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October 9, 1998

HAND DELIVERED

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

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

Dear Ms. Bayo:

Enclosed for filing in the above docket, on behalf of Tampa Electric Company, are the original and fifteen (15) copies of Tampa Electric Company's Post-Hearing Reply Brief.

We are also submitting the Post-Hearing Reply Brief on a 3.5" high-density diskette generated in Correl WordPerfect 8.

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

JDB/csu
Enclosures

cc: All Parties of Record (w/enc.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Tampa Electric Company for Approval of Cost Recovery for a new Environmental Program, Big Bend Units 1 and 2 Flue Gas Desulfurization System	)	**DOCKET NO. 980693-EI** **FILED: October 9, 1998**

TAMPA ELECTRIC COMPANY
POST-HEARING REPLY BRIEF

I. The briefs of the Florida Industrial Power Users Group ("FIPUG"), the Office of Public Counsel ("OPC"), and the Legal Environmental Assistance Foundation ("LEAF") are unfortunate. They reassert positions which have been unambiguously rejected by the Commission in prior orders. They advance standards of approval to be applied in this proceeding which do not exist in the relevant statutes or Commission rules. They marshal no facts that would lend the slightest credibility to their arguments. Instead, they merely assert that the Company has failed to provide "enough" information to support its request and through innuendo attribute improper motives to the Company which is nonsense. The record in this case fully supports the relief requested. Moreover, all of the information which intervenors contend is lacking, and much more, has been filed with the Commission in response to Staff document requests and interrogatories in this proceeding. All of this information was made available to the intervenors, including confidential information for those intervenors executing non-disclosure agreements. However, all three intervenors made a conscious decision not to review or consider this data, and cannot now be heard to deny that it exists.

If one "cuts to the chase," the undisputed facts are clear. Tampa Electric has presented substantial, unrebutted evidence establishing that the proposed Flue Gas Desulfurization Project ("FGD Project") is the most cost-effective and prudent means of meeting its SO_2 compliance obligation under Phase II of the Clean Air Act Amendments of 1990 ("CAAA"). No party has offered any evidence to the contrary.

Tampa Electric has presented unrebutted evidence that the prudent costs associated with the FGD Project qualify for recovery through the Environmental Cost Recovery Clause ("ECRC") based on relevant Commission precedent. Once again, no party has offered any evidence to the contrary.

With regard to accrual of Allowance of Funds Used During Construction ("AFUDC"), Tampa Electric has demonstrated that its total FGD Project investment qualifies for accrual of AFUDC in light of the language contained in the existing rate Stipulation and the Commission's order adopting that Stipulation. No party has taken the position that Tampa Electric's FGD Project investment is completely ineligible for accrual of AFUDC. Furthermore, no party has provided credible support or argument for the assertion that the Commission lacks authority to permit accrual of AFUDC on the Company's total FGD Project investment under the circumstances presented in this case. In short, the intervenors' briefs are long on rhetoric, monumentally short on facts and ignore important public policy concerns.

II. The Intervenors Have Continued To Represent That The Provisions Of Section 366.825, Florida Statutes Is The Controlling Authority In This Proceeding Despite An Explicit And Controlling Commission Ruling To The Contrary

On July 23, 1998, FIPUG filed with the Commission a motion to dismiss Tampa Electric's Petition in this proceeding. Several days later, on July 29, 1998, OPC filed its own motion to dismiss, followed, on August 14, 1998, by LEAF's motion to dismiss. All three of these motions were substantially the same in terms of the alleged grounds for dismissal, which were in relevant part:

> 1) that, as a matter of law, Tampa Electric was obligated to file with the Commission under Section 366.825 of the Florida Statutes for a prudence review before the Commission could allow ECRC recovery of prudent FGD Project investment under Section 366.8255, the Section under which the Company petitioned in this proceeding. The intervenors extrapolated from this assertion to the conclusion that the minimum information requirements set forth under Section 366.825 applied equally to a prudence proceeding under Section 366.8255;
>
> 2) that Sections 366.825 and 366.8255 contemplate a finding that base rates are insufficient to cover environmental costs before the extraordinary provisions of a cost recovery surcharge can be employed; and
>
> 3) that Tampa Electric's petition was filed "too late."

