BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition to establish an environmental cost recovery clause pursuant to Section 366.0825, Florida Statutes by Gulf Power Company.	DOCKET NO. 930613-EI ORDER NO. PSC-94-0044-FOF-EI ISSUED: January 12, 1994

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK
JULIA L. JOHNSON
LUIS J. LAUREDO

ORDER REGARDING GULF POWER COMPANY'S PETITION FOR ENVIRONMENTAL COMPLIANCE COST RECOVERY

BY THE COMMISSION:

On April 13, 1993, Section 366.8255, Florida Statutes, was enacted into law, establishing an environmental cost recovery clause. The new statute authorizes the recovery of prudently incurred environmental compliance costs through the environmental cost recovery factor.

On June 22, 1993, Gulf Power Company (Gulf) filed a petition to establish an environmental cost recovery clause (ECR) pursuant to Section 366.8255, Florida Statutes. Gulf requested that its petition be considered during the fuel adjustment hearings scheduled for August 18-19, 1993. Gulf also requested that it be allowed to implement initial ECR factors concurrent with new fuel cost recovery factors that would become effective October 1, 1993. The Commission denied Gulf's request to collect revenues through implementation of proposed ECR factors effective October 1, 1993 prior to a showing that the costs are necessary or prudent. (Order No. PSC-93-1283-FOF-EI, issued September 2, 1993) A formal administrative hearing was held on December 8-9, 1993 to consider Gulf's petition.

ANALYSIS OF POLICY

Effective Date of Legislation

One issue before us is whether it is appropriate to recover costs through the Environmental Cost Recovery Clause (ECRC) that were incurred before the effective date of the ECRC legislation. We shall only approve recovery of expenses incurred after April 13, 1993 for Gulf Power Company. Statutes are applied on a prospective

basis unless there is a specific exception within the language of the statute. Thus, costs incurred prior to the effective date of the statute would not be eligible for recovery through the clause. The allowance of expenses incurred prior to the establishment of an environmental cost recovery clause is inappropriate.

When determining whether a cost has been incurred prior to April 13, 1993, we made a distinction between the carrying costs associated with capital investments and other O&M expenses. Carrying costs represent compensation to the utility for making a capital investment. Carrying costs include a return on investment plus depreciation. We considered the date the carrying cost is incurred by the utility rather than when the actual capital investment was made when determining whether an environmental cost is incurred after April 13, 1993. It is possible for an investment to have occurred prior to April 13, 1993 and still have carrying costs which can be recovered through the environmental cost recovery factor. Carrying costs incurred after April 13, 1993 shall be allowed through the environmental cost recovery factor even if the actual capital expenditure is made prior to April 13, 1993 if the capital expenditure is associated with an activity which meets our definition of recoverability through the clause.

Cost Recovery through the Clause

The parties agreed that we should not allow recovery of costs for environmental compliance activities which are currently being recovered through base rates or are currently being recovered through another cost recovery mechanism. However, the parties disagreed as to how to determine which costs are "currently being recovered," which will be discussed subsequently in this Order.

Section 366.8255(2) provides that if approved, the Commission shall allow recovery of costs through an environmental recovery factor that is separate and apart from the utility's base rates and that, in the petition, an adjustment shall be made for the level of costs currently being recovered through base rates or other rate-adjustment clauses. Also, Section 366.8255(5) provides that any costs recovered in base rates may not also be recovered in the environmental cost recovery clause.

Accordingly, we find that the recovery of costs for environmental compliance activities which are currently being recovered through base rates or are currently being recovered through another cost recovery mechanism shall not be allowed for Gulf Power Company.

Recovery of Costs Currently Being Recovered

We find that Gulf Power Company has requested recovery of costs for environmental compliance activities which are currently being recovered through base rates or are currently being recovered through another cost recovery mechanism. Gulf has requested recovery of the cost of activities included in the test year of its last rate case for which no new legal requirements were enacted to justify any increased level of expenditures. The cost of these activities is being recovered through base rates and to allow recovery of these costs through the environmental cost recovery clause would amount to double recovery. This will be discussed subsequently in this Order.

Recovery Through the ECRC if Utility is Earning a Fair Rate of Return

During a rate case, a test year is used to represent the costs and volume of sales that a utility will experience during a typical year. Base rates are set, on a cents/kWh basis, to adequately compensate the utility for all carrying costs and O&M expenses of the test year at the given volume of kWh sales. No one expects that individual expense items will remain constant in future years. Some costs will increase and some costs will decrease. In addition, kWh sales will be different in subsequent years, usually increasing because Florida is a growth state.

In regulatory theory, an allowed return on equity range is established which resolves the problems associated with setting base rates for future years. This Commission establishes a range of ROEs, not a single number, to allow the utility an opportunity to earn a fair rate of return on its investment. If it is earning in the allowed range, the utility is receiving the Commission approved amount of revenue to compensate it for all carrying costs and O&M expenses incurred. If the utility earns above or below the set range, this would indicate the utility is over- or under-earning. In Gulf's case, the allowed range is 11% to 13%, with a mid-point of 12%. On a monthly basis, we receive a surveillance report which considers all revenues and expenses incurred by the utility and calculates an overall rate of return earned by the utility.

Public Counsel argued that if a utility is earning within its allowed return on equity range, it is already being compensated for all environmental expenses, and it should not be allowed to recover any costs through the environmental cost recovery clause. Public Counsel maintains that it does not matter whether the environmental activity was included in the test year of the utility's last rate

case. The utility should only be allowed to recover costs through the clause if the utility is under-earning and if the environmental expenses are the cause of the under-earning. OPC argued that to allow any recovery through the clause if the utility is not under-earning would amount to double recovery.

Although regulatory philosophy indicates that OPC is theoretically correct, we must consider the legislation establishing the environmental cost recovery clause. The statute contains a non-exclusive list of the types of expenses which should be recoverable through the clause. (Section 366.8255(1)(d), Florida Statutes). The enumerated expenses are:

1. In-service capital investments, including the utility's last authorized rate of return on equity;
2. Operation and maintenance expenses;
3. Fuel procurement costs;
4. Purchased power costs;
5. Emission allowance costs; and,
6. Direct taxes on environmental equipment.

The statute also states in Section 366.8255(2), Florida Statutes, that

> (a)n adjustment for the level of costs currently being recovered through base rates or other rate-adjustment clauses must be included in the filing.

Finally, the statute provides that

> (r)ecovery of environmental compliance costs under this section does not preclude inclusion of such costs in base rates in subsequent rate proceedings, if that inclusion is necessary and appropriate; however, any costs recovered in base rates may not also be recovered in the environmental cost-recovery clause. (Section 366.8255(5), Florida Statutes).

Thus, we find that the legislature clearly intended the recovery of investment carrying costs and O&M expenses through the environmental cost recovery clause. For this reason, Public Counsel's argument must be rejected.

Accordingly, we find that if the utility is currently earning a fair rate of return that it should be able to recover, upon petition, prudently incurred environmental compliance costs through the ECRC if such costs were incurred after the effective date of

the environmental compliance cost legislation and if such costs are not being recovered through any other cost recovery mechanism.

Implementation of Policy for Plant-In Service

The parties differ as to how we should implement the environmental cost recovery factor. The major difference among the policies is how we should determine whether specific costs are being recovered by the utility through base rates, and if so, how the amount being recovered through base rates should be determined.

The utility is being compensated for any environmental compliance activity which was included in the utility's test year. The actual expenses of such activities in subsequent years will be larger, or smaller, than what was included in rate base, but the utility is recovering the Commission approved revenues for these activities if it is earning in the allowed range of ROE. The costs of activities that were included in the test year shall not be recovered through the environmental cost recovery clause unless all other costs, and revenues, approved in the utility's last rate case are also adjusted.

