



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-

DATE: JANUARY 23, 2003

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

FROM: DIVISION OF ECONOMIC REGULATION (P. LEE, BREMAN)
OFFICE OF THE GENERAL COUNSEL (C. KEATING)

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: 02/04/03 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

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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 the company) alleging TECO violated the Prevention of Significant Deterioration (PSD) requirements of 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 DEP filed its lawsuit,

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TECO and 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 on 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, TECO's depreciation rates, recovery schedules, and the provision for dismantlement were revised. The 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 revisions were necessitated by changes in TECO's planning to repower Units 5 and 6 rather than Units 3, 4, and 5. As a result, the recovery schedule approved by Order Nos. PSC-00-0603-PAA-EI and PSC-00-0817-PAA-EI was revised to reflect the additional net investment associated with the Unit 6 assets subject to retirement by December 31, 2004.

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 these units. TECO requested preliminary implementation of its proposed recovery schedule as of January 1, 2002, in accordance with Rule 25-6.0436(5), Florida Administrative Code (F.A.C.). By Order No. PSC-02-1236-PCO-EI, issued September 9, 2002, in Docket No. 020566-EI, TECO's request for preliminary implementation was approved.

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Staff has completed its review of TECO's petition and submits its recommendation herein. The Commission is vested with jurisdiction over these matters through several provisions of Chapter 366, Florida Statutes, including Sections 366.04, 366.05 and 366.06.

DISCUSSION OF ISSUES

ISSUE 1: Should the recovery schedule for Gannon Units 1 and 2, approved for preliminary implementation by Order No. PSC-02-1236-PCO-EI, be revised?

RECOMMENDATION: Yes. Staff recommends that TECO's proposed recovery schedule for Gannon Units 1 and 2, reflecting the near term retirement of the related assets, be approved as modified in Attachment A to reflect a cessation of the currently approved annual dismantlement accrual. The recovery schedule and dismantlement revision should be effective January 1, 2002. Additionally, TECO should true-up 2002 expenses to reflect the resultant decrease in annual expenses of about \$148,000 from that approved for preliminary implementation by Order No. PSC-02-1236-PCO-EI. (P. LEE, BREMAN)

STAFF ANALYSIS: By Order Nos. PSC-00-0603-PAA-EI and PSC-00-0817-PAA-EI, depreciation rates, recovery schedules, and the provision for dismantlement for the Gannon Station predicated on the company's preliminary assessments for compliance with the Consent Decree and the CFJ were approved. At that time, the company's planning included the repowering of Gannon Units 3, 4, and 5 with Units 1, 2, and 6 being placed on reserve standby to be used as emergency capacity to provide operating flexibility needed to ensure reliability and possible future conversion to burn natural gas.

Subsequently, by Order No. PSC-00-2275-PAA-EI, the depreciation rates and recovery schedule for the Gannon Station were revised to reflect changes in TECO's planning to repower Units 5 and 6 rather than Units 3, 4, and 5.

This current study reflects TECO's engineering analyses which determined that Gannon Units 1 and 2 are not economically viable for natural gas repowering. Current plans are to retire these two units by December 31, 2004, coinciding with the date that coal will no longer be burned at the Gannon Station, as provided in the Consent Decree agreement with the EPA. To ensure that the company's Ten-Year Site Plan and its books and records accurately reflect operating conditions and generation planning considerations, TECO has requested that these two units be placed on a recovery schedule.

A review of TECO's resource screening indicates that building a new simple cycle combustion (CT) unit or a new combined cycle (CC) unit are better options than any alternative that includes future use of the Gannon Units 1 and 2 steam cycle generating facilities. An entirely new generating facility will cost less to build and operate, and operate with a lower heat rate and higher unit availability, than a power block based on use of existing Gannon Units 1 and 2 equipment. Therefore, Gannon Units 1 and 2 should be retired because the facilities have no future use.

Near-Term Retirements

TECO has proposed a recovery schedule reflecting its current planning to retire the assets at Gannon Units 1 and 2 by December 31, 2004. As of January 1, 2002, the investment and reserve associated with these near-term retiring assets are \$24,506,077 and \$19,324,085, respectively. The net unrecovered amount of \$5,181,992 will be amortized over three years and will provide the matching of expenses to the consumption of the plant assets. The recovery schedule will begin January 1, 2002, and conclude on December 31, 2004, coinciding with the planned date of retirement. Staff recommends approval of the company's proposed recovery schedule.

