

State of Florida



Public Service Commission  
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**DATE:** AUGUST 8, 2002

**TO:** DIRECTOR, DIVISION OF THE COMMISSION CLERK & ADMINISTRATIVE SERVICES (BAYÓ)

**FROM:** DIVISION OF ECONOMIC REGULATION (MEEKS, P. LEE) *BPM JS PSL DM JDT*  
OFFICE OF THE GENERAL COUNSEL (C. KEATING) *WCL MCH*

**RE:** DOCKET NO. 020566-EI - PETITION FOR APPROVAL OF RECOVERY SCHEDULE FOR TWO GANNON STATION GENERATING UNITS, EFFECTIVE JANUARY 1, 2002, BY TAMPA ELECTRIC COMPANY.

**AGENDA:** 08/20/02 - REGULAR AGENDA - PARTICIPATION IS LIMITED TO COMMISSIONERS AND STAFF

**CRITICAL DATES:** NONE

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\020566.RCM

CASE BACKGROUND

On November 3, 1999, the United States Department of Justice, on behalf of the United States Environmental Protection Agency (EPA), filed a lawsuit against Tampa Electric Company (TECO or company) alleging TECO violated the Prevention of Significant Deterioration (PSD) requirements at Part C of the Clean Air Act, 42 U.S.C. §§ 7470-7492. The EPA alleged that TECO was required to obtain a PSD permit and apply best available control technology (BACT) before proceeding with various power plant modifications which TECO completed between 1991 and 1996. The power plant modifications in question were replacements of boiler equipment such as steam drum internals, high temperature reheater, water wall, cyclone, and furnace floor.

Subsequently, on December 7, 1999, the Florida Department of Environmental Protection (DEP) filed a lawsuit against TECO which mirrored the EPA lawsuit. Shortly after the DEP filed its lawsuit,

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FPSC-COMMISSION CLERK

DOCKET NO. 020566-EI

DATE: August 8, 2002

TECO and the DEP settled the suit by entering a Consent Final Judgment (CFJ). The CFJ became effective on December 16, 1999.

On February 29, 2000, TECO and the EPA signed a settlement agreement (Consent Decree). The Consent Decree was filed with the U.S. District Court in Tampa on February 29, 2000. The Consent Decree was entered October 5, 2000. Among other things, the Consent Decree and CFJ require TECO to cease burning coal at the Gannon Station by year-end 2004 and repower some of the Gannon units with natural gas.

By Order Nos. PSC-00-0603-PAA-EI and PSC-00-0817-PAA-EI, issued March 29, 2000, and April 25, 2000, respectively, in Docket Nos. 990529-EI and 992014-EI, depreciation rates, recovery schedules, and the provision for dismantlement for TECO were revised. The depreciation rates and recovery schedule approved for the Gannon Station reflected TECO's preliminary assessment of compliance with the Consent Decree and the CFJ. The company's planning included the repowering of Gannon Units 3, 4, and 5. Once repowered, the original boilers of Units 1 through 5 and the station's coal handling system would be retired and the Gannon Station would be natural gas fueled with the capability of burning fuel oil as an alternative. Additionally, TECO planned to place Units 1, 2, and 6 on reserve standby to be used as emergency capacity to provide the operating flexibility needed to ensure reliability and possible future conversion to burn natural gas.

By Order No. PSC-00-2275-PAA-EI, issued November 30, 2000, in Docket No. 000686-EI, revised depreciation rates and a recovery schedule for the Gannon Station were approved. The revision was necessitated by changes in TECO's planning to repower Units 5 and 6 rather than Units 3, 4, and 5. Engineering analyses showed that repowering Gannon Unit 6 had more advantages than repowering Units 3 and 4. According to the analyses, Unit 6 required less valving and piping arrangements, and had a slightly more simplified steam pipe route for repowering. Furthermore, TECO did not plan to maintain the boiler and related equipment at Units 3 and 4 for emergency purposes. With the repowering of Units 5 and 6, the total station capacity would increase from approximately 1,150 MW to 1,828 MW.

On June 25, 2002, TECO filed a request for a recovery schedule for Gannon Units 1 and 2. The instant request is necessitated by changes in TECO's planning to not repower the units. TECO has

DOCKET NO. 020566-EI

DATE: August 8, 2002

requested preliminary implementation of its proposed recovery schedule as of January 1, 2002, in accordance with Rule 25-6.0436(5), Florida Administrative Code. The Commission is vested with jurisdiction over the subject matter by Chapter 366, Florida Statutes, including Sections 366.04, 366.05, and 366.06, Florida Statutes. This recommendation addresses TECO's request for preliminary implementation.

DISCUSSION OF ISSUES

**ISSUE 1:** Should Tampa Electric Company be allowed to implement its proposed recovery schedule on a preliminary basis?

