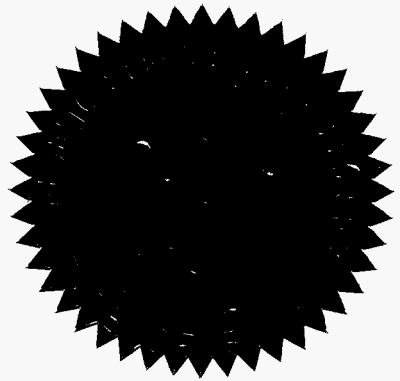


BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 100404-EI

In the Matter of:

PETITION BY FLORIDA POWER &  
LIGHT COMPANY TO RECOVER SCHERER  
UNIT 4 TURBINE UPGRADE COSTS  
THROUGH ENVIRONMENTAL COST  
RECOVERY CLAUSE OR FUEL COST  
RECOVERY CLAUSE.



PROCEEDINGS: COMMISSION CONFERENCE AGENDA  
ITEM NO. 11

COMMISSIONERS  
PARTICIPATING: CHAIRMAN ART GRAHAM  
COMMISSIONER LISA POLAK EDGAR  
COMMISSIONER RONALD A. BRISÉ  
COMMISSIONER EDUARDO E. BALBIS  
COMMISSIONER JULIE I. BROWN

DATE: Tuesday, January 11, 2011

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

REPORTED BY: JANE FAUROT, RPR  
Official FPSC Reporter  
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## P R O C E E D I N G S

1  
2           **CHAIRMAN GRAHAM:** Let's move to Item 11.

3           **MR. BUTLER:** Mr. Chairman, on the next  
4 item, we have a handout that we actually used with  
5 staff and the other parties back in August that I'd  
6 like to have copies distributed to you and any of  
7 the staff or parties who wanted to see it. We will  
8 be making some brief reference to it. So while we  
9 are shifting, if I can have that done, I would  
10 appreciate it.

11           **CHAIRMAN GRAHAM:** This is a handout that  
12 was already handed out one time before?

13           **MR. BUTLER:** Handed out to the parties and  
14 to staff at an informal workshop that staff held  
15 back in August of 2010 on the matter that we are  
16 about to move to.

17           **CHAIRMAN GRAHAM:** We will get someone from  
18 staff to hand it out for you.

19           **MR. BUTLER:** Yes. Thank you.

20           **CHAIRMAN GRAHAM:** Ms. Brown, where's your  
21 name tag? (Laughter.)

22           **MS. BROWN:** There it is, Mr. Chairman.

23           **CHAIRMAN GRAHAM:** Now I know who you are.

24           **MS. BROWN:** I have forgotten it twice  
25 already.

1                   Good afternoon, Commissioners. I'm Martha  
2 Brown with the General Counsel legal staff.

3                   Item 11 is staff's recommendation  
4 regarding FPL's request to recover the costs  
5 associated with its Scherer Unit 4 upgrade through  
6 either the environmental cost-recovery clause or the  
7 fuel cost-recovery clause.

8                   In Issue 1, staff recommends that the  
9 costs are not eligible for recovery through the ECRC  
10 because they are not environmental compliance costs.  
11 They are discretionary and not required to comply or  
12 remain in compliance with any environmental  
13 regulation.

14                   In Issue 2, staff recommends that the  
15 costs are not eligible for recovery through the fuel  
16 clause either, because they are not incurred to  
17 lower the delivered price of fuel. We are prepared  
18 to answer any questions. It's your discretion how  
19 you would like to proceed, if you want to lump this  
20 will altogether or separate issue-by-issue. The  
21 parties are here to address you, as well; however  
22 you would like to proceed.

23                   **CHAIRMAN GRAHAM:** Thank you, Ms. Brown.

24                   I think I'm going to go with the  
25 intervenors, and then I will let FPL speak, and then

1 we will go to the board and see if they want to do  
2 it all at once or piece-by-piece. Let's start  
3 with -- who wants to go first? Ms. Kaufman, go  
4 ahead.

5 **MS. KAUFMAN:** Yes. Thank you, Mr.  
6 Chairman.

7 Commissioners, Vicki Gordon Kaufman on  
8 behalf of the Florida Industrial Power Users Group.  
9 And we are here to support the staff's  
10 recommendation. As they tell you, Florida Power and  
11 Light wants to recover the costs of a turbine  
12 upgrade at their Scherer 4 coal unit through either  
13 the fuel clause or the environmental cost-recovery  
14 clause.

15 Just as an aside, I think it is  
16 interesting that it seems to me they are saying,  
17 well, it might not fit here, but it might fit here.  
18 Just put it one place or the other. We are here to  
19 suggest to you that this is a base rate item and  
20 that is where it ought to be recovered.

