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August 1, 2012

HAND DELIVERED

RECEIVED - FPSC  
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COMMISSION  
CLERK

Ms. Ann Cole, Director  
Division of Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Re: Petition for approval of new environmental program for cost recovery through Environmental Cost Recovery Clause by Tampa Electric Company;  
Docket No. 110262-EI

Dear Ms. Cole:

Enclosed for filing in the above docket are the original and fifteen (15) copies of Tampa Electric Company's Follow-Up Report and Amendment to Petition for Approval of a New Environmental Program for Cost Recovery through the Environmental Cost Recovery Clause.

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

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GCL 1 cc: Charles Murphy (w/enc.)  
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FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of new )  
environmental program for cost recovery )  
through Environmental Cost Recovery )  
Clause by Tampa Electric Company. )  
\_\_\_\_\_ )

DOCKET NO. 110262-EI

FILED: August 1, 2012

**TAMPA ELECTRIC COMPANY'S FOLLOW-UP REPORT  
AND AMENDMENT TO PETITION FOR APPROVAL OF A  
NEW ENVIRONMENTAL PROGRAM FOR COST RECOVERY  
THROUGH THE ENVIRONMENTAL COST RECOVERY CLAUSE**

Tampa Electric Company ("Tampa Electric" or "the company") offers the following as its Follow-Up Report to the company's June 25, 2012 Interim Report concerning its gypsum disposal efforts and as an amendment to the Petition the company filed in this proceeding August 29, 2011 and, in support thereof, says:

**Background**

1. On June 25, 2012 Tampa Electric filed an Interim Report to the Commission regarding the company's efforts to seek out cost-effective means of disposing of the gypsum by-product from the operation of the company's flue gas desulfurization ("FGD") equipment serving Big Bend Units 1-4. That Interim Report detailed efforts the company had made subsequent to the May 8, 2012 Agenda Conference at which the Commission suggested that Tampa Electric inquire of potential third party off-takers as to their potential need or willingness to accept additional commercial grade gypsum by-product in their manufacturing processes. That Interim Report also advised the Commission regarding the company's efforts to seek out additional gypsum off-takers and addressed three invitations to negotiate which the company had received

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FPSC-COMMISSION CLERK

in response to its inquiries, as well as potential other opportunities regarding the use of gypsum by-product as valley fill by a landfill operator in exchange for significantly reduced tipping fees.

2. The purpose of this filing is to serve as a follow-up report on Tampa Electric's continuing efforts to place additional gypsum by-product with third parties; to detail the result of efforts going beyond those described in the June 25, 2012 Interim Report; and to offer an amendment to the company's original Petition that would significantly reduce the overall cost of the company's gypsum working storage needs.

### **Development of Opportunities Addressed in the June 25 Interim Report**

3. Tampa Electric continues to actively market the gypsum by-product associated with the scrubbing process to remove flue gas emissions. The company is working toward a tentative agreement with an agricultural off-taker in South America for 165,000 tons of gypsum per year through 2020. While this amount is less than the 275,000 tons the company previously communicated as a potential annual sale in its response to Staff's Second Data Request No. 7 it still represents a significant amount of gypsum that can be beneficially reused. As previously mentioned in the June 25, 2012 Interim Report, Tampa Electric also received three offers from its invitation to negotiate for various amounts of gypsum. Tampa Electric has a tentative agreement with cement manufacturer for the full 50,000 tons they submitted as their offer which is renewable at their discretion on an annual basis. The only other offers received were from two wallboard manufacturers who are competitors of National Gypsum; however, due to the terms and conditions of the contractual agreement between Tampa Electric and National Gypsum, these offers were deemed non-viable. Furthermore, during discussions with National Gypsum, it was made clear to Tampa Electric that any dealing with competitors would adversely impact the

long standing business relationship between the companies that has served to significantly benefit Tampa Electric's customers. Again, in light of these circumstances, the two offers were deemed to be non-viable.

#### **Development of Opportunities Above and Beyond Those Described in the Interim Report**

4. In addition to the aforementioned off-takers, the company is pursuing other cement and agricultural sales of gypsum within and outside the state of Florida. Recently the company reached an agreement with a farm products broker to sell a one-time quantity of 25,000 tons of gypsum to be used by Georgia peanut farmers. Tampa Electric works with brokers and known off-takers to maximize these spot sales, which benefit customers. The company is casting as wide a net as possible in an effort to secure as many cost-effective agreements to off load the gypsum. In fact, the company is negotiating an agreement for a 2,000 ton test shipment of gypsum to Africa. If successful, this opportunity could result in additional product movements to that continent. However, agricultural sales are seasonal and additional storage allows for the accumulation of excess gypsum to be available for sale to seasonal off-takers.