Gulf's witness Scarbrough agreed that recovery of any costs through the environmental cost recovery clause would have the effect of increasing the utility's return on equity. This indicates that our actions in this docket will affect the rate of return we established in Gulf's last rate case.

Double recovery of expenses must be avoided. The question becomes, how should we include rate case type expenses in the environmental cost recovery clause while at the same time ensure that the utility is not double recovering such expenses. Staff witness Bass proposed that the solution is to allow recovery of costs associated with activities which were not included in the test year of the utility's last rate case. This proposal satisfies the legislative intent and is consistent with regulatory theory.

A problem arises if a new environmental regulation requires the utility to increase the scope of an activity which was considered in the last rate case. Regulatory theory indicates that the utility is already being compensated for such changes in scope. But the legislative intent is to allow utilities to recover increased costs due to new environmental requirements. We find that the cost of the scope change shall be allowed for recovery through the environmental cost recovery clause, because we consider the scope change to be a new activity.

FIPUG argued that the change in kWh sales should be considered determining what level of costs are currently be recovered for activities included in the utility's last test year, because base rates are set on a cents/kWh basis. If kWh sales increase, the utility is actually recovering more dollars than were included in the last test year. This argument is theoretically correct but should only be applied if our policy were to "true-up" all environmental activities included in base rates. This kWh adjustment is not needed if only activities included in the test year and which experience a change of scope mandated by new environmental regulations are considered. There are a limited number of activities that fit into this category and the impact is smaller. Any difference is off-set by increases and decreases in other environmental costs which are recovered through base rates and not included in the environmental cost recovery factor.

Gulf Power maintained that we should "true-up" all environmental costs incurred during the recovery period with environmental costs included in the Company's last test year and recovered through base rates. Gulf argued that we should determine the amount recovered through base rates to be the amount included in the last test year. Gulf's witness agreed that this methodology would, in effect, increase the realized earnings of the Company. We reject Gulf's proposal and find that the Company is already recovering the costs of activities included in the utility's last test year for the reasons previously discussed.

We find that all costs associated with activities included in the test year of the utility's last rate case are being recovered in base rates unless there have been new legal requirements which caused costs to change from the level included in the test year. If new legal requirements cause an increase, or decrease, in costs from the level included in the test year of the utility's last rate case, the amount recovered through base rates shall be determined to be the amount included in the test year.

We find that the following policy is the most appropriate way to implement the intent of the environmental cost recovery statute:

> Upon petition, we shall allow the recovery of costs associated with an environmental compliance activity through the environmental cost recovery factor if:
>
> 1. such costs were prudently incurred after April 13, 1993;
> 2. the activity is legally required to comply with a governmentally imposed environmental regulation enacted, became effective, or whose effect was triggered after the company's last test year upon which rates are based; and,

3. such costs are not recovered through some other cost recovery mechanism or through base rates.

In addition, we shall consider that all costs associated with activities included in the test year of the utility's last rate case are being recovered in base rates unless there have been new legal environmental requirements which change the scope of previously approved activities and caused costs to change from the level included in the test year. If new legal requirements cause an increase, or decrease, in costs from the level included in the test year of the utility's last rate case, the amount recovered through base rates should be the determined to be the amount included in the test year.

Implementation of Policy for Construction Work In Progress

It is our practice to include CWIP that does not earn AFUDC in rate base and to include additional CWIP, that would not otherwise earn AFUDC, in an amount needed to assure adequate financial integrity. (TECO, Docket No. 920324-EI, Order No. PSC-93-0165-FOF-EI, (2/2/93).

The utility's investment in plant under construction can be accounted for by either of two methods. An Allowance for Funds Used During Construction (AFUDC) may be applied to the balance to be capitalized and later recovered through depreciation charges once the plant is placed in service. When this method is chosen, the financial statements of the utility reflect income 'credits' associated with AFUDC, but the utility realizes no current cash earnings from the investment in CWIP. Alternatively, CWIP may be included as a portion of rate base. Where the latter treatment is allowed, CWIP generates cash earnings, which provide cash flow and an increase in coverage ratios. No AFUDC is taken on that portion of CWIP which is included in rate base. (FPUC-Marianna Division, Docket No. 9300400-EI, Order No. PSC-93-1640-FOF-EI (11/8/93).

Public Counsel asserted that the statute only permits recovery of in-service capital investments. However, the statute provides a non-exclusive list of costs or expenses that a utility may include in its petition for cost recovery. The statute provides that

"(e)nvironmental compliance costs" includes all costs or expenses incurred by an electric utility in complying with environmental laws or regulations, <u>including but not limited to:</u>

1. In-service capital investments,. . .

(Section 366.8255(1)(d), Florida Statutes, Emphasis added).

We therefore find that it is appropriate to allow the recovery of carrying costs associated with CWIP through the environmental cost recovery factor.

PRUDENCE OF PROGRAMS

None of the parties disputes the prudence of any program or activity included in Gulf's petition. Originally, ORGULF and UMWA disputed the prudence of certain expenditures associated with Gulf's Clean Air Act Compliance strategy of switching from high-sulfur to low-sulfur coal. By the end of the hearing, ORGULF and UMWA determined that this docket was not the appropriate docket to question Gulf's Clean Air Act Compliance plan or fuel costs. Both parties changed their positions to "No position."

We shall not make a specific finding of prudence for any activity included in Gulf's petition at this time. There are several reasons for this. First, many of the costs included in Gulf's petition are based on projections, and some of the projects have not yet been implemented. Thus, it is premature to establish prudence for a project that has not been completed. Second, the environmental cost recovery clause, like the fuel cost recovery clause, will be an on-going docket involving trueing-up projected costs. We retain jurisdiction in the fuel cost recovery clause because of the true-up provisions associated with fuel filings.

APPLICATION OF POLICY

Analysis of Plant-In-Service and Construction Work in Progress Activities

Our analysis of Gulf's activities contains a project-by-project discussion of which capital investment activities should be eligible for recovery through the environmental cost recovery clause. Since the decision of whether to include a project will affect the our findings regarding Construction Work In Progress (CWIP), CWIP figures are analyzed in this section.

Gulf Power's request for capital investment through the environmental cost recovery factor includes activities which were included the Company's rate base and activities which have been implemented that are not necessary to comply with any environmental regulation. We have removed those programs that are included in

rate base for which no new environmental regulation justifies a change in scope.

Gulf Power's capital investment request also includes costs associated with research and development (R&D) projects which are commendable but not necessary to comply with any governmentally imposed environmental compliance mandate. These projects were implemented at management's discretion. We find that it is not appropriate to pass any R&D costs through the environmental cost recovery clause. The statute specifically states in Section 366.8255(1)(c), Florida Statutes, that

> "(e)nvironmental compliance costs" includes all costs or expenses incurred by an electric utility in complying with environmental laws or regulations . . .

R&D efforts are discretionary, and they are not necessary to comply with environmental regulations. Compliance with future environmental requirements of Phase II of the Clean Air Act Amendments of 1990 are premature and cannot be determined at this time. (TR 320) These costs must be excluded to comply with the intent of Section 366.8255, Florida Statutes.

We shall allow recovery of carrying costs associated with plant-in-service and CWIP for projects that qualify for recovery through the environmental cost recovery clause. To qualify for recovery, these projects must not have been included in Gulf's last rate case and they must be required to comply with a governmentally imposed environmental regulation. The net effect of applying our policy to Gulf's petition is a decrease in both plant-in-service and CWIP. Plant-in-service and CWIP costs are not recovered through the environmental recovery clause. The carrying costs associated with these investments are the expenses recovered through the clause. The reductions in plant-in-service and CWIP cause a reduction in the carrying costs associated with this project.

