

Project Cost Estimate

As previously stated, a downward adjustment to TECO's beginning plant-in-service is appropriate. The project plant-in-service beginning amount for purposes of this clause should be $815,104. Otherwise, staff believes TECO's project cost estimates are reasonable. Mr. Nelson's Deposition Exhibit 13 and Late-Filed Deposition Exhibits 1, 3, 5, 10, and 14 provide summary statements of the detailed reviews TECO has performed supporting its project. As indicated in these documents, alternatives were evaluated and considered with the proposed classifier project being the least cost option.

Conclusion

For the reasons stated above, staff believes the Big Bend Unit 2 Classifier Replacement and prudently incurred costs are appropriate for recovery through the ECRC. The beginning plant-in-service amount should be $815,104.

Final disposition of the costs incurred in this project will be subject to audit.

ISSUE 10D: **Should the Commission approve Tampa Electric Company's request for recovery of costs of the Gannon Unit 5 Classifier Replacement project through the Environmental Cost Recovery Clause?**

STAFF: Yes. The proposed project is a budgeted item to address a reduction of nitrous oxides (NO_x) emissions required by Title IV of the Clean Air Act Amendments of 1990 (CAAA). The project plant-in-service beginning amount for purposes of this clause should be $1,129,039.

Project Description

Gannon Unit 5 has older and smaller style classifiers which are being replaced by the more advanced technologies. (Mr. Nelson's Deposition Transcript pp. 27, 29, 31, 37, 39) The new classifiers will ensure that only the appropriate coal particle size goes to the burners. The smaller coal particle size and uniformity are needed to lower NO_x emissions. (Mr. Nelson's Deposition Exhibit 13, pp. 12-14) The installation of new classifiers will require modification to the existing coal piping, hangers, and other existing facilities within the vicinity of the coal pulverizers. (Mr. Nelson's Late-Filed Deposition Exhibit 14; Mr. Nelson's Deposition Transcript pp. 29, 30) However, if the present NO_x reduction efforts cannot meet EPA's limit, TECO may implement, other retrofit options such as water injection, over-fire air, and selective catalytic reduction. (Mr. Nelson's Deposition Exhibit 13, pp. 6-7) The project is was completed in December 1997. (Ms. Zwolak's Deposition Exhibit 2, p. 3; Mr. Nelson's Late-Filed Deposition Exhibit 3)

Legally Required

The classifier replacement project is part of TECO's NO_x compliance strategy for Phase II of the CAAA. (Mr. Nelson's Deposition Exhibit 13, pp. 4-7)

Double Recovery

TECO believes that all of its projected costs are not being recovered through some other cost recovery mechanism or through base rates. (Ms. Zwolak's Direct Testimony, pp. 9-10) However, staff believes the scope and costs of this project include some costs which are included in TECO's base rates and some new costs which

are not addressed in TECO's last rate case. The following table indicates the items and amounts which staff believes to be both in TECO's base rates and in the estimated costs for the Gannon Unit 5 Classifier Replacement.

Source	Description	Amount
Mr. Nelson's Late-Filed Deposition Exhibit 1	In-House Payroll	$ 130,368
Mr. Nelson's Late-Filed Deposition Exhibit 14	Plant-in-Service being replaced Ball mill recharge	$ 81,116
Mr. Nelson's Late-Filed Deposition Exhibit 5	Plant-in-Service being replaced	$ 18,517
	Total downward adjustment for base rates items	$ 230,001
KOZ-1, Document 4, p. 6, Line 2	Beginning of the period Amount	$1,359,040
	Total downward adjustment for base rates items	$ 230,001
Staff Recommendation	Beginning of the period Amount	$1,129,039

Therefore, staff believes a downward adjustment of $230,001 to TECO's beginning plant-in-service of $1,359,040 is appropriate. Absent the adjustment, TECO will recover the same costs through both base rates and the ECRC.

Project Cost Estimate

As previously stated, a downward adjustment to TECO's beginning plant-in-service is appropriate. The project plant-in-service beginning amount for purposes of this clause should be $1,129,039. Otherwise, staff believes TECO's project cost estimates are reasonable. Mr. Nelson's Deposition Exhibit 13 and Late-Filed Deposition Exhibits 1, 3, 5, 10, and 14 provide summary statements of the detailed reviews TECO has performed supporting its project. As indicated in these documents, alternatives

were evaluated and considered with the proposed classifier project being the least cost option.