21 Before I comment specifically on the  
22 project, I just want to say that in regard to the  
23 fuel adjustment clause and the other clauses, we  
24 talked some about them in a prior item, we suggest  
25 to you that costs that go through these clauses need

1 to be strictly scrutinized and construed. I think,  
2 as a little bit of background, I believe we started  
3 out with the fuel clause adjustment mechanism, I  
4 don't know, many, many years ago, and the idea  
5 behind that was that there should not be great  
6 regulatory lag in utilities recovering their costs  
7 for coal, gas, or whatever, because those are very  
8 volatile costs and they change from year to year.

9 And, in fact, at one point in the not too  
10 distant past we used to have the fuel adjustment every  
11 six months. Since then we have the environmental  
12 cost-recovery clause; we have the capacity  
13 cost-recovery clause; we have the nuclear cost-recovery  
14 clause. And I think it is important to point out, and  
15 we heard in the right last cases last year, that over  
16 50 percent of the utilities' costs generally are  
17 flowing through these clauses as opposed to base rates.  
18 So we think it is important that the requirements be  
19 met before costs are flowed through these clauses.  
20 And, as I said, we agree with you that -- we agree with  
21 staff, excuse me, that the criteria is not met for  
22 either clause in this case.

23 First of all, I think staff has done a  
24 good job in telling you the history of the clauses  
25 and analyzing the orders. They have an attachment

1 on the back of their recommendation. Clearly this  
2 project does not meet the requirements for recovery  
3 through the environmental cost-recovery clause. It  
4 is not being undertaken to meet any environmental  
5 requirement and there are no environmental statute,  
6 rule, or law, and, therefore, under your own orders  
7 it is not eligible for recovery through that clause.

8 Similarly, it is not eligible for recovery  
9 in the fuel clause, either. Because as Ms. Brown  
10 mentioned to you, it does nothing to lower the  
11 recovered cost of fuel. Now, I want to be clear,  
12 because I have a feeling, having sat through the  
13 meeting from this handout, that FPL is going to tell  
14 you that this is a good project for ratepayers, it's  
15 something they should do. And, you know, I don't  
16 take issue with that. I think what we are talking  
17 about is do they get to recover for it right this  
18 second?

19 Does it meet the requirements for clause  
20 recovery, or is it something that they recover as  
21 they do with lot of projects, and it is covered by  
22 their base rates. That is what we suggest to you.  
23 If this is the right thing to do for ratepayers, you  
24 know, they should do it, but they should recover it  
25 in the appropriate way and that is not through

1 either one of these clauses. And so we would urge  
2 you to adopt your staff's recommendation on this  
3 issue.

4 Thank you.

5 **MR. BECK:** Thank you, Mr. Chairman.  
6 Charlie Beck, again, Office of Public Counsel.

7 We are here to support staff. We think  
8 they are exactly right on; they are spot on for the  
9 reasons they said. This is an -- we have no doubt,  
10 as Ms. Kaufman said, that this is an economic  
11 project and a good project. We agree with FPL on  
12 that. But that is not the issue. The issue is does  
13 it qualify under the ECRC or the fuel clause, and it  
14 does not for the reasons staff said. So we are  
15 going to support staff and oppose Florida Power and  
16 Light on this issue. Thank you.

17 **CHAIRMAN GRAHAM:** Thank you.

18 Mr. Butler.

19 **MR. BUTLER:** Thank you, Mr. Chairman. I  
20 will start out by observing, perhaps to your relief,  
21 that thus ends the Entente Cordiale.

22 FPL understands and appreciates staff's  
23 concern about limiting clause recovery to projects  
24 that clearly meet established eligibility  
25 requirements or criteria. However, we respectfully

1 and strongly disagree with staff's conclusion that  
2 the Scherer 4 turbine upgrade project does not meet  
3 the eligibility criteria for recovery under the  
4 environmental and fuel clauses.

5 With me today is John Hamp (phonetic) of  
6 FPL's Environmental Services Group. Before I  
7 discuss why FPL believes that this project is  
8 recoverable under the clauses, I would like Mr. Hamp  
9 to briefly describe the project, what is motivating  
10 its timing, and how it will benefit FPL's generation  
11 fleet and our customers. And to facilitate that, we  
12 handed out the presentation that had been given to  
13 staff and the parties back in August when we were  
14 initially discussing the project. And Mr. Hamp will  
15 refer to a few numbered pages in there that will  
16 hopefully speed along that part of our presentation.

17 Mr. Hamp.

18 **MR. HAMP:** Good afternoon, Commissioners.

19 Today I want to talk about the project  
20 that FPL is pursuing, and this all ties in together  
21 with FPL's CAIR compliance project. It's the  
22 installation of flue controls on our Scherer Unit 4  
23 to comply with what was a federal rule as the most  
24 cost-effective approach for compliance, and then  
25 subsequent to that a Georgia state rule that



1 required installation of those controls be completed  
2 by December 31st of 2012.