#### **The Continuing Need for a Second Gypsum Storage Handling Facility**

5. Notwithstanding the company's successful development of additional off-takers, Tampa Electric and its customers still will benefit from a second gypsum working storage area, albeit one which is significantly reduced in scope and cost from that initially proposed in the company's August 29, 2011 Petition. The company's philosophy regarding by-product disposition has not changed and it remains focused on pursuing options that result in the beneficial reuse of gypsum. Without the additional storage the company will be unable to

reliably and safely manage its inventory necessitating the use of landfills during inventory buildups. While the company will continue to pursue as many off-takers as possible, many of those agreements are negotiated on a spot basis which requires a certain amount of available inventory that could be unavailable if it is sent to landfills due to storage concerns.

6. The company still considers the construction of an additional storage facility to be the best option for the management of gypsum inventory. As noted in Tampa Electric's interim report, National Gypsum is consuming gypsum at a rate below the annual minimum quantity and has recently communicated to the company during recent discussions that this will continue in the foreseeable future. While the contract contains certain remedies in the event minimum quantities are not met, it does not resolve the issue of where to store the additional gypsum for other potential off-takers. Despite Tampa Electric's best efforts to market gypsum, the company believes gypsum production will continue to exceed the cumulative demand for gypsum for the next several years. Furthermore, as noted in the original petition the existing storage area was built according to the requirements in place during the early 1980's. In order to continue to use the existing storage area and meet the current standards for ground water and surface water protection, a liner must be installed below the area by April 2015. This will require the gypsum from the existing storage area to be removed to allow for liner installation. The addition of a second storage area will allow this to be accomplished in a manner that minimizes the need to landfill material and allows the existing storage area to continue to be used. Having two storage locations will allow the company to focus the primary handling and storage activities at the new site, which will minimize the potential for fugitive dust emissions affecting residents living near the existing site. The existing site would be used for longer term storage.

**Modifications to the Second Working Storage Area  
From that Described in August 29 Petition**

7. Tampa Electric recognizes, and shares, the Commission's concerns over the cost of the proposed gypsum storage facility. The company has looked for options to reduce the overall expense of this project and has identified several cost reduction items that can be incorporated. Tampa Electric hereby amends its initial Petition to significantly reduce the scope and cost of the project for which the company seeks recovery through the Environmental Cost Recovery Clause.

8. As described in the original petition the proposed new storage facility will still cover 27 acres and continue to serve as a lined gypsum storage site. However, in an effort to reduce the cost of the project where possible and prudent the company has worked with Sargent & Lundy ("S&L") to review the scope of the project and provide a minimum scope option that is functional, but without some of the operational, safety and environmental features the original petition offered. While the elimination of those features will result in the increased risk that off-takers may reject gypsum with moisture above specification and the possibility of continued dusting problems, the company acknowledges those benefits represent a significant portion of the costs. As such, the company is proposing to eliminate the storage dome and conveyor system from its original petition and utilize trucks to move the gypsum from the plant to the new storage site. In addition to those reductions the company has determined that the floodplain mitigation cost included in the original petition is not needed. In conjunction with S&L the company was able to reduce the capital cost of the original petition to \$21.7 million offset somewhat by higher O&M costs as a result of utilizing trucks instead of the previously proposed conveyor system.

## Qualifications of the Revised Project for ECRC Cost Recovery

9. As was stated in Tampa Electric's August 29 Petition in this proceeding, the Commission's policy for initial cost recovery approval of an ECRC eligible project is set forth in Order No. PSC-94-0044-FOF-EI issued January 12, 1994 in Docket No. 930613-EI, In re: Gulf Power Company, (the Gulf Order) as follows:

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.

10. The Commission has interpreted the Gulf Order criteria to require that projects eligible for ECRC cost recovery must be required to comply with, or remain in compliance with, a governmentally imposed environmental regulation. (See, e.g., Order No. PSC-11-0080-PAA-EI, issued January 31, 2011 in Docket No. 100404-EI).