The Commission squarely addressed each of these issues in its September 22, 1998 order (PSC-98-1260-PCO-EI), denying all three intervenors' motions to dismiss. On the issue of the appropriate statutory authority for this proceeding the Commission ruled as follows:

> The Motions argue that the language in the statute which states that "in addition to any Clean Air compliance activities and costs shown in a utility's filing under s.366.825" means that any filing under Section 366.8255, Florida Statutes must first be addressed under Section 366.825, Florida Statutes. This is erroneous. Neither statute contemplates this scenario. We believe that, in light of past Commission precedent, Section 366.8255, Florida Statutes contemplates that the utility may submit a petition to the Commission describing proposed environmental compliance activities and projected environmental costs which may be addition to (or supplemental to) any Clean Air Act compliance plan which the utility may have filed under Section 366.825, Florida Statutes. The language is inclusive of, rather than exclusive of Clean Air Act compliance activities.
>
> The Motions also argue that Section 366.825, Florida Statutes, requires TECO to seek preconstruction prudence review before seeking cost recovery under Section 366.8255, Florida Statutes. This is false. The two Sections, 366.825 and 366.8255, Florida Statutes, are not dependent one upon the other. They are separate statutes. A filing under one has no bearing upon a filing in the other. TECO has appropriately filed for prudence review under Section 366.8255, Florida Statutes, and has reserved until a later docket the cost recovery aspect of a filing under Section 366.8255, Florida Statutes. (Emphasis added)

On the question of whether ECRC recovery must be based on the inadequacy of base rate revenues to cover the costs involved, the Commission concluded:

> 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 rates." 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. (Emphasis added)

With regard to the timeliness of Tampa Electric's petition the Commission stated:

> The Motions also argue that TECO's petition was filed too late to comply with all the necessary permitting and construction associated with the FGD system before the January 1, 2000, deadline for CAAA Phase II compliance. Compliance with Federal and State regulations in a timely manner is TECO's responsibility.
>
> Section 366.8255, Florida Statutes, only contemplates that the Commission address whether petitions for environmental activities are prudent and reasonable, given the alternatives. This section does not require the Commission to set a timetable for the completion of activities by the Petitioner to ensure a Petitioner's timely compliance with its obligations. (Emphasis added)

All three intervenors have chosen to ignore the above-mentioned order. FIPUG and OPC frame their arguments as though the above mentioned decision had never been rendered. They continue to couch their arguments in terms of Tampa Electric's alleged failure to meet the evidentiary requirements set forth in Section 366.825, Florida Statutes. LEAF has chosen to completely reargue this issue in its brief. FIPUG devotes a significant portion of its brief to argument with regard to the adequacy of the Company's base rate revenue collections to cover the scrubber-related revenue requirement.

These approaches do nothing more than waste the Commission's valuable time. The law of this case has already been decided by the Commission, and that should be, and has to be, the end of this issue.

III. Issue 1 – The Intervenors Have Presented No Evidence Or Credible Arguments That Show The Company Has Failed To Adequately Explore Compliance Alternatives To The Proposed FGD Project

As discussed in detail on pages 6-9 of Tampa Electric's Post-Hearing Brief, the Company engaged in an exhaustive analysis of alternative approaches to meeting its SO_2 compliance obligations under Phase II of the CAAA. In the course of that analysis, the Company searched for and considered alternatives which might address both SO_2 and NO_x compliance obligations as part of a single solution or technology. The record in this case fully describes all of the various steps taken by Tampa Electric in reaching its ultimate selection of the FGD Project alternative.

In response to this evidence, the intervenors have offered only two unsupported assertions. OPC argues that Tampa Electric has not adequately explored alternatives to the FGD Project because the Company "has not adequately explained why, if its analysis were done correctly, other coal-fired electric utilities have not come to a similar conclusion and opted to build scrubbers" (Brief of OPC, p. 1). Tampa Electric respectfully suggests that the demonstration sought by OPC is meaningless.