3 If you move to the second or third page of  
4 the presentation, you will see that essentially  
5 there are three large blocks that are the subject of  
6 the installation of controls at Plant Scherer. And  
7 at that time those projects were proposed and  
8 approved by the Commission. That resulted in the  
9 installation of an SCR, a wet scrubber, and a  
10 baghouse sorbant injection system for removal of the  
11 pollutants that were then governed by, and still  
12 are, by the Georgia state rule.

13 In addition to that, the installation of  
14 this control equipment represents a loss in the net  
15 output of the facility as a result of the operation  
16 of those controls. In essence, additional motors  
17 and pumps and fans and equipment that consume  
18 electricity at the unit and thereby reducing the net  
19 output to the grid that would then go to our  
20 customers. In this case we are talking about a net  
21 loss of 35 megawatts of unit output.

22 Briefly, on Page 4 the point I want to  
23 make is that this steam turbine upgrade that FPL is  
24 pursuing became available subsequent to the projects  
25 that we had proposed for the compliance with the

1 CAIR program. In other words, at that time this was  
2 not known to be available to us, nor the other  
3 owners of Plant Scherer. And that following the  
4 implementation of the controls and construction, it  
5 was provided by Hitachi as a way for us to not only  
6 recover those megawatts that were being lost by the  
7 installation of the controls, but also by improving  
8 unit heat rate efficiency through this upgrade of  
9 the HP section of the steam turbine.

10 A really important part on Page 5 is that  
11 the timing of this is critical, the installation of  
12 these steam turbine upgrades. Under the Clean Air  
13 Act there is a provision called new source review  
14 which requires during construction of new major  
15 facilities, major emissions and major modifications  
16 of existing facilities to look at those emissions  
17 from the facility and to avoid substantial or net  
18 significant increases in emissions. And to do so, a  
19 look under NSR requires you look at your past actual  
20 and then your future projected actual emissions.

21 And, in essence, if this project had been  
22 done prior to the installation of these controls, or  
23 if FPL had pursued this after installation of  
24 controls, we would be subject to New Source Review  
25 requirements, and for Scherer Unit 4 that would

1 represent a repermitting of the facility,  
2 implementation of additional costs in reduced  
3 operational flexibility for the operation of Scherer  
4 Unit 4. So to avoid that, the timing was critical  
5 that we had to do this project almost simultaneous  
6 with the implementation of these controls.

7 On Page 6, the steam turbine upgrade that  
8 we are pursuing, not only through the gaining of the  
9 35 megawatts that we would have lost to station  
10 service, not only does it replace that lost  
11 generation that results in about 215 gigawatt hours  
12 per year of coal-fired generation for Florida Power  
13 and Light, that coal-fire generation is part of our  
14 fuel flexibility. With the modest investment of  
15 \$7 million, we will avoid or save the customers  
16 \$240 million through the life of that project.

17 Additionally, the steam turbine upgrade  
18 also maintains our system capability and reserve  
19 margins. And with that, I will ask (sic) any  
20 questions that you may have of the project, but I  
21 will let John continue.

22 **MR. BUTLER:** Mr. Chairman, if it is okay,  
23 let me finish my presentation, and then if you have  
24 questions for either of us we will be available.

25 Let me turn to the issue of eligibility

1 for cost-recovery. I want to first talk about the  
2 environmental clause. Staff's argument against  
3 recovery through the environmental clause is that  
4 the turbine upgrade isn't required to comply with  
5 environmental requirements. FPL doesn't agree.  
6 However, whether or not the turbine upgrade is  
7 required by itself to meet environmental  
8 requirements shouldn't be the end of the inquiry.  
9 It hasn't been the end of the inquiry in prior  
10 Commission evaluations of environmental projects,  
11 and we believe that consistency in your  
12 decision-making is fundamental to constructive  
13 regulation.

14 In at least one prior instance, which  
15 happened to involve Progress Energy, the Commission  
16 has allowed environmental clause recovery for a  
17 project that the utility clearly could have forgone  
18 without violating any environmental requirements,  
19 yet the Commission approved ECRC recovery for the  
20 project because it was the most cost-effective and  
21 efficient way to comply with those requirements.

22 The project I'm referring to is discussed  
23 in the staff recommendation. It involves the  
24 installation of modular cooling towers by Progress  
25 Energy Florida at the Crystal River Power Plant. An

1 environmental requirement limited the temperature of  
2 cooling water discharge from the plant. Due to an  
3 increase in the inlet water temperature, Progress  
4 was put to a choice. You could either install  
5 modular cooling towers so that the Crystal River  
6 units could continue operating at their normal  
7 output levels, or it could have cut the power output  
8 of the units in order to reduce the temperature gain  
9 in the cooling water.

10 Progress chose to install the cooling  
11 towers because their cost was much less than the  
12 replacement power cost that Progress would have  
13 incurred if it had derated the units instead. FPL  
14 believes that this is precisely analogous to what we  
15 are proposing with the Scherer 4 turbine upgrade.  
16 FPL can meet the applicable air emission  
17 requirements at Scherer 4 without the turbine  
18 upgrade, but there would be a significant reduction  
19 in the unit's net power output that would require  
20 expensive replacement power, or FPL can perform the  
21 turbine upgrade and avoid those expensive  
22 replacement power costs.