11. In a 1999 Gulf Power decision in Docket No. 990677-EI the Commission approved a Gulf Power sodium injection project for ECRC cost recovery, observing:

...we approved the project both to comply with new Clean Air Act Amendments (CAAA) Phase II requirements and to maintain compliance with existing permit requirements. . . . (Emphasis supplied)

12. In Order No. 11-0080, referred to above, the Commission observed:

...In Docket No. 980007-EI, In re: Environmental Cost Recovery Clause, we approved Gulf's additional ground water monitoring equipment to continue to comply with an existing environmental

requirement, because greater treatment capacity was needed.  
(Emphasis supplied)

13. The Commission went on in Order No. 11-0080 to refer to its prior approval of a turtle net project for FPL, noting that:

These additional activities were not specifically required by . . . [the NRC license]. . . FPL explained that they were necessary to insure that the net worked properly so it could continue to comply with its NRC license. . . . (Emphasis supplied)

14. The Commission further noted in Order No. 11-0080 that it had approved a modular cooling tower project for Progress Energy Florida ("PEF") in order to allow PEF to continue compliance with wastewater discharge standards required by the Florida Department of Environmental Protection. The Commission noted that increased inlet water temperatures from the Gulf during the summers of 2004 and 2005 forced PEF to reduce the output of its plants in order to remain in compliance with its discharge permit. The Commission observed that the modular cooling towers along the discharge canal provided additional cooling capacity that allowed PEF to comply with its permit and avoid numerous, expensive derates of its base load generating units.

15. Tampa Electric cannot continue operating Big Bend Units 1 through 4 in compliance with the CAAA and the Consent Decree without a means of disposing of the gypsum that is an essential by-product of the operation of the FGD systems serving the Big Bend units. The revised project at Big Bend Station is the most reliable and cost-effective alternative for accomplishing this objective. Construction and operation of the revised project is not a discretionary or voluntary project. Instead, it is an essential environmental project that would not be constructed but for Tampa Electric's obligation to scrub the flue gases emanating from its Big Bend coal fired units consistent with the CAAA and Consent Decree.

16. The revised project merits ECRC cost recovery under the Gulf Order criteria. All costs associated with the project will be prudently incurred after April 13, 1993. The need to construct the revised project is required in order for Tampa Electric to continue complying with governmental environmental mandates under the CAAA and the Consent Decree. The need to construct the revised project has been triggered after the company's last test year upon which rates are currently based. Finally, the costs of the revised project are not recovered through some other cost recovery mechanism or through base rates. Like the Gulf Power ECRC project approved in Docket No. 980007-EI, the revised project is needed to enable Tampa Electric to continue complying with applicable environmental mandates because greater storage capacity is needed.

17. Tampa Electric has already begun incurring costs associated with the revised project. Because this project is appropriate for AFUDC accounting treatment, the costs of the revised project will be separately accounted for while the new storage facility is under construction. These costs will not be proposed for inclusion in the company's ECRC cost recovery until after the revised project is placed in service, which is expected to occur in early 2014. All of this would be subject to audit by the Commission.

18. This program is a compliance activity associated with the requirements of the CAAA and the Consent Decree; therefore, expenditures should be allocated to rate classes on an energy basis.

**The Revised Project is the Most Cost-Effective Alternative**

19. By modifying this petition to remove the capital project components described above the company was able to reduce \$33.3 million in capital costs offset somewhat by higher

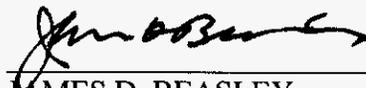
O&M costs associated with trucking the gypsum. In order to properly evaluate the options considering both capital and O&M costs the NPVRR associated with each option was calculated to determine which resulted in the lowest overall costs to customers. The NPVRR of the reduced scope trucking option amounts to \$33.2 million and represents the most cost-effective option as compared to the original petition. A comparison of the original and reduced scope options and associated NPV costs is provided as Exhibit "C".

20. Tampa Electric is also including the following updated Exhibits to further delineate its evaluation process and associated assumptions: 1) Exhibit "D" provides the capital and O&M expenditures for the two options; 2) Exhibit "E" provides a list of option components that are integral to each of the two options; and 3) Exhibit "F" provides the rate impact of the reduced scope trucking option.

WHEREFORE, Tampa Electric submits the foregoing as its follow-up report to the company's June 25, 2012 Interim Report and urges the Commission to approve for ECRC cost recovery the revised project as detailed herein.