To assure full recovery of the net investment and any short-lived additions subject to retirement by year-end 2004, staff recommends that the monthly recovery schedule expense be obtained by dividing the net plant of each unit for that month by the months remaining in the amortization period. Staff believes this will provide flexibility in reacting to changes in estimates. Additionally, this recovery approach has been followed by the Commission in prior telecommunications depreciation cases.

Dismantlement

According to TECO, while Units 1 and 2 are planned for retirement in 2004, the dismantlement of these units will be deferred until 2007 and 2008 because there is no immediate need to remove the equipment at the time of retirement. Company personnel will focus their efforts on the performance of the new combined cycle gas and simple cycle CT units before demolition work begins. The company states that the station will be fully functional and safe, even with the retired equipment in place.

TECO's next comprehensive depreciation and dismantlement studies are due no later than April 28, 2003, in accord with Rule 25-6.0436, F.A.C., which requires investor-owned utilities to file comprehensive depreciation studies at least once every four years. TECO opines that no change in the current approved dismantlement accrual is necessary at this time since preliminary estimates in its forthcoming dismantlement study indicate the dismantlement reserve for these units is sufficient to recover the expected dismantlement costs by year-end 2004.

As of January 1, 2002, the accumulated provision for the dismantlement of Units 1 and 2 are \$7,145,283 and \$5,621,894, respectively. The currently approved annual dismantlement accrual for Unit 1 is \$78,866, based on a 2007 capital recovery date; for Unit 2 the annual accrual is \$69,065, based on a 2008 capital recovery date.

According to TECO's preliminary assessment of revised dismantlement estimates, the costs for final dismantlement of Units 1 and 2 reflecting a December 31, 2004, capital recovery date are \$5,375,467 for each unit. Staff agrees with TECO that these cost estimates imply that the January 1, 2002, accumulated dismantlement provision for Units 1 and 2 are more than adequate. However, staff believes the underlying capital recovery dates used in dismantlement should be the same as those underlying its current planning. In this way, expenses will match the consumption of the related plant. Recognizing that the current accumulated dismantlement provision exceeds estimated dismantlement cost estimates by more than \$2 million, staff finds no reason for the current dismantlement accrual to continue. For this reason, staff recommends that TECO cease accruing the dismantlement provision for these units, effective January 1, 2002.

Conclusion

In conclusion, staff recommends approval of TECO's proposed three-year recovery schedule for Gannon Units 1 and 2 to reflect the near-term retirement of the associated assets by December 31, 2004. Additionally, staff recommends that the provision for dismantlement for these units be revised to likewise coincide with the revised capital recovery date. Since the January 1, 2002, accumulated provision for dismantlement exceeds TECO's estimated cost for dismantlement, staff recommends that the current annual dismantlement accrual cease effective January 1, 2002. The results of the staff recommendation are shown on Attachment A. Annual

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expenses will decrease by about \$148,000 from that approved for preliminary implementation. TECO should true-up 2002 expenses accordingly.

ISSUE 2: Should this docket be closed?

RECOMMENDATION: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (C. KEATING)

STAFF ANALYSIS: At the conclusion of the protest period, if no protest is filed, this docket should be closed upon the issuance of a consummating order.

TAMPA ELECTRIC COMPANY - GANNON UNITS 1 AND 2					
Account	Investment as of 01/01/02 (\$)	Depreciation Reserve as of 01/01/02 (\$)	Company Proposed*	Staff Recommended	
			3 Year Recovery Schedule Annual Expenses (\$)	3 Year Recovery Schedule Annual Expenses (\$)	Change In Annual Expenses (\$)
Gannon Unit 1					
311	715,569	639,382	25,396	25,396	0
314	8,976,758	7,111,271	621,829	621,829	0
315	1,111,090	951,657	53,144	53,144	0
316	91,180	79,700	3,827	3,827	0
Gannon Unit 2					
311	1,355,647	986,078	123,190	123,190	0
314	11,074,200	8,623,093	817,036	817,036	0
315	828,669	667,907	53,587	53,587	0
316	37,578	33,923	1,219	1,219	0
Gannon OBO - Unit 1					
317	147,926	110,944	12,327	12,327	0
Gannon OBO - Unit 2					
317	167,460	120,130	15,777	15,777	0
Total Recovery Schedule	24,506,077	19,324,085	1,727,331	1,727,331	0
Dismantlement Provision					
Unit 1			78,866	0	(78,866)
Unit 2			69,065	0	(69,065)
Total Recovery Schedule and Dismantlement Provision			1,875,262	1,727,331	(147,931)

* Commission approved for preliminary implementation by Order No. PSC-02-1236-PCO-EI.