23 FPL proposes to perform the turbine  
24 upgrade because it is a highly cost-effective way to  
25 comply with the air emission requirements. In other

1 words, FPL faces the same trade-off that Progress  
2 faced, and FPL is making the same choice that  
3 Progress made. In both instances the utilities are  
4 taking steps that they could have foregone and still  
5 been in environmental compliance, but in both  
6 instances customers would have been worse off if the  
7 utilities had not taken those steps.

8 There is no legitimate reason to deny  
9 environmental clause recovery for FPL's turbine  
10 upgrade when the Commission approved recovery of the  
11 Progress cooling towers just three years ago.  
12 Approval of cost-recovery for the Scherer turbine  
13 upgrade costs would be consistent with the precedent  
14 the Commission established in the Progress decision,  
15 which is what is expected under Section 120.68(7) of  
16 the Florida Statutes.

17 Now, let me turn to the fuel clause,  
18 because the Scherer 4 turbine upgrade is also, or  
19 alternatively clearly eligible for cost-recovery  
20 through that mechanism. The staff recommendation  
21 cites Order Number 14546, which FPL agrees is  
22 controlling. That order lists several categories of  
23 costs that are properly considered in the  
24 computation of average inventory price of fuel used  
25 in the development of fuel expense in the utility's

1 fuel cost-recovery clauses. Item 10 in that list is  
2 for, quote, fossil fuel related costs normally  
3 recovered through base rates, but which were not  
4 recognized or anticipated in the cost levels used to  
5 determine current base rates, and which, if  
6 expended, will result in fuel savings to customers,  
7 end quote.

8 The Scherer 4 turbine upgrade fits Item  
9 10 precisely. Scherer 4 is a coal-fired plant.  
10 Coal is a fossil fuel by common understanding and  
11 dictionary definition. For example, the *American*  
12 *Heritage Dictionary of the English Language* defines  
13 a fossil fuel as, quote, a hydrocarbon deposit such  
14 as petroleum, coal, or natural gas, end quote.

15 The cost of the Scherer 4 turbine upgrade  
16 is not reflected in FPL's current base rates. FPL  
17 prepared the 2010 test year forecast upon which  
18 current base rates were set in late -- it prepared  
19 that forecast in late 2008. Scherer 4 didn't  
20 receive the environmental permit for the upgrade  
21 until February 2010. FPL did not anticipate and  
22 could not reasonably have anticipated the turbine  
23 upgrade when it prepared the rate case test year.

24 And, finally, as Mr. Hamp had indicated,  
25 the turbine upgrade will result in substantial fuel

1 savings. \$240 million on a net present value basis  
2 compared to a project cost of about \$7 million. In  
3 its recommendation, staff argues that Item 10 should  
4 be interpreted to apply only for project's fuel  
5 savings result from lowering the delivered price of  
6 fuel or otherwise result in burning lower priced  
7 fuel at the plant where the project is undertaken.  
8 This restrictive interpretation is inconsistent with  
9 the Commission's history of applying Item 10.

10 Attachment A to the staff recommendation  
11 summarizes the orders in which the Commission has  
12 previously considered for eligibility on projects  
13 under Item 10 of the fuel clause. None states or  
14 even suggests staff's restrictive interpretation.  
15 To the contrary, the orders reflect a wide range of  
16 circumstances where cost-recovery has been approved  
17 pursuant to Item 10. These include the following:  
18 A gas pipeline lateral dedicated to delivering  
19 natural gas to a plant; rail cars devoted to  
20 delivering coal to a coal-fired plant; modifications  
21 at an oil-fired plant to allow it to burn an  
22 emulsion of solid fossil fuel and water called  
23 orimulsion; modifications to oil-fired plants to  
24 allow them to burn natural gas; modifications to  
25 oil-fired plants to allow them to burn higher sulfur



1 oil or heavier oil; incremental power plant security  
2 measures taken so that nuclear plants can continue  
3 to generate low-cost power.

4 And, finally, staff's proposed restrictive  
5 interpretation of Item 10 is most directly at odds  
6 with the Commission's approval of fuel cost-recovery  
7 for the thermal uprate at FPL's Turkey Point nuclear  
8 units. That decision is almost precisely on point  
9 here. FPL proposed to spend approximately  
10 \$10 million on modifications that it would allow  
11 Turkey Point Units 3 and 4 to increase their thermal  
12 output and therefore ultimately their electric  
13 output. By increasing the output of low-cost  
14 nuclear power, the project reduced the amount of  
15 higher cost fossil fuel generation needed to meet  
16 FPL's load. This saved FPL's customers about  
17 \$97 million on a net present value basis.