We shall reduce plant-in-service by $54,870,000 (system) and CWIP by ($3,925,000) on a cumulative basis for the recovery period. The impact on revenue requirement is discussed subsequently in this Order.

We find that the following capital projects are recoverable through the clause because each project is required to comply with the Clean Air Act Amendments of 1990. None of these projects were considered during Gulf's last rate case and none of the carrying costs of these projects are included in base rates. (TR 173-5, TR 246, TR 247, TR 354, EX 6)

Recoverable Clean Air Act Amendment Capital Activities
July 1993 through September 1994 Totals
($000)

PE No.	Activity/Project	Plant in Service	Construction Work in Progress Non Interest Bearing
1216	Crist 7 Precipitator Upgrade	164,460	-
1228	Crist 7 Flue Gas Conditioning	31,920	-
1236	Crist 7 Low NOx Burners	116,368	8,312
1258	Crist 7 Over-Fire Air	2,769	11,014
1240	Crist 7 CEMs	8,850	-
1243	Crist 6 Precipitator Replace.	14,763	102,362
1242	Crist 6 Low NOx Burners	5,933	34,112
6228	Crist 6 Over-Fire Air	-	120
1245	Crist 6 CEMs	5,410	2,509
6220	Crist 5 CEMs	-	300
6219	Crist 4 CEMs	-	300
6218	Crist 3 CEMs	-	300
6217	Crist 2 CEMs	-	300
6216	Crist 1 CEMs	-	300
1323	Scholz 1 CEMs	10,982	214
1330	Scholz 2 CEMs	1,243	50
1459	Smith 1 CEMs	5,750	890
1460	Smith 2 CEMs	5,750	890
1558	Plant Daniel CEMs	-	6,922
1006	Air Quality Assurance Testing	3,390	-
		377,588	168,895

We also find the following capital projects are recoverable through the clause because each project is in response to new environmental regulations (other than the CAAA) and the activities were not considered during Gulf's last rate case. None of the carrying costs associated with these projects are being recovered through base rates. (TR 217, TR 250, TR 252, TR 253, TR 265, TR 298, TR 353)

Other Recoverable Environmental Compliance Capital Activities
July 1993 through September 1994 Totals
($000)

PE No.	Activity/Project	Plant in Service	Construction Work in Progress Non Interest Bearing
1232	Crist Cooling Tower Cell	13,485	-
1466	Smith Waste Water Facility	1,250	475
4397	Underground Fuel Tank Replacement	4,018	342
1535	Daniel Ash Management Project	10,898	-
		29,651	817

We find the following capital projects are disallowed because they relate to activities which were considered during Gulf's last rate case or are discretionary R&D projects. The SCR Clean Coal Technology project is discretionary R&D and not mandated by any environmental regulation and, thus, it is disallowed. (TR 230, EX 8) The remaining projects listed in the table below were considered in Gulf's last rate case. The carrying costs associated with these projects are being recovered through base rates. There has not been any new environmental regulation to justify costs exceeding those included in the 1990 test year. (TR 178, TR 179, TR 235, TR 236, TR 250, TR 251, TR 254, TR 255, TR 254, TR 320, TR 349, TR 351-2, TR 354)

Capital Activities Disallowed
July 1993 through September 1994 Totals
($000)

PE No.	Activity/Project	Plant in Service	Construction Work in Progress Non Interest Bearing
1194	SCR Clean Coal Technology	7,995	0
1463	Smith 1 Precip. Plates & Wires	15,000	1,185
1449	Smith 2 Precip. Plates & Wires	24,585	0
1210	Crist Coal Yard Sump Pump	1,020	0
1259	Crist Coal Yard Sump	770	280
1257	Crist 4&5 Service Water System	5,500	1,360
6336	Scholz Ash Sluice Recycle System	0	150
		54,870	3,925

Therefore, we find that $407,239,000 (system plant-in-service) capital expenditure shall be used in determining the environmental cost recovery factor. This represents a decrease of $54,870,000 (system plant-in-service) from Gulf's request.

We also find that the carrying costs associated with CWIP investment shall be recoverable through the environmental cost recovery clause. We approve the monthly amounts of CWIP as reflected in the following table:

CONSTRUCTION WORK IN PROGRESS (non-interest bearing) ($000)							
6/93	**7/93**	**8/93**	**9/93**	**10/93**	**11/93**	**12/93**	**1/94**
9,195	9,831	1,971	2,358	3,487	4,705	4,634	6,634
2/94	**3/94**	**4/94**	**5/94**	**6/94**	**7/94**	**8/94**	**9/94**
11,134	13,434	17,306	20,926	23,246	23,767	24,607	1,672

Depreciation

The amount of accumulated depreciation applied to investment in the environmental cost recovery factor is a calculation based on the depreciation rates in effect during the period the allowed capital investments are in service. Company Witness Cranmer testified that the depreciation rates used to calculate the depreciation expense and the accumulated depreciation reserve should be the rates that are in effect during the period the allowed capital investment is in service. (TR 393-394) This includes the new depreciation rates approved in Docket No. 930221-EI and adjustments addressed in other issues. (Order No. PSC-93-1808-FOF-EI, issued December 20, 1993)

Accordingly, we find that the appropriate amount of accumulated depreciation is $1,798,000 as reflected in the following table:

ACCUMULATED DEPRECIATION ($000)							
6/93	7/93	8/93	9/93	10/93	11/93	12/93	1/94
819	865	923	994	1,065	1,137	1,212	1,273
2/94	3/94	4/94	5/94	6/94	7/94	8/94	9/94
1,334	1,395	1,456	1,517	1,578	1,639	1,700	1,798

Working Capital

There was no controversy among the parties at this hearing as to the appropriate amount of working capital. The parties agreed, and we approve, that the appropriate amount of working capital is $3000. The $3,000 included in working capital represents the allowances purchased at the EPA's first auction and include a credit for what Gulf received for its share of withheld allowances at the EPA auction. (TR 384-385)

Net Environmental Investment

Based on our findings, we approve the monthly amounts of new environmental investment as reflected in the following table:

NET ENVIRONMENTAL INVESTMENT ($000)							
6/93	7/93	8/93	9/93	10/93	11/93	12/93	1/94
23,836	24,426	24,825	25,246	26,304	27,798	29,591	31,530
2/94	3/94	4/94	5/94	6/94	7/94	8/94	9/94
35,969	38,208	42,019	45,578	47,837	48,297	49,076	60,406

Rate of Return on Equity

It is Gulf Power's position that it be allowed to earn its last authorized rate of return on common equity. Pursuant to the stipulation we approved in Order No. PSC-93-0771-FOF-EI (Docket No. 930221-EI), this rate is 12.0%. In addition, it is Gulf Power's position that the proceeding related to the environmental cost

recovery factor is not the proper forum for the Commission to address possible changes to a utility's authorized ROE. (TR 50-51)

It is OPC's and UMWA's position that the bottom of the allowed range of return on equity be used for purposes of quantifying an environmental cost recovery factor. OPC maintained in its basic position that "the Commission implement Section 366.8255, Florida Statutes, as it is written, not as the Commission believes it understands the legislative intent to be." OPC stated that if a utility is earning at or above the bottom of the allowed range of return on equity, all costs are, by definition, being currently recovered. A separate environmental cost recovery factor is justified only when increased environmental costs would either cause the utility to earn less than the bottom of the allowed range or cause further erosion in an equity return already below the range. Therefore, OPC asserted that the bottom of Gulf Power's allowed range of 11.0% should be used for purposes of quantifying an environmental cost recovery factor.

