BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of	DOCKET NO. 980007-EI
Environmental cost recovery clause.	

PROCEEDINGS: HEARING

BEFORE; COMMISSIONER SUSAN F. CLARK
COMMISSIONER JOE GARCIA
Videoconferencing from Miami, Florida
COMMISSIONER E. LEON JACOBS, JR.

DATE: Wednesday, August 26, 1998

TIME: Commenced at 9:35 a.m.
Concluded at 9:40 a.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: JOY KELLY, CSR, RPR
Chief, Bureau of Reporting

APPEARANCES:

MATTHEW M. CHILDS, Steel, Hector and Davis, 215 South Monroe Street, Suite 601, Tallahassee, Florida 32301, appearing on behalf of **Florida Power & Light Company (FPL).**

JAMES D. BEASLEY, Ausley & McMullen, Post Office Box 391, Tallahassee, Florida 32302, appearing on behalf of **Tampa Electric Company (TECO).**

JOHN ROGER HOWE, Deputy Public Counsel, Office of Public Counsel, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the **Citizens of the State of Florida.**

LESLIE J. PAUGH, Florida Public Service Commission, Division of Legal Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0870, appearing on behalf of the **Commission Staff.**

WITNESSES

EXHIBITS

PROCEEDINGS

(Hearing convened at 9:40 a.m.)

COMMISSIONER CLARK: We'll call the hearing to order. Will you please read the notice.

MS. PAUGH: Pursuant to notice issued July 14th, 1998, this time and place have been set for hearing in Docket 980001-EI, fuel and purchased power cost recovery clause and generating performance incentive factor and Docket No. 980007-EI, environmental cost recovery clause.

COMMISSIONER CLARK: Thank you. We'll take appearances.

MR. CHILDS: My name is Matthew Childs. I represent Florida Power & Light in the 07 docket.

MR. BEASLEY: James D. Beasley with the law firm of Ausley & McMullen, in Tallahassee. I'm representing Tampa Electric Company in both the 01 and 07 dockets.

MR. HOWE: I'm Roger Howe with the Office of Public Counsel appearing on behalf of the Citizens of the State of Florida in the 01 and 07 dockets.

MS. PAUGH: Leslie Paugh on behalf of Staff in the 01 and 07 dockets.

COMMISSIONER CLARK: I would note for the record that Jeffry Stone and Vicki Gordon Kaufman were

excused from attending this hearing.

MS. PAUGH: That's correct.

COMMISSIONER CLARK: Any preliminary matters we need to take up?

MS. PAUGH: Just one, Commissioners. The question has been raised with respect to Paragraph 4 of both prehearing orders, whether the language is appropriate in this proceeding.

I have spoken with the -- I'm sorry, not Paragraph 4 but Section 4. I have spoken with the attorney who has asked the question, and indicated to him that that section is intended for proceedings in which there is not a bench vote. In this proceeding I anticipate that there will be a bench vote and that this section would, therefore, be negated.

COMMISSIONER CLARK: Paragraph 4?

MS. PAUGH: Section 4, posthearing procedures. It calls for filing posthearing statements that will not be necessary in the event of a bench vote.

COMMISSIONER CLARK: Okay. And how do you suggest we proceed?

MS. PAUGH: In both dockets all issues, with the exception of Issue 10 in the 07 docket, have been stipulated.

* * * * * * *

With respect to the 07 docket you will find the testimony on Page 5. Staff recommends that the testimony be inserted into the record as though read.

COMMISSIONER CLARK: The testimony of K. M. Dubin will be entered in the record as though read. The testimony of R. R. Labauve will be entered in the record as though read. The testimony of J.O. Vick will be entered in the record as read. Testimony of S. D. Cranmer will be entered into the record as though read. And the testimony of Karen Zwolak will be entered into the record as though read.

MS. PAUGH: Thank you, Commissioner. On Page 12 of the Prehearing Order you will find the exhibits. Staff recommends that the exhibits be marked as follows: KMD-1, Exhibit 1. KMD-2, Exhibit 2. RRL-1, Exhibit 3. RRL-2, Exhibit 4. RR-3, Exhibit 5, RRL-4, Exhibit 6. RRL-5, Exhibit 7. RRL-6, Exhibit 8. RRL-7, Exhibit 9. RRL-8, Exhibit 10. RRL-9, Exhibit 11. RRL-10, Exhibit 12. SDC-1, Exhibit 13. SDC-2, Exhibit 14. KOZ-1, Exhibit 15, KOZ-2, Exhibit 16. KOZ-3, Exhibit 17. KOZ-4, Exhibit 18.

Staff recommends that the exhibits as marked be moved into the record, and that cross examination

be waived.

COMMISSIONER CLARK: It will be entered into the record and cross examination is waive.

(Exhibits 1 throug.. 18 marked for identification and received in evidence.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF KOREL M. DUBIN

DOCKET NO. 980007-EI

JUNE 22, 1998

Q. Please state your name and address.

A. My name is Korel M. Dubin and my business address is 9250 West Flagler Street, Miami, Florida, 33174.

Q. By whom are you employed and in what capacity?

A. I am employed by Florida Power & Light Company (FPL) as a Principal Rate Analyst in the Rates and Tariff Administration Department.

Q. Have you previously testified in this docket?

A. Yes, I have.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present for Commission review FPL's projected Environmental Cost Recovery Clause (ECRC) factors for the period October 1998 through December 1998 but FPL recommends that they not be implemented. Instead, FPL requests

approval to extend the current ECRC factors through the last three months of this year, October 1998 through December 1998.

Q. Why should FPL's ECRC factors, currently approved through September 1998, be extended for the three month period of October through December 1998?

A. Projections for the period October 1998 through December 1998 as well as the estimated/actual costs for the period October 1997 through September 1998 indicate that the ECRC factors would not change significantly. Therefore, FPL believes that a change to customers bills for the three month period of October through December 1998 is not warranted.

In Order No. PSC-98-0691-FOF-PU, Docket No. 980269-PU dated May 19, 1998, the Commission found that Fuel, Capacity, and Environmental Factors should be determined on a calendar year basis beginning in 1999 and Conservation Factors should be determined on a calendar year basis beginning in 2000. One of the main objectives of going to calendar year recovery periods for the four cost recovery clauses is to provide customers with one charge for electricity for a one year period. Annual factors provide customers with more certain and stable prices and customers are able to plan with greater certainty their level of expenditures for electricity for the year. Extending the

ECRC factors for the period October 1998 through December 1998 is consistent with earlier Commission decisions where the Commission approved FPL's Fuel Factors through December 1998 and also extended FPL's Capacity Factors for the three month period of October through December 1998. Therefore, FPL proposes to extend the current ECRC factors through the last three months of this year, October through December 1998.

Q. Is this filing by FPL in compliance with Order No. PSC-93-1580-FOF-EI, issued in Docket No. 930661-EI?

A. Yes.

Q. Have you prepared or caused to be prepared under your direction, supervision or control an exhibit in this proceeding?