18 The Scherer 4 turbine upgrade also will  
19 increase the output of a generating unit with low  
20 fuel costs. It, too, will reduce the overall fuel  
21 costs that customers pay, and it does so at a cost  
22 of about \$7 million while saving customers about  
23 \$240 million. Needless to say, this is a tremendous  
24 benefit to our customers, and it proves to be about  
25 3.5 times more cost-effective for FPL's customers

1 than the Turkey Point thermal uprate which the  
2 Commission previously approved for Item 10 fuel  
3 clause recovery.

4 In summary, the Scherer 4 turbine upgrade  
5 meets the established eligibility criteria for both  
6 the environmental clause and the fuel clause. The  
7 Commission properly uses those clauses to encourage  
8 utilities to be proactive in identifying and  
9 implementing measures that will reduce costs to  
10 customers.

11 The turbine upgrade is a clear winner in  
12 this regard. The Commission should reject the staff  
13 recommendation and approve clause recovery of the  
14 project to send the signal that it is still in the  
15 business of encouraging utilities to be proactive in  
16 reducing environmental compliance and fuel costs for  
17 their customers. Thank you.

18 **MS. KAUFMAN:** Mr. Chairman, I wonder if I  
19 might have a brief moment of rebuttal?

20 (Inaudible.)

21 **MS. KAUFMAN:** I thought I would ask.

22 **CHAIRMAN GRAHAM:** But somebody may call on  
23 you.

24 **MS. KAUFMAN:** Thank you.

25 **CHAIRMAN GRAHAM:** We are back here to the

1 board.

2 If nobody wants to speak, can I get a  
3 motion?

4 Commissioner Brown.

5 **COMMISSIONER BROWN:** This is a question  
6 for staff. Are there any other -- I know they  
7 talked about base rate in the recommendation, and  
8 this is probably for you, Ms. Brown, about the  
9 recommendation about it's under the fuel clause, per  
10 se, under Issue 2 that it is recovered -- can be  
11 recovered through base rate adjustment.

12 Are there any other recovery mechanisms  
13 for these costs?

14 **MS. BROWN:** I think those would be the  
15 three, that either the environmental clause, the  
16 fuel clause, or just incorporated in base rates,  
17 those are the only three.

18 **COMMISSIONER BROWN:** Okay.

19 **MS. BROWN:** And it's our opinion that  
20 really the base rate incorporation route is the best  
21 way to go.

22 **COMMISSIONER BROWN:** Okay. Thank you.

23 **CHAIRMAN GRAHAM:** Commissioner Edgar.

24 **COMMISSIONER EDGAR:** I am learning all  
25 about that button now. A question for FPL. As you

1 have noted, the costs that are before us are not  
2 included in base rates. But yet, also, we have had  
3 ample discussion earlier today about the fact that  
4 the utility has some flexibility to -- let me just  
5 say some flexibility under the settlement agreement.  
6 And I also, and I would expect you to, as well,  
7 recognize that not every item is specifically  
8 included in base rates. That there is some leeway  
9 in there to address items as they occur, and also  
10 to -- et cetera. It has been a long day already.

11 So, with that, the first question, is it  
12 FPL's position that this item is required under an  
13 environmental regulation by some governmental  
14 entity?

15 **MR. BUTLER:** It is not the only way to  
16 meet the environmental compliance requirement. We  
17 can meet it without doing this project, and in so  
18 doing we'll have the output penalty that Mr.  
19 Hamp had described. So it is the most  
20 cost-effective way to comply with the environmental  
21 requirement, which is what we always try to achieve.  
22 It is not the only way to comply with the  
23 requirement.

24 **COMMISSIONER EDGAR:** So some action by the  
25 utility in order to address -- in order to meet an

1 environmental requirement is necessary, and this is  
2 the option selected by the utility in order to be  
3 cost-effective?

4 **MR. BUTLER:** I think that's right. I  
5 mean, on this particular item, not to get too far,  
6 spread the answer out too far, but fundamentally FPL  
7 has the alternative to seek to acquire emission  
8 credits, to install emission controls so that it  
9 doesn't need the emission credits or needs fewer of  
10 them. And then if it installs the controls, which,  
11 you know, consume power either to try to take some  
12 measures to restore that power output or not, that  
13 pretty well defines the range of alternatives here.

14 FPL investigated all of them and found  
15 that the option chosen here, which is to install the  
16 emission control equipment and then offset the  
17 parasitic load of that equipment with this turbine  
18 upgrade was the most cost-effective way to meet the  
19 environmental requirements. But any of those three  
20 in that range of options would have met the  
21 environmental requirements. So here, as in most  
22 instances, you don't have just a single way to  
23 comply with an environmental requirement, and we  
24 look for whatever is the most cost-effective way to  
25 do it.

1                   **COMMISSIONER EDGAR:** Okay. Then can I --  
2 thank you. Can I go to staff and say in the staff  
3 recommendation, is the staff interpreting the  
4 criteria that this Commission has adopted before in  
5 order to be eligible for cost-recovery under the  
6 environmental clause that a specific action is  
7 required by a regulation, or is it somewhat broader  
8 than that in that if an action is taken in order to  
9 meet a requirement, that, indeed, would also  
10 qualify?

