

State of Florida



RECEIVED-FPSC Public Service Commission

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

SEP 17 PM 1:22

COMMISSION  
CLERK

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

**DATE:** SEPTEMBER 19, 2002

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

**FROM:** DIVISION OF ECONOMIC REGULATION (BREMEN, D. LEE) *JB* *X2* *nom*  
OFFICE OF THE GENERAL COUNSEL (STERN) *mk5* *Wast* *RLZ* *198*

**RE:** DOCKET NO. 020726-EI - PETITION FOR APPROVAL OF NEW  
ENVIRONMENTAL PROGRAM FOR COST RECOVERY THROUGH  
ENVIRONMENTAL COST RECOVERY CLAUSE BY TAMPA ELECTRIC  
COMPANY.

**AGENDA:** 10/01/02 - REGULAR AGENDA - PROPOSED AGENCY ACTION -  
INTERESTED PERSONS MAY PARTICIPATE

**CRITICAL DATES:** NONE

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\020726.RCM

CASE BACKGROUND

On July 15, 2002, Tampa Electric Company ("TECO" or "Company") petitioned this Commission for approval of the Company's Nitrogen Oxides (Nox) Emissions Reduction Program (Polk NOx Program) for the Polk Power Station Integrated Gasification Combined Cycle Unit (Polk Unit 1) as a new activity for cost recovery through the Environmental Cost Recovery Clause ("statute" or "ECRC"). The Polk NOx Program consists of improvements to the existing facilities at Polk Unit 1 and ongoing maintenance expenses of the facility improvements.

Section 366.8255, Florida Statutes, the ECRC, gives the Commission the authority to review and decide whether a utility's proposed environmental compliance costs are recoverable through the ECRC. Electric utilities may petition the Commission to recover projected environmental compliance costs required by environmental

DOCUMENT NUMBER-DATE

09872 SEP 17 02

FPSC-COMMISSION CLERK

laws or regulations. See Section 366.8255(2), Florida Statutes. Environmental laws or regulations include "all federal, state or 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), Florida Statutes. 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 TECO's proposed Polk NOx Program as a new project for cost recovery through the ECRC?

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

**STAFF ANALYSIS:** The proposed Polk NOx Program complies with the requirements of the Florida Department of Environmental Protection (DEP) Permit No. PSD-FL-194F, Specific Condition 2.H for Polk Unit 1. The prior permit required TECO, at Polk Unit 1, to comply with a 25 parts per million (ppm) NOx emission rate on a 30 day rolling average. TECO initiated permit renewal in November 2000 prior to the expiration of the prior permit. The ensuing dialog between TECO and the DEP centered on whether or not TECO should be required to install selective catalytic reduction (SCR) technology and achieve a five ppm NOx emission rate limit. In a January 30, 2002 letter to the DEP, TECO presented the specific activities identified in this ECRC petition as its preferred alternative to maintain fuel flexibility at Polk Unit 1, achieve a 15 ppm emission rate limit, and avoiding costly SCR expenses. In February 2002, the DEP issued the new Polk Unit 1 permit requiring TECO to achieve a 15 ppm NOx emissions limit on a 30 day rolling average beginning July 1, 2003.

The proposed Polk NOx Program will result in capitalized expenses projected to be \$2,478,000 (system). The proposed Polk NOx Program will also have annual O&M expenses of approximately \$150,000 (system). TECO informed Commission staff that the O&M

DATE: September 19, 2002

costs would be incurred for subcontractors to perform tests, inspections and equipment maintenance. After learning from subcontractors what this additional work consists of, TECO may decide that it may be able to do the work with its own employees without subcontractors. If so, TECO states it will not seek cost recovery through the clause. The projected capitalized system costs include: 1) addition of a syngas saturator (\$1,630,000); 2) installing guide vanes to the main air compressor and associated piping (\$704,000); and, 3) modifications of the nitrogen supply to the turbine (\$144,000). TECO began implementing the Polk NOx Program in July 2002. To the extent possible, TECO will bid for services and equipment necessary to complete the project. The estimated Polk NOx Program in-service date is June 2003.

Staff believes that TECO's proposal satisfies the requirements of Section 366.8255, Florida Statutes. Consequently, the prudently incurred costs that are not already being recovered through another cost recovery mechanism qualify for recovery through the ECRC.

Based on TECO's actions taken to date, it appears that TECO has been prudent with respect to relying on competitive bidding for necessary facilities and services to implement the Polk NOx Program. Staff will continue to monitor and evaluate the prudence of the activity in the annual ECRC dockets as TECO's actual costs and as other relevant information becomes available. The recoverable amount for 2002 and 2003 will be further examined in Docket No. 020007-EI. The actual expenses will be addressed in the appropriate true-up cycle and be subject to audit.

DOCKET NOS. 020726-EI

DATE: September 19, 2002

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

**RECOMMENDATION:** Yes, this docket should be closed upon issuance of the 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.