**RECOMMENDATION:** Yes. Staff recommends that TECO be allowed to implement the proposed recovery schedule for Gannon Units 1 and 2, as shown on Attachment A, on a preliminary basis. The effect of this proposal would increase annual depreciation expense by approximately \$712,000, based on a January 1, 2002, investment and reserve. The resultant expense should be trued-up when a recovery schedule is established by final action. (MEEKS, P. LEE)

**STAFF ANALYSIS:** TECO has determined that Gannon Units 1 and 2 are not economically viable for natural gas repowering. Current plans are now to retire these two units effective December 31, 2004. To ensure that the company's Ten-Year Site Plan and the company's books and records accurately reflect operating conditions and generation planning considerations, TECO has requested that these two units be placed on a recovery schedule. The currently approved depreciation rates assume that Units 1 and 2 would be placed on reserve stand-by with an estimated average retirement date of 2007 and 2008, respectively.

Accordingly, TECO has proposed a recovery schedule in accordance with Rule 25-6.0436(10)(a), Florida Administrative Code, which states:

Prior to the date of retirement of major installations, the Commission shall approve capital recovery schedules to correct associated calculated deficiencies where a utility demonstrates that (1) replacement of an installation or group of installations is prudent and (2) the associated investment will not be recovered by the time of retirement through the normal depreciation process.

The proposed recovery schedule is designed to recover the net investment related to Gannon Units 1 and 2 over the remaining three year period the investment will be in service. The investment and associated reserve as of January 1, 2002, for Unit 1 are \$11,042,523 and \$8,892,954, respectively; for Unit 2 the investment and reserve are \$13,463,554 and \$10,431,131, respectively. The total net unrecovered amount is \$5,181,992 to be

DOCKET NO. 020566-EI

DATE: August 8, 2002

amortized over three years. The annual expenses for this schedule are about \$1,727,331, resulting in an increase in expenses of about \$700,000.

In accordance with Rule 25-6.0436(5), Florida Administrative Code, TECO has requested that it be allowed to implement its proposed recovery schedule on a preliminary basis. The resultant expense will be trued-up when a recovery schedule is established by final Commission action.

Preliminary implementation of the recovery schedule does not and should not imply that, upon completion of the review of TECO's petition, staff will be in agreement with the company's proposal. In any case, expenses will be trued-up in accord with final Commission action in this docket. Staff recommends that TECO be allowed to implement the recovery schedule shown on Attachment A on a preliminary basis.

DOCKET NO. 020566-EI

DATE: August 8, 2002

**ISSUE 2:** What should be the implementation date for the new recovery schedule?

**RECOMMENDATION:** January 1, 2002. (MEEKS)

**STAFF ANALYSIS:** Rule 25-6.0436(5), Florida Administrative Code, provides for preliminary implementation to permit a more accurate statement of expected expenses during the calendar year. The company has requested, and all data and calculations abut, a January 1, 2002, implementation date. Based on this, staff recommends approval of a January 1, 2002, implementation date for preliminary booking of the requested recovery schedule.

DOCKET NO. 020566-EI

DATE: August 8, 2002

**ISSUE 3:** Should this docket be closed?

**RECOMMENDATION:** No. This docket should remain open to allow a complete analysis and thorough review of TECO's proposed recovery schedule. (C. KEATING)

**STAFF ANALYSIS:** This recommendation addresses the preliminary booking of TECO's proposed recovery schedule beginning January 1, 2002, with a provision for a true-up of resulting expense when final Commission action is taken. The issue regarding the appropriate recovery schedule cannot be resolved until a thorough review and analysis of the company's filed request is completed. Staff expects to bring a recommendation to the Commission for proposed agency action on this request in November 2002, affording a point of entry for persons whose substantial interests are affected.

DOCKET NO. 020566-EI

DATE: August 8, 2002

Attachment A

Tampa Electric Company  
Gannon Units 1 and 2

			Current					Preliminary Implementation Company Proposed/Staff Recommended	
Acct. No.	Investment as of 12/31/01 (\$)	Depreciation Reserve as of 12/31/01 (\$)	Average Remaining Life (Yrs.)	Net Salv. (%)	Depreciation Reserve as of 01/01/00 (%)	Current Remaining Life Rate (%)	Current Annual Expenses (\$)	3 Year Recovery Schedule Annual Expenses (\$)	Change In Annual Expenses (\$)
Gannon Unit 1									
311	715,569	639,382	7.2	(1.0)	84.75	2.3	16,458	25,396	8,938
314	8,976,758	7,111,271	6.5	(1.0)	71.21	4.6	412,931	621,829	208,898
315	1,111,090	951,657	5.8	(1.0)	77.65	4.0	44,444	53,144	8,700
316	91,180	79,700	7.3	(1.0)	82.41	2.5	2,280	3,827	1,547
Gannon Unit 2									
311	1,355,647	986,078	8.4	(1.0)	63.94	4.4	59,648	123,190	63,542
314	11,074,200	8,623,093	7.6	(1.0)	71.05	3.9	431,894	817,036	385,142
315	828,669	667,907	7.3	(1.0)	72.78	3.9	32,318	53,587	21,269
316	37,578	33,923	6.6	(2.0)	85.07	2.6	977	1,219	242
Gannon OBO - Unit 1									
317	147,926	110,944	7.5	0.0	65.80	4.6	6,805	12,327	5,522
Gannon OBO - Unit 2									
317	167,460	120,130	8.5	0.0	62.94	4.4	7,368	15,777	8,409
<b>Total</b>	<b>24,506,077</b>	<b>19,324,085</b>					<b>1,015,123</b>	<b>1,727,331</b>	<b>712,208</b>