A. Yes, I have. It consists of fourteen documents, PSC Forms 42-1P through 42-4P and 42-6P through 42-7P provided in Appendix I and PSC Forms 42-1E through 42-8E provided in Appendix II. Form 42-1P provides a summary of cost projections for the period October 1998 through December 1998, Form 42-2P, reflects the total jurisdictional recoverable costs for O&M activities, Form 42-3P reflects the total jurisdictional recoverable costs for capital investment projects, Form 42-4P consists of the calculation of depreciation expense and

return on capital investment, Form 42-6P reflects the calculation of the energy and demand allocation percentages by rate class and 42-7P reflects the calculation of the ECRC factors. In addition, Forms 42-1E through 42-8 E reflect the true-up and variance calculations for the prior period.

Q. Please describe Form 42-1P.

A. Form 42-1P provides a summary of Environmental Cost Recovery Projections for the period October through December 1998. Total recoverable environmental costs, adjusted for revenue taxes, amount to $4,909,380 and include $4,090,977 of environmental project costs increased by $185,246 (3/15ths of the estimated/actual underrecovery of $926,229 for the October 1997 - September 1998 period) minus $431,584 (3/15ths of the final overrecovery of $2,157,919 for the period October 1996 - September 1997). FPL assumed that the true up amounts would be recovered over the 15 month period of October 1998 through December 1999. Additionally, FPL is evaluating a new project for Wastewater and Stormwater Elimination and Reuse and expects to file an interim petition requesting recovery through the ECRC. Therefore, $987,000 in projected costs for this potential project for the period through December 1998 have been added to the projected ECRC costs for the period.

Q. How do the costs described on Form 42-1P for the period October 1998 through December 1998 compare to costs included in the current factor for the period October 1997 through September 1998?

A. As stated previously, the total recoverable environmental costs provided on Form 42-1P amount to $4,909,380 for the three month period of October through December 1998. The total recoverable environmental costs included in the factor for the twelve month period October 1997 through September 1998 is $22,228,780 (See Form 42-1P, filed August 14, 1997 in Docket No. 970007-EI). To put the costs on a comparable basis we have adjusted the $22,228,780 to show three months of costs which results in $5,557,195 (($22,228,780 divided by 12 months) times 3 months). This $5,557,195 in costs for the current period compared to the $4,909,380 in projected costs for the three month period of October through December 1998 results in a difference $647,815. To put this in perspective, FPL's current Residential Bill is $75.12. The difference in the ECRC projections would change the bill by $ .03 or less than one tenth of one percent (0.04%), not significant enough to warrant a change for only three months.

Furthermore, even without the new project, the difference in the ECRC projections would only change the bill by $.09, or one tenth of one

percent (0.1%), still not significant enough to warrant a change for only three months.

Q. Please describe Forms 42-2P and 42-3P.

A. Form 42-2P presents the O&M project costs to be recovered in the projected period along with the calculation of total jurisdictional recoverable costs for these projects, classified by energy and demand.

Form 42-3P presents the capital investment project costs to be recovered in the projected period along with the calculation of total jurisdictional recoverable costs for these projects, classified by energy and demand.

Forms 42-2P and 42-3P present the method of classifying costs consistent with Order No. PSC-94-0393-FOF-EI.

Q. Are all costs listed in Forms 42-1P through 42-8P attributable to Environmental Compliance projects previously approved by the Commission?

A. Yes.

Q. Please describe Form 42-6P.

A. Form 42-6P calculates the allocation factors for demand and energy at

generation. The demand allocation factors are calculated by determining the percentage each rate class contributes to the monthly system peaks. The energy allocators are calculated by determining the percentage each rate contributes to total kWh sales, as adjusted for losses, for each rate class.

Q. Please describe Form 42-7P.

A. Form 42-7P presents the calculation of the proposed ECRC factors by rate class.

Q. How do the estimated/actual project expenditures for October 1997 through September 1998 period compare with original projections?

A. Form 42-4E shows that total O&M project costs were $895,868 lower than projected and Form 42-6E shows that total capital investment project costs were $1,525,293 greater than projected. Below are explanations for those O &M Projects and Capital Investment Projects with significant variances. All variances are provided in detail on Forms 42-4E and 42-6E. Return on Capital Investment, Depreciation and Taxes for each project for the estimated/actual period October 1997 through September 1998 are provided as Form 42-8E, pages 1 through 20.

EXPLANATIONS OF VARIANCES

Air Operating Permit Fees - O&M

Actual expenditures were $54,582 or 2.9% greater than projected. The projections were based on the fees paid the previous year. Permit fees are calculated based on the tons of pollutants discharged from the fossil fuel fired power plants. These emissions are proportional to the amount of time each plant operates and the type of fuel used. Since these are variables that fluctuate daily based on weather conditions, price of fuel, etc. it is difficult to predict exactly what the fees will be for the next reporting period.

Maintenance of Stationary Above Ground Fuel Storage Tanks - O&M

Actual expenditures were $259,752 or 16.0% greater than projected. This variance is offset by an underrun in the prior reporting period which was due to the delay in starting the reconditioning of the Sanford Plant C Tank. The delay was the result of the additional time required to obtain repair bids based on the condition assessment of the cleaned tank. The project is now complete and the tank is being returned back in service.

Oil Spill Cleanup/Response Equipment - O&M

Actual expenditures were $21,519 or 5.2% less than projected. The

variance is the result of difficulty in obtaining environmental sensitivity data for the development of the Oil Spill Trajectory Modeling project.

RCRA Corrective Action - O&M

Actual expenditures were $65,165 or 16.0% less that projected. As previously reported in Docket No 980007-EI, the Environmental Protection Agency(EPA) has been unable to schedule the Visual Site Inspections at Manatee, Port Everglades and Sanford Plants. The pre-inspection activities are proceeding and no variance is anticipated by year-end 1998.

NPDES Permit Fees - O&M

Actual expenditures were $14,543 greater than projected due to the erroneous omission of the permit fees due for the St. Lucie Plant (Nuclear). These expenditures should have been included in the original projections.

Disposal of Noncontainerized Liquid Waste - O&M

Actual expenditures were $90,282 or 35.0% greater than projected. For the previous reporting period (10/96 - 9/97) the project experienced an underrun of $293,708 and was behind schedule. A second crew had been added to increase the production rate and get the project back on schedule. The overrun currently being realized is

a result of the additional crew. Based on the current schedule no variance is anticipated by year-end 1998.

Substation Pollutant Discharge Prevention & Removal - Distribution - O&M

Actual expenditures were $1,335,108 or 18.0% less than projected. This underrun is due to schedule delays caused by the identification of more discharges than originally identified. Leak prevention activities are delaying the encapsulation portion of the project. The extremely hot weather conditions currently being experienced in Florida will prevent the transformers from being taken out-of-service to perform the encapsulation and leak prevention activities. Due to record setting system load demands this portion of the project will be delayed to avoid jeopardizing the availability of electricity. The remediation portion of the project is currently being worked at an accelerated pace and will continue throughout the summer months which will reduce the variance by year-end 1998.