11                   **MS. BROWN:** I think I've got it.

12                   **COMMISSIONER EDGAR:** Good.

13                   **MS. BROWN:** It's the second. The history  
14 of the Commission's decision-making, as Mr. Butler  
15 pointed out, is broad and reflects a lot of  
16 different facts and circumstances. And in past  
17 decisions the Commission has approved recovery of  
18 projects that were not specifically required by a  
19 particular environmental regulation, but would allow  
20 the company then to comply with that regulation.  
21 The turtle net example is one. TECO's reliability  
22 project that wasn't required by their consent  
23 decree, but it allowed them to continue to comply  
24 with the requirements of that consent decree. The  
25 same way with the turtle net.

1           But, to my mind, the thing that FPL is  
2 missing in its argument is the connection that every  
3 single one of these projects were undertaken to  
4 comply with an environmental regulation. And to  
5 allow something that isn't necessary to comply as  
6 FPL, itself, has said in its interrogatory  
7 responses, if I might quote, "Not proceeding with  
8 the upgrade of the steam turbine would not violate  
9 any federal, state, or local environmental rule or  
10 regulation."

11           In the cooling towers order, the  
12 Commission approved Progress' adoption of the  
13 modular cooling tower project in order to remain in  
14 compliance with the water cooling, its water  
15 temperature requirements. Not just because it  
16 wanted to do it, or it was going to make something  
17 more effective, but it would have to shut its plants  
18 down, run them less effectively in order to remain  
19 in compliance with that.

20           In this case, FPL can continue to be in  
21 compliance with its environmental requirements if it  
22 doesn't ever conduct this turbine upgrade. The  
23 turbine upgrade project is not a compliance cost,  
24 and the environmental cost-recovery statute requires  
25 that -- hold on a minute -- "An electric utility may

1 submit to the Commission a petition describing the  
2 utility's proposed environmental compliance  
3 activities and projected environmental compliance  
4 costs." It defines environmental compliance costs  
5 to include all costs or expenses incurred by an  
6 electric utility in complying with environmental  
7 laws or regulations. And then it goes into a long  
8 laundry list that is fairly extensive.

9 The way the Commission has interpreted  
10 that is as long as these costs are environmental  
11 compliance costs and they are prudent, they can be  
12 recovered, but if they are voluntary or  
13 discretionary they are not to be recovered. These,  
14 in our view, are voluntary discretionary costs at  
15 least in terms of what the environmental  
16 cost-recovery statute says.

17 And just one more thing, and then I'll be  
18 quiet. In the cooling tower order, the Commission  
19 took a different position from OPC that wanted to  
20 restrict the scope of the Commission's application  
21 of the eligibility requirements for environmental  
22 compliance recovery. And the Commission said, no,  
23 we're restricting it more than the statute allows,  
24 and we can't do that. We can't modify, restrict,  
25 amplify, increase a statutory requirement. So this



1 clearly -- the cooling towers project was reasonable  
2 and the Commission approved it.

3 Here we have the flip side. We are expanding the  
4 eligibility requirements required by the statute to  
5 include costs that are not required or not  
6 environmental compliance costs, and I think we may be  
7 going too far outside of our statutory authority to  
8 approve those costs in this instance. This statute is  
9 pretty clear. We have interpreted it in a fairly clear  
10 but expansive and reasonable way, and this decision,  
11 unlike what Mr. Butler said, our recommendation really  
12 is consistent with the way the Commission has  
13 interpreted these cases in the past.

14 **COMMISSIONER EDGAR:** Mr. Hinton.

15 **MR. HINTON:** I hate to add to that,  
16 because Martha did a really good job, but I wanted  
17 to address how Mr. Butler has discussed the cooling  
18 tower order and compared it to here. In the case of  
19 the cooling tower, what you had were actual two  
20 choices for compliance, either we need to turn down  
21 the generator or we need to install some piece of  
22 equipment to cool the water.

23 Here we are not talking about two choices  
24 for compliance. We are talking about one choice for  
25 compliance, which has already been made and

1 approved, and that is what you see on Page 3, which  
2 is the different pieces of equipment that FPL showed  
3 you. This is how they are complying with their  
4 environmental regs. What we are talking about here  
5 in this case is the choice to make up the parasitic  
6 load or not. That is not -- that is not addressing  
7 the environmental requirements in any way. It is a  
8 great decision. We support it. We believe that --  
9 I believe they should get cost-recovery for it. It  
10 is a great choice to make to upgrade these turbines.  
11 It's just not environmental regulation that should  
12 flow through this clause. It is also not a fuel  
13 clause type of recovery item, either. You know, we  
14 agree it's a great project, it's just a base rate  
15 item.

16 **COMMISSIONER EDGAR:** Ms. Kaufman.