DATED this 1<sup>st</sup> day of August, 2012.

Respectfully submitted,



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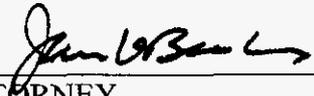
JAMES D. BEASLEY  
J. JEFFRY WAHLEN  
Ausley & McMullen  
Post Office Box 391  
Tallahassee, Florida 32302  
(850) 224-9115

ATTORNEYS FOR TAMPA ELECTRIC COMPANY

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of the Amended Petition, filed on behalf of Tampa Electric Company, has been served by hand delivery (\*) or U. S. Mail on this 1<sup>st</sup> day of August, 2012 to the following:

Mr. Charles W. Murphy\*  
Senior Attorney  
Office of the General Counsel  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

  
\_\_\_\_\_  
ATTORNEY

**EXHIBIT “C”**  
**Net Present Value Analysis<sup>1</sup>**  
**Storage Area Reduced Scope**

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<sup>1</sup> To avoid confusion with Exhibits contained in original Petition filed on 8/29/11 in this docket.

Tampa Electric Company  
Gypsum Options NPV  
(in Dollars)

Year	Storage Area Original Scope	Storage Area Reduced Scope
2012	\$0	\$6,508,465
2013	\$0	(\$2,815,118)
2014	\$0	\$3,920,069
2015	\$7,202,564	\$2,866,791
2016	\$6,907,007	\$2,237,024
2017	\$6,629,594	\$1,889,898
2018	\$6,423,197	\$1,718,231
2019	\$6,167,739	\$1,544,485
2020	\$5,907,519	\$1,369,136
2021	\$5,622,709	\$2,233,317
2022	\$5,375,684	\$2,079,343
2023	\$5,137,701	\$1,916,519
2024	\$4,871,564	\$1,772,092
2025	\$4,622,596	\$1,613,652
2026	\$4,371,872	\$1,454,677
2027	\$4,124,195	\$1,292,409
2028	\$3,857,281	\$1,141,302
2029	\$3,604,117	\$6,456,910
2030	\$3,348,392	\$10,006,681
2031	\$3,101,983	\$9,860,447
2032	\$2,828,797	\$10,139,536
2033	\$2,566,642	\$10,209,470
2034	\$2,306,609	\$10,223,492
2035	\$2,247,471	\$6,775,640
2036	\$2,494,758	(\$629,056)
2037	\$2,246,645	(\$809,102)
2038	\$2,506,019	(\$955,770)
2039	\$2,567,418	(\$1,117,429)
2040	\$2,300,681	(\$1,303,125)
2041	\$2,490,669	(\$1,458,958)
2042	\$2,566,814	(\$1,624,239)
2043	\$2,344,327	(\$1,811,561)
2044	\$2,118,774	(\$1,216,874)
2045	\$1,898,055	\$465,129
2046	\$1,674,931	\$333,334
2047	\$1,449,950	\$198,131
2048	\$1,222,713	\$56,456
2049	\$1,000,124	(\$72,091)
NPV	\$61,301,204	\$33,183,922

**EXHIBIT “D”**  
**Capital and O&M Expenditures**

**TAMPA ELECTRIC COMPANY  
GYPSUM STORAGE FACILITY  
EXHIBIT D  
FILED: AUGUST 1, 2012**

**Assumptions**

Gypsum Options	Capital Investment (\$)	AFUDC Amount (\$)	Depreciation (\$/year)	Depreciation Rate (%)	Asset Life (Years)	O&M (\$)	Transportation Savings* (\$)
Storage Area Original Scope	54,976,700	5,196,669	143,720	2.4	35	77,000	56,859,346
Storage Area Reduced Scope	21,743,000	1,374,401	80,133	2.3	36	varies	0

\*Transportation Savings consists of \$2.50 per ton with an escalation rate of 2.2 percent for gypsum delivered to National Gypsum's facility.