Substation Pollutant Discharge Prevention & Removal – Transmission - O&M

Actual expenditures were $104,451 or 5.0% more than projected. The overrun is due to the prioritizing of work activities in conjunction with the previous project (Distribution). The severity of leaks and the

availability of transformer electrical clearances resulted in more transmission transformers being addressed than distribution transformers.

Low NOx, Continuos Emissions Monitoring and Clean Closure Equivalency Projects - Capital

Variances are primarily due to higher depreciation rates at six steam generation sites, authorized in Order No. PSC-97-1015-PCO-EI. An adjustment to record implementation of the proposed depreciation rates, on a preliminary basis retroactive to January 1, 1997, was made in April 1998.

SO2 Allowances - Negative Return on Investment

Variance is primarily due to higher than anticipated gains resulting from the 1997 auction of emission allowances by the DOE.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF RANDALL R. LABAUVE

DOCKET NO. 980007-EI

June 29, 1998

Q. Please state your name and address?

A. My name is Randall R. LaBauve and my business address is 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. By whom are you employed and in what capacity?

A. I am employed by Florida Power & Light Company (FPL) as the Director of Environmental Services in the General Counsel Business Unit.

Q. Please describe your educational and professional background and experience.

A. I received a Bachelor of Arts degree in Psychology/Business from Louisiana State University in 1983 and a Juris Doctor degree in Law from Louisiana State University in 1986. I joined FPL in 1995 as an Environmental Lawyer and in 1996 assumed the responsibility of Director of Environmental Services. Prior to joining FPL I was the Director of Environmental Affairs for Entergy Services, Incorporated located in Little Rock, Arkansas and prior to that was in private law practice with Milling, Benson, Woodward, Hillard, Pierson and Miller in New Orleans, Louisiana.

Q. What are your responsibilities and duties as Director of Environmental Services?

A. I am responsible for directing the overall corporate environmental planning, programs, licensing, and permitting activities to ensure the basic objective of obtaining and maintaining the federal, state, regional and local government approvals necessary to site, construct and operate FPL's power plants, transmission lines, and fuel facilities and maintain compliance with environmental laws. Additionally, I will sponsor environmental related testimony in dockets before the Florida Public Service Commission.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present FPL's conceptual plans for a new environmental project that is designed to eliminate the release of contaminants to the environment by eliminating discharges of wastewater and stormwater and beneficially reusing the wastewater in plant operations. FPL is requesting that the Commission approve recovery of the compliance costs associated with this project through the Environmental Cost Recovery Clause. My testimony includes a description of the new environmental requirements, the compliance actions planned and the rationale for the alternative selected.

Q. What are the new environmental requirements and when did each become effective?

A. In 1993 the Environmental Protection Agency (EPA) instituted a new program to minimize pollutants of concern in permitted effluents. The EPA administers the program

by requiring regulated facilities to develop and implement a Best Management Practice Pollution Prevention Plan (Plan) as part of the renewal of permits for existing plants with the possible exception of Turkey Point. Permits must currently be renewed approximately every five years as explained below. This is the most substantive new requirement and it is described in Document RRL-1.

Q. How is FPL affected?

A. FPL is required to obtain National Pollutant Discharge Elimination System (NPDES) Permits for each of its power plant facilities pursuant to 33 U.S.C. Section 1342 [Federal Water Pollution Control Act (Clean Water Act) Section 402] and Title 40 Code of Federal Regulations (CFR) Section 122. The Florida Department of Environmental Protection was delegated authority to administer this permit program for the Environmental Protection Agency. FPL is required to submit a permit renewal application for each site every five years. Under the State implementation of the Federal program, these permits are referred to as the State Pollutant Discharge Elimination System Permits (permits).

Each new Permit issued to FPL includes, or will include, a new requirement for FPL to develop and implement a Plan to minimize or eliminate, whenever feasible, the discharge of regulated pollutants, including fuel oil and ash, to surface waters. FPL must submit a Plan for each facility to the Florida Department of Environmental Protection for approval. This requirement, with the emphasis on eliminating discharges, was not part

of FPL's permit requirements prior to 1993. Document RRL-2 is a typical permit prior 1993 and Document RRL-3 represents a current permit.

Document RRL-4 provides a summary of FPL's permits, the date each permit was, or is expected to be, issued and the date a preliminary Plan will be submitted to the agency. Preliminary Plans that have already been submitted simply outline FPL's intent to develop a formal Plan to minimize or eliminate the discharge of pollutants.

Q. Can the Florida Department of Environmental Protection cause FPL to change its plans?

A. Yes. However, FPL expects that the agency will approve for implementation its plans as proposed in this Project. In addition, FPL may make changes as detailed plans are developed for each site during the engineering and design phase of the project.

Q. Are there any other new environmental requirements being met by this project?

A. Yes. The Federal Ambient Water Quality Criteria applicable to discharges to groundwater requires FPL's discharges to groundwater to meet surface water quality standards. In addition, the Multi-source Permit issued by Dade County Department of Environmental Resource Management to FPL for the Turkey Point Power Plant requires FPL to meet Dade County water quality standards in discharges to the Turkey Point Cooling Canals. Both of these requirements were applied to FPL in 1997.

Q. Please explain the Federal Ambient Water Quality Criteria.

A. To ensure that Federal Ambient Water Quality Criteria (Standards), see Document RRL-5, are not violated, FPL must eliminate discharges of wastewater to groundwater. In a letter from the EPA to FPL dated June 13, 1997 (Document RRL-6), the EPA informed FPL that any discharges to groundwater that is hydrologically connected to nearby surface water must meet surface water standards. For many pollutants, these Standards are more stringent than the groundwater limits that FPL must satisfy. For example, the Standard for nickel, 8.3 parts per billion, is nearly 92% lower than the previous groundwater limit of 100 parts per billion.

Q. How does this new standard affect FPL?

A. FPL currently has four unlined ash basins located above groundwater that are hydrologically connected with nearby surface water. The ash managed in these basins contains nickel that is soluable in water. The most prudent option to ensure that very low limits, such as the limit for nickel, are not violated is to eliminate the discharges.

Q. Please explain the Turkey Point Plant Multi-Source Permit.

A. Dade County, Florida, considers the cooling canals at FPL's Turkey Point Power Plant to be waters of the County. Consequently, Dade County requires FPL to obtain a Multi-Source Permit (permit), see Document RRL-7, to discharge wastewater into the canals. The permit requires FPL's discharges to meet water quality standards identified in Section 24-11, Code of Metropolitan Dade County (Document RRL-8). These

standards include a limit of 1000 parts per billion for zinc and a limit of 5.0 parts per million for Florida Petroleum Residual Organic (FLPRO). FLPRO is a new parameter that is a measurement of oil and grease. It was included in the 1997-1998 permit issued to FPL.

In March 1998, analysis on a discharge into the cooling canal yielded a FLPRO result of 4.8 parts per million. During times with no rain oil accumulates on concrete and paved areas. Heavy rains following the dry period could flush the accumulated oils and greases into the regulated discharge and cause the FLPRO limit to be exceeded.

