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October 2, 1998

ORIGINAL

BY HAND DELIVERY

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

10-2-98
10:15 AM

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

Dear Ms. Bayo:

Enclosed for filing in the above docket are the original and fifteen (15) copies of each of the following:

- (1) Tampa Electric Company's Post-Hearing Statement of Issues and Positions
- (2) Tampa Electric Company's Post-Hearing Brief

Also enclosed are diskettes containing the above referenced documents originally typed in Microsoft Word 97 format which has been saved in Rich Text format for use with WordPerfect.

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

Thank you for your assistance in this matter.

Sincerely,

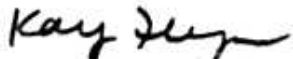

James D. Beasley

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Enclosures

cc All Parties of Record (w/encls.)



PH Statement
DOCUMENT NUMBER DATE
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Brief
DOCUMENT NUMBER DATE
10860 OCT-2 88

October 2, 1998

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 980693-EI
FILED: October 2, 1998

TAMPA ELECTRIC COMPANY
POST-HEARING BRIEF

I. Introduction & Summary (Issues 1-7)

Tampa Electric Company ("Tampa Electric" or "the Company") hereby submits its Post-Hearing Brief. Tampa Electric has asked the Commission to affirm three points in this proceeding:

- a that the flue gas desulfurization project planned by the Company for Big Bend Units 1 and 2 ("FGD Project") is the most cost-effective and prudent means of achieving compliance with Phase II of the Clean Air Act Amendments of 1990 ("CAAA"),
- b that costs prudently incurred in connection with the planned FGD project will be recovered through the Environmental Cost Recovery Clause ("ECRC"), and
- c that the Company is authorized to accrue Allowance for Funds Used During Construction ("AFUDC") on its total FGD project related investment.

The Company is not asking for any FGD related cost recovery in this proceeding.

Instead, the Company proposes to address cost recovery issues in a subsequent proceeding focused on the determination of the appropriate ECRC cost recovery factor.

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In order to assure compliance with Phase II of the CAAA, the Company has meticulously considered a wide range of options for further reducing SO₂ emissions from its power plants to the levels mandated by the CAAA. Although careful consideration has been given to compliance options which would address both SO₂ and NO_X emissions, it is clear, as discussed in more detail below, that no cost effective, commercially proven technology exists for addressing SO₂ and NO_X emissions as part of a single solution. Based on this analysis of compliance alternatives, the construction of the proposed FGD system at BB1 & 2 is, by far, the most prudent and cost effective means of meeting Tampa Electric's CAAA SO₂ compliance obligations.

The Company has presented unrebutted evidence in this proceeding establishing that the proposed Phase II FGD compliance option yields a net system present worth revenue requirement savings of \$18 million over the first 10 years, \$80 million over the first 20 years and \$95 million over the first 25 years of operation as compared to the base case scenario which involves increased fuel blending and the purchase of additional emission allowances. These estimates represent over twice the expected savings from the next most economical option. In fact, the resulting fuel savings realized during just the first five years of operation nearly offset the entire capital cost of the project. The Company has also demonstrated that its prudent FGD project costs meet the Commission's eligibility criteria for recovery through the ECRC. The FGD Project costs were not included among the compliance activities included in base rates in Tampa Electric's last rate case and must be incurred to satisfy the Company's mandatory compliance obligations under the CAAA. These costs will all be incurred subsequent to April 13, 1993, thereby meeting all of the statutory and FPSC

requirements articulated in Order No. PSC-94-0044-FOF-EI (The Gulf Power decision).

Finally, the Company urges the Commission to authorize it to accrue AFUDC on the total FGD Project investment. By accruing AFUDC on the entire FGD Project Investment the rate impact associated with the project will be delayed until the customers realize the fuel savings associated with the project. A disallowance of AFUDC would run counter to the environmental public policy of this state. In enacting the legislation governing the Environmental Cost Recovery Clause ("ECRC"), the Legislature clearly intended to facilitate environmental compliance by providing an expedited environmental cost recovery mechanism. Their purpose was to encourage utilities to make environmental compliance decisions without bias in favor of non-capital solutions and avoid the delay and uncertainty associated with the base rate cost recovery process. As a general matter, disallowance of environmental compliance related costs, such as AFUDC, could lead to the adoption of non-capital solutions such as significant use of emissions allowances - an alternative that certainly the residents of this state would not prefer. The point is that Commission policy in this area is very important even under circumstances where Tampa Electric's FGD Project proceeds without Commission authorization of AFUDC.