The CAAA Phase II compliance options adopted by other utilities have no bearing on the appropriateness of the option selected by Tampa Electric. Each utility is different. The CAAA provides significant flexibility and anticipates that each utility will study the unique characteristics of its system to determine the best compliance

strategy. In discussing this issue with OPC during the hearings in this proceeding, Tampa Electric Witness Black offered the following explanation:

> My understanding is that many of the utilities, particularly those located in the Midwest, were able to fuel switch to very low sulfur fuel from the Powder River Basin area in Wyoming. They did that in Phase I. They were able to essentially bank allowances that they did not use in Phase I to be used in Phase II. And while those utilities are not putting in scrubbers, January 1, 2000, to comply with Phase II, our expectation is, is that in the year 2003, 2004 or 2005 as that bank is depleted that other utilities also will be putting in scrubbing equipment to meet their Phase II requirements.
>
> The use of the Powder River Basin fuel was not an option for Tampa Electric Company because, again, of the unique nature of these five large boilers that we have and the Powder River Basin fuel is an unacceptable fuel source for those boilers. So that was not an option that was available to us.
>
> With respect to the banked allowances, our strategy to date has been to keep an amount of allowances available that would be necessary to support any upset situations or operating difficulties that we had on the unit. We basically optimize our fuel plan to minimize the fuel cost dollars, not to maximize SO_2 banking. (Tr. 89 – 90)

LEAF, taking a different tack, asserts that the Company has not adequately explored compliance alternatives because the natural gas replacement options explored by the Company "looked only at creating a gas generating option at Big Bend itself to replace some, but not all, coal units there" (LEAF Post-Hearing Brief and Statement of Issues and Positions, p. 3). This assertion simply ignores the facts.

Document No. 1 of Exhibit No. 12, sponsored by Witness Hernandez, is a detailed report on Tampa Electric's Phase I cost effectiveness studies. Specifically,

Section 4 of this document contains the results of the initial screening and cost effectiveness assessment of several alternatives, including retiring coal units and replacing them with natural gas-fired combustion turbines and/or combined cycle units (Exhibit No. 12, Document No. 1, p. 23). A levelized cost analysis on a cost per SO_2 ton removed clearly indicates that the natural gas replacement option is not cost effective (Exhibit No. 12, Document No. 1, Figure 4-1, p. 26 and Figure 4-2, p. 28). Further, on page 25 of Document No. 1 of Exhibit No. 12, the report states:

> Retiring and replacing a coal unit with a natural gas combined cycle or a natural gas combustion turbine eliminates sulfur dioxide emissions. However, the fuel price associated with natural gas is uncertain and the capital is high.

Therefore, these natural gas replacement options were eliminated due to the higher fuel expense and the additional capital cost required to construct new generating facilities as shown in the previously mentioned levelized cost assessment.

Document No. 2 of Exhibit No. 12 is a detailed report on Tampa Electric's Phase II cost effectiveness studies. Specifically, Section 2.3.3 on page 12 of the report discusses natural gas replacement (Bates p. 117). The report states, in relevant part, that:

> Replacement of existing coal-fired generation with new, natural gas-fired generation was also evaluated. This option is not a cost-effective alternative at Big Bend Station due to the need to retain and maintain the coal handling systems for the remaining, coal-fired units. Retirement and replacement of the coal-fired units with the new natural gas fired generation are possible options. However, the revenues from the sale of the existing units, O & M savings and operational

> efficiency improvements do not offset the higher fuel cost of natural gas and the high capital cost of the replacement units. Therefore, replacement of existing coal-fired units with new, natural gas-fired generation was identified as not economically viable. (Emphasis added)

Finally, in the deposition of Witness Hernandez, the Commission Staff requested an economic analysis of a hypothetical situation in which Tampa Electric installed a new combined-cycle gas-fired units at the Polk Station (Deposition Tr. 9). Further, Staff requested a late-filed deposition exhibit which would provide the following:

> The annual and cumulative present worth revenue requirements of a natural gas-fired combined cycle unit(s) at TECO's Polk site that would satisfy TECO's needs for capacity and energy and allow TECO to comply with CAAA Phase II requirements. (Deposition Tr. 12)