Q. Does the project meet the compliance needs of all three new requirements?

A. Yes. Based on the conceptual plans, the project is designed to eliminate the release of contaminants to the environment by eliminating discharges of wastewater and stormwater and beneficially reusing the wastewater in plant operations. Completion of the Project will ensure that FPL is in compliance with the new environmental requirements related to wastewater and stormwater.

Page 1 of 2, Document RRL-9, provides an overview of the current wastewater/stormwater flows. It represents the general flows typical at FPL plants. Page 2 of 2, Document RRL-9, provides an overview of the flows after modifications based on conceptual plans.

Q. How did FPL decide to address these new requirements?

A. Given the varying new requirements, a team including a wastewater management/environmental consultant was formed to address the issue of wastewater and stormwater management. The team identified potential options to eliminate discharges and manage the resulting accumulation of water. A conceptual plan for collecting, treating and reusing the wastewater generated at each plant was developed.

Historical rainfall data relevant to two sites was reviewed to determine the volumes of stormwater that would need to be managed. Historical records were reviewed and interviews with plant employees were conducted to estimate the expected volumes of ash sluice water. This information was used to determine the approximate sizes of tanks needed to contain the volumes of water and to determine the size of sumps and pumps necessary to handle the volumes.

Q. What alternatives did FPL consider?

A. Four alternatives were considered. The first alternative is FPL's proposed Project. In general, the Project involves modifications to existing wastewater/stormwater treatment systems and service water systems at 10 FPL power plant sites. Project activities include procurement and installation of: liners for unlined basins; water treatment/retention tanks; piping; pumps; sumps; and ancillary equipment. It also involves site preparation such as excavation necessary for the foundations and basin preparation. The Project will also include engineering and design work.

The scope of work anticipated for each site is provided in Document RRL-10. The activities identified are based on conceptual plans and are subject to change if alternatives determined to be more prudent are identified during the engineering and design phase of the project or if the Florida Department of Environmental Protection requires changes to the est Management Practices Plan. Detailed plans will be developed for each site during the engineering and design phase of the project.

The second alternative considered was to install dry-ash handling systems to eliminate ash sluice water. An engineering firm was hired to evaluate dry-ash handling options. The consultant concluded that dry-ash handling would not eliminate all wet ash handling. Consequently, the plants would continue to need ash basins. The consultant estimated that it would cost approximately $10 million to $18 million to install just the dry-ash handling systems at the seven sites that handle ash. In addition to the high cost of installation, this option would also increase annual operating and maintenance costs by approximately $500,000 to $600,000 per year.

The third alternative considered was based on the recommendation of an environmental consultant hired specifically to help FPL identify options. The consultant recommended that FPL install membrane treatment systems and evaporators at each site. The membrane treatment systems would reduce the concentration of contaminants in the wastewater. The wastewater would then be eliminated by evaporation using the evaporators. The consultant provided a preliminary cost estimate of $5 million per site for the membrane

treatment system and evaporator. This option would bring the total project cost to more than $50 million.

The fourth option considered was to evaporate the wastewater in the boilers. This option would still require most of the same modifications that are anticipated in the proposed project. In addition to negative impacts on the boiler performance, it was determined that this option would potentially subject FPL to a different series of existing air and industrial boiler regulatory requirements. It was also concluded that this option did not provide a reliable method for managing the water because the boilers may not be operating when there is a need to eliminate water.

Based on evaluation of available alternatives, it was clear that the Project FPL is proposing is the most cost effective means of meeting the new environmental requirements.

Q. Has FPL estimated the cost of the proposed Project?

A. Yes. FPL's preliminary cost estimate totals approximately $13 million (capital - $8 million, O&M - $5 million) which will be incurred over approximately 24 months beginning in the second half of 1998. These amounts as well as the schedule are subject to change as changes are made to the conceptual plans as a result of developing the detailed plans or agency required changes.

If the Commission approves this project for recovery through the ECRC, FPL will include the project in its next projection filing (October 1998) and amounts incurred or planned to be incurred in 1998 will be included in the Company's estimated/actual true-up for that period. As required by the Commission, FPL will update its projections and explain variances between projected and actual expenditures. This process is on-going and will ensure that changes are identified and reported timely. In addition, primarily through the Commission's Audit Staff, the Commission maintains its ability challenge the prudence and reasonableness of actions and costs.

Q. How will FPL ensure that costs incurred are prudent and reasonable?

A. As much as possible, FPL will use employees to complete this project. FPL payroll will not be charged to the project for ECRC recovery purposes. FPL will solicit competitive bids for the equipment and materials needed for the project. In addition, FPL will contract an engineering/consultant firm to provide engineering and design support for the project.

Q. Is FPL recovering through any other mechanism any costs included in this petition for ECRC recovery?

A. No. All costs associated with this project are new costs to comply with new environmental requirements. Therefore, costs associated with this project would not have been incurred or included in any recovery mechanism in the past. All costs are directly related to modifications to existing systems at the plants.

Does this conclude your testimony?

A. Yes it does.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony of
James O. Vick
Docket No. 980007-EI
Date of Filing: June 22, 1998

Q. Please state your name and business address.

A. My name is James O. Vick and my business address is One Energy Place, Pensacola, Florida, 32520

Q. By whom are you employed and in what capacity?

A. I am employed by Gulf Power Company as the Manager of Environmental Affairs.

Q. Mr. Vick, will you please describe your education and experience?

A. I graduated from Florida State University, Tallahassee, Florida, in 1975 with a Bachelor of Science Degree in Marine Biology. I also hold a Bachelor's Degree in Civil Engineering from the University of South Florida in Tampa, Florida. In addition, I have a Masters of Science Degree in Management from Troy State University, Pensacola, Florida. I joined Gulf Power Company in August 1978 as an Associate Engineer. I have since held various engineering positions such as Air Quality Engineer and Senior Environmental Licensing Engineer. In 1996, I assumed my present position as Manager of Environmental Affairs.

Q. What are your responsibilities with Gulf Power Company?

A. As Manager of Environmental Affairs, my primary responsibility is

overseeing the activities of the Environmental Affairs section to ensure the Company is, and remains, in compliance with environmental laws and regulations, i.e., both existing laws and such laws and regulations that may be enacted or amended in the future. In performing this function, I have the responsibility for numerous environmental activities.

Q. Are you the same James O. Vick who has previously testified before this Commission on various environmental matters?

A. Yes.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to support Gulf Power Company's projection of environmental compliance amounts recoverable through the Environmental Cost Recovery Clause (ECRC) for the transitional period of October through December 1998. I will also present testimony on the variances identified in the estimated true-up period from October 1997 through September 1998.

