



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

RECEIVED-FPSC
AUG 26 AM 10:40
RECORDS AND REPORTING

DATE: AUGUST 26, 1999

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF ELECTRIC AND GAS (BREMAN, LEE, WHEELER) *DL*
DIVISION OF AUDITING AND FINANCIAL ANALYSIS (DRAPER, SICKEL, LEE, SNYDER) *DR*
DIVISION OF LEGAL SERVICES (JAYE) *RVE JOJ*

RE: DOCKET NO. 990667-EI - PETITION BY GULF POWER COMPANY FOR APPROVAL OF PLANT SMITH SODIUM INJECTION SYSTEM AS NEW PROGRAM FOR COST RECOVERY THROUGH ENVIRONMENTAL COST RECOVERY CLAUSE.

AGENDA: 9/7/99 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\EAG\WP\990667.RCM

CASE BACKGROUND

Pursuant to Section 366.8255, Florida Statutes, and Order No. PSC-94-0044-FOF-EI, issued January 12, 1994, in Docket No. 930613-EI, and Order No. PSC-94-1207-FOF-EI, issued October 3, 1994, in Docket No. 940042-EI, on May 24, 1999, Gulf Power Company (Gulf) filed a Petition for Approval of New Environmental Program for Cost Recovery Through the Environmental Cost Recovery Clause.

Gulf seeks approval of the proposed Plant Smith Sodium Injection System as an environmental compliance program appropriate for recovery through the Environmental Cost Recovery Clause (ECRC). Gulf states that the instant project is a capital project with projected expenditures of \$77,000 for calendar year 1999. Gulf also seeks to include the actual 1999 program expenditures in their 1999 ECRC true-up amounts.

DOCUMENT NUMBER-DATE

10204 AUG 26 99

FPSC-RECORDS/REPORTING

DOCKET NO. 990667-EI
DATE: AUGUST 26, 1999

Order No. PSC-94-0044-FOF-EI, issued January 12, 1994 in Docket No. 930613-EI, sets forth the criteria the Commission uses to administer Section 366.8255, Florida Statutes. Under the Commission's interpretation of the statute as expressed in Order No. PSC-94-044-FOF-EI, the Commission must first determine whether the project is eligible for recovery through the ECRC before cost recovery occurs. In addition, Order No. PSC-94-1207-FOF-EI, issued October 3, 1994, in Docket No. 940042-EI, requires that a utility's petition for cost recovery must describe the proposed activities and projected costs, not costs that have already been incurred. Therefore, pursuant to these Commission Orders and Section 366.8255, Florida Statutes, the instant docket was opened to address the eligibility of Gulf's project for recovery through the ECRC.

The costs included in ECRC true-up amounts are typically addressed in the ongoing ECRC docket. The 1999 ECRC hearing in Docket Number 990007-EI is scheduled for November 22-24, 1999.

DISCUSSION OF ISSUES

ISSUE 1: Does Gulf Power Company's proposed Plant Smith Sodium Injection System meet the criteria for Commission approval for cost recovery through the Environmental Cost Recovery Clause?

RECOMMENDATION: Yes. [BREMAN, LEE, JAYE]

STAFF ANALYSIS: The criteria used by the Commission in its determination of whether a project's cost are to be recovered in the ECRC is addressed in two Commission orders.

First, Order No. PSC-94-1207-FOF-EI states in part, "...a utility's petition for cost recovery must describe proposed activities and projected costs, not costs that have already been incurred." (p. 5)

Second, Order No. PSC-94-0044-FOF-EI states in part:

- (1) such costs were prudently incurred after April 13, 1993;
- (2) the activity is legally required to comply with governmentally imposed environmental regulation

- enacted, became effective, or whose effect was triggered after the company's last test year upon which rates are based; and,
- (3) such costs are not recovered through some other cost recovery mechanism or through base rates. (p. 6-7)

Staff's analysis presents a discussion of each criterion respectively.

Description of proposed activities and projected costs

Gulf's petition characterizes the proposed project as the construction of a sodium injection system at Plant Smith with projected capital costs of \$77,000 in 1999. In response to Staff's Interrogatory 6, Gulf provided an updated itemized list of all costs related to the construction of the Plant Smith Sodium Injection System. The updated estimate of the construction cost is \$87,488 based on preliminary bids. The updated total includes costs for mechanical and electrical work of \$33,567 and \$53,921 for equipment purchases. The primary equipment components are:

- 1) a 40-ton silo to store the sodium, and
- 2) an air dryer and filter system to remove moisture from the sodium, and
- 3) a control mechanism to dispense the sodium powder onto the primary coal feeder belt.

Gulf's responses to Staff's Interrogatories 1 and 7 indicated that there will be associated O&M costs of approximately \$100,000 annually for the purchase of sodium. However, Gulf did not include any O&M costs in its petition.

Therefore, the scope of the proposed construction activities and projected construction costs necessary to complete the project are clear and well known. Staff believes Gulf has satisfied the requirements in Order No. PSC-94-1207-FOF-EI.

Costs prudently incurred after April 13, 1993

This criterion has two inflections. One inflection is with respect to timing relative to the enactment of the ECRC. Clearly the projected 1999 costs for the project will be incurred after April 13, 1993.