Staff later provided a table that was to be used as the basis for the response. The table included a 7,000 Btu/kWh heat rate for the combined cycle and 10,000 Btu/kWh heat rate to represent Big Bend Units 1 and 2. Contrary to LEAF's assertions, the heat rate of 7,000 Btu/kWh used for the hypothetical gas unit indicates a much higher (more favorable) thermal efficiency compared to the coal heat rate of 10,000 Btu/kWh. The 5,600,000 MWh of generation was specified by Staff to approximate the generation of Big Bend Units 1 and 2 for a typical year. The 800 MW of capacity also set forth in Staff's table was to represent the combined capacity for both units. However, as reported in Exhibit 12, Document No. 4, the combined capacity is closer to 850 MW and this was reflected in Witness Hernandez's Late

Filed Deposition Exhibit No. 1. Since Tampa Electric did not change the generation estimate provided by Staff and increased the capacity from 800 MW to 850 MW, this would result in a lower capacity factor of 75% as pointed out by Staff in the hearing (Tr. 266). The estimated incremental present worth cost to replace Big Bend Units 1 and 2 with natural gas combined cycle units was approximately $1.5 billion (Tr. 274–275; Exhibit 14, p. 1 of 6 of Witness Hernandez's Late Filed Exhibit No. 1). Since the replacement cost is driven by the coal/gas fuel price differential, increasing the generation to achieve a higher capacity factor of 80% would only increase the replacement cost option by several hundred million dollars (Tr. 266, Exhibit 14 p. 1 of 6 of Witness Hernandez's Late Filed Exhibit No. 1).

IV. Issue 2 – Contrary To The Assertion Of Certain Intervenors, Tampa Electric's Fuel Price Forecast Was Made Available To All Parties And Is Reasonable

The intervenors in this proceeding have alleged that Tampa Electric has not provided sufficient information related to the fuel price forecasts that were used in the cost-effectiveness studies. This is simply not true. Throughout the discovery process and the hearing, Tampa Electric continued to refer to the fuel price forecasts already provided and in the possession of Commission Staff. Forecasts were provided in the Ten Year Site Plan ("TYSP") review process and in the 30-year fuel price forecast also provided in this proceeding in response to Staff's First Request for Production of Documents Nos. 10 and 11. In fact, during the deposition of Witness Hernandez, conducted by the Commission Staff and in the presence of all parties in this

proceeding, there were specific questions posed by Staff related to the detailed monthly fuel price forecasts used in Tampa Electric's 30-year studies (Deposition Tr. 143-155). None of the intervenors expressed any difficulty with, or even interest in, Tampa Electric's fuel forecast through discovery or in the hearing. Only now, in their Post-Hearing briefs do OPC, FIPUG and LEAF raise questions. In fact, in its Prehearing Statement as it pertained to Issue 5, OPC affirmatively agreed that Tampa Electric indeed had demonstrated that its proposed FGD Project was the most cost-effective compliance alternative available (Prehearing Statement of OPC, Issue 5, p. 3). Certainly this conclusion must have taken into account the reasonableness of Tampa Electric's fuel price forecast.

If the intervenors, especially OPC, had any existing or subsequent concerns with the fuel forecast supporting Tampa Electric's projected fuel savings, they had not only the opportunity but the obligation to follow procedures to squarely address this forecast. The Commission's First and Second Orders on Procedure and the Prehearing Order contain detailed procedures that afforded parties access to and use of confidential information while protecting that information from public disclosure. The point here is that the Commission's Staff availed itself of the opportunity to examine confidential fuel price forecasting information to the full extent Staff deemed necessary, whereas intervenors forewent this opportunity and cannot now use their failure to act as a basis to deny the Company's petition.

LEAF, at pages 4 through 7 of its Post-Hearing Brief, attempts to provide comparisons of actual 1997 coal and gas prices in addition to projected fuel price

projections for years 1998 and 2007 in an effort to demonstrate that the Company's fuel price forecast is unreasonably skewed in favor of coal. The LEAF comparison is meaningless for three reasons. First, comparisons of fuel prices should be on a "delivered" or "as-burned" basis to reflect the differences in transportation costs due to mode and proximity of both fuel source and ultimate consumption point. Therefore, only data from generating plants physically located in Peninsular Florida and in the proximity of Tampa Electric resources are relevant.