Q. Mr. Vick, please identify the capital projects included in Gulf's ECRC projection.

A. A listing of the environmental capital projects which have been included in Gulf's ECRC projection has been provided to Ms. Cranmer and is included in Schedules 42-3P and 42-4P of her testimony. Schedule 42-4P reflects the expenditures, clearings, retirements, salvage and cost of removal currently projected for each of these projects. These amounts were provided to Ms. Cranmer, who has compiled the schedules and calculated the associated

revenue requirements for our requested recovery. All of the listed projects are associated with environmental compliance activities which have been previously approved for recovery through the ECRC by this Commission in Docket No. 930613-EI, and past proceedings in this ongoing recovery docket.

Q. Please explain Gulf's projected environmental expenses expected to be incurred during the transitional projection period October-December, 1998.

A. Ms. Cranmer's Schedule 42-2P reflects projected Operation and Maintenance (O&M) expenses for the transitional period. These O&M activities are all on-going compliance activities and are grouped into five major categories-Air Quality, Water Quality, Environmental Programs Administration, General Solid and Hazardous Waste, and Above Ground Storage Tanks. I will discuss each O&M activity within each of these major categories and the projected expenses.

Q. What O&M activities are included in the Air Quality Category?

A. There are five O&M activities included in this category:

The first, Sulfur (Line Item 1.1) reflects operational expenses associated with the burning of low sulfur coal. This item refers to the flue gas sulfur injection system needed to improve the collection efficiency of the Crist Unit 7 electrostatic precipitator and is required due to the burning of low sulfur coal at this unit pursuant to the sulfur dioxide requirements of the Clean Air Act Amendments (CAAA). Projected expenses are $5,600 for the period.

The second activity, Air Emission Fees (Line Item 1.2), represents the expenses projected for the annual fees required by the CAAA. There are no fees due during the period.

The third activity, Title V Permits (Line Item 1.3), represents projected expenses associated with the implementation of the Title V permits. The total estimated expense for the Title V Program during the recovery period is $13,335.

The fourth activity, Asbestos Fees (Line Item 1.4), is required to be paid to the Florida Department of Environmental Protection (FDEP) for the purpose of funding the State's asbestos removal program. The expenses projected for the recovery period total $2,400.

The fifth activity, Emission Monitoring (Line Item 1.5) reflects an ongoing O&M expense associated with the new Continuous Emission Monitoring equipment (CEM) as required by the CAAA. These expenses are incurred in response to the federal Environmental Protection Agency's (EPA) requirements that the Company perform Quality Assurance/Quality Control (QA/QC) testing for the CEMs, including Relative Accuracy Test Audits (RATA) and Linearity Tests. The expenses projected to occur during the recovery period for these activities total $41,100.

Q. What O&M activities are included in Water Quality?

A. General Water Quality (Line Item 1.6), identified in Schedule 42-2P, includes Soil Contamination Studies, Dechlorination, Groundwater Monitoring Plan Revisions and Surface Water Studies. All the programs included in Line Item 1.6, General Water Quality, have been approved in past proceedings. The

expenses projected to occur during the recovery period for these activities total $147,513.

The second activity listed in the Water Quality Category, Groundwater Contamination Investigation (Line Item 1.7) was previously approved for environmental cost recovery in Docket No. 930613-EI. This activity is projected to incur incremental expenses totaling $126,981 during the recovery period.

Line Item 1.8, State NPDES Administration, was previously approved for recovery in the ECRC and reflects expenses associated with annual fees for Gulf's three generating facilities. There are no fees due during the recovery period.

Finally, Line Item 1.9, Lead and Copper Rule, was also previously approved for ECRC recovery and reflects sampling, analytical and chemical costs related to lead and copper in drinking water. These expenses are expected to total $177 during the recovery period.

Q. What activities are included in the Environmental Affairs Administration Category?

A. Only one O&M activity is included in this category on Schedule 42-2P (Line Item 1.10). This Line Item refers to the Company's Environmental Audit/Assessment function. There are no expenses projected for the recovery period.

Q. What O&M activities are included in the Solid and Hazardous Waste category?

A. Only one program, General Solid and Hazardous Waste (Line Item 1.11), is included in the Solid and Hazardous Waste category on Schedule 42-2P. This activity involves the proper identification, handling, storage, transportation and disposal of solid and hazardous wastes as required by Federal and State regulations. This program is an on-going compliance activity previously approved and is projected to incur incremental expenses totaling $36,000 during the recovery period.

Q. Please explain projected costs for the Above Ground Storage Tank program (Line Item 1.12).

A. As previously approved by the Commission, this program was developed to bring existing field-erected above ground storage tank systems for hazardous pollutants (petroleum fuel products) into compliance in accordance with provisions in Chapter 62-762, Florida Statutes. This program is expected to incur expenses of $705,000 during the projection period.

Q. What significant variances do you anticipate related to Gulf's environmental capital recoverable costs in the estimated true-up for the period October 1997 through September 1998?

A. As reflected in Ms. Cranmer's Schedule 42-6E, the recoverable capital costs included in the estimated true-up calculation total $8,463,580, as compared to the original projection of $8,616,006. This resulted in a variance of ($152,426). There are primarily three projects which contributed to this variance.

The first, Low NOx Burners, Crist 6 & 7 (Line Item 1.4) reflects a variance of ($41,686). The variance is from a negotiated agreement with a vendor which resulted in a project credit that occurred in December 1997.

The second project, Substation Contamination Mobile Groundwater Treatment System (Line Item 1.6) is the result of the purchase of an additional mobile groundwater treatment system. The system was purchased because the existing mobile groundwater treatment system previously approved by the Commission does not have adequate water treatment capacity for other sites which require remediation within the approved Substation Contamination Investigation project.

Finally, SO2 Allowances (Line Item 1.16) reflects a variance of ($115,037) and is due to proceeds from the spring allowance auction.

Q. What significant variances do you anticipate for Gulf's environmental Operation and Maintenance (O&M) activities listed on Schedule 42-4E in the estimated true-up period October 1997 through September 1998.

A. The O&M activities listed on Schedule 42-4E have all been approved for cost recovery in past ECRC dockets. The schedule reflects that Gulf now projects a total of $3,405,801 in recoverable O&M expenses for the period October 1997-September 1998, compared to the amount included in the original projection of $3,550,964. This resulted in a variance of ($145,163). I will address eight O&M projects/programs that attributed to this variance.

Q. Please explain the variance in the Sulfur category (Line Item 1.1).

A. As discussed in previous testimony, this category reflects operational expenses associated with the burning of low sulfur coal and refers to the flue gas conditioning system on Crist Unit 7. The use of sulfur is entirely dependent upon the quality of a low sulfur coal supply. During the recovery period, the flue gas conditioning system was activated due to the coal supply and expenses of $5,675 were incurred.

Q. Please explain the ($8,701) variance in the Title V program (Line Item 1.3).

A. Title V permits remain in draft form as the FDEP has yet to issue the final permits. Negotiations with the Department are on-going regarding several conditions in the draft permits. Final permits are expected to be issued by year end.