Conclusion
For the reasons stated above, staff believes the Gannon Unit 5 Classifier Replacement and prudently incurred costs are appropriate for recovery through the ECRC. The beginning plant-in-service amount should be $1,129,039. Final disposition of the costs incurred in this project will be subject to audit.

ISSUE 10F: **Should the Commission approve Tampa Electric Company's request for recovery of costs of the Gannon Unit 6 Classifier Replacement project through the Environmental Cost Recovery Clause?**

STAFF: Yes. The proposed project is a budgeted item to address a reduction of nitrous oxides (NO_x) emissions required by Title IV of the Clean Air Act Amendments of 1990 (CAAA). The project plant-in-service beginning amount in June 1999 for purposes of this clause should be $ 1,318,752.

Project Description
Gannon Unit 6 has older and smaller style classifiers which are being replaced by the more advanced technologies. (Mr. Nelson's Deposition Transcript pp. 27, 29, 31, 37, 39) The new classifiers will ensure that only the appropriate coal particle size goes to the burners. The smaller coal particle size and uniformity are needed to lower NO_x emissions. (Mr. Nelson's Deposition Exhibit 13, pp. 12-14) The installation of new classifiers will require modification to the existing coal piping, hangers, and other existing facilities within the vicinity of the coal pulverizers. (Mr. Nelson's Late-Filed Deposition Exhibit 14; Mr. Nelson's Deposition Transcript pp. 29, 30) However, if the present NO_x reduction efforts cannot meet EPA's limit, TECO may implement, other retrofit options such as water injection, over-fire air, and selective catalytic reduction. (Mr. Nelson's Deposition Exhibit 13, pp. 6-7) The project is expected to be completed in June 1999. (Ms. Zwolak's Deposition Exhibit 2, p. 4; Mr. Nelson's Late-Filed Deposition Exhibit 3)

Legally Required

The classifier replacement project is part of TECO's NO_x compliance strategy for Phase II of the CAAA. (Mr. Nelson's Deposition Exhibit 13, pp. 4-7)

Double Recovery

TECO believes that all of its projected costs are not being recovered through some other cost recovery mechanism or through base rates. (Ms. Zwolak's Direct Testimony, pp. 9-10) However, staff believes the scope and costs of this project include some costs which are included in TECO's base rates and some new costs which are not addressed in TECO's last rate case. The following table indicates the items and amounts which staff believes to be both in TECO's base rates and in the estimated costs for the Gannon Unit 5 Classifier Replacement.

Source	Description	Amount
Mr. Nelson's Late-Filed Deposition Exhibit 1	In-House Payroll	$ 160,568
Mr. Nelson's Late-Filed Deposition Exhibit 5	Plant-in-Service being replaced	$ 27,797
	Total downward adjustment for base rates items	$ 188,365
KOZ-1, Document 4, p. 7, Line 2	June 1999 Plant-in-Service Estimated Amount	$1,507,117
	Total downward adjustment for base rates items	$ 188,365
Staff Recommendation	June 1999 Plant-in-Service Estimated Amount	$1,318,752

Therefore, staff believes a downward adjustment of $188,365 to TECO's estimated June 1999 plant-in-service of $1,507,117 is appropriate. Absent the adjustment, TECO will recover the same costs through both base rates and the ECRC.

Project Cost Estimate
As previously stated, a downward adjustment to TECO's estimated plant-in-service is appropriate. The estimated June 1999 plant-in-service amount for purposes of this clause should be $1,318,752. Otherwise, staff believes TECO's project cost estimates are reasonable. Mr. Nelson's Deposition Exhibit 13 and Late-Filed Deposition Exhibits 1, 3, 5, 10, and 14 provide summary statements of the detailed reviews TECO has performed supporting its project. As indicated in these documents, alternatives were evaluated and considered with the proposed classifier project being the least cost option.

Conclusion
For the reasons stated above, staff believes the Gannon Unit 6 Classifier Replacement and prudently incurred costs are appropriate for recovery through the ECRC. The estimated June 1999 plant-in-service amount should be $1,318,752. Final disposition of the costs incurred in this project will be subject to audit.

ISSUE 10E: **Should the Commission approve Tampa Electric Company's request for recovery of costs of the Gannon Coal Crusher Addition project through the Environmental Cost Recovery Clause?**

STAFF: Yes. The proposed project is a budgeted item to address increased operational costs due to using PRB coal, and the project contributes to an overall reduction of nitrous oxides (NO_x) emissions as required by Title IV of the Clean Air Act Amendments of 1990 (CAAA). The project estimated plant-in-service amount for purposes of this clause should be $ 3,953,481 for July 1999.

