



# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

**DATE:** AUGUST 2, 2001

**TO:** DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

**FROM:** DIVISION OF SAFETY AND ELECTRIC RELIABILITY (BREMEN, *JB*  
D.LEE) *WBM*  
DIVISION OF LEGAL SERVICES (STERN) *MKS RVE 2/2*  
DIVISION OF ECONOMIC REGULATION (BRINKLEY, *ESD JDT*  
D.DRAPER, GARDNER, P.LEE) *DPW/RAT*  
*MB* *ALM*

**RE:** DOCKET NO. 010562-EI - PETITION FOR APPROVAL OF  
CONSUMPTIVE USE-SHIELD WATER SUBSTITUTION PROJECT AS NEW  
PROGRAM FOR COST RECOVERY THROUGH ENVIRONMENTAL COST  
RECOVERY CLAUSE BY GULF POWER COMPANY.

**AGENDA:** 08/14/01 - REGULAR AGENDA - PROPOSED AGENCY ACTION -  
INTERESTED PERSONS MAY PARTICIPATE

**CRITICAL DATES:** NONE

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\SER\WP\010562.RCM

### CASE BACKGROUND

On April 20, 2001, Gulf Power Company ("Gulf" or "Company") petitioned this Commission for approval of the Company's Consumptive Use-Shield Water Substitution Project as a new program for cost recovery through the Environmental Cost Recovery Clause ("statute" or "ECRC").

Section 366.8255, Florida Statutes, the ECRC, gives the Commission the authority to review and decide whether a utility's environmental compliance costs are recoverable through the ECRC. Electric utilities may petition the Commission to recover projected environmental compliance costs required by environmental laws or regulations. See Section 366.8255(2), Florida Statutes. Environmental laws or regulations include "all federal, state or

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local statutes, administrative regulations, orders, ordinances, resolutions or other requirements that apply to electric utilities and are designed to protect the environment." Section 366.8255(1)(c). If the Commission approves the utility's petition for cost recovery through this clause, only prudently incurred costs shall be recovered. See Section 366.8255(2) Florida Statutes.

### **DISCUSSION OF ISSUES**

**ISSUE 1:** Should the Commission approve Gulf's petition for the Consumptive Use-Shield Water Substitution Project as a new program for cost recovery through the ECRC?

**RECOMMENDATION:** Yes. (Breman, Lee, Stern)

**STAFF ANALYSIS:** The Consumptive Use-Shield Water Substitution Project ("Shield Water Project") is a water conservation and consumptive use efficiency program. Gulf is required to reduce its demand for groundwater at Plant Smith by 25% by December 31, 2004. This requirement is Specific Condition 6 of Gulf's individual water use permit for Plant Smith, Permit No. 850073, issued August 26, 1999 by the Northwest Florida Water Management District ("NFWFMD"). Rule 40A-2.381, Florida Administrative Code, provides the specific basis for the NFWFMD's authority to impose a condition on any permit issued by the NFWFMD. Gulf attested that similar water conservation requirements are likely to be imposed at other power plants as the individual water use permits are renewed.

The primary reason Gulf is required to reduce groundwater usage at Plant Smith is to reduce the potential for saltwater intrusion. NFWFMD established a goal of a 25% reduction by the end of 2004. The proposed Shield Water Project is estimated to achieve a 15% reduction in groundwater usage at Plant Smith. Gulf has not decided on the method of achieving the remaining 10% reduction in groundwater usage required by the NFWFMD.

The Shield Water Project consists of adding a 7.5 HP centrifugal pump, piping, valves and controls at Plant Smith to reclaim water from the ash pond. The reclaimed ash pond water will displace groundwater that is currently used as shield water within the boilers of Smith Unit 1 and Smith Unit 2. The water in the boiler bottoms shields the boiler bottoms from molten slag and cinders that occur during combustion, hence the name "shield

water." The estimated cost for the Shield Water Project pump, piping, valves, and controls is approximately \$50,000. The annual operation and maintenance costs are estimated to be \$2,000.

As of June 22, 2001, Gulf reviewed two other options that, in addition to the Shield Water Project, may reduce groundwater usage at Plant Smith by approximately 25%. Desalinization is the most costly alternative reviewed. A 250 gallon per minute desalinization facility has an estimated capital cost of \$2,500,000 and annual operation and maintenance expenses of approximately \$200,000 not including potential waste disposal issues. A Water Cooler System is another project that Gulf is reviewing to achieve reduction in groundwater usage. Currently, groundwater is used to cool samples of the water used in the steam cycle. Gulf's Water Cooler System would use alternate water sources instead of groundwater to cool the water samples. Alternate water sources are still being evaluated. Estimated construction costs for the Water Cooler System total \$100,000 and annual operation and maintenance costs are approximately \$15,000. Neither of these additional projects are currently proposed for recovery through the ECRC.

Based on Gulf's actions taken to date, it appears that Gulf has been prudent with respect to selecting a low-cost program. Staff will continue to monitor and evaluate the prudence matter in the annual ECRC dockets as Gulf's actual costs and other relevant information become available. To insure that the most cost effective compliance action is taken, the Company should continue to monitor costs, trends, technology, and other relevant factors.

Staff believes that Gulf's Shield Water Project satisfies the requirements of Section 366.8255, Florida Statutes, and qualifies for recovery through the ECRC. The actual expenditures/expenses will be addressed in an up-coming true-up cycle and will be subject to audit. Issues that will determine the specific amount recoverable through the ECRC, such as whether specific costs were prudently incurred and whether they have already been recovered in other mechanisms, will be further examined and resolved in the Docket No. 010007-EI. Gulf is not requesting a change in the ECRC factors that have been approved for 2001. Based on the information currently available, it appears that there is no potential for a significant rate impact. Therefore, the review of Gulf's expenses should be addressed at the November 2001 ECRC hearing.

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**ISSUE 2:** Should this docket be closed?

**RECOMMENDATION:** Yes, this docket should be closed upon issuance of a Consummating Order unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action. (Stern)

**STAFF ANALYSIS:** If no timely protest to the proposed agency action is filed within 21 days of the date of issuance of the Consummating Order, this docket should be closed upon the issuance of the Consummating Order.