Q. Please explain the variance of ($59,157) in the General Water Quality (Line Item 1.6) category.

A. The primary reason for this variance is due to the result of successful negotiations with FDEP dealing with the renewal of our National Pollution Discharge Elimination System (NPDES) permit at Plant Smith. Scheduled for renewal during the projection period, we had originally anticipated major revisions to be included in the existing Smith groundwater monitoring plan and had projected expenses for those revisions. However, due to successful negotiations with FDEP, major revisions and associated expenses with the groundwater monitoring plans were not required.

Q. Please explain the $200,848 variance in the Groundwater Contamination Investigation (Line Item 1.7).

A. During the recovery period, Gulf has excavated contaminated soils at five substation locations within our service territory. The aereal extent of soil contamination was larger than expected and associated excavation and soil disposal costs were higher than we had anticipated.

Q. Please explain the ($2,438) variance in the Lead & Copper category (Line Item 1.9).

A. Expenses in this category are for sampling and analysis of drinking water supplies and for chemical purchases used in maintaining acceptable levels of lead and copper in drinking water supplies at Plants Crist and Smith. Variances in this category are directly proportional to chemical inventories maintained on site at the plants.

Q. Please explain the ($101,953) variance in the General Solid and Hazardous Waste (Line Item 1.11) category.

A. Due to fluctuations in quantities of materials which require proper handling and disposal, expenditures within this category are difficult to project. There were less materials generated during the period which required handling and disposal.

Q. Please explain the ($705,000) variance in the Above Ground Storage Tanks category (Line Item 1.12).

A. Contractor negotiations are underway and project activities within this category are scheduled to begin in August, 1998. Consequently, due to the delays, expenses will be less than originally projected for the October 1997-September 1998 recovery period.

Q. Please explain the $532,658 variance in the Low NOx category (Line Item 1.13).

A. This project refers to the purchase and installation costs of Low NOx burner tips on Crist Units 4 & 5 in order to comply with Phase II requirements of the Clean Air Act Amendments. Expenses for this project were not included in the original projection testimony. The Commission recently approved purchase and installation costs associated with the Crist Units 4 & 5 Low NOx burner tips. The burners and tips for Unit 4 have been installed and are operational.

Q. Does this conclude your testimony?

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Direct Testimony of
Susan D. Cranmer
Docket No. 980007-EI
Date of Filing: June 22, 1998

Q. Please state your name, business address and occupation.

A. My name is Susan Cranmer. My business address is One Energy Place, Pensacola, Florida 32520-0780. I hold the position of Assistant Secretary and Assistant Treasurer for Gulf Power Company.

Q. Please briefly describe your educational background and business experience.

A. I graduated from Wake Forest University in Winston-Salem, North Carolina in 1981 with a Bachelor of Science Degree in Business and from the University of West Florida in 1982 with a Bachelor of Arts Degree in Accounting. I am also a Certified Public Accountant licensed in the State of Florida. I joined Gulf Power Company in 1983 as a Financial Analyst. Prior to assuming my current position, I have held various positions with Gulf including Computer Modeling Analyst, Senior Financial Analyst, and Supervisor of Rate Services.

My responsibilities include supervision of: tariff administration, cost of service activities, calculation of cost recovery factors, the regulatory filing function of the Rates and Regulatory Matters Department, and various treasury activities.

Q. Have you previously filed testimony before this Commission in connection with Gulf's Environmental Cost Recovery Clause (ECRC)?

A. Yes, I have.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present both the calculation of the revenue requirements and the development of the environmental cost recovery factors that would normally be applicable during the 3 month period of October 1998 through December 1998. I have submitted separate supplemental testimony that addresses Gulf's request to leave the current factors in place for three additional months instead of implementing the new calculated factors.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes, I have. My exhibit consists of 14 schedules, each of which were prepared under my direction, supervision, or review.

Counsel: We ask that Ms. Cranmer's Exhibit consisting of 14 schedules be marked as Exhibit No. _____(SDC-2).

Q. What environmental costs is Gulf requesting for recovery through the Environmental Cost Recovery Clause?

A. As discussed in the testimony of J. O. Vick, Gulf is requesting recovery for certain environmental compliance operating expenses and capital costs that are consistent with both the decision of the Commission in Docket No. 930613-EI and with past proceedings in this ongoing recovery docket. The costs we have identified for recovery through the ECRC are not currently being recovered through base rates or any other recovery mechanism.

Q. What has Gulf calculated as the total true-up normally applied in the period October 1998 through December 1998?

A. The total true-up for this period is a decrease of

$780,460. This includes a final true-up over-recovery of $359,564 for the period October 1996 through September 1997 as shown on line 3 of Schedule 42-1P. It also includes an estimated over-recovery of $420,896 for the period October 1997 through September 1998, as shown on line 2 of Schedule 42-1P. The detailed calculations supporting the estimated true-up are contained in Schedules 42-1E through 42-8E.

Q. How was the amount of O & M expenses to be recovered through the ECRC calculated?

A. Mr. Vick has provided me with projected recoverable O & M expenses for October 1998 through December 1998. Schedule 42-2P of my exhibit shows the calculation of the recoverable O & M expenses broken down between the demand-related and energy-related expenses. Also, Schedule 42-2P provides the appropriate jurisdictional factors and amounts related to these expenses. All O & M expenses associated with compliance with the Clean Air Act Amendments of 1990 were considered to be energy-related, consistent with Commission Order No. PSC-94-0044-FOF-EI. The remaining expenses were broken down between demand and energy consistent with Gulf's last approved cost-of-service methodology in Docket No. 891345-EI.

Q. Please describe Schedules 42-3P and 42-4P of your exhibit.

A. Schedule 42-3P summarizes the monthly recoverable revenue requirements associated with each capital investment for the recovery period. Schedule 42-4P shows the detailed calculation of the revenue requirements associated with each investment. These schedules also include the calculation of the jurisdictional amount of recoverable revenue requirements. Mr. Vick has provided me with the expenditures, clearings, retirements, salvage, and cost of removal related to each capital project and the monthly costs for emission allowances. From that information, I calculated Plant-in-Service and Construction Work In Progress-Non Interest Bearing (CWIP-NIB). Depreciation and dismantlement expense and the associated accumulated depreciation balances were calculated based on Gulf's approved depreciation rates and dismantlement accruals. The capital projects identified for recovery through the ECRC are those environmental projects which are not included in the approved projected 1990 test year on which present base rates were set.

Q. How was the amount of Property Taxes to be recovered through the ECRC derived?

A. Property taxes were calculated by applying the applicable tax rate to taxable investment. In Florida, pollution control facilities are taxed based only on their salvage value. For the recoverable environmental investment located in Florida, the amount of property taxes is estimated to be $0. In Mississippi, there is no such reduction in property taxes for pollution control facilities. Therefore, property taxes related to recoverable environmental investment at Plant Daniel are calculated by applying the applicable millage rate to the assessed value of the property.

Q. What capital structure and return on equity were used to develop the rate of return used to calculate the revenue requirements?