Each time we approve a clause for the recovery of utility expenses or capital costs, the overall volatility of the utility's earnings before interest and taxes (EBIT) is reduced. This has the effect of reducing business risk. This reduced risk should then result in a lower average cost of capital (required rate of return) over the long run. While it can be argued that currently authorized ROEs may not reflect the reduced risk resulting from the guaranteed recovery of prudently incurred environmental costs, ROEs set prospectively should reflect this reduced risk.

Section 366.8255(1)(d)(1), Florida Statutes, clearly states that an electric utility be allowed to earn its last authorized rate of return on equity on in-service capital investments incurred by the utility in complying with environmental laws or regulations. Based on the record in this proceeding, we find that Gulf Power shall be allowed to earn its currently authorized ROE of 12.0% on capital investment costs.

Overall Rate of Return for Capital Investments

In its filing, Gulf Power has requested an after-tax rate of return of 10.5778% for purposes of quantifying an environmental cost recovery factor. This rate of return was calculated using the jurisdictional capital structure and cost rates for each component of the capital structure (except for common equity) approved by the Commission in the Company's last rate case in Order No. 23573 (Docket No. 891345-EI). As discussed previously, Gulf Power has used 12.0% as the cost of common equity capital pursuant to the

stipulation we approved in Order No. PSC-93-0771-FOF-EI. (TR 50-51, 119-132)

A second option we could consider is the rate of return that would be produced by using current cost rates in the capital structure approved in Gulf Power's last rate case. If the current cost rates from Gulf Power's September Surveillance report (EX 1, Schedule 4) were plugged into the capital structure from the Company's filing (EX 17, Schedule 3), the after-tax rate of return would be 10.1360%. We employed this methodology to determine the rate of return Florida Power & Light (FPL) would be allowed to earn on its environmental compliance costs. (Order No. PSC-93-1580-FOF-EI, Docket No. 930661-EI, issued October 29, 1993) Company witness Scarbrough argued, however, that it would be inappropriate to update the cost rates without also updating the capital structure, and vice versa. (TR 127-132, 536-538)

The final option we could consider is using the current rate of return as reflected in Gulf Power's most recent Surveillance report. Based on the information filed in the September 30, 1993 Surveillance report, the Company's after-tax rate of return is 10.7467%. (EX 1, Schedule 4) Witness Scarbrough testified that the Company would have no objection to using the current cost rates and capital structure. (TR 127)

Because Gulf Power used the ROE of 12.0% we approved in Order No. PSC-93-0771-FOF-EI in its filing, the ROE under all three options is the same. The primary difference between the rate of return requested by Gulf Power based on its 1989 rate case and the rate of return reflected in its September 1993 Surveillance report is the change in the Company's capital structure. The capital structure approved in Order No. 23573 consisted of 42.2% common equity, 8.1% preferred stock, and 49.7% long-term debt. (EX 17, Schedule 3) Gulf Power's current capital structure consists of 49.2% common equity, 9.8% preferred stock, and 41.0% long-term debt. (EX 1, Schedule 4) Although the cost of long-term debt and preferred stock has declined since the last rate case, the relative percentage of common equity and preferred stock in the capital structure has increased such that the overall cost of capital on an after-tax basis has increased.

Witness Scarbrough testified that because of the decline in capital costs over the last few years, the Company has been able to refinance several debt and preferred stock issues which save the Company and its ratepayers approximately $7 million a year. (TR 537) However, because there has not been a commensurate decrease in the Company's ROE, the overall cost of capital on an after-tax basis has increased with the increase in the Company's equity

ratio. While we are concerned that Gulf Power's overall cost of capital has increased since its last rate case despite the fact that the Company has been operating in a declining capital cost environment, this situation should be addressed in a separate proceeding.

After reviewing the options, the capital structure and cost rates, except for ROE, approved in Gulf Power's last rate case shall be used to determine the appropriate rate of return for Gulf Power Company. Gulf Power shall be allowed to earn its last authorized ROE of 12.0%. Witness Scarbrough testified that this methodology is consistent with the approach used in the fuel cost recovery clause and the conservation cost recovery clause. In addition, he explained that this approach would simplify the administration of the true-up mechanism and the audit requirements associated with the clause. (TR 50-51, 130-133)

We agree with Gulf Power that potentially controversial and time consuming evidentiary debates regarding the appropriate capital structure and ROE should be the subject of other proceedings. In addition, we agree with the Company that the administration of the true-up mechanism and the audit requirements would be simplified if the quantification of the environmental cost recovery factor is consistent with how the other cost recovery clauses are administered. Therefore, we approve an overall rate of return of 10.5778% for the recovery of capital investment costs for Gulf Power Company.

Operating and Maintenance Expenses

Gulf Power has requested recovery of operating and maintenance expense (O&M) through the environmental cost recovery factor for 19 different activities. The types of activities for which Gulf sought recovery included those activities that were included in Gulf's 1990 test year, activities that have been implemented and are not necessary for compliance of environmental regulations and activities included in the last test year that have been modified to comply with new governmental regulations. For the latter type of activity, we find that only the costs associated with the increased level of costs (over the test year expense) necessary to comply with the new regulation shall be allowed for recovery through the environmental cost recovery clause. We deny recovery of the costs associated with nine of the requested programs because they are activities that were included in the 1990 test year. One program is disallowed because it is an elective R&D project is not needed to comply with any legal environmental regulation as analyzed previously in this Order. We also deny recovery of the costs of five categories that have been implemented since Gulf's

last rate case. For four projects, we approve partial recovery because, although they were included in the 1990 test year, there has been a change in project scope due to new environmental regulations.

The net effect of applying our policy to Gulf's request is a slight increase in O&M expenses over the amount requested. This is because the cost of several of the programs included in Gulf's 1990 test year have declined. This increase is more than offset by the reduction in carrying costs for capital investments.

Thus, we find that $2,265,000 (system) of operation and maintenance expense shall be allowed for recovery through the environmental cost recovery factor based on the policy set forth is this Order. This represents an increase of $74,000 (system) over Gulf's request.

Analysis of each activity included in Gulf's request is set forth below:

SULFUR: All sulfur costs are approved for recovery. Sulfur injection is required at Crist Unit 7 due the low sulfur coal which will be burned to comply with Phase I of the Clean Air Act Amendments of 1990 (CAAA). (TR 157, EX 12) We approve this activity and the period total cost of $22,979.

GENERAL AIR QUALITY: This category includes costs which were included in the 1990 test year but contains certain costs associated with scope changes resulting from compliance with the CAAA. We approve those costs associated with the scope change. All other costs are being recovered through base rates.

Gulf included costs associated with ambient air monitoring systems, air operating permits, and air permit renewals in this category. (TR 157) We approve only the air emission fees that are activities due to Clean Air Act Amendments of 1990 requirements. (TR 256, EX 12) We also approve $226,950 for the period total cost allowance. All remaining activities included in the General Air Quality category are being recovered in base rates and accordingly, we disallow. (TR 260-262, EX 11, LFE 13)

EMISSION MONITORING: This activity was included in Gulf's last rate case but new legislation has caused a change in scope. We approve only those increased costs necessary to comply with new regulations. Gulf witness Vick stated that the Emission Monitoring category includes costs associated with CEMs. (TR 158) However, at hearing Gulf revised its original estimated cost for CEM activity at Plant Crist and Plant Daniel from $62,500 to $135,021 without

changing Gulf's original estimate for this category. (EX 11, EX 12, LFE 13) Accordingly, we approve for recovery only costs for CEM activity at Plant Crist and Plant Daniel and find that the original estimates shall be used to set the recovery factors for the current period. All other activities included in the Emission Monitoring category are being recovered in base rates and shall be disallowed. (TR 260-262, EX 11, LFE 13)

CLEAN COAL TECHNOLOGY : The Clean Coal Technology category is a research and development and demonstration project which is not needed for compliance with existing environmental requirements. (TR 158, 232, TR 235, TR 236, EX 8, EX 6) Therefore, this activity and its costs shall be disallowed because they do not qualify for recovery pursuant to 366.8255, Florida Statutes.