Second, comparisons of fuel prices should be determined on a weighted average basis, not simple averaging as LEAF used in their assessment. Weighted averaging accounts for the volume or magnitude of the specific fuel since pricing fluctuations exist throughout a calendar year. Finally, the volume of fuel actually used is an important consideration when assessing the appropriateness of a fuel forecast since one would expect a larger user of a particular fuel to be most attuned to the fuels' current prices and trends. In light of this, it is mystifying that LEAF excluded Florida Power and Light ("FPL") in its natural gas price comparisons since FPL uses significantly more natural gas for electric generation than do all of the remaining utilities in the state combined. If LEAF had used all of the relevant data from the sources it identified and relied on, average gas and coal prices would have been as follows: (Tr. 123, Exhibit No. 3; Tr. 127, Exhibit No. 4)

1997 Average Cost of Fuel Burned

Vs.

Ten Year Site Plan Fuel Price Projections

NATURAL GAS

			Ten Year Site Plan (2)		
Utility	1997 Actual (1) $/MBtu	Mcf	1998 $/MBtu	2007 $/MBtu	AAGR%
Florida Power & Light	3.039	225,636,330	2.550	3.900	4.83%
Florida Power Corporation	2.931	17,710,670	2.440	2.499	0.27%
Lakeland	2.670	4,099,000	2.280	2.590	1.43%
Gulf Power Company	2.373	955,607	2.420	2.910	2.07%
Tampa Electric	N/A	0	2.787	3.565	2.77%

COAL

			Ten Year Site Plan (2)			
Utility	1997 Actual (1) $/MBtu	Mcf	1998 $/MBtu		2007 $/MBtu	AAGR%
Tampa Electric (3)	1.966	8,130,607	1.877 1.349	LS HS	2.598 1.818	3.68% 3.37%
Florida Power Corporation	1.888	6,073,888	1.993 1.657	LS HS	2.224 1.908	1.23% 1.58%
Gulf Power Company	2.071	2,745,783	1.530	MS	1.810	1.88%
Florida Power & Light	1.870	767,457	2.010 1.740	LS HS	2.480 2.130	2.36% 2.27%
Lakeland	1.739	426,000	1.740	LS	1.920	1.10%

Note: (1) 1997 Actuals based on FERC Form 1 for period ending December 31, 1997, Exhibit 3

(2) Projections based on 1998 TYSP supplemented data filings, Exhibit 4 (partial)

(3) TEC coal is supplemental not average as noted on its TYSP filing

As shown on the table above, the 1997 actual natural gas price for FPL, the largest electric utility consumer of gas in the state, was $3.039 per MBtu. The natural gas price forecast provided by FPL in their 1998 TYSP indicates a 1998 price of $2.550 per MBtu and a year 2007 price of $3.900 per MBtu with a ten year average annual growth rate (AAGR) of 4.83%. Tampa Electric did not use natural gas to generate electricity in 1997. However, Tampa Electric's natural gas price forecast for 1998 was $2.787 per MBtu, well below the actual price realized by FPL and Florida Power Corporation ($2.931 per MBtu) in 1997. Tampa Electric's forecast for year 2007 is $3.565 per MBtu, which correlates to an AAGR of 2.77%. Both the AAGR and forecast price used by Tampa Electric for year 2007 is well below FPL, the largest user of natural gas in the state.