A. The rate of return used is based on Gulf's capital structure as approved in Gulf's last rate case, Docket No. 891345-EI, Order No. 23573, dated October 3, 1990. This rate of return incorporates a return on equity of 12.0% as approved by Commission Order No. PSC-93-0771-FOF-EI, dated May 20, 1993. The use of this rate of return for the calculation of revenue requirements for

the ECRC was approved by the Commission in Order No. PSC-94-0044-FOF-EI dated January 12, 1994 in Docket No. 930613-EI.

Q. How was the breakdown between demand-related and energy-related investment costs determined?

A. The investment-related costs associated with compliance with the Clean Air Act Amendments of 1990 (CAAA) were considered to be energy-related, consistent with Commission Order No. PSC-94-0044-FOF-EI, dated January 12, 1994 in Docket No. 930613-EI. The remaining investment-related costs of environmental compliance not associated with the CAAA were allocated 12/13th based on demand and 1/13th based on energy, consistent with Gulf's last cost-of-service study. The calculation of this breakdown is shown on Schedule 42-4P and summarized on Schedule 42-3P.

Q. What is the total amount of projected recoverable costs related to the period October 1998 through December 1998?

A. The total projected jurisdictional recoverable costs for the period October 1998 through December 1998 are $3,034,007 as shown on line 1c of Schedule 42-1P.

This includes costs related to O & M activities of $1,040,031 and costs related to capital projects of $1,993,976 as shown on lines 1a and 1b of Schedule 42-1P.

Q. What is the total recoverable revenue requirement and how was it allocated to each rate class?

A. The total recoverable revenue requirement including revenue taxes is $2,289,807 for the period October 1998 through December 1998 as shown on line 5 of Schedule 42-1P. This amount includes the recoverable costs related to the projection period and the total true-up cost to be refunded. Schedule 42-1P also summarizes the energy and demand components of the requested revenue requirement. I allocated these amounts to rate class using the appropriate energy and demand allocators as shown on Schedules 42-6P and 42-7P.

Q. How were the allocation factors calculated for use in the Environmental Cost Recovery Clause?

A. The demand allocation factors used in the Environmental Cost Recovery Clause were calculated using the 1995 load data filed with the Commission in accordance with FPSC Rule 25-6.0437. The energy

allocation factors were calculated based on projected KWH sales for the period adjusted for losses. The calculation of the allocation factors for the period is shown in columns 1 through 9 on Schedule 42-6P.

Q. How were these factors applied to allocate the requested recovery amount properly to the rate classes?

A. As I described earlier in my testimony, Schedule 42-1P summarizes the energy and demand portions of the total requested revenue requirement. The energy-related recoverable revenue requirement of $994,341 for the period October 1998 through December 1998 was allocated using the energy allocator, as shown in column 3 on Schedule 42-7P. The demand-related recoverable revenue requirement of $1,295,466 for the period October 1998 through December 1998 was allocated using the demand allocator, as shown in column 4 on Schedule 42-7P. The energy-related and demand-related recoverable revenue requirements are added together to derive the total amount assigned to each rate class, as shown in column 5.

Q. What is the monthly amount related to environmental costs recovered through this factor that would be

included on a residential customer's bill for 1,000 kwh?

A. The environmental costs recovered through the clause from the residential customer who uses 1,000 kwh would be $1.26 monthly for the period October 1998 through December 1998.

Q. When does Gulf propose to collect its environmental cost recovery charges?

A. The factors would apply to October 1998 through December 1998 billings beginning with Bill Group 1 meter readings scheduled on September 30, 1998 and ending with meter readings scheduled on December 30, 1998.

Q. Ms. Cranmer, does this conclude your testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

KAREN O. ZWOLAK

Q. Please state your name, address, occupation and employer.

A. My name is Karen O. Zwolak. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company in the position of Manager, Energy Issues in the Electric Regulatory Affairs Department.

Q. Please provide a brief outline of your educational background and business experience.

A. I received a Bachelor of Arts Degree in Microbiology in 1977 and a Bachelor of Science degree in Chemical Engineering in 1985 from the University of South Florida. I began my engineering career in 1986 at the Florida Department of Environmental Regulation and was employed as a Permitting Engineer in the Industrial Wastewater Program. In 1990, I joined Tampa Electric Company as an engineer in the Environmental Planning Department and was responsible for permitting and compliance issues relating to wastewater treatment and disposal. In 1995, I transferred to Tampa

Electric's Energy Supply Department and assumed the duties of the plant chemical engineer at the F. J. Gannon Station. In this position, I was responsible for boiler chemistry, water management, and maintenance of environmental equipment and general engineering support. In 1997, I was promoted to Manager, Energy Issues in the Electric Regulatory Affairs Department. My present responsibilities include the areas of fuel adjustment, capacity cost recovery, environmental filings and rate design.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present, for Commission review and approval, the actual true-up amount and the calculations thereof associated with the environmental compliance activities for the period October 1997 through March 1998.

Q. Do you wish to sponsor exhibits in support of your testimony?

A. Yes. My Exhibit No.___(KOZ-1) consists of eight forms which were prepared under my direction and supervision. Form 42-1A reflects the final true-up for the October 1997 - March 1998 period; Form 42-2A consists of the final true-

up calculation for the period; Form 42-3A consists of the calculation of the Interest Provision for the period; Form 42-4A reflects the calculation of variances between actual and projected costs for O & M Activities; Form 42-5A presents a summary of actual monthly costs for the period for O & M Activities; Form 42-6A reflects the calculation of variances between actual and projected costs for Capital Investment Projects; Form 42-7A presents a summary of actual monthly costs for the period for Capital Investment Projects and Form 42-8A consists of the calculation of depreciation expense and return on capital investment.

Q. What is the source of the data which you will present by way of testimony or exhibits in this processing?

A. Unless otherwise indicated, the actual data is taken from the books and records of Tampa Electric Company. The books and records are kept in the regular course of our business in accordance with generally accepted accounting principles and practices, and provisions of the Uniform System of Accounts as prescribed by this Commission.

Q. What is the actual true-up amount which Tampa Electric is requesting for the six-month period October 1997 through March 1998?

A. Tampa Electric has calculated and is requesting approval of an over/(under) - recovery of ($127,073) as the actual true-up amount for the six-month period.

Q. What is the adjusted net true-up amount which Tampa Electric is requesting for the October 1997 through March 1998 period which is to be carried over and refunded/ recovered in the next projection period?

A. Tampa Electric has calculated and is requesting approval of an over/(under) recovery of $351,717 as the adjusted net true-up amount for the six-month period. This adjusted net true-up amount is the difference between the actual over/(under) recovery of ($127,073) for the period October 1997 through March 1998 and the actual/estimated true-up for the same period of an over/(under) recovery of ($478,790) approved in FPSC Order No. PSC-98-0408-FOF-EI. This is shown on Form 42-1A.

Q. Is this true-up calculation consistent with the true-up methodology used for other cost recovery clauses?

A. Yes, it is. The calculation of the true-up amount follows the procedures established by this Commission as set forth on Commission Schedule A-2 "Calculation of True-Up and

Interest Provision for the Fuel Cost Recovery Clause."

Q. Are all costs listed in Forms 42-4A through 42-8A attributable to Environmental Compliance projects approved by the Commission?