In addition, there are no CWIP dollars in rate base, in this instance, against which FGD Project costs should be offset. Consistent with Tampa Electric's intent and the language of the rate stipulation adopted in Order No. PSC-96-1300-S-EI, when the Commission ordered the Polk Power station to be placed in rate base, the CWIP dollars in rate base

associated with the plant were eliminated. Thus, there will be no double recovery by Tampa Electric if the Company is allowed to accrue AFUDC on its total FGD project investment.

In summary, the Commission should authorize Tampa Electric to accrue AFUDC, for eventual recovery through the ECRC for the entire FGD project because this decision will further the environmental policies of this state, best match customer savings with cost and prevent under recovery of expenditures required by law for a project clearly demonstrated to be the least cost option.

II. The FGD Project Represents Mandatory Compliance with the CAAA. (Issue 1-7)

The 1990 CAAA has as its primary goal the reduction of annual SO₂ emissions nationwide by 10 million tons below 1980 levels. To achieve these reductions, the law mandates a two-phase program which establishes annual SO₂ tonnage emission limits for fossil fuel-fired power plants (tr. 33). Under Phase I of the CAAA compliance plan, SO₂ emissions limitations were placed on Tampa Electric's Big Bend Units 1, 2 and 3. These units were granted a combined total of 80,085 SO₂ allowances.¹ Phase I compliance was implemented by the January 1, 1995 deadline largely through increasing the use of low sulfur coal at the affected plants, increasing purchase of emission allowances and, subsequently, by linking Big Bend Unit 3 ("EB 3") to the FGD system then serving Unit 4 ("BB 4"). The

¹ This number defines the maximum volume of SO₂ emissions allowed for these three units without the necessity of further mitigation measures. Each allowance held allows the discharge of one ton of SO₂ emissions.

Company then voluntarily made BB 4 subject to the Phase I requirements of the CAAA. BB 4 was granted a total of 6,400 additional allowances for Phase I, giving Tampa Electric a total of 86,485 Phase I allowances. This Commission has already approved the Company's request for recovery of Phase I compliance costs in Docket No. 960688-EI. The focus of this proceeding is on the reasonableness of the compliance option selected by Tampa Electric for Phase II.

Phase II compliance must be implemented by January 1, 2000, and affects all of the Company's existing and future electric generating units, with the exception of the Phillips plant and existing combustion turbines. In Phase II, the Company will be allocated only 83,882 allowances (tr. 35). As illustrated by Exhibit 2, Document 1, approximately twice the amount of Tampa Electric's capacity is covered by Phase II than by Phase I. However, the Company will be allocated 2,600 fewer allowances in Phase II than it was granted in Phase I.

III. Description of The Company's Proposed Compliance Option. (Issues 1-7)

To achieve compliance with the Phase II requirements of the CAAA as described above, Tampa Electric proposes to construct and operate a FGD system to serve BB 1 & 2 and fuel blend at the Gannon units. BB 3 & 4 will continue to be scrubbed with a separate existing FGD system. The costs associated with the proposed FGD system are projected to be \$90 million, including AFUDC. The annual O&M expense is projected to be \$3.5 million in year

2000 dollars. As graphically described in Exhibit 2, Document 3, the FGD system consists of equipment capable of removing sulfur dioxide from the flue gas generated by the combustion of coal. The flue gas is directed to an absorber tower where it is treated with a slurry spray of limestone and water. The SO₂ in the flue gas is absorbed by the slurry to form an acid which is then neutralized by the dissolved limestone. The reaction of the SO₂ and limestone produces calcium sulfite which is then oxidized by the introduction of air into the reaction tank. The product of this forced oxidation is gypsum which then precipitates out of this solution. The resulting gypsum slurry is then dehydrated to produce a near dry gypsum cake which may be sold as a raw material, primarily to wallboard producers (tr. 41).