PARTICULATE EMISSION TESTING: This activity was included in Gulf's last rate case, but the costs associated with this activity have increased because of new environmental regulations. The costs associated with the scope change are approved for recovery and all other costs are disallowed because they are being recovered through base rates. Gulf included a CAAA requirement activity in the Particulate Emission Testing category called Relative Accuracy Test Audits. (TR 244, TR 245, EX 12) We approve the Relative Accuracy Test Audits activity which has a period total projected cost of $102,250, and it shall be included with the activities and costs related to compliance with the CAAA. All other activities and costs included in the Particulate Emission Testing category are being recovered in base rates and are disallowed. (TR 260-262, EX 11, LFE 13)

GENERAL WATER QUALITY: The General Water Quality category includes four activities due to environmental requirement changes since the last rate case which are Surface Water Quality, Ground Water Monitoring Plan Revisions, Dechlorination and Soil Contamination Studies. Gulf's revised 15 month cost projections for these activities are $30,436 more than the earlier projections without any change to Gulf's original estimate of the total costs for all activities included in this category. (EX 11, EX 12, LFE 13) We approve the Surface Water Quality, Ground Water Monitoring Plan Revisions, Dechlorination and Soil Contamination Studies activities and shall use Gulf's first response of $907,911. All other costs for activities included in the General Water Quality category are being recovered in base rates and are disallowed. (TR 260-262, EX 11, LFE 13)

ASH POND MAINTENANCE: Gulf witness Lee indicates the activities and costs included in this category are due to the construction and installation of a new dry ash collection system at Plant Daniel.

(TR 304) The new dry ash collection system at Plant Daniel is also known as capital project PE 1535 Daniel Ash Management Project. Because we approved the capital project, the incidental O&M activities and costs to accomplish the project are also approved. The period July 1993 through September of 1994 allowance amount is $140,850.

GROUNDWATER MONITORING: This activity was included in Gulf's last rate case, but the costs associated with this activity have increased because of new environmental regulations. Gulf witness Vick indicated various activities have increased since Gulf's last rate case, such as groundwater investigations and studies. (TR 161) Similarly, Ross Burnaman testified to the increased groundwater investigations and studies in which Gulf engaged to acquired permits from the Florida Department of Environmental Protection. (TR 37) This O&M category was addressed in the last rate case and Gulf budgeted $408,040 in the test year. Gulf's current projection over 15 months for all activities including the new level of activities is $1,047,581. (JOV-1 Schedule 2) The net O&M which Gulf is requesting for groundwater monitoring is the difference between the 15 month total and what was included in the test year budget adjusted to a 15 month value. (TR 378, SDC-2 Schedule 4) We approve recovery only of the incremental O&M due to the incremental activities. Gulf's methodology for estimating the incremental cost is consistent with ours. The 15 month allowance is $537,511 and is calculated below:

$$\$537,511 = \$1,047,561 - (15/12) \times \$408,040$$

ENVIRONMENTAL AUDITING: We approve the environmental auditing project. Gulf witness Vick made many notable comments regarding the prudence of maintaining an environmental auditing administrative program which appear to be supported by Ross Burnaman's testimony. Witness Vick stated,

> (i)n today's environment of much increasing emphasis on enforcement and environmental laws and regulations, it would be extremely imprudent of a company not to have an active environmental auditing and assessment program in place. (TR 180 Lines 14-18)

Gulf has implemented this program in the last 12 to 14 months, therefore, these are new activities and new costs since the last rate case. (TR 239) We shall allow the 15 month projected total of $215,064 for the environmental auditing administrative program.

SOLID & HAZARDOUS WASTE: We approve this activity. Gulf witness Vick indicated the various activities include the collection,

storage, transport and disposal of hazardous wastes. (TR 165) The cost of these environmental compliance activities have increased since the last rate case. Gulf budgeted $88,799 in the rate case test year. Gulf's current projections over 15 months is $160,101. (JOV-1 Schedule 2) The net O&M which Gulf is requesting for solid & hazardous waste is the difference between the 15 month total and what was included in the test year budget adjusted to a 15 month value. (TR 378, SDC-2 Schedule 4) Thus, we find that Gulf shall recover only the incremental O&M due to the incremental cost of compliance. Gulf's methodology for estimating the incremental cost is consistent with ours. The 15 month allowance is $49,102 and is calculated as shown below:

$$\$49,102 = \$160,101 - (15/12) \times \$88,799$$

The last nine O&M categories are disallowed because all activities included in each of the following categories are being recovered in base rates. (TR 260-262, EX 11, LFE 13) The fact that Gulf's current cost projections is different today for the same activities addressed in the last rate case is not an increase in compliance requirements but an adjustment to reflect changes in projections. (TR 449)

ASBESTOS: This category "continues as an on-going activity" as indicated by Gulf witness Lee. (TR 302) However, Gulf witness Vick contradicted Mr. Lee when Mr. Vick stated that these are new activities and costs. (TR 492) Mr. Vick also indicated that this category contains both insurance and asbestos disposal costs. (TR 496) Insurance and asbestos disposal costs are already addressed in matters regarding decommissioning. Therefore, these activities and costs are disallowed because appropriate recovery mechanisms already exist for the costs associated with asbestos removal insurance and asbestos disposal.

ENVIRONMENTAL AFFAIRS ADMINISTRATION: Gulf requested recovery for the costs associated with adding six professionals and upgrading a secretarial position to that of an administrative secretary. (TR 243) We find that Gulf has not shown that establishing the positions and the payroll amount for each position is an environmental regulatory requirement, and thus, we deny recovery for these costs.

ATMOSPHERIC FLUIDIZED BED: This activity was included in the 1990 test year and has not changed in scope as a result of new environmental regulations. In addition, the Atmospheric Fluidized Bed is a research and development and demonstration activity which is not needed for compliance with existing environmental requirements. (TR 158, 232, TR 235, TR 236, EX 8, EX 6)

Therefore, this activity and its costs are disallowed because they do not qualify for recovery pursuant to 366.8255, Florida Statutes, as discussed previously.

PRECIPITATOR MAINTENANCE: The costs associated with this activity were included in Gulf's test year and are being recovered through base rates. Gulf witness Vick stated that these activities are to maintain and repair the electrostatic precipitators at Crist Unit 4 and Smith Unit 1 and keep them functional pursuant to air operating permits. (TR 158) However, the requirements for air operating permits have not changed since the last rate case. (TR 254) The CAAA was passed in November 1990 after the last rate case. Therefore, these activities cannot be considered CAAA compliance requirements because there has not been a change in the air operating permits since the last rate case. Also, all costs for activities in this category are being recovered in base rates. (TR 260-262, EX 11, LFE 13) Therefore, we find that all activities and costs included in the Precipitator Maintenance category are disallowed.

The costs associated with the activities below were included in Gulf's test year and current costs of these ongoing programs are being recovered through base rates: WATER MONITORING EQUIPMENT; COOLING TOWER MAINTENANCE; ELECTROMAGNETIC FIELDS; RESIDUAL ASH EXPENSES; and ASH PROCEEDS. (TR 260-2, EX 11)

Depreciation/Amortization Expense

The calculation of depreciation/amortization expense is a calculation based on the depreciation rates in effect during the period the allowed capital investments are in service. Company Witness Cranmer testified that the depreciation rates used to calculate the depreciation expense and the accumulated depreciation reserve should be the rates that are in effect during the period the allowed capital investment is in service. (TR 393-394) We agree. This includes the new depreciation rates approved in Docket No. 930221-EI and adjustments addressed in other issues. Thus, we find that the appropriate amount of depreciation/amortization expense that Gulf shall recover is $979,000.

