

BEFORE THE PUBLIC SERVICE COMMISSION

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In re: Environmental cost recovery clause.

DOCKET NO. 040007-EI  
DATED: October 11, 2004

COMMISSION  
CLERK

STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-04-0233-PCO-EI, filed on March 2, 2004, the Staff of the Florida Public Service Commission files its Prehearing Statement.

a. All Known Witnesses

None at this time.

b. All Known Exhibits

None at this time.

c. Staff's Statement of Basic Position

Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

d. Staff's Position on the Issues

Generic Environmental Cost Recovery Issues

CMP ISSUE 1:

COM 5

What are the final environmental cost recovery true-up amounts for the period ending December 31, 2003?

CTR \_\_\_\_\_

ECR POSITION

GCL \_\_\_\_\_

OPC \_\_\_\_\_ FPL: \$ 43,877 over recovery

PEF: \$ 951,437 over recovery

MMS \_\_\_\_\_ TECO: \$ 260,351 under recovery

Gulf: \$ 631,135 over recovery

RCA \_\_\_\_\_

SCR \_\_\_\_\_

SEC 1

OTH \_\_\_\_\_

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ISSUE 2:

What are the estimated environmental cost recovery true-up amounts for the period January 2004 through December 2004?

POSITION:

FPL: \$ 103,793 under recovery (Assumes approval of 9A-9C)  
PEF: \$ 19,027,266 under recovery (Assumes approval of 10A-10C)  
TECO: \$ 7,329,011 over recovery (Assumes approval of 11A)  
Gulf: \$ 113,651 under recovery

ISSUE 3:

What are the projected environmental cost recovery amounts for the period January 2005 through December 2005? (Based on the resolution of generic issues 6 and 7, and company specific issues 9A through 12H.)

POSITION:

FPL: \$ 24,476,832 (Assumes approval of 9A-9D)  
PEF: \$ 30,504,449 (Assumes approval of 10A-10C)  
TECO: \$ 26,845,492 (Assumes approval of 11A)  
Gulf: \$ 26,067,223 (Assumes approval of 6, 12A-12H)

ISSUE 4:

What are the environmental cost recovery amounts, including true-up amounts, for the period January 2005 through December 2005? (Fall out issue. Based on the resolution of generic issues 1, 2, 3, 6 and 7, and company specific issues 9A through 12H.)

POSITION:

FPL: \$ 24,928,600 adjusted for taxes (Assumes approval of 9A-9D)  
PEF: \$ 48,615,256 adjusted for taxes (Assumes approval of 10A-10C)  
TECO: \$ 19,791,071 adjusted for taxes (Assumes approval of 11A)  
Gulf: \$ 25,568,134 adjusted for taxes (Assumes approval of 3, 6, 12A-12H)

ISSUE 5:

What depreciation rates should be used to develop the depreciation expense included in the total environmental cost recovery amounts for the period January 2005 through December 2005?

POSITION:

The depreciation rates used to calculate the depreciation expense should be the rates that are in effect during the period the allowed capital investment is in service.

ISSUE 6:

What are the appropriate jurisdictional separation factors for the projected period January 2005 through December 2005?

POSITION:

PEF: The energy jurisdictional separation factors are calculated for each month based on retail kWh sales as a percentage of projected total system kWh sales.

Production Demand Jurisdictional Factors

Base 95.957%,

Intermediate 86.574%,

Peaking 74.562%

Transmission Demand Jurisdictional Factor 72.115%

Distribution Demand Jurisdictional Factor 99.529%

FPL: Energy Jurisdictional factor - 98.56595%;  
CP Demand Jurisdictional Factor - 98.6339%;  
GCP Demand Jurisdictional Factor - 100%.

Gulf: The demand jurisdictional separation factor is 96.64872%. The energy jurisdictional separation factors are calculated for each month based on projected retail kWh sales as a percentage of projected total system kWh sales.

TECO: The demand jurisdictional separation factor is 96.41722%. The energy jurisdictional separation factors are calculated for each month based on projected retail kWh sales as a percentage of projected total system kWh sales.

ISSUE 7:

What are the appropriate environmental cost recovery factors for the period January 2005 through December 2005, for each rate group?

POSITION:

Based on resolution of generic issues 1-6 and company issues 9-12.

ISSUE 8:

What should be the effective date of the environmental cost recovery factors for billing purposes?

POSITION:

The factors should be effective beginning with the specified environmental cost recovery cycle and thereafter for the period January 2005 through December 2005. Billing cycles may start before January 1, 2005, and the last cycle may be read after December 31, 2005, so that each customer is billed for twelve months regardless of when the adjustment factor became effective.

**Company Specific Environmental Cost Recovery Issues**

Florida Power & Light (FPL)

ISSUE 9A:

How should FPL's environmental costs for the Comprehensive Demonstration Study for Cooling Water Intake structures be allocated to the rate classes?

POSITION:

The proposed O&M costs should be allocated to the rate classes on an average 12 coincident peak demand basis.

ISSUE 9B:

Should the Commission approve FPL's request for recovery of costs for SCR Consumables at Plant Manatee Unit 3 and Plant Martin Unit 8 through the Environmental Cost Recovery Clause?

