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August 14, 1998

HAND DELIVERED

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Petition by Tampa Electric Company for Approval of Cost Recovery for a new Environmental Program, the Big Bend Units 1 and 2 Flue Gas Desulfurization System: FPSC Docket No. 980693-E1

Dear Ms. Bayo:

Enclosed for filing in the above docket are the original and fifteen (15) copies of Tampa Electric Company's Prehearing Statement.

Also enclosed is a diskette containing the above Prehearing Statement originally typed in Microsoft Word 97 format which has been saved in Richtext format for use with WordPerfect.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning same to this writer.

Thank you for your assistance in connection with this matter.

Sincerely,

James D. Beasley

- ACK _____
- AFA 3
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG Five
- LEG 1 JDB/pp
- LIT 5 Enclosures
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cc: All Parties of Record (w/enc.)

DOCUMENT # 114- DATE
08684 AUG 14 98

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Tampa Electric)
Company for Approval of Cost Recovery)
for a new Environmental Program, the)
Big Bend Units 1 and 2 Flue Gas)
Desulfurization System.)
_____)

DOCKET NO. 980693-EI
FILED: August 14, 1998

**PREHEARING STATEMENT
OF TAMPA ELECTRIC COMPANY**

A. APPEARANCES:

HARRY W. LONG, JR.
TECO Energy, Inc.
Post Office Box 111
Tampa, Florida 33601-0111

and

LEE L. WILLIS
JAMES D. BEASLEY
Ausley & McMullen
Post Office Box 391
Tallahassee, Florida 32302

On behalf of Tampa Electric Company

B. WITNESSES:

<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
(Direct)		
1. Charles R. Black (TECO)	CAA emission limitations; cost of FGD system and project alternatives; Tampa Electric's compliance strategy and implementation schedule.	1,2,4
2. Thomas L. Hernandez (TECO)	Cost-effectiveness analysis of compliance options; proposed regulatory treatment for the FGD system.	3 - 8

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C. EXHIBITS:

<u>Exhibit</u>	<u>Witness</u>	<u>Description</u>
<u>(CRB-1)</u>	Black	CAAA SO ₂ Compliance
<u>(TLH-1)</u>	Hernandez	Tampa Electric's CAAA Phase I and Phase II Compliance Plans and 1998 Ten Year Site Plan

D. STATEMENT OF BASIC POSITION

Tampa Electric Company's Statement of Basic Position:

Tampa Electric has a definitive obligation to comply with the legal requirements of Phase II of the Clean Air Act Amendments of 1990 (CAAA) which prescribe certain SO₂ emission limitations for Tampa Electric's generation system beginning January 1, 2000. After an exhaustive review of available compliance alternatives, the most cost-effective compliance alternative is the construction of a \$90 million FGD system on Big Bend Units 1 and 2. Tampa Electric's cost-effectiveness study shows a system present worth revenue requirement savings for the FGD option of \$18 million over the first 10 years, \$80 million over the first 20 years and \$96 million over the first 25 years.

It is critical that the Commission now confirm that, on the basis of circumstances at the time the decision to build the FGD system is made, the FGD project is a reasonable compliance option; that it is a project which qualifies for environmental cost recovery; and that the prudent and reasonable costs associated with implementing the project will be recoverable through the Environmental Cost Recovery Clause (ECRC) mechanism.

Consistent with the Guidelines in Order No. PSC-94-0044-FOI-EI, the FGD system related costs (a) will be incurred after April 13, 1993; (b) will be incurred on the basis of the legal

requirement of the CAAA; and (c) are not currently being recovered through base rates or any other cost recovery mechanism. Accordingly, under the principles applied by this Commission for recovery under the ECRC, the proposed FGD system is clearly eligible for recovery under that mechanism. The investment in equipment such as an FGD system, which has the sole purpose of complying with environmental law in the most cost-effective way, is precisely the type of cost which the ECRC was designed by the Legislature to cover.

The Commission has encouraged the parties to come in early for determinations involving capital expenditures for environmental cost recovery so that timely guidance can be provided by the Commission with respect to that investment. Consequently, the Commission should find that the FGD project is the most cost-effective alternative and is eligible for ECRC recovery at the earliest possible time so that all parties may plan accordingly.