Taxes

Section 366.8255 (1)(d), Florida Statutes, specifically identifies "direct taxes on environmental equipment" as one of the costs eligible for recovery consideration through the environmental compliance cost-recovery factor. At the Prehearing Conference, held on November 22, 1993, all parties agreed that there are no property taxes in the Company's request and that the appropriate

amounts of income taxes and revenue taxes are dependent upon the resolution of other issues. We agree that there are no property taxes included in the Company's request. However, based on the revenue requirement of $8,123,000, income taxes are $1,193,000 and revenue taxes representing 1.5% gross receipts tax and .0833% regulatory assessment fees are $129,000. Both the amount of income tax expense and the amount of revenue taxes will vary as the revenue requirement varies.

Environmental Expenses

Based upon our previous findings, we find the appropriate amount of environmental expense is $3,247,000.

Revenue Tax Expansion Factor

The Company requested a revenue tax expansion factor of 1.01609, which includes Gross Receipts Taxes of 1.5% and Regulatory Assessment Fees of .083% calculated as follows:

		Percent
1.	Revenue Requirement	100.0000
2.	FPSC Assessment Fee	0.0833
3.	Gross Receipts Tax	1.5000
4.	Net (1) - (2) - (3)	98.4167
5.	Revenue Expansion Factor (100% / Line 4)	1.01609

At the Prehearing Conference, held on November 22, 1993, all parties agreed that 1.01609 was the appropriate revenue tax expansion factor. We agree that 1.01609 is the appropriate revenue tax expansion factor and, accordingly, approve the revenue tax expansion factor as filed.

Revenue Requirements

Based upon our findings, we find that the appropriate system revenue requirements are $8,123,000. (Attachment 1)

Jurisdictional Separation Factors

The Company has proposed a jurisdictional separation factor of .9651588. This number represents the retail customers' percentage of total coincident peak kilowatts. Gulf has developed this factor by using the same methodology approved in the last rate case; however, 1991 actual load data was used in the derivation. (TR 386)

The new load data was taken from the load research the utility is required to file with this Commission every two years. Updating the split between retail and wholesale coincident peak kW ensures that the retail customers pay no more or less than should be allocated to them. This is an important consideration if the company has lost a large retail customer or has gained additional wholesale customers since the last rate case.

We agree with Gulf that .9651588 is the appropriate jurisdictional separation factor for costs that are allocated to the customer classes using a demand allocator. We, however, find that costs which are allocated to the customer classes using an energy allocator shall be separated with a factor of .9656060. This factor represents the percentage of retail kWh sales to total kWh sales projected for the recovery period (TR 401). Variances between the projected percentages of retail kWh sales and actual retail kWh sales are later captured in the final true-ups. This practice is consistent with the methodology used in other energy allocated adjustment clauses such as the Oil Backout Clause.

Allocation to Rate Classes

We find that those costs required for compliance with the Clean Air Act Amendments of 1990 (CAAA) shall be allocated to the rate classes on an per kilowatt hour, or energy basis. Such an energy allocation is appropriate because the purpose of the CAAA is to reduce the level of emissions of air pollutants such as sulphur dioxide and nitrogen oxides. The level of the emissions of such pollutants is dependent in large part on how many kilowatt hours are generated. (TR 396) Consequently, we find that an energy allocation method results in the most equitable apportionment of these particular compliance costs. We have adopted this treatment of environmental compliance costs has been adopted in the past: in Tampa Electric Company's last rate case, the approved cost-of-service study classified and allocated the costs of the scrubber on its Big Bend 4 coal plant on an energy basis. (Docket No. 920324-EI)

Gulf has proposed allocating all capital expenses related to CAAA compliance using the approved demand allocation methodology used for production plant in its last rate case, the 12 CP and 1/13 AD method. This method allocates most costs (12/13ths) based on each class's contribution to the 12 monthly system peak hours. (TR 395)

Gulf's witness Cranmer indicated that this treatment is appropriate because it is consistent with the approved cost-of-service methodology used in Gulf's last rate case. (TR 380) It is

important to note, however, that there were no capital costs associated with CAAA compliance included in the cost-of-service study in Gulf's last rate case, which used a 1990 test year, and, thus, we have never specifically addressed the treatment of such costs for Gulf.

Gulf has chosen to comply with the sulphur dioxide requirements of the CAAA in part by switching to low sulphur coal. As a result, any increased fuel costs associated with this course of action will be allocated to the rate classes on an energy basis. (TR 397) Gulf's witness indicated that, had Gulf chosen to install scrubbers instead of pursuing a fuel switching strategy, she would advocate allocating the capital costs associated with the scrubber on a demand basis. Using this philosophy, the allocation of CAAA compliance costs is dependent which compliance option is chosen, rather than on an examination of why these costs are being incurred. We find, however, that it is more important to recognize that these compliance costs are being incurred because there is a statutory requirement designed to reduce emissions of pollutants, and that the amount of these pollutants is directly related to the number of kilowatt hours generated.

FIPUG supported the Company's position with regard to the allocation of CAAA costs. FIPUG argued, as did the Gulf, that the capital costs associated CAAA compliance are fixed production plant costs, which are sized based on the maximum capacity of the plant. Thus, FIPUG advocated that they should be allocated using the approved allocation for production plant used in the Company's last rate case, the 12 CP and 1/13 AD method.

We do not take issue with the fact that many of the costs associated with CAAA compliance are fixed costs, and that they are sized to meet peak demands. However, these facts do not dictate that such costs should be allocated based on peak demand. It is more appropriate to examine why these costs are being incurred. They were incurred to meet the requirements of legislation which was enacted to solve a specific problem: the excessive emission of pollutants. The emission of these pollutants by the electric utility industry is in large part a function of the number of kilowatt hours produced. In this respect, these capital items are different from other production plant items and thus should be treated differently.

FIPUG also objected to the "carving out" of specific types of costs and allocating them on an energy basis. This is precisely what we did with respect to the scrubber costs associated with TECO's Big Bend Four plant in TECO's last rate case.

FIPUG has asserted that decisions regarding allocation should be considered in the context of a rate case. FIPUG noted that the capital costs associated with CAAA compliance are substantial. FIPUG argued that considering this allocation issue would somehow "do violence" to decisions made in Gulf's last rate case. We agree that such items should be carefully considered in a rate case as a part of the review of the cost-of-service study. However, since the legislature has mandated that an environmental cost recovery mechanism be established, and Gulf has proposed to recover substantial costs using such a mechanism, these important allocation issues by necessity must be considered outside a rate case.

Accordingly, we find that due to the strong nexus between the level of emissions which the CAAA seeks to reduce and the number of kilowatt hours generated, the costs associated with compliance with the CAAA shall be allocated to the rate classes on an energy basis because it is the most equitable way to apportion the compliance costs associated with the CAAA. We also find that the allocation of the remaining environmental compliance costs made by Gulf is appropriate and approve the allocation proposed by Gulf. Those costs that are allocated on a demand basis shall be allocated using allocators developed from Gulf's latest available load research.

Recovery from Rate Classes

Gulf has proposed to recover environmental costs through a per kilowatt-hour charge for all rate classes. We agree that this is appropriate. This is identical to the way in which costs are recovered in the Capacity Cost Recovery Factor, where costs are allocated on a demand basis. (TR 505) We find that this method is appropriate due to its ease in administration and its understandability.