IV. In Selecting the Phase II Compliance Options to be Studied in Greater Detail, the Company Considered and Rejected Options which were either Commercially Unproven or Clearly not Economically Feasible. (Issues 1, 2, 3, 4)

In deciding which Phase II compliance options merited quantitative analysis, the Company considered various options for achieving SO₂ emission reductions, as well as compliance options which would address both NO_x and SO₂ emissions as part of a single solution (tr. 47). A number of compliance technologies were rejected on the grounds that they were not commercially proven, lacked a marketable byproduct, lacked reagent compatibility and/or could not be retrofitted to existing facilities. A detailed list of these non-viable technologies and the reason for elimination of each was provided to Staff in response to

Interrogatory Nos 26 and 27 of the Staff's 2nd Set Of Interrogatories, filed with the Commission on August 4, 1998

In the wake of this initial screening, the options chosen for the final screening for Phase II compliance included the following: Fuel Blending, Flue Gas Desulfurization Retrofit; Integration of Big Bend Unit 2 with the existing Big Bend Unit 1 and 4 FGD system; Construction of a stand alone FGD system for Big Bend Units 1 and 2; and Construction of an FGD system using ammonia at Gannon, Construction of an FGD system using limestone at Gannon, Natural Gas Replacement, Coal/natural gas co-firing, and Purchased Power Options¹

While Tampa Electric has developed an approach for meeting NOX reduction requirements,² it became clear during the analysis that there were no commercially proven or potentially cost-effective means of addressing both NOX and SO₂ as part of a single integrated solution. Even though the substitution of natural gas for coal had the potential to reduce both NOX and SO₂ emissions, neither natural gas replacement nor coal/gas co-firing were remotely cost-effective. For example, in order for the hypothetical construction of a natural gas combined cycle unit to replace the generation and reliability provided by BB 1 & 2 to be cost-effective, the price of natural gas would have to be lower than the price of coal. In fact, the gas supplier would have to give the gas away during the first year, charge

¹ See Exhibit 12, Bates stamp pages 115-116

² See tr. 62-64

5% or less of Tampa Electric's forecasted gas price in 2001 and no more than 25% of the company's forecasted natural gas price in 2026 in order for the natural gas combined cycle unit merely to break even with the FGD system proposed for BB 1 & 2. The bottom line is that it would cost ratepayers approximately \$1.5 billion more to pursue the hypothetical combined cycle unit over the proposed FGD project (tr. 274-275; Exhibit 14, p. 1 of 6 of witness Hernandez Late-Filed Deposition No. 1).

In the case of the coal/gas co-firing option, the two fuels would not be physically mixed and would require additional burners and auxiliary equipment to use natural gas in unison with pulverized coal. Since co-firing requires the maintenance of two fuel systems, this option does not realize savings from the retirement of coal equipment. In addition, there would be no fuel savings since Tampa Electric currently forecasts the price of natural gas to be significantly higher than coal. Given the lack of savings to offset the associated capital expenditures, this option was determined not to be economically viable (Exhibit 12, Bates Stamp p. 121).

The purchased power option was also rejected in light of the impact it would have on peninsular Florida's reliability. Tampa Electric estimated that approximately 850 MW of firm capacity would have to be purchased by the Company to displace generation from BB1 & 2 and reduce the associated SO₂ emissions of its coal capacity in order to be within the compliance requirements of Phase II. A firm purchase of this size would further reduce projected reserve margins for both summer and winter in almost every year of the forecast.

Based on the 1997 Florida Regional Coordinating Counsel Reliability Assessment (Exhibit 12, Bates Stamp p. 121), the projected reserve margins consist primarily of non-firm load and relatively little available capacity.

With the eliminations described above, the final stage of the cost-effectiveness analysis focused on increased fuel blending and purchases of additional allowances, as the base case, compared to each of the four FGD options identified above.