**Estimated Annual O&M Expense**

Year	Storage Area Original Scope	Storage Area Reduced Scope
2012	\$0	\$8,949,690
2013	\$0	\$74,961
2014	\$0	\$2,102,747
2015	\$77,000	\$1,440,016
2016	\$154,000	\$1,313,759
2017	\$256,000	\$1,319,410
2018	\$359,000	\$1,348,479
2019	\$359,000	\$1,378,666
2020	\$359,000	\$1,409,670
2021	\$359,000	\$1,394,828
2022	\$360,000	\$1,425,766
2023	\$360,000	\$1,448,219
2024	\$360,000	\$1,493,732
2025	\$360,000	\$1,524,871
2026	\$360,000	\$1,557,256
2027	\$361,000	\$1,587,742
2028	\$361,000	\$1,633,084
2029	\$361,000	\$7,145,302
2030	\$361,000	\$10,893,700

Year	Storage Area Original Scope	Storage Area Reduced Scope
2031	\$362,000	\$10,946,933
2032	\$362,000	\$11,430,178
2033	\$362,000	\$11,704,885
2034	\$362,000	\$11,925,332
2035	\$363,000	\$8,663,515
2036	\$363,000	\$1,412,499
2037	\$363,000	\$1,443,469
2038	\$364,000	\$1,453,322
2039	\$364,000	\$1,472,285
2040	\$364,000	\$1,506,005
2041	\$364,000	\$1,520,788
2042	\$365,000	\$1,541,198
2043	\$365,000	\$1,575,100
2044	\$365,000	\$1,609,858
2045	\$366,000	\$1,438,595
2046	\$366,000	\$1,470,202
2047	\$366,000	\$1,502,561
2048	\$367,000	\$1,535,750
2049	\$367,000	\$1,569,399

**Storage Area Original Scope NPV: \$3,969,428**

**Storage Area Reduced Scope NPV: \$38,537,343**

Estimated Initial Capital Investment

Year	Storage Area Original Scope	Storage Area Reduced Scope
2011	\$ 1,772,000	\$ 1,832,000
2012	\$ 9,023,000	\$ 2,404,000
2013	\$ 11,378,600	\$ 10,812,000
2014	\$ 24,972,400	\$ 6,695,000
2015	\$ 7,830,700	\$ -
Capital Investment Total	\$ 54,976,700	\$ 21,743,000
Net Present Value	\$ 45,441,210	\$ 18,635,384

**EXHIBIT "E"**  
**Capital Cost Breakdown**

Capital Cost Breakdown

Major Activity	Storage Area Original Scope	Storage Area Reduced Scope
Construction Activities	\$11,229,900	\$5,397,700
Engineering	\$3,583,000	\$3,701,600
Major Equipment	\$17,173,900	\$2,157,700
Floodplain Compensation, New Road Access & Wetlands Mitigation	\$5,442,500	\$1,108,200
Project Construction Management	\$4,347,500	\$2,637,250
Silo & Stackout	\$2,300,000	\$1,000,000
Storage Area Liner	\$2,756,700	\$2,726,300
Contingency	\$8,143,200	\$3,014,250
<b>Total</b>	<b>\$54,976,700</b>	<b>\$21,743,000</b>

**EXHIBIT "F"**  
**Rate Impact Comparison**

Rate Impact Comparison

Customer Bill Impact Comparisons		
Residential Rate (\$/1,000 kWh)		
Year	Storage Area Original Scope	Storage Area Reduced Scope*
2014	0.41	0.10
2015	0.39	0.07
2016	0.38	0.07
2017	0.37	0.07
2018	0.35	0.06

\*Includes anticipated gypsum revenues for each respective year.

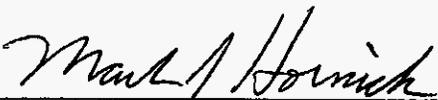
**AFFIDAVIT**

STATE OF FLORIDA                    )  
  )  
COUNTY OF HILLSBOROUGH        )

The undersigned Mark J Hornick, first being duly sworn, deposes and says:

1. I am employed as Director, Planning Engineering & Construction for Tampa Electric Company.

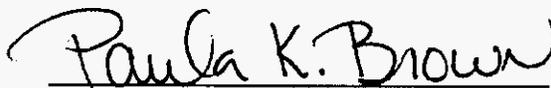
2. I have reviewed the foregoing Tampa Electric Company Follow-Up Report and Amendment to Petition for Approval of a New Environmental Program for Cost Recovery through the Environmental Cost Recovery Clause, and the facts stated in that document are true and correct to the best of my knowledge, information and belief.

  
\_\_\_\_\_  
Mark J. Hornick

Sworn to and subscribed before me by Mark J. Hornick, who:

( ) is personally known to me

presented Florida Driver's License Number H 652-550-56-324-0, as identification this 13<sup>th</sup> day of August, 2012.

  
\_\_\_\_\_  
Notary Public