FIPUG's witness has advocated recovery of environmental compliance costs through a demand charge from those customers in demand metered classes. (TR 429) This assertion is predicated upon the assumption that most of Gulf's costs will be allocated to the rate classes on a demand basis. However, the witness offered no evidence a demand recovery would result in a more equitable apportionment of costs within the demand-metered rate classes.

Effective Date of the Environmental Cost Recovery Factor

Since rate increases are effective at the earliest 30 days from the Commission vote, we find that the factors shall be effective with the beginning of the February 1994 billing cycle. These factors shall be effective for the eight-month period of

February through September 1994, and shall recover actual and projected environmental costs for the period July, 1993 through September 1994. Beginning in October of 1994, the factor shall be established for six-month periods corresponding with the fuel adjustment clause.

An effective date of February 1994 is appropriate because it will implement our decision of the December 21, 1993 agenda conference as soon as practicable. In the interest of fairness to Gulf and to reduce rate shock to the ratepayers, the factors shall be set for a one-time eight-month period of February through September 1994. Following this initial 8-month period, the factors shall be set every six months, coincident with the fuel adjustment factors, as discussed later in this Order.

Environmental Cost Recovery Factors

The approved environmental cost recovery factors are set forth in the chart below and are based upon the eight-month recovery period of February through September 1994:

RATE CLASS	ENVIRONMENTAL COST RECOVERY FACTORS ¢/KWH
RS, RST	0.148
GS, GST	0.147
GSD, GSDT	0.137
LP, LPT	0.130
PX, PXT	0.123
OSI, OSII	0.108
OSIII	0.130
OSIV	0.106
SS	0.123

Subaccounts

Gulf currently maintains subaccounts to record costs associated with conservation cost recovery items pursuant to Rule 25-17.015, Florida Administrative Code (F.A.C.). The Company also

maintains subaccounts to record not only fuel revenues and expenses but other revenue and expense categories as well. (TR 141) In addition, Rule 25-17.016, F.A.C., requires companies to maintain subaccounts for oil back-out cost recovery items.

Gulf asserted that other equally effective mechanisms can be used to track costs and revenues associated with the clause to provide a clear audit trail, such as a work order system.

The requirement to maintain subaccounts associated with environmental costs is consistent with the conservation and oil back-out rules and the recent decision in Docket No. 930661-EI, Order No. PSC-93-1580-FOF-EI, FPL's Petition for Recovery of Environmental Costs. (TR 140-141) This requirement, however, does not preclude the Company from using a work order system to capture the environmental costs as suggested by Gulf.

There are also other reasons why Gulf should be required to maintain separate subaccounts. First, maintenance of subaccounts ensures that there is no double recovery, because it is easier for the auditors to verify that amounts have been removed from the filing when subaccounts are used than when amounts are charged to work orders. Second, use of subaccounts ensures the separation of the ECRC costs from other costs. Third, it is simpler to extract capital costs, revenues and expenses from the computerized general ledger and supporting accounting detail ledger when subaccounts are used.

Accordingly, Gulf shall be required to maintain subaccounts consistent with the Uniform System of Accounts prescribed by this Commission for all items included in the environmental cost recovery factor.

Period of Factor

All parties agreed that we should establish recovery periods for the environmental cost recovery factor which coincide with the periods used in the fuel cost recovery clause. In addition, all parties agree that environmental cost recovery hearings should be held in conjunction with the fuel cost recovery hearings. The only dispute was whether we should establish 6- or 12-month periods.

Gulf Power maintained that administrative and filing expenses can be reduced if we established 12-month periods for the environmental cost recovery clause. FIPUG suggested that a 6-month period will help to reduce excessive over- and under-recoveries because of the shorter projection period.

We find initially that 6-month periods for the environmental cost recovery clause shall be established, beginning in October 1994. This is a new cost recovery mechanism and neither the Company or us have much experience in administering the clause. This does not preclude us from establishing 12-month periods for the environmental cost recovery clause after some experience is gained.

Forecasts

All parties have agreed that the Company's forecast of customers, KWH, and KW for the recovery period is both reasonable and appropriate. We have reviewed the load forecast and found these forecasts to be consistent with historical growth patterns and with economic conditions anticipated for the Gulf service territory. Thus, we approve of the agreement that the forecast is reasonable and appropriate.

Emission Allowances

The only ratemaking issue addressed was the emission allowance inventory. This item was addressed previously in this Order in which we found that the appropriate amount of working capital is $3,000. This represents Gulf's net investment in emission allowances. (TR. 384-385)

The UMWA took the position that we should adopt the ratemaking treatment for allowances adopted by the Georgia PSC in a pending docket. There is no record basis to support this position, and no testimony was presented to explain the treatment in the pending docket before the Georgia Commission.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Gulf Power Company shall be allowed to recover $8,123,000 (system) of expenses through the environmental compliance cost recovery clause which is delineated and discussed within the body of this Order. It is further

ORDERED that Gulf Power Company shall be allowed to earn a rate of return on equity of 12.0% on its capital investments. It is further

ORDERED that the appropriate overall rate of return for the recovery of capital investment costs is 10.5778%. It is further

ORDERED that the appropriate jurisdictional separation factors are .9651588 for demand allocated costs and .9656060 for costs allocated using an energy allocator. It is further

ORDERED that environmental costs associated with compliance with the Clean Air Act Amendments of 1990 shall be allocated to the rate classes on an energy basis. All other costs shall be allocated as proposed by Gulf Power Company. Those costs that are allocated on a demand basis shall be allocated using allocators developed from Gulf Power Company's latest available load research. Environmental compliance costs shall be recovered from all rate classes using a per kilowatt hour factor based upon the approved allocation method. It is further

ORDERED that the effective date for the environmental cost recovery factors begin with the February 1994 billing cycle. These factors shall remain in effect for eight months, through September 1994. Beginning in October 1994, the factors shall be established for six-month periods corresponding with the fuel adjustment clause. The appropriate environmental cost recovery factors are set forth in the body of the Order. It is further

ORDERED that Gulf Power Company shall maintain separate subaccounts consistent with the Uniform System of Accounts prescribed by this Commission for all items included in the environmental compliance cost recovery factor as discussed within the body of this Order.

By ORDER of the Florida Public Service Commission, this 12th day of January, 1994.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)
DLC:bmi

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice

should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Civil Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

ATTACHMENT 1
ORDER NO. PSC-94-0044-FOF-EI
DOCKET NO. 930613-EI
PAGE 31

Gulf Power Company
Environmental Cost Recovery Factor

Total Revenue Requirements ($000's)