The Commission should also approve Tampa Electric's tracking and accumulation of project costs in AFUDC until the FGD system goes into service. Prior to seeking the actual recovery of costs associated with this project, Tampa Electric will file additional supporting testimony and exhibits for consideration at the hearing in which the ECRC factors will be set for the cost recovery period when the FGD system will be placed in service.

E. STATEMENT OF ISSUES AND POSITIONS

ISSUE 1: Has Tampa Electric Company (TECO) adequately explored alternatives to the construction of a Flue Gas Desulfurization (FGD) system on Big Bend Units 1 and 2?

TECO: Yes. Tampa Electric has carefully and prudently explored all reasonable alternatives to the construction of its proposed FGD system for Big Bend Units 1 and 2. (Witnesses: Black, Hernandez)

ISSUE 2: Is the fuel price forecast used by TECO in its selection of a CAAA Phase II Compliance plan reasonable?

- TECO:** Yes. (Witnesses: Black)
- ISSUE 3:** Are the economic and financial assumptions used by TECO in its selection of a CAAA Phase II Compliance reasonable?
- TECO:** Yes. (Witness: Hernandez)
- ISSUE 4:** Did TECO Reasonably consider the environmental compliance costs for all regulated air, water and land pollutants in its selection of the proposed FGD system on Big Bend Units 1 and 2 for sulfur dioxide (SO₂) compliance purposes?
- TECO:** Yes. (Witnesses: Black, Hernandez)
- ISSUE 5:** Has TECO demonstrated that its proposed FGD system on Big Bend Units 1 and 2 for SO₂ compliance purposes is the most cost-effective alternative available?
- TECO:** Yes. (Witness: Hernandez)
- ISSUE 6:** Should the Commission approve TECO's request to accrue allowance for funds used during construction (AFUDC) for the proposed FGD system on Big Bend Units 1 and 2?
- TECO:** Yes. Accrual of AFUDC until such time as the FGD system is placed into operation is reasonable accounting alternative which does not affect any customers' rates while the project is being constructed. The accrual of AFUDC is consistent with Rule 25-6.0141, F.A.C. which identifies projects eligible for AFUDC. (Witness: Hernandez)
- ISSUE 7:** Should TECO's petition for cost recovery of a FGD system on Big Bend Units 1 and 2 through the Environmental Cost Recovery Clause (ECRC) be granted?
- TECO:** Yes. The proposed FGD project is the most cost-effective alternative for compliance with legal requirements of the CAAA. The FGD related costs: will be incurred after April 13, 1993; will be incurred because of legal requirements of the CAAA; and are not currently being recovered through base rates or any other cost recovery mechanism. Accordingly, the prudently incurred FGD costs are clearly costs entitled to be recovered under the ECRC. At this juncture the Commission should approve the reasonableness and prudence of the proposed project, indicate that costs prudently incurred in connection with the project will be eligible for cost recovery under the ECRC, and approve the accrual of the AFUDC until such time as the FGD system is placed into operation. (Witness: Hernandez)
- ISSUE 8:** Should this docket be closed?

TECO: Upon final disposition of the foregoing issues, this docket should be closed.

F. STIPULATED ISSUES

TECO: None at this time.

G. MOTIONS

TECO: FIPUG's Motion to Dismiss and Tampa Electric Company's Memorandum in Opposition to such motion; OPC's Suggestion for Dismissal and Tampa Electric Company's response thereto.

H. OTHER MATTERS

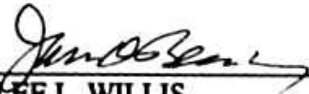
TECO: None at this time.

DATED this 14th day of August, 1998.

Respectfully submitted,

HARRY W. LONG, JR.
TECO Energy, Inc.
Post Office Box 111
Tampa, Florida 33601-0111

and



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ATTORNEYS FOR TAMPA ELECTRIC COMPANY

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing Prehearing Statement, filed on behalf of Tampa Electric Company, has been furnished by hand delivery (*) or U. S. Mail on this 14th day of August 1998 to the following:

Ms. Grace Jaye*
Staff Counsel
Division of Legal Services
Florida Public Service Commission
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2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

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