17 **MS. KAUFMAN:** I was simply shaking my head  
18 in agreement. And I also wanted to say, as Mr.  
19 Hinton, I think, intimated, is the choice is not as  
20 Mr. Butler said, let us recover and we will do the  
21 project. If we don't recover, we can't do it. As  
22 others have mentioned, if it is a good idea for the  
23 ratepayer, they certainly should do it, and they  
24 will recover it in base rates. Thank you.

25 **COMMISSIONER EDGAR:** Mr. Chairman, I may

1 have a similar question or along the same lines, but  
2 as to the request under the other clause. So if  
3 there is further question or discussion under the  
4 environmental, I would offer to proceed on that.

5 **CHAIRMAN GRAHAM:** We have one other  
6 question.

7 Commissioner Brisé.

8 **COMMISSIONER BRISÉ:** Yes. I think I was  
9 going to do down the line down to fuel cost-recovery  
10 clause. I think, from what I'm reading, it's pretty  
11 clear that it is difficult to make that argument for  
12 the environmental clause. But showing some of the  
13 examples that were provided by the company, would we  
14 be stretching completely out of where we can go if  
15 we looked at attempting to recover -- provide a  
16 recovery through the fuel recovery clause, and if  
17 you can go down that route for me, please.

18 **MS. BROWN:** I'm going defer to Mr. Hinton  
19 on that one. My answer is yes, but I will let him  
20 answer.

21 **MR. HINTON:** Well, I'm never shy about  
22 answering questions, but I wanted to give Kenneth  
23 Franklin an opportunity to answer the question, if  
24 he would prefer.

25 **MR. FRANKLIN:** With regards to the fuel

1 clause, Mr. Butler mentioned quite a few projects  
2 that were done through the fuel clause that staff  
3 had put in Attachment A with their recommendation.  
4 With respect to Mr. Butler's comments, a lot of  
5 those items that were passed through the fuel clause  
6 actually, indeed, produced fuel savings via a cost  
7 reduction in fuel. Whether that be switching to a  
8 natural gas fossil fuel from an oil plant fossil  
9 fuel that was a switching to a lower cost fossil  
10 fuel, so they were allowed through the fuel clause.

11 There have been two instances within this  
12 attachment that have been allowed through the fuel  
13 clause that did not specifically meet the  
14 requirements that staff feels is appropriate through  
15 Order 14546. One of those was the nuclear thermal  
16 uprate from FPL. That was an exception to the rule  
17 in its own stance. This was a thermal power uprate  
18 to a nuclear plant which is a non-fossil fuel  
19 related generating plant. So by that own merit,  
20 maybe it doesn't meet the requirements to go through  
21 the fuel clause in its ownself. The other was after  
22 the September 11th terrorist attacks security costs  
23 was allowed through the fuel clause at that time to  
24 promote a pass-through of costs to promote the  
25 utilities to be able to go ahead and start

1 recovering costs for that security because they  
2 wanted to protect, you know, the nuclear power  
3 plants at that time.

4 But those are the only two that have gone  
5 through the fuel clause in Attachment A that have  
6 been an exception to the rule.

7 **MS. BROWN:** If I might just add one thing  
8 to that. That order allowing the uprates through  
9 the nuclear clause specifically said it would be  
10 done on a case-by-case basis and the decision in  
11 that case was limited to those facts.

12 **MR. HINTON:** And, Commissioner, now to  
13 throw my two cents in. What we are talking about  
14 here with this project, and Mr. Franklin alluded to  
15 it, that most of these projects that you see here  
16 what you are doing is you are decreasing the input  
17 price of the fuel. Either you are switching to a  
18 cheaper fuel, you're purchasing rail cars that allow  
19 you to get the fuel cheaper to the plant, that type  
20 of thing. There is a couple of exceptions that we  
21 could talk about, but what we are talking about with  
22 this project is it does provide fuel savings, but  
23 it's through making the plant more efficient.

24 There are a lot of ways that you can make  
25 a plant more efficient. And staff believes that if

1 you open the door to allowing efficiency measures  
2 through the fuel clause, that is a door that can be  
3 swung very wide because there is a lot of different  
4 ways you can save in fuel costs by making the plant,  
5 you know, produce more kilowatt hours per unit of  
6 fuel. It is not changing the price of the fuel,  
7 it's just making the plant more efficient, and staff  
8 doesn't believe we should open that door.

9 **MR. BUTLER:** Mr. Chairman, may I briefly  
10 respond? It's Mr. Butler. Sorry.

11 **CHAIRMAN GRAHAM:** Well, none of my lights  
12 are on, so sure.

13 **MR. BUTLER:** Thank you, Mr. Chairman.

14 Just very briefly. I do not believe that  
15 this case can be distinguished from the FPL Turkey  
16 Point 3 and 4 thermal power uprate case under the  
17 fuel clause. I mean, in that instance it wasn't  
18 about efficiency, it was an increase in the output  
19 of the unit. The way that it was a measure of fuel  
20 savings is that because nuclear fuel costs are low  
21 and you are replacing more expensive fossil fuel  
22 power with that extra nuclear output, it reduced the  
23 overall fuel cost for customers. That is exactly  
24 what is happening here.