A. Yes, they are.

Q. How did actual expenditures for October 1997 through March 1998 compare with Tampa Electric's actual/estimated projections as presented in previous testimony and exhibits?

A. As shown on Form 42-4A, O & M costs were $427,652 lower than actual/estimated projections, including the SO2 allowance credit from the Florida Municipal Power Agency (FMPA) wholesale sale. Form 42-6A shows Capital Investment costs were $1,518 higher than actual/estimated projections. Significant O & M and Capital Investment project variances are explained below.

<u>O & M Variances:</u>

Big Bend Unit 3 Flue Gas Desulfurization Integration Project - Project expenditures were $246,754 less than

projected, a variance of -27%, due to the deferral of scheduled outages for Big Bend Units 3 and 4 until the second quarter of this year.

2. **SO2 Credit - FMPA** - The SO2 allowance credit for the FMPA wholesale sale was $40,673 higher than the actual/estimated projection.

Capital Investment Variances:

1. **Big Bend Fuel Oil Tank #1 Upgrade, Big Bend Fuel Oil Tank #2, Phillips Upgrade Tank #1 and Phillips Upgrade Tank #4** - Form 42-6A show capital expenditures for the tank upgrade projects were $949 lower than actual/estimated projections due to project deferrals.

2. **The Gannon Ignition Oil Tank Project** - Capital expenditures were $2,467 higher than actual/estimated projections due to unexpected increases in material costs.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

KAREN O. ZWOLAK

Q. Please state your name, address, occupation and employer.

A. My name is Karen O. Zwolak. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company in the position of Manager, Energy Issues in the Electric Regulatory Affairs Department.

Q. Please provide a brief outline of our educational background and business experience.

A. I received a Bachelor of Arts Degree in Microbiology in 1977 and a Bachelor of Science degree in Chemical Engineering in 1985 from the University of South Florida. I began my engineering career in 1986 at the Florida Department of Environmental Regulation and was employed as a Permitting Engineer in the Industrial Wastewater Program. In 1990, I joined Tampa Electric Company as an engineer in the Environmental Planning Department and was responsible for permitting and compliance issues relating to wastewater

treatment and disposal. In 1995, I transferred to Tampa Electric's Energy Supply Department and assumed the duties of the plant chemical engineer at the F. J. Gannon Station. In this position, I was responsible for boiler chemistry, water management, and maintenance of environmental equipment and general engineering support. In 1997, I was promoted to Manager, Energy Issues in the Electric Regulatory Affairs Department. My present responsibilities include the Areas of fuel adjustment, capacity cost recovery, environmental filings and rate design.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to sponsor Tampa Electric's Environmental Cost Recovery Clause ("ECRC") schedules and to support the company's proposal to extend the currently approved ECRC factors during the three month period October 1998 through December 1998.

Q. What would be the impact on Tampa Electric's customers of continuing your currently approved ECRC factors during the months of October 1998 through December 1998?

A. The total true-up for this period is an overrecovery of $208,489. This true-up consists of a final true-up

overrecovery of $351,717 and a two month actual/seven month estimated true-up over underrecovery of $143,228 for the April 1998 through December 1998 period. This calculation is supported by supplemental Schedules 42-1E(2)(KOZ-2) and 42-1P (KOZ-3), both of which were prepared under my direction and supervision.

Q. Do you wish to sponsor any other exhibits?

A. Yes I do. Exhibit No. 15 (KOZ-1) consisting of 37 documents was also prepared under my direction and supervision.

Q. Why does Tampa Electric propose extending the applicability of its currently approved ECRC factors during the three month period October 1998 - December 1998?

A. Tampa Electric's current ECRC factors were approved by the Commission in Order No. PSC-98-0408-FOF-EI issued March 18, 1998 in this docket for use during the period April 1998 through September 1998. Subsequent to the entry of that order the Commission voted to change the ECRC clause from a six month recovery period to an annual calendar year cost

recovery period.[1] The Commission's decision in this regard requires a transition from the existing biannual hearing schedule to an annual schedule. Under the transition a hearing will be conducted in November of 1998 to set the ECRC factors to be applied during the period January 1999 through December 1999.

As I stated earlier, the currently effective ECRC factors were approved for use through September 1998. Tampa Electric has analyzed its projected ECRC expenditures and sales both for the current six month period and projected for the three month transition period ending December 31, 1998 and has concluded that a continuation of the company's present ECRC factors during the three month transition period is a preferable alternative to changing the factors on October and again three months later. Extending the currently approved ECRC factors through December 1998 will not materially affect our customers.

Q. What benefits would flow to Tampa Electric's customers by retaining the company's current ECRC factors?

A. Maintaining the current ECRC factors will avoid potential

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[1] Order No. PSC-98-0691-POF-PU, issued May 19, 1998 in Docket No. 980269-PU.

customer confusion over fluctuating cost recovery factors and will save all parties the administrative costs of placing new factors in place for the brief three month transition period. Such stability of rates is one of the reasons why the Commission determined it appropriate to move from a six month cost recovery period to an annual calendar year period.

Q. Does this conclude your testimony?

A. Yes it does.

MS. PAUGH: Staff notes there's one ruling in the 07 docket that is with respect to Issue 10.

The ruling is by agreement with Florida Power & Light Company, that this issue will be deferred until the November 1998 hearing. All other issues in the 07 docket have been stipulated and Staff recommends that the Commissioners vote to approve all stipulated issues.

COMMISSIONER GARCIA: So moved. Second. But I have a question real quickly here. On Issue 10A. This is just by my ignorance.

Help me understand how that affects the idea that we're deferring the final resolution of the issue until December. Are we setting this now so that this calculation can go forward?

MS. PAUGH: That cost recovery number does not include any cost recovery for the project that is indicated in Issue 10 as being deferred.

COMMISSION JACOBS: Okay. With that, I second. Okay.

COMMISSIONER CLARK: Show it approved unanimously.

MS. PAUGH: Thank you, Commissioners. Staff has no further matters for consideration.

COMMISSIONER CLARK: Is there anything else

we need to take up at this time? Thank you all very much. The hearing is adjourned.

(Thereupon, the hearing concluded at 9:40 a.m.)

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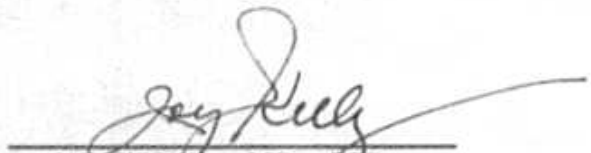
STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, JOY KELLY, CSR, RPR, Chief, Bureau of Reporting, Official Commission Reporter,

DO HEREBY CERTIFY that the Hearing in Docket No. 980007-EI was heard by the Florida Public Service Commission at the time and place herein stated; it is further

CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed by me; and that this transcript, consisting of 53 pages, constitutes a true transcription of my notes of said proceedings and the insertion of the prescribed prefiled testimony of the witnesses.

DATED this 27th day of August, 1998.



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