Project Description
The Gannon Coal Crusher Addition project is the addition of two crushers at the Gannon Station. (Mr. Nelson's Deposition Exhibit 14, pp. 8-9; Mr. Nelson's Deposition Exhibit 13, pp. 16) The additional crushers will be located in the Gannon Station Coalfield. (Mr. Nelson's Deposition Exhibit 14, pp. 8-9; Mr. Nelson's Deposition Transcript pp. 51; Mr. Nelson's Deposition Exhibit 13, pp. 16) The project is expected to be completed in July 1999. (Ms. Zwolak's Deposition Exhibit 2, p. 5)

Legally Required
Staff does not know if the additional Gannon coal crushers were initially intended as part of TECO's

overall NO_x compliance strategy for Phase II of the CAAA. At deposition, Mr. Nelson was asked to read TECO's internal program scope approval for this project. TECO's program scope approval listed the consequences of not adding additional Gannon coalfield crushers. (Mr. Nelson's Deposition Transcript, p. 59) The items listed as short-term and long-term consequences of not implementing the project were extended bunkering times due to capacity deficiencies, poor combustion, loss of class revenue, risk of fires due to finding shortfalls (LOI), and excessive maintenance on crushers and ash handling equipment. There was no mention of noncompliance with the CAAA. (Mr. Nelson's Deposition Transcript, p. 59) In addition, staff believes the extent to which TECO will continue to use PRB coal at Gannon is uncertain because TECO's PRB coal purchases through September 1998 have been 100% spot purchases. (Mr. Nelson's Late-Filed Deposition Exhibit 12, p. 6)

However, staff believes that additional crushers at the Gannon Station will contribute in the overall efforts to achieve lower NO_x emissions if TECO continues to use PRB coal at Gannon. This is because TECO will be able to better control NO_x emissions and maintain unit efficiency while continuing to use PRB coal at the Gannon Station. (Mr. Nelson's Deposition Transcript, pp. 207-209; Mr. Nelson's Deposition Exhibit 13, p. 16)

Double Recovery

TECO believes that all of its projected costs are not being recovered through some other cost recovery mechanism or through base rates. (Ms. Zwolak's Direct Testimony, pp. 9-10) However, staff believes the scope and costs of this project include some costs which are included in TECO's base rates and some new costs which are not addressed in TECO's last rate case. The following table indicates the items and amounts which staff believes to be both in TECO's base rates and in the estimated costs for the Gannon Coal Crusher Addition.

Source	Description	Amount
Mr. Nelson's Late-Filed Deposition Exhibit 1	In-House Payroll	$ 110,521
	Total downward adjustment for base rates items	$ 110,521
KOZ-1, Document 4, p. 10, Line 2	July 1999 Plant-in-Service Estimated Amount	$4,064,002
	Total downward adjustment for base rates items	$ 110,521
Staff Recommendation	July 1999 Plant-in-Service Estimated Amount	$3,953,481

Therefore, staff believes a downward adjustment of $110,521 to TECO's estimated July 1999 plant-in-service of $4,064,002 is appropriate. Absent the adjustment, TECO will recover the same costs through both base rates and the ECRC.

Project Cost Estimate

As previously stated, a downward adjustment to TECO's estimated plant-in-service is appropriate. The estimated July 1999 plant-in-service amount for purposes of this clause should be $3,953,481. Otherwise, staff believes TECO's project cost estimates are reasonable. Mr. Nelson's Deposition Exhibit 13 and Late-Filed Deposition Exhibits 1, 6, 10, and 14 provide summary statements of the detailed reviews TECO has performed supporting its project. As indicated in these documents, alternatives were evaluated and considered with the proposed crusher project being the least cost option.

Conclusion

For the reasons stated above, staff believes the Gannon Coal Crusher Addition and prudently incurred costs are appropriate for recovery through the ECRC. The estimated July 1999 plant-in-service amount should be $3,953,481. Final disposition of the costs incurred in this project will be subject to audit.

ISSUE 10J: **Should the Commission approve Tampa Electric Company's request for recovery of costs of the Gannon Unit 5 Stack Extensions project through the Environmental Cost Recovery Clause?**

STAFF: Yes. The proposed project is a budgeted item to address Ambient Air Quality Standards for sulfur dioxide (SO_2) emissions which surfaced during an air operating permit application review by the Florida Department of Environmental Protection (FDEP). The air operating permit is required by Title V of the Clean Air Act Amendments of 1990 (CAAA). The project's estimated plant-in-service amount for purposes of this clause should be $506,989 for December 1999.