25 The only other point I would make is that

1 if you look at Item 10, you know, nothing in it in  
2 the words of the Commission's own decision express  
3 the distinction that staff is trying to draw between  
4 projects that save fuel costs in a variety of  
5 measures versus ones that somehow reduce the invoice  
6 price of the fuel. And, again, you know, the item  
7 is for fossil fuel related costs normally recovered  
8 through base rates, but which were not recognized or  
9 recovered in the cost levels used to determine  
10 current base rates, and which if expended will  
11 result in fuel savings to customers. And I won't go  
12 back through it, but we clearly meet each of the  
13 elements of the test as I just described. Thank  
14 you.

15 **CHAIRMAN GRAHAM:** Commission Balbis.

16 **COMMISSIONER BALBIS:** Thank you, Mr.  
17 Chair. I had one question previously, but that was  
18 answered by staff, and it was concerning the  
19 comparison of the Progress Energy cooling tower  
20 project and how it does not compare to this case.  
21 And then I guess the question procedurally I believe  
22 in the past we have voted individually on each  
23 issue, and it seems like the comments from the  
24 Commission that Issue 1 as far as whether or not it  
25 is eligible for the environmental cost-recovery

1 clause or not, but procedurally we can move forward  
2 on a motion on that issue, then I would like to make  
3 a motion to agree with staff's recommendation on  
4 Issue Number 1.

5 **COMMISSIONER EDGAR:** Second.

6 **CHAIRMAN GRAHAM:** So your motion is move  
7 staff recommendation on Issue 1, is that correct?

8 **COMMISSIONER BALBIS:** Correct.

9 **CHAIRMAN GRAHAM:** And seconded.

10 Any further discussion on that motion?

11 All in favor say aye.

12 (Vote taken.)

13 **CHAIRMAN GRAHAM:** Those opposed?

14 By your action you have approved the staff  
15 recommendation on Issue 1.

16 Commissioner Edgar, did you have  
17 something?

18 **COMMISSIONER EDGAR:** And my light wasn't  
19 even on. I did, and thank you for remembering.

20 Mr. Butler, and I know you have discussed  
21 this, but sometimes I need to hear things more than  
22 once. Why is it your position that this -- okay.  
23 First of all, if something -- I can understand a  
24 desire to have a cost go through a cost-recovery  
25 clause, but separate from that preference, why would



1 it be more appropriate for this item to go through  
2 cost-recovery for the fuel clause rather than to be  
3 absorbed or addressed as part of base rates?

4 **MR. BUTLER:** Commissioner Edgar, I think  
5 the answer to that question goes to what at least I  
6 understand was the purpose of Item 10 in the  
7 Commission's order many years ago in the first  
8 place, which is that I think the Commission wants to  
9 have an incentive or at least to remove the  
10 disincentives for a utility to incur costs of the  
11 sort that normally would go through base rates that  
12 will have the effect of saving fuel costs so that  
13 the utility is making sort of a neutral decision on  
14 whether those projects should be pursued.

15 I mean, fundamentally you have this issue  
16 that there is two different pots of recovery, and if  
17 you do some sort of capital improvement that would  
18 normally be base rate recoverable, the reason for  
19 doing it and the consequence of it is fuel savings,  
20 what ends up happening is all the fuel savings flow  
21 immediately through to customers through the fuel  
22 clause, but you don't have immediate cost-recovery  
23 for the project that the base rate element of that  
24 project in order to facilitate the fuel clause, so  
25 there is this sort of disconnect.

1           Now, I will say in the instance of this  
2 project, you know, we are going forward with it.  
3 You know, this isn't something that we won't do but  
4 for the clause recovery, but I think what we are  
5 talking about here is the importance of maintaining  
6 the consistency with the practice you had for quite  
7 a few years now of providing that sort of parallel  
8 and compatible recovery that where you recover or  
9 you expend costs in order to save fuel dollars that  
10 you don't have this differential in the recovery  
11 mechanism such that the utility has to wait until  
12 the next base rate proceeding before it sees any  
13 recovery for the project costs, yet all of the  
14 savings from that project flow immediately through  
15 the fuel clause to customers.

16           And as I understand Item 10, you know,  
17 that was what it was trying to address, and I think  
18 that, you know, the theory of that attempt to put  
19 things on a level playing field would apply to  
20 exactly this sort of project.

21           **COMMISSIONER EDGAR:** So is it a shorter  
22 way of saying perhaps some of the same thing to say  
23 that you believe it's more appropriate to go through  
24 the clause in order to avoid regulatory lag?

25           **MR. BUTLER:** That's right. It's sort of a

1 one-sided regulatory lag, that you have the lack of  
2 any regulatory lag on the passing of the savings  
3 through on the fuel side, but the regulatory lag on  
4 the recovery of the project costs that make those  
5 