POSITION:

Yes. Prudently incurred costs for SCR consumables at Plant Manatee Unit 3 and Plant Martin Unit 8 are appropriate for recovery through the ECRC.

ISSUE 9C:

How should FPL's newly proposed environmental costs for SCR Consumables at Plant Manatee Unit 3 and Plant Martin Unit 8 be allocated to the rate classes?

POSITION:

The proposed O&M/capital costs should be allocated to the rate classes on an energy basis.

ISSUE 9D:

On a going forward basis, what is the appropriate method for calculating the return on average net investment for Environmental Cost Recovery Clause projects?

POSITION:

The appropriate return on average net investment to be included in FPL's Environmental Cost Recovery Clause should be based on the capital structure and cost rates from FPL's last rate proceeding. This treatment would be consistent with the current regulatory treatment for return on average net investment for Gulf Power Company, Tampa Electric Company, and Progress Energy Florida, Inc.

Progress Energy Florida, Inc. (PEF)

ISSUE 10A:

How should PEF's environmental costs for the Comprehensive Demonstration Study for Cooling Water Intake structures be allocated to the rate classes?

POSITION:

The proposed O&M costs should be allocated to the rate classes on a 12 coincident peak demand basis.

ISSUE 10B:

What is the appropriate ECRC adjustment for broken water main costs of \$8,748 that were charged to an ECRC approved transformer oil remediation activity in PEFI's final true-up for 2003?

POSITION:

No position at this time.

ISSUE 10C:

Has PEF made reasonable effort to minimize the costs of sulfur dioxide emission allowances?

POSITION:

No position at this time.

Tampa Electric Company (TECO)

ISSUE 11A:

How should TECO's environmental costs for the Big Bend Unit 4 SCR and Pre SCR retrofit activities on Big Bend Units 1, 2, and 3 be allocated to the rate classes?

POSITION:

The proposed costs should be allocated to the rate classes on an energy basis.

Gulf Power Company

ISSUE 12A:

Should the Commission approve Gulf's request for recovery of costs for Precipitator Upgrades for Compliance Assurance Monitoring of particulate air emissions and flue-gas opacity at Plant Smith Unit 2 through the Environmental Cost Recovery Clause?

POSITION:

No position at this time.

ISSUE 12B:

How should Gulf's newly proposed environmental costs for the Precipitator Upgrades for Compliance Assurance Monitoring at Plant Smith Unit 2 be allocated to the rate classes?

POSITION:

If approved, the proposed capital costs should be allocated on an energy basis.

ISSUE 12C:

Should the Commission approve Gulf's request for recovery of costs for Turtle Protective Lighting within the City of Destin and Bay County through the Environmental Cost Recovery Clause?

POSITION:

No position at this time.

ISSUE 12D:

How should Gulf's newly proposed environmental costs for the Turtle Protective Lighting within the City of Destin and Bay County be allocated to the rate classes?

POSITION:

If approved, the proposed operation and maintenance costs for the Turtle Protective Lighting should be allocated on a 12 coincident peak demand basis.

ISSUE 12E:

Should the Commission approve Gulf's request for recovery of Cooling Water Intake Studies pursuant to Section 316(b) of the Clean Water Act through the Environmental Cost Recovery Clause?

POSITION:

Prudently incurred costs for biological sampling and data collection for the Comprehensive Demonstration Project are appropriate for recovery through the ECRC. Costs for anything other than the Comprehensive Demonstration Project are not appropriate for recovery at this time.

ISSUE 12F:

How should Gulf's newly proposed environmental costs for the Cooling Water Intake Studies be allocated to the rate classes?

POSITION:

The proposed operation and maintenance costs for the Cooling Water Intake Studies should be allocated on a 12 coincident peak demand basis.

ISSUE 12G:

Should the Commission approve Gulf's request for recovery of costs for compliance studies due to a proposed new arsenic standard, Rule 62-550.310, Florida Administrative Code, through the Environmental Cost Recovery Clause?

POSITION:

No position at this time.

ISSUE 12H:

How should Gulf's newly proposed environmental costs for compliance studies due to a proposed new arsenic standard, Rule 62-550.310, Florida Administrative Code, be allocated to the rate classes?

POSITION:

If approved, the proposed operation and maintenance costs for compliance studies due to a proposed new arsenic standard, 62-550.310, Florida Administrative Code, should be allocated on a 12 coincident peak demand basis.

e. Pending Motions

None.



f. Pending Confidentiality Claims or Requests

PEF's claim for Document No. 08598-04 (Audit Control No. 04-444-2-2).

FPL's claim for Document No. 008288-04 (Audit Control No. 04-044-4-1).

g. Compliance with Order No. PSC-04-0233-PCO-EI

Staff has complied with all requirements of the Order Establishing Procedure entered in this docket.

Respectfully submitted this 11<sup>th</sup> day of October, 2004.

*Marlene K. Stern*

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MARLENE K. STERN, STAFF COUNSEL

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FILED: OCTOBER 11, 2004

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of Staff's Prehearing Statement was furnished to the following, by U.S. Mail, on this 11<sup>th</sup> day of October, 2004.

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