Project Description

TECO is proposing to increase the stack height of Gannon Unit 5 by 46 feet. The existing stack will be structurally reinforced to support the additional weight of the extensions. The increased stack height will increase the dispersion of emissions over a larger area. The improved dispersion decreases SO_2 ground level concentrations. (Mr. Nelson's Deposition Exhibit 13, pp. 17-18) The project is estimated to be completed by December 1999. (Ms. Zwolak's Direct Testimony Exhibit KOZ-1, Document 4, p.8; Mr. Nelson's Late-Filed Deposition Exhibit 14, p. 38)

Legally Required

In a September 30, 1998 letter, TECO was informed by FDEP that there was a potential for the Gannon Station SO_2 emissions to exceed federal and state Ambient Air Quality Standards. (Mr. Nelson's Late-Filed Deposition Exhibit 8, pp. 2) In the letter, FDEP explains that the finding occurred during the Department's review of the Gannon Station CAAA Title V Air Operating Permit. TECO reviewed various mitigation options and selected the lowest cost option. (Mr. Nelson's Deposition Exhibit 13, pp. 17-18) TECO indicates that FDEP agrees with TECO's approach to meeting the SO_2 emission requirements. (Mr. Nelson's Deposition Exhibit 13, p. 17)

Double Recovery

TECO believes that all of its projected costs are not being recovered through some other cost recovery mechanism or through base rates. (Ms. Zwolak's Direct Testimony, pp. 9-10) However, staff believes the scope and costs of this project include some costs which are

being recovered through TECO's base rates and some new costs which are not addressed in TECO's last rate case. The following table indicates the items and amounts which staff believes to be both in TECO's base rates and in the estimated costs for the Gannon Unit 5 stack extension.

Source	Description	Amount
Mr. Nelson's Late-Filed Deposition Exhibit 1	In-House Payroll	$ 26,661
	Total downward adjustment for base rates items	$ 26,661
KOZ-1, Document 4, p. 8, Line 2	December 1999 Plant-in-Service Estimated Amount	$ 533,650
	Total downward adjustment for base rates items	$ 26,661
Staff Recommendation	December 1999 Plant-in-Service Estimated Amount	$ 506,989

Therefore, staff believes a downward adjustment of $26,661 to TECO's estimated December 1999 plant-in-service of $533,650 is appropriate. Absent the adjustment, TECO will recover the same costs through both base rates and the ECRC.

Project Cost Estimate

As previously stated, a downward adjustment to TECO's beginning plant-in-service is appropriate. The project estimated December 1999 plant-in-service amount for purposes of this clause should be $506,989. Otherwise, staff believes TECO's project cost estimates are reasonable. Mr. Nelson's Deposition Exhibit 13 and Late-Filed Deposition Exhibits 1, 8, 9, and 14 provide summary statements of the detailed reviews TECO has performed supporting their project. As indicated in these documents, alternatives were evaluated and considered with the proposed stack extension project being the least cost option.

Conclusion
For the reasons stated above, staff believes the Gannon Unit 5 Stack Extension and prudently incurred costs are appropriate for recovery through the ECRC. The estimated December 1999 plant-in-service amount should be $506,989. Final disposition of the costs incurred in this project will be subject to audit.

ISSUE 10L: **Should the Commission approve Tampa Electric Company's request for recovery of costs of the Gannon Unit 6 Stack Extensions project through the Environmental Cost Recovery Clause?**

STAFF: Yes. The proposed project is a budgeted item to address Ambient Air Quality Standards for sulfur dioxide (SO_2) emissions which surfaced during an air operating permit application review by the Florida Department of Environmental Protection (FDEP). The air operating permit is required by Title V of the Clean Air Act Amendments of 1990 (CAAA). TECO should not recover in-house payroll expenses for this project through the ECRC because those expenses are being recovered through TECO's base rates.

