



Public Service Commission

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EPSC - Records/Reporting

DATE: MAY 7, 1998

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF ELECTRIC AND GAS (TEW, BASS, ^{KJ}BREMAN, WHEELER)
DIVISION OF ^{BT}AUDITING AND FINANCIAL ANALYSIS (D. DRAPER,
LEE, MAUREY, ^{SR}ROMIG, L. ROMIG, ^{PSK}SICKEL)
DIVISION OF LEGAL SERVICES (CRUZ-BUSTILLO) ^{TCB}

Handwritten notes:
DWJ
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JS

RE: DOCKET NO. 980345-EI - PETITION BY GULF POWER COMPANY FOR APPROVAL OF COST RECOVERY FOR A NEW ENVIRONMENTAL PROGRAM ENTITLED "UPGRADE TO INCORPORATE LOW NOX BURNERS AT CRIST UNITS 4 & 5."

AGENDA: MAY 19, 1998 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\EAG\WP\980345.RCM

CASE BACKGROUND

On February 12, 1998, Gulf Power Company (Gulf Power) filed a petition in Docket No. 980007-EI for approval of cost recovery of a new environmental program through the Environmental Cost Recovery Clause (ECRC). The project is the upgrade of the existing burners at Crist Steam Plant Units 4 and 5 to incorporate low NO_x burner tips. Since Gulf Power has requested that the costs of this project be handled at the next regularly scheduled hearing as part of the true-up, staff believed it to be appropriate to open a separate docket in order for the Commission to determine whether the project is appropriate for recovery before the costs are included in the upcoming true-up filing.

DOCUMENT NUMBER-DATE

05128 MAY-78

FPSC-RECORDS/REPORTING

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Gulf Power's petition for recovery of costs of the upgrade to incorporate low NO_x burner tips at Crist Units 4 & 5 through the Environmental Cost Recovery Clause?

RECOMMENDATION: Yes. The Commission should approve Gulf Power Company's petition for recovery of costs of the upgrade to incorporate low NO_x burner tips at Crist Units 4 & 5 through the ECRC. The prudence of the project costs incurred will be determined by the Commission in a subsequent ECRC hearing, and final disposition of the costs will be subject to audit. [TEW, BREMAN, SICKEL]

STAFF ANALYSIS: The Clean Air Act Amendments of 1990 (CAAA) imposed stricter environmental standards on electric utility power plants, including new NO_x emission specifications which will become effective in the year 2000 under Title IV Acid Rain Phase II of the CAAA. Specifically, Gulf Power must comply with Phase II Low NO_x rules and regulations under 40 CFR Part 72, 40 CFR Part 76, and Chapter 62-214.420(3), Florida Administrative Code. In response to staff interrogatories, Gulf Power stated that the installation of low NO_x burner tips on Crist Units 4 and 5 is the most cost-effective way in which to achieve compliance with the new standards. The company maintained that low NO_x burner tips are primarily a low cost option for small boilers and that the burner tips have a low installation cost as compared to other available compliance technologies such as full low NO_x burners and selective catalytic reduction.

The project to upgrade Crist Units 4 and 5 to incorporate low NO_x burner tips is an operation and maintenance item which includes both material and labor costs. The low NO_x burner tips were installed on Crist Unit 4 during the spring 1998 turbine/boiler outage. It took three weeks to perform the upgrade on this unit. Although the upgrade on Crist Unit 5 was scheduled for a May 1998 boiler outage, it has been postponed to a subsequent boiler outage in the spring of 1999. Asbestos insulation was identified behind the boiler casing on Crist Unit 5. This asbestos must be removed before the installation of the burner tips on that unit.

In order to recover environmental compliance costs through the ECRC, a proposed project must meet the specific criterion listed in Order No. PSC-94-0044-FOF-EI. The first threshold to be met is that the costs must be incurred after April 13, 1993. Since the

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upgrades to incorporate low NO_x burner tips are being performed during boiler outages in 1998 and 1999, costs for this project will be incurred after that date. Based on the company's responses to staff's interrogatories, the project appears to be the most cost-effective approach for compliance with Phase II of the CAAA, whose effect was triggered after the company's last test year upon which rates are based. This satisfies the second criterion for recovery. Finally, the company's petition addresses the third criterion and states that the expenses for the upgrade to low NO_x burner tips are not recovered through any other cost recovery mechanism or through base rates. Since the compliance deadline for Phase II of the CAAA is January 1, 2000, it is unlikely that these low NO_x expense items are being recovered elsewhere. Therefore, staff recommends that this project and prudently incurred costs be approved for recovery through the ECRC. The prudence of the costs associated with this project will be determined by the Commission in a subsequent ECRC hearing. Final disposition of these costs will be subject to audit.

ISSUE 2: Does the approval of the petition require a midcourse correction to Gulf Power Company's ECRC factors set by the Commission in Order No. PSC-97-1047-FOF-EI, issued on September 5, 1997?

RECOMMENDATION: No. Approval of the petition does not require a midcourse correction to Gulf Power Company's ECRC factors set by the Commission in Order No. PSC-97-1047-FOF-EI, issued on September 5, 1997. [TEW, BREMAN, WHEELER]

STAFF ANALYSIS: According to Gulf Power's petition, "the expenses associated with this new environmental activity would not have a material impact on the environmental cost recovery clause sufficient to warrant a mid-course correction." This statement was made with the assumption that both upgrades would be completed during existing planned turbine/boiler outages in the spring of 1998. Since the time the petition was filed, however, Gulf Power has decided to delay the upgrade at Crist Unit 5 to a subsequent outage in the spring of 1999. Therefore, the costs of the upgrade at Crist Unit 5 will be included in the upcoming projections, and the amount of this project to be recovered in the upcoming true-up has been reduced to the costs of the upgrade at Crist Unit 4 only. The total projected costs to be recovered through the ECRC for the upgrades to Crist Units 4 and 5 remain at \$986,000 as stated in Gulf Power's petition. Staff has analyzed the costs of the project and agrees that a midcourse correction to Gulf Power's ECRC factors is not warranted in this instance.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes. If no person whose substantial interests are affected by the Commission's proposed agency action files a protest within 21 days of the order, this docket should be closed.
[CRUZ-BUSTILLO]

STAFF ANALYSIS: If no person whose substantial interests are affected by the Commission's proposed agency action files a request for hearing within 21 days of the order, no further action will be required and this docket should be closed.