Line No.	Activity	June 1993	July 1993	Aug 1993	Sep 1993	Oct 1993	Nov 1993	Dec 1993	Jan 1994	Feb 1994	Mar 1994	April 1994	May 1994	June 1994	July 1994	Aug 1994	Sep 1994	July 93 Sep 94 15 Month Total
	Environmental Investment																	
1	Plant-In-Service	15,457	15,457	23,774	23,879	23,879	24,227	26,166	26,166	26,166	26,166	26,166	26,166	26,166	26,166	26,166	60,529	
2	Less Accumulated Depreciation	(819)	(865)	(923)	(994)	(1,065)	(1,137)	(1,212)	(1,273)	(1,334)	(1,395)	(1,456)	(1,517)	(1,578)	(1,639)	(1,700)	(1,798)	
3	Construction Work in Progress : (non interest bearing)	9,195	9,831	1,971	2,358	3,487	4,705	4,634	6,634	11,134	13,434	17,306	20,926	23,246	23,767	24,607	1,672	
4	Working Capital	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	
5	Net Investment	23,836	24,426	24,825	25,246	26,304	27,798	29,591	31,530	35,969	38,208	42,019	45,578	47,837	48,297	49,076	60,406	
6	Average Investment		24,131	24,626	25,036	25,775	27,051	28,695	30,561	33,750	37,089	40,114	43,799	46,708	48,067	48,687	54,741	
7	x Rate of Return / 12		0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	
8	x Revenue Expansion Factor		1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	
9	Investment Revenue Requirement		216	221	224	231	242	257	274	302	332	359	392	418	431	436	490	4,825
	Environmental Expenses																	
10	O & M Expenses		117	117	117	117	117	223	137	137	279	137	137	137	137	137	222	
11	Depreciation/Amortization Expenses		46	58	71	71	72	75	61	61	61	61	61	61	61	61	98	
12	Property Taxes		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
13	Net Expenses		163	175	188	188	189	298	198	198	340	198	198	198	198	198	320	
14	x Revenue Expansion Factor		1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	
15	Expense Revenue Requirement		166	178	191	191	192	303	201	201	345	201	201	201	201	201	325	3,298
16	Total Revenue Requirment (Lines 9 + 15)																	8,123
17	Disallowed Total Revenue Requirment from Petitioned amount																	794

Gulf Power Company
Environmental Cost Recovery Factor
CLEAN AIR ACT COMPLIANCE
Total Revenue Requirements ($000's)

Line No.	Activity	June 1993	July 1993	Aug 1993	Sep 1993	Oct 1993	Nov 1993	Dec 1993	Jan 1994	Feb 1994	Mar 1994	April 1994	May 1994	June 1994	July 1994	Aug 1994	Sep 1994	July 93 Sep 94 15 Month Total
CLEAN AIR ACT COMPLIANCE																		
	Environmental Investment																	
1	Plant-In-Service	14,558	14,558	22,870	22,870	22,870	23,095	24,786	24,786	24,786	24,786	24,786	24,786	24,786	24,786	24,786	48,251	
2	Less Accumulated Depreciation	(807)	(850)	(906)	(974)	(1,042)	(1,109)	(1,181)	(1,239)	(1,296)	(1,354)	(1,412)	(1,470)	(1,527)	(1,585)	(1,642)	(1,726)	
3	Construction Work in Progress : (non interest bearing)	9,162	9,761	1,831	2,223	3,227	4,493	4,634	6,634	11,134	13,434	17,306	20,926	23,246	23,767	24,607	1,672	
4	Working Capital	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	
5	Net Investment	22,916	23,472	23,798	24,122	25,058	26,482	28,242	30,184	34,627	36,869	40,683	44,245	46,508	46,971	47,754	48,200	
6	Average Investment		23,194	23,635	23,960	24,590	25,770	27,362	29,213	32,406	35,748	38,776	42,464	45,377	46,740	47,362	47,977	
7	x Rate of Return / 12		0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	
8	x Revenue Expansion Factor		1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	
9	Investment Revenue Requirement		208	212	215	220	231	245	262	290	320	347	380	406	419	424	430	4,609
	Environmental Expenses																	
10	O & M Expenses		12	12	12	12	12	12	13	13	155	13	13	13	13	13	98	
11	Depreciation/Amortization Expenses		43	56	68	68	68	71	58	58	58	58	58	58	58	58	84	
12	Property Taxes		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
13	Net Expenses		55	68	80	80	80	83	71	71	213	71	71	71	71	71	182	
14	x Revenue Expansion Factor		1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	
15	Expense Revenue Requirement		56	69	81	81	81	85	72	72	216	72	72	72	72	72	185	1,358
16	Total Revenue Requirment (Lines 9 + 15)																	5,967

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition of Fort Pierce Utilities Authority to resolve territorial dispute with City Gas Company of Florida.	DOCKET NO. 931023-GU ORDER NO. PSC-94-0045-PCO-GU ISSUED: January 12, 1994

ORDER SUSPENDING SCHEDULE

On October 21, 1993, Fort Pierce Utilities Authority (Ft. Pierce) filed a petition requesting that the Commission resolve a territorial dispute with City Gas Company of Florida (City Gas). City Gas filed its answer to the petition on November 10, 1993. The matter was set for hearing on May 6, 1994, to resolve the dispute in St. Lucie County.

On December 6, 1993, the parties met with Commission staff in an attempt to settle the dispute. During the meeting, the parties reached an agreement in principle. The agreement, however, must now be set in writing in the form of a territorial agreement. On December 15, 1993, the parties filed a joint motion to suspend the case schedule so that the parties can focus their efforts on working out the details of the territorial agreement. Based thereon, the hearing scheduled for May 6, 1994, is hereby cancelled. No later than June 30, 1994, the parties shall file their executed settlement agreement. Failure to timely file a territorial agreement will result in scheduling of the final hearing in this matter for September 21, 1994.

It is, therefore,

ORDERED by Commissioner Diane K. Kiesling, as Prehearing Officer, that the hearing scheduled for May 6, 1994, in this docket is cancelled. It is further

ORDERED that the parties to this docket shall file a territorial agreement by June 30, 1994. Failure to timely file a territorial agreement will result in scheduling of the final hearing in this matter for September 21, 1994.

By ORDER of Commissioner Diane K. Kiesling, as Prehearing Officer, this 12th day of January, 1994.

DIANE K. KIESLING, Commissioner and Prehearing Officer

(S E A L)
MAH:bmi

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; (2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or (3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

Gulf Power Company
Environmental Cost Recovery Factor
ALL OTHER – NOT RELATED TO CLEAN AIR ACT COMPLIANCE
Total Revenue Requirements ($000's)

Line No.	Activity	June 1993	July 1993	Aug 1993	Sep 1993	Oct 1993	Nov 1993	Dec 1993	Jan 1994	Feb 1994	Mar 1994	April 1994	May 1994	June 1994	July 1994	Aug 1994	Sep 1994	July 93 Sep 94 15 Month Total	
ALL OTHER – NOT RELATED TO CLEAN AIR ACT COMPLIANCE																			
	Environmental Investment																		
1	Plant-In-Service	899	899	904	1,009	1,009	1,132	1,380	1,380	1,380	1,380	1,380	1,380	1,380	1,380	1,380	12,278		
2	Less Accumulated Depreciation	(12)	(15)	(17)	(20)	(23)	(28)	(31)	(34)	(38)	(41)	(44)	(47)	(51)	(54)	(58)	(72)		
3	Construction Work in Progress : (non interest bearing)	33	70	140	135	260	212	0	0	0	0	0	0	0	0	0	0		
4	Working Capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
5	Net Investment	920	954	1,027	1,124	1,246	1,316	1,349	1,346	1,342	1,339	1,336	1,333	1,329	1,326	1,322	12,206		
6	Average Investment		937	991	1,076	1,185	1,281	1,333	1,348	1,344	1,341	1,338	1,335	1,331	1,327	1,325	6,764		
7	x Rate of Return / 12		0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%	0.8815%		
8	x Revenue Expansion Factor		1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609		
9	Investment Revenue Requirement		8	9	9	11	11	12	12	12	12	12	12	12	12	12	60		216
	Environmental Expenses																		
10	O & M Expenses		105	105	105	105	105	211	124	124	124	124	124	124	124	124	124		
11	Depreciation/Amortization Expenses		3	2	3	3	4	4	3	3	3	3	3	3	3	3	14		
12	Property Taxes		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
13	Net Expenses		108	107	108	108	109	215	127	127	127	127	127	127	127	127	138		
14	x Revenue Expansion Factor		1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609	1.01609		
15	Expense Revenue Requirement		110	109	110	110	111	218	129	129	129	129	129	129	129	129	140		1,940
16	Total Revenue Requirment (Lines 9 + 15)																		2,156