The second inflection pertains to prudence. To date, staff believes Gulf has been prudent with respect to their proposed construction project. Gulf is bidding the construction of the necessary equipment. Also, the proposed project appears to be a least cost option to meet current environmental requirements. Gulf determined that coating the lower sulfur coal with sodium carbonate powder will allow the precipitators to operate more efficiently and in a cost-effective manner. In response to staff interrogatories, Gulf stated that no compliance approach other than the sodium injection system was explored because the technology has long been recognized as an industry standard for improving efficiencies of precipitators that collect ash from the burning of low sulfur coals. A report published by the Energy Information Administration (DOE/EIA-0582-97) supports the use of sodium treatment to improve the collection efficiency of precipitators.

However, staff believes the determination of prudence is relevant only given conditions and technology today. The Commission should recognize that the prudence of any project may change over time. What appears prudent today may not be prudent in the future. It is incumbent upon the Company to continue to monitor costs, trends, technology, and other relevant factors impinging upon the prudence of the means of meeting environmental requirements. Changes which could impact the continuation of any project is appropriate for consideration in the ECRC hearings or other rate-setting proceeding.

New legal requirement since setting base rates

To be eligible for ECRC recovery, an activity must be incremental to any environmental compliance activity which existed at the time base rates were last set. In this case, Gulf asserts the proposed project is due to the Acid Rain Phase II provisions in Title IV of the Clean Air Act Amendments of 1990 (CAAA). Phase II of the CAAA requires a reduction from Phase I levels in the airborne emissions of SO₂ from electric power plants by January 1, 2000. According to discovery responses, Gulf's Phase II compliance strategy for the foreseeable future is primarily fuel switching (use of lower sulfur coals) because this strategy is the most cost-effective and provides for flexibility to respond to future developments. However, the properties of the lower sulfur coals decrease the efficiency of the Plant Smith Units 1 & 2 precipitators. Decreased precipitator efficiency results in increased air emissions of post-combustion dust particles. The instant project is Gulf's response to both comply with CAAA Phase II requirements and maintain compliance with existing air permit requirements. Also, the CAAA Phase II compliance requirements did

not exist at the time Gulf prepared its 1990 rate case test year budget.

Therefore, staff concludes that the environmental requirement Gulf is responding to did not exist at the time Gulf's base rates were last set.

Costs are not being recovered elsewhere

The Company's petition and responses to staff's discovery assert that the capitalized cost for the Plant Smith Sodium Injection System is not being recovered through any other cost recovery mechanism or through base rates. Staff agrees that the projected 1999 construction costs were not included in Gulf's 1990 rate case test year budget. However, this fact does not mean that current base rates do not provide some level of cost recovery. The difficulty is in determining which incurred costs are incremental to base rates. Since the instant petition is only prospective in nature, no actual or incurred costs are under consideration. How to determine which incurred costs are incremental to base rates is generic and a recurring topic in the ongoing ECRC docket.

Therefore, based on the foregoing review of the criteria the Commission uses to administer the Environmental Cost Recovery Clause, staff concludes that GULF's proposed project is eligible for ECRC treatment.

ISSUE 2: Should a mid-course correction be filed by Gulf Power Company to include the costs for the Plant Smith Sodium Injection System program in the remaining months of the 1999 Environmental Cost Recovery Clause?

RECOMMENDATION: No. [BREMAN, WHEELER]

STAFF ANALYSIS: The potential rate impact of a new environmental project should be considered. In response to Staff's Interrogatories 6 and 7, Gulf provided updated costs of \$87,488 for construction of the Plant Smith Sodium Injection System and \$100,000 annual O&M costs for the purchase of sodium. In abundance of caution, staff added \$190,000 to Gulf's approved 1999 ECRC amount to determine the potential rate impact. For staff's

purposes, the \$190,000 amount assumes that Gulf would expense the approximate \$90,000 for new equipment rather than capitalize it. This analysis results in a two cent increase in the typical 1,000 kwh residential bill. Staff believes the two cent increase demonstrates that there is not a potential for a significant rate impact based on the information currently available.

Therefore, subject to approval of issue 1, staff agrees with Gulf that there is no need for an mid-course correction of the ECRC factors during 1999. The actual program expenditures will be addressed in the ongoing ECRC dockets and will be subject to audit.

ISSUE 3: Should the Commission approve Gulf Power Company's petition for approval of a new environmental program for cost recovery through the Environmental Cost Recovery Clause?

RECOMMENDATION: Yes.

STAFF ANALYSIS: This is a fall-out issue. Staff believes that Gulf's petition should be granted because Gulf's proposed new capital project is eligible for ECRC treatment and because there is no need for a ECRC mid-course correction due to approval of the proposed project. If the Commission does not approve both issues 1 and 2, then Gulf's petition should be denied.

ISSUE 4: Should this docket be closed?

RECOMMENDATION: Yes. If no person whose substantial interests are affected files a request for a Section 120.57(1), Florida Statutes, hearing within 21 days of the order, the order will become final and effective upon the issuance of a consummating order. Because no further action will be required, this docket should be closed. [JAYE]

DOCKET NO. 990667-EI
DATE: AUGUST 26, 1999

STAFF ANALYSIS: If no person whose substantial interests are affected files a request for a Section 120.57(1), Florida Statutes, hearing within 21 days of the order, the order will become final and effective upon the issuance of a consummating order. Because no further action will be required, this docket should be closed.