In deriving the coal price used by LEAF in the price comparison contained in its Post-Hearing Brief, it has mixed apples and oranges, thereby creating an inappropriate comparison. Tampa Electric prices set forth in Exhibit 3 are actual or total average prices while those in Exhibit 4 are supplemental. The 1997 actual coal price for Tampa Electric, the largest electric utility consumer of coal in the state, was $1.966 per MBtu for all coals consumed. As discussed throughout this proceeding, Tampa Electric is complying with Phase I of the CAAA by blending low sulfur coals and purchasing SO_2 allowances. The 1997 coal price is comparable to other electric utilities even though they do not have affected units in Phase I of the CAAA and are not required to blend the higher cost, low sulfur coals at this time. The projected coal prices for Tampa Electric are based on the 1998 TYSP filing as discussed throughout this proceeding. As noted in the TYSP on each page of each price forecast, the "fuel

prices are based on the average projected supplemental purchase price" (emphasis added). Supplemental prices differ from actual or total average prices in that fixed or sunk costs for the commodity and/or transportation are excluded. Supplemental prices are, therefore, lower for Tampa Electric than total average for all coals. The generating system is dispatched using supplemental fuel prices for planning purposes to accurately reflect incremental production costs for all planning studies including the CAAA cost-effectiveness studies discussed throughout this proceeding. Other than indicating higher prices for low sulfur coal compared to high sulfur coal, a comparison of coal prices between electric utilities is unclear since their individual forecasts may be either supplemental or total. Based on the detailed information contained in the record in this proceeding, Tampa Electric's fuel price forecasts for gas and coal are reasonable.

Related to the projected use of SO_2 allowances by Tampa Electric for various Phase II CAAA compliance alternatives, LEAF inexplicably states, "Although TECO considered different alternatives for compliance, it assumed the same level of allowances would be needed under each scenario in its compliance study." This is simply not true. As explained in detail by Witness Hernandez, the 25,000 allowances per year was only applicable to the fuel blending option which was used as the reference or base case. The recommended alternative, a stand-alone FGD Project for Big Bend Units 1 and 2, assumes little or no SO_2 allowance purchases in each year of the cost-effectiveness studies (Deposition of Witness Hernandez, Tr. 147-149). The number of SO_2 allowance purchases fluctuated for each compliance alternative based on economics and SO_2 reduction effectiveness. Any SO_2 allowance purchase

expenses are included in the cumulative present worth revenue requirement analysis as described in the testimony, depositions and discovery responses provided by Tampa Electric in this proceeding.

Section 3.3.2 of Exhibit No. 12, Document No. 2, summarizes Tampa Electric's assessment of the allowance market (Bates stamp p. 134). Included in this section is a graph (Figure 3-2) that clearly shows the higher costs associated with increasing the use of SO_2 allowance purchases relative to the base case which assumed approximately 25,000 SO_2 allowance purchases in each year. In fact, the FGD Project option minimizes the use of SO_2 allowance purchases and further reduces compliance costs as shown in Figure 3-2.

V. Issue 3 – As The Intervenors' Briefs And Post-Hearing Statements Show There Is No Serious Dispute Among The Parties With Regard To The Reasonableness Of The Economic And Financial Assumptions Used By The Company In Its Cost-Effectiveness Analysis

OPC has conceded that, with the exception of AFUDC-related assumptions, the Company's economic and financial assumptions do not appear to be unreasonable. FIPUG has chosen not to address Issue 3. LEAF, enigmatically, states that Tampa Electric's economic and financial assumptions are not reasonable since those "assumptions may result in a more expensive alternative than is reasonable." One is only left to guess at the basis for this assertion. In any event, none of the intervenors have offered meaningful rebuttal to the assumptions used by the Company, as set forth in Exhibit 12.

VI. Issue 4 – Contrary To The Arguments Of Intervenors, Tampa Electric Has Considered The Proposed FGD Project In The Context Of The Total Environmental Compliance Activities And The Company Has No Burden Of Proof Under Section 366.8255, Florida Statutes To Address Its Water And Land Environmental Compliance Activities

Tampa Electric has considered the Proposed FGD Project in the context of the total environmental cost, which the Company expects to incur. Witness Black also addressed the Company's review and cost determination of water issues in his deposition. Water consumption and storage for the FGD Project (Deposition Tr. 20, 21 and 39) and treatment of waste water from the FGD Project were addressed (Deposition Tr. 21-24). Potential future air regulations for ozone non-attainment were also addressed by Witness Black in his deposition (p. 26-28). Land issues were addressed for disposal of flyash from potential Selective Catalytic Reduction or Selective Non-Catalytic Reduction systems for NO_x in Witness Black's deposition (Deposition Tr. 37-38). In addition, Tampa Electric is proposing an FGD Project that produces a useable byproduct, gypsum, (Exhibit 2, Document 3) which minimizes landfill issues.