V. The Proposed Big Bend Unit 1 and 2 FGD Project is Clearly the Most Cost Effective Phase II Compliance Option. (Issue 5)

The BB 1 and 2 stand alone FGD option demonstrates the greatest relative benefit to ratepayers. As noted above, the BB 1 and 2 FGD option yields a net system present worth revenue requirement savings to ratepayers of \$18 million over the first 10 years, \$80 million over the first 20 years and \$95 million over the first 25 years of operation as compared to the base case scenario which involved increased fuel blending and the purchase of additional emission allowances (tr. 183). These estimates represent over twice the expected savings from the next most economical option. Adding the FGD system to BB 1 and 2 will permit Gannon Station to burn lower cost coal and still meet the system SO₂ cap applicable to Tampa Electric. In fact, the resulting fuel savings realized at Gannon Station and Big Bend Station during just the first five years of operation nearly offset the entire capital cost of the project (tr. 184).

The cost related to each of the remaining alternative FGD compliance options were compared based on cumulative present worth revenue requirements ("CPWRR"), and the benefit to cost ratio. Compliance costs were developed on an incremental revenue requirements basis relative to the base case (fuel blending and emission allowances) assumptions. The CPWRR include system fuel and purchased power expense, incremental capital, incremental O&M expense and other incremental costs associated with the compliance alternatives. The assumptions used in this analysis are described at Bates Stamp pages 109-120 of Exhibit 12. The fuel price forecast used in the analysis was based on various external forecasts, actual prices reported in various periodicals, actual buying experience, and information obtained through energy supply representatives. The same forecast used by Tampa Electric in evaluating its 1997 and 1998 Ten Year Site Plan, filed April, 1997 and April 1998, respectively, was used in evaluating the FGD compliance options (tr. 38).

The cost estimates used in the four FGD alternative options considered were developed in several ways. Tampa Electric retained Stone & Webster, an architect/engineering firm with considerable expertise in designing FGD systems, to develop a cost estimate for installing one of two different FGD systems at Gannon Station Units 4, 5 and 6. Tampa Electric engineers with experience in design and operation of FGD systems, reviewed the resulting cost estimates and found them to be reasonable (tr. 37). The Company's engineers used the Stone & Webster study to develop a cost estimate for a stand

alone FGD system for BB 1 & 2. The BB 3 FGD integration was used as the basis for evaluating this integration alternative.

In a final effort to test the prudence of pursuing the BB 1 and 2 FGD option, given a wide range of contingencies, the Company performed a series of additional analyses incorporating various sensitivities on capital cost, incremental O&M expense, allowance market variability, fuel prices, project deferral, and asset amortization. The BB 1 and 2 FGD option remained the most cost-effective compliance alternative under all of the sensitivity studies. To insure that the estimated costs for this option were reasonable, Tampa Electric retained a second experienced architect/engineering firm, Sargent & Lundy, to prepare a more refined cost estimate for the proposed BB 1&2 FGD system. Sargent & Lundy, working closely with Tampa Electric's engineers, developed a conceptual design with site layouts, arrangement drawings, equipment lists, electric load lists, piping lists and materials of construction. The consultant also received vendor quotes for the major equipment and used published data along with its own cost data to come up with an accurate estimate of the cost. This more refined estimate supported the previous costs used in the screening analysis (tr 40).

VI. In Keeping with Unambiguous Commission Precedent, Costs Prudently Incurred in Connection with the Planned Big Bend Units 1 and 2 FGD Project should be Recovered Through the Environmental Cost Recovery Clause. (Issue 7)

In the Gulf Power decision, this Commission established guidelines for environmental costs which would be recovered through the ECRC. Consistent with those guidelines, the costs associated with the planned FGD system: a) will be incurred after April 13, 1993; b) will be incurred on the basis of a legal requirement, the CAAA, whose affect was triggered after the last test year upon which rates are based; and c) are not being currently recovered through base rates or any other cost recovery mechanism.

The proposed FGD project was not among the compliance activities included in base rates in Tampa Electric's last rate case, Docket No. 920324-EI, in 1992 (tr. 179). This Commission also made it clear in the Gulf Power decision that ECRC recovery would be permitted despite the fact that the sponsoring utility was earning within its allowed return on equity range.

In its September 22, 1998 order⁴ denying Motions to Dismiss filed by OPC and FIPUG in the instant case this Commission commented on the Gulf Power decision and held as follows:

The Commission considered and rejected OPC's argument that if the utility is earning within its range, it is already being compensated for all environmental expenses and should not be granted recovery of any environmental expenses through the

⁴ Order No. PSC-98-1260-PCO-EI issued September 22, 1998 in Docket No. 980693-EI

ECRC. OPC also argued that the statute only permits recovery of in-service capital investments. Both of OPC's arguments were rejected by the Commission. Both of these arguments are made again in this petition and are hereby rejected. According to past Commission precedent, Section 366.8255, Florida Statutes, operates as a mechanism whereby a utility may seek determination of the prudence of any anticipated and mandated environmental compliance project before bringing the project before the Commission in a cost recovery proceeding.

* * *

Thus, any mention of ROE, cost recovery, or the proper recovery period in the Motions is no longer relevant to this proceeding. (Emphasis supplied.)

Tampa Electric will only be permitted to earn within its authorized rate of return on equity pursuant to the terms of the rate Stipulation. In any event, even after the Stipulation period ends, this Commission retains its very effective continuing surveillance program to monitor earnings. The Commission's continuing surveillance program assures that the Company is earning within a return on equity range considered reasonable by the Commission. Therefore, there should not be a concern that the Company may overearn on its retail rate base now or in the future.

In addition, cost recovery through the ECRC is unrelated to what the Company is earning on its rate base. The ECRC was established by the Legislature and has been implemented by this Commission to provide for recovery of any environmental compliance costs not recovered in base rates and which are incurred after April 13, 1993. There has never been an earnings test with respect to any of the various cost recovery clauses. Neither

the fuel, capacity, conservation or environmental cost recovery clauses have an earnings test (tr. 324-325).

The Commission correctly interpreted the Florida law with respect to the recovery of an approved environmental cost recovery project by holding in its September 22, 1998 order in this proceeding:

The Motions argue that Section 366.825 and 366.8255, Florida Statutes, contemplate a finding that base rates are insufficient to cover environmental costs before the extraordinary provisions of a cost recovery surcharge can be employed. Section 366.8255(2), Florida Statutes, clearly states that if a utility's proposed environmental compliance project is approved by the Commission, the commission shall allow recovery of the utility's prudently incurred environmental compliance costs . . . through an environmental compliance cost-recovery factor that is separate and apart from the utility's base rates¹. There is no mention in this section that a finding that base rates are insufficient to cover compliance costs must be made before the extraordinary provisions of a cost recovery surcharge can be employed.

• • •

Section 366.8255, Florida Statutes, only contemplates that the Commission address whether petitions for environmental activities are prudent and reasonable, given the alternatives (Emphasis supplied.)

Tampa Electric respectfully submits that recovery of FGD project expenses through the ECRC is clearly appropriate.

VII. The Commission should Authorize Tampa Electric to Begin Accruing AFUDC on its Total Investment in the Planned FGD Project. (Issue 6)

The carrying costs associated with Tampa Electric's investment in the FGD project represent incremental environmental compliance costs which are not currently being recovered in rates. Pursuant to Rule 25-6.0141, Florida Administrative Code, the project is eligible to either accrue AFUDC or recover financing costs on a current basis through the ECRC.⁵ It is important to note that although OPC and FIPUG take issue with Tampa Electric's request for authorization to accrue AFUDC on the entire project investment, they do not allege that the project is ineligible to accrue AFUDC, as a general matter.

In considering whether to request either immediate recovery through the ECRC of the carrying charges associated with the FGD Project or authorization to accrue AFUDC during the construction phase, Tampa Electric attempted to minimize the ratepayer impact associated with recovery of these costs. Accrual of AFUDC versus current recovery of carrying costs is a timing issue. By proposing to accrue AFUDC, the Company's intention is to delay the rate impact associated with the project until customers begin enjoying the fuel savings associated with the project.