Project Description
TECO is proposing to increase the stack height of Gannon Unit 6 by 46 feet. The existing stack will be structurally reinforced to support the additional weight of the extensions. The increased stack height will increase the dispersion of emissions over a larger area. The improved dispersion decreases SO_2 ground level concentrations. (Mr. Nelson's Deposition Exhibit 13, pp. 17-19) The project is estimated to be completed by December 2000. (Ms. Zwolak's Deposition Exhibit 2, p. 8; Mr. Nelson's Late-Filed Deposition Exhibit 14, p. 40)

Legally Required
In a September 30, 1998 letter, TECO was informed by FDEP that there was a potential for the Gannon Station SO_2 emissions to exceed federal and state Ambient Air Quality Standards. (Mr. Nelson's Late-Filed Deposition Exhibit 8, p. 2) In the letter, FDEP explains that the finding occurred during the Department's review of the Gannon Station CAAA Title V Air Operating Permit. TECO reviewed various mitigation options and selected the lowest cost option. (Mr. Nelson's Deposition Exhibit 13, pp. 17-18) TECO indicates that FDEP agrees with TECO's approach to

meeting the SO_2 emission requirements. (Mr. Nelson's Deposition Exhibit 13, p. 17)

Double Recovery

TECO believes that all of its projected costs are not being recovered through some other cost recovery mechanism or through base rates. (Ms. Zwolak's Direct Testimony, pp. 9-10) However, staff believes the scope and costs of this project include some costs which are being recovered through TECO's base rates and some new costs which are not addressed in TECO's last rate case. The costs which staff believes are already being recovered through base rates are the in-house payroll expenses. Current estimates by TECO show $26,661 for in-house payroll has been included in the total project estimate. (Mr. Nelson's Late-Filed Deposition Exhibit 1) Therefore, staff believes a downward adjustment to TECO's actual plant-in-service is appropriate. Absent the adjustment, TECO will recover the same costs through both base rates and the ECRC.

Project Cost Estimate

As previously stated, a downward adjustment to TECO's plant-in-service is appropriate. However, no adjustment for in-house payroll should be made for the current projection period because the project will not be completed until a subsequent ECRC period. TECO's request for cost recovery for this project for calendar year 1999 consists of construction work in progress (CWIP). Otherwise, staff believes TECO's project cost estimates are reasonable. Mr. Nelson's Deposition Exhibit 13 and Late-Filed Deposition Exhibits 1, 8, 9, and 14 provide summary statements of the detailed reviews TECO has performed supporting their project. As indicated in these documents, alternatives were evaluated and considered with the proposed stack extension project being the least cost option.

Conclusion

For the reasons stated above, staff believes the Gannon Unit 6 Stack Extension and prudently incurred costs are appropriate for recovery through the ECRC. However, TECO should not recover in-house payroll expenses for this project through the ECRC because those expenses are being recovered through TECO's base rates. Final disposition of the costs incurred in this project will be subject to audit.

ISSUE 10N: **Should the Commission approve Tampa Electric Company's request for recovery of costs of the National Pollutant Discharge Elimination System (NPDES) Annual Surveillance Fees through the Environmental Cost Recovery Clause?**

STAFF: Yes. The Commission should approve Tampa Electric Company's request to recover the cost of the National Pollutant Discharge Elimination System (NPDES) Annual Surveillance Fees through the ECRC. These fees are paid to the Florida Department of Environmental Protection (FDEP) pursuant to Rule 62-4.052, Florida Administrative Code.

Project Description
These are annual surveillance fees paid to the FDEP associated with TECO's Big Bend, Gannon, Hookers Point, and Sebring Stations. (Ms. Zwolak's Deposition Exhibit 2, p. 10)

Legally Required
Chapter 62-4.052, Florida Administrative Code implements the annual regulatory program and annual surveillance fees for wastewater permits. These fees are in addition to the application fees described in Rule 62-4.050, Florida Administrative Code. (Ms. Zwolak's Deposition Exhibit 2, p. 10)

Double Recovery
All costs requested for recovery are projected for the period beginning January 1999. (Ms. Zwolak's Deposition Exhibit 2, p. 10) Therefore, the costs requested for recovery will be incurred after April 13, 1993. In addition, the rule which requires payment of these surveillance fees was promulgated in 1995 and became effective in 1996. Both of these dates are subsequent to TECO's last rate case in 1992. (Ms. Zwolak's Deposition Exhibit 2, p. 10) Therefore, staff believes that the costs projected for this proposed project are not being recovered through some other cost recovery mechanism or through base rates.

Project Cost Estimate
TECO has requested recovery of $55,200 of prospective operation and maintenance (O&M) expenses projected to be incurred in calendar year

1999. (Ms. Zwolak's November 12, 1998 Revised Direct Testimony, KOZ-1, Document 2; Ms. Zwolak's Deposition Exhibit 2, p. 10)

Conclusion

For the reasons stated above, staff believes the NPDES Surveillance Fees activity and prudently incurred costs are appropriate for recovery through the ECRC. Final disposition of the costs incurred in this project will be subject to audit.