Both LEAF and FIPUG have asserted that the cost of NO_x compliance will be roughly $100 million and that the Company has not adequately considered this cost in selecting the FGD Project as its proposed SO_2 compliance option. First of all, this point is moot since presentation of Tampa Electric's NO_x compliance plan is not required under Section 366.8255, Florida Statutes. Nonetheless, Tampa Electric

Witness Black discussed The Company's NO_x compliance plan in some detail (Tr. 61-67). LEAF and FIPUG have apparently misunderstood his testimony. The NO_x compliance cost anticipated by the Company is approximately $ 8 to $30 million (Tr. 67). The $100 million compliance cost suggested by the intervenors represents a misunderstanding of Witness Black's testimony. The cost listed for each unit is not meant to be aggregated as FIPUG and LEAF have done in arriving at their $100 million NO_x compliance cost estimate (Tr. 67). Instead, only the cost associated with one of these alternatives would be incurred, consistent with Witness Black's testimony. In the final analysis, this potential FGD project would not be obviated, even if the Company switched to increased fuel blending and allowance purchases, which is the next most cost-effective SO2 compliance option.

In light of the above, Section 366.8255, Florida Statutes does not require that the Company present evidence on this topic. Even if one were to look to Section 366.825, Florida Statutes for guidance, that separate and inapplicable provision merely requires that the applicant signify that it has considered all of its environmental costs. In so doing, Section 366.825, Florida Statutes does not establish a test that must be met or a standard of approval that must be satisfied as a prerequisite to a favorable prudence determination.

VII. Issue 5 – **Tampa Electric Has Demonstrated, Without Meaningful Contradiction, That The Proposed FGD Project Is The Most Cost-Effective Means Of Meeting The SO_2 Compliance Obligations Under Phase II Of The CAAA And The Intervenors' Arguments That A Favorable Prudence**

Determination Should Not Be Made Now, Are Without Merit

The Company has presented unrebutted evidence in this proceeding establishing that the proposed FGD Project 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 (Tr. 183), as compared to the base case scenario which involves increased fuel blending and the purchase of additional SO_2 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 (Tr. 184).

While there seems to be some confusion among the intervenors as to whether the Company's application is too early or too late, the controlling statutory provision, Section 366.8255, Florida Statutes, has no temporal element. The Statute says nothing about the time frame within which a petition for relief must be filed. This is simply another instance of the briefs asserting prerequisites for approval which don't exist in the relevant law or Commission precedents.

Contrary to OPC's assertions, an expeditious prudence review by the Commission is important. While Tampa Electric is certain that the proposed FGD Project is the most cost-effective SO_2 compliance option, a negative or deferred determination of project prudence would leave the Company no choice but to immediately cease any further FGD Project development activities as it reviewed the

situation. Under these circumstances the Company could not lightly disregard the Commission's decision not to find the project prudent at this time, particularly in light of its fiduciary obligation to shareholders. This is why the Company negotiated in its project contracts adequate termination and "regulatory out" provisions which Witness Black identified (Tr. 100-101). Given these provisions, the Company would have to reevaluate the fuel blending and allowance purchase option as a means of legal compliance with Phase II of the CAAA.

During the hearing, FIPUG posed the following question to Witness Hernandez:

> Q: "You wouldn't stop construction if the Commission just delayed its decision until later would you?"
>
> A: "To defer any action [by the Commission] or stop construction [Tampa Electric] of the facility would only increase the cost to our ratepayers, i.e., we'd have to go back to the next most cost-effective alternative, which means blending of lower sulfur coal fuels, and that would result in a higher fuel adjustment reflected in the fuel and purchase power cost recovery factor than what otherwise we could develop moving forward with the project." (Bracketed words supplied) (Tr. 217)

Clearly Tampa Electric is not too early or too late, recognizing the importance of a Commission determination.