OPC and FIPUG allege that a portion of the carrying costs associated with the FGD project are already being recovered in base rates, rendering a portion of Tampa Electric's project related investment ineligible for AFUDC accrual. More specifically, they have

⁵ See FPSC Order No. PSC-94-0044-FOF-EI, issued January 12, 1994, in Docket No. 930613-EI (the Gulf Power Company ECRC order).

asserted that the \$36 million of CWIP included in rate base in Tampa Electric's last rate proceeding should be netted against Tampa Electric's project related investment for purposes of determining the amount of investment eligible for accrual of AFUDC. As discussed below, application of the rule in the manner suggested by FIPUG and OPC under the circumstances presented in this proceeding is not appropriate. In establishing the ECRC mechanism, the legislature intended to provide a "fast track" process for approving the recovery of qualifying environmental compliance cost, separate and distinct from the base rate cost recovery generally used for other capital projects. In providing more efficiency and certainty with regard to the recovery of environmental compliance capital costs, the legislature intended to clear the path for environmental projects and, importantly, to eliminate any bias in favor of non-capital compliance options. Clearly, Commission authorization of AFUDC or immediate recovery from customers of project carrying costs is very important in the avoidance of a bias against capital projects. If unaddressed, this potential bias could lead to the adoption of less cost effective solutions and favor the purchase of additional emission allowances - a solution which the residents of Florida would not prefer. However, in a more specific sense, application of the AFUDC rule as suggested by FIPUG and OPC would be especially inappropriate in this instance.

In its last rate case, Tampa Electric was granted approximately \$36 million of CWIP in rate base for financial integrity purposes ⁶. Although there was no explicit acknowledgment in the Commission's rate case order, this CWIP and the associated base revenue stream were associated with the construction of the Company's Polk Power Plant, which went into commercial operation in September of 1996.

The inclusion of Polk Power Station in rate base was addressed through a rate stipulation negotiated among Tampa Electric, OPC and FIPUG and approved by the Commission in Order No. PSC-96-1300-S-EI, issued October 24, 1996 in Docket No. 960409-EI (the "Polk Stipulation"). As part of the Polk Stipulation, the Polk Power Station was to be included in rate base but base rates were required to be frozen through 1999. As a result, any increased revenue requirement associated with the Polk Plant could only be recovered from a combination of existing base rate revenues and revenues deferred pursuant to the Polk Stipulation. At the same time that Tampa Electric was agreeing to absorb a significant increase in its revenue requirement without raising rates, the Company also agreed to refund or credit customers \$50 million and share with customers revenues associated with earnings above 11.75%. The revenue sharing would be calculated or determined by a formula agreed upon in the Polk Stipulation.

⁶ Order No. PSC-93-0664-FOF-EI, issued April 28, 1993 in Docket No. 920324-EI (In Re Application of Tampa Electric Company For a Rate Increase)

Tampa Electric recognized that the Polk Stipulation created a more limited opportunity for the Company to earn a reasonable return on its Polk investment. The Company accepted this challenge as one element of the balance of benefits and burdens inherent in the Polk Stipulation. However, Tampa Electric needed assurance that the existing base revenue stream and accumulated deferred revenues, on which the Company was counting in order to absorb the substantial Polk-related revenue requirement increase, would not be siphoned off and applied to new environmental compliance costs which might be accrued or incurred. That assurance was provided by paragraph 14 of the Polk Stipulation which ratified and carried forward a previous Stipulation ("The First Stipulation") entered into by and between FIPUG, OPC and Tampa Electric and approved by the Commission in connection with its review of Tampa Electric's 1995 and 1996 earnings

The First Stipulation, effecting the first freezing of Tampa Electric's base rates, acknowledged the continuing availability of the ECRC mechanism during the pendency of the base rate freeze:

The Parties further agree that Tampa Electric will not use the various recovery clauses which shall continue to be available to it in 1996, 1997 and 1998, to recover through such clauses capital items that normally would be recovered through base rates. However, the Parties agree, for example, that Tampa Electric may recover its prudent expenditures associated with compliance with environmental laws and regulations through the environmental cost recovery clause. However, during the term of this stipulation, the environmental cost recovery clause will not be used to recover any of the costs incurred relative to Polk Power Station, except costs attributable to changes in environmental laws or regulations or any change

in the application or enforcement thereof occurring after October 15, 1996.⁷

The Polk Stipulation also specifically referred to the continuing availability of the various cost recovery clauses:

...The Parties further agree that Tampa Electric will not use the various recovery clauses which shall continue to be available to it in 1999 to recover through such clauses capital items that normally would be recovered through base rates⁸.

In the order adopting the Polk Stipulation, the Commission directed that:

...the Actual final capital cost of the Polk Power Station project shall be included in Tampa Electric's rate base for all regulatory purposes up to an amount equal to one percent above the capital cost estimate of \$506,165,000 presented in Docket No. 960409-EI plus related working capital of \$13,029,000 estimated in Docket No. 960409-EI (Order No. PSC-96-1300-S-EI, issued in Docket No. 960409-EI.)

Consistent with its understanding of the appropriate treatment of the pre-existing CWIP related rate base, Tampa Electric reduced the CWIP amount in its surveillance reports to \$0 and simultaneously included in rate base the entire Polk investment, including the \$36 million of Polk-related CWIP on which the Company had been earning. This tie between the \$36 million of CWIP and the Polk investment was not a figment of Tampa

⁷ Stipulation, at p. 3, approved in Order No. PSC-96-0670-S-EI, issued May 20, 1996 in Docket No. 950379-EI.

⁸ Polk Stipulation, at p. 3.

As noted above, Tampa Electric agreed with and implemented the principle advocated by FIPUG. When the Commission ordered Polk to be included in rate base, Polk-related CWIP in rate base was traded for full rate basing of that power station.

There is no base rate revenue available to offset the carrying costs associated with the Project as OPC and FIPUG suggest. From a regulatory perspective, the parties are facing a "zero sum" situation. Since base rates are frozen through 1999, base rate revenues imputed to FGD related carrying costs will have the affect of reducing, dollar for dollar, the existing base rate revenues otherwise available to offset the substantial Polk related increase in revenue requirement. Tampa Electric agreed to manage existing base rate revenues and deferred revenues to meet its existing revenue requirements. However, the Polk Stipulation clearly provides that Tampa Electric may recover its prudent expenditures associated with compliance with environmental laws and regulations through the Environmental Cost Recovery Clause.

VIII. Conclusion (Issues 1-7)

The Company has identified the most cost-effective means of meeting its legal obligations under Phase II of the CAAA. It has carefully tested the cost-effectiveness of the planned BB 1 & 2 FGD system against an exhaustive list of possible compliance alternatives. The unrebutted, if not undisputed conclusion is that the compliance option proposed by Tampa Electric in this proceeding is the most prudent and cost-effective means of achieving the required environmental compliance.

WHEREFORE, Tampa Electric respectfully requests that this Commission rule

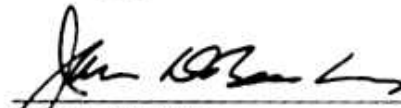
- a. that the flue gas desulfurization ("FGD") project planned by the Company for Big Bend Units 1 and 2 is the most cost-effective and prudent means of achieving SO₂ compliance with Phase II of the Clean Air Act Amendments of 1990 (CAAA);
- b. that costs prudently incurred in connection with the planned FGD project will be recovered through the Environmental Cost Recovery Clause ("ECRC"); and
- c. that the Company is authorized to accrue AFUDC on its total FGD project related investment.

DATED this 2nd day of October, 1998.

Respectfully submitted,

HARRY W. LONG, JR.
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and



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ATTORNEYS FOR TAMPA ELECTRIC COMPANY

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing Post-Hearing Brief, filed on behalf of Tampa Electric Company, has been furnished by hand delivery (*) or U. S. Mail on this 2nd day of October 1998 to the following:

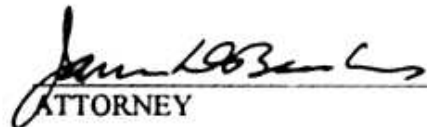
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