VIII. Issue 6 – Under The Circumstances Presented In This Proceeding, The Commission Can And Should Authorize Tampa Electric To Accrue AFUDC On Its Entire FGD Project Investment

OPC and FIPUG spent a great deal of time in their Post-Hearing Briefs arguing the significance of the offset language in the AFUDC Rule 25-6.0401, Florida Administrative Code. However, their arguments are beside the point. First of all, none of the intervenors argue that the Commission lacks the authority to authorize, on its own motion, full AFUDC accrual under the circumstances presented in this case. In fact, subsections (1) (c) and (1) (g) of the AFUDC rule make this abundantly clear. Secondly, no waiver of the AFUDC rule is necessary, as the intervenors assert, since the need to offset new environmental projects by the amount of CWIP allowed in the Company's last rate case was obviated by the Commission's order adopting the Polk Rate Stipulation, as discussed in the Company's Post-Hearing Brief.

While the intervenors will undoubtedly argue that the Polk Stipulation and the related Commission order had no such intended effect, the inference to be drawn is inescapable – the Polk Stipulation explicitly mandated that then existing base rate revenues would not be siphoned off and imputed to the incremental revenue requirements associated with those new environmental compliance activities which would normally qualify for recovery through the ECRC. Furthermore, the Commission's order to include all of the Company's Polk investment in ratebase, as part of the Polk Stipulation, foreclosed the possibility of continuing to earn separately on the CWIP granted in the Company's last rate case. While one might argue that

absorption of new cost without additional revenue is the essence of a negotiated rate freeze, in this instance, Tampa Electric bargained for and the Commission approved an agreement where a specific category of new costs would not be absorbed – namely, environmental compliance costs which would otherwise qualify for recovery through the ECRC. Denial of AFUDC in this proceeding would mean that Tampa Electric will never recover the total cost of the project. This result would not only be contrary to the Commission's order and related Polk Stipulation, it would create a significant bias against entering into future settlements of matters in litigation. As a matter of sound public policy, the Commission should support and encourage settlements which benefit rate payers. In addition, such a denial would discriminate against capital environmental projects, which would also be inconsistent with sound public policy.

IX. Issue 7 – Tampa Electric Has Demonstrated That Cost Recovery For A FGD System On Big Bend Units 1 And 2 Through The Environmental Cost Recovery Clause Is Appropriate Contrary To Intervenors' Assertions

OPC and FIPUG also seem to have to have misinterpreted our request in Issue 7. FIPUG states that the Company seeks to impose a surcharge on its customers for a plant that hasn't been built. This is untrue. The Company is requesting approval of the ECRC as the appropriate recovery mechanism for prudently incurred FGD Project related costs. No ECRC factors will be sought until the Company first requests authority to begin recovering FGD Project specific costs. Because the Company is not seeking cost recovery through the ECRC at this time, there is no

reason why the ECRC mechanism cannot be approved.

The only argument on this issue presented by FIPUG revolves around the Company's expected return on rate base earnings. As we have stated several times, this concern has already been fully addressed by this Commission in the Gulf case and the order in this proceeding addressing the Intervenors' Motion to Dismiss.

In addition, the Commission has in place a continuing and effective surveillance program to monitor overearnings from base rates, which includes early detection through projected surveillance reports. The recovery clause proceedings are no adequate substitute for this program and a contrary conclusion would create an administrative nightmare - turning every future cost recovery proceeding into a potential mini-rate case. Therefore, there is no reason to speculate about future earnings in order to consider the appropriateness of the ECRC as a cost recovery mechanism for FGD Project related costs.

X. Conclusion

Tampa Electric has demonstrated that its Proposed FGD Project is the most cost-effective SO_2 compliance alternative. The evidence supporting this conclusion remains unrebutted. The Company has also demonstrated that prudently incurred FGD Project costs should be recovered through the ECRC. None of the intervenors have offered evidence suggesting that this relief cannot or should not be granted at this time. Finally, Tampa Electric has demonstrated that the existing rate stipulation,

the Commission's Order Adopting the Rate Stipulation and basic fairness require that the Company is entitled to accrue AFUDC on its entire FGD Project investment.

Dated this 9th day of October, 1998

Respectfully submitted,

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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 9th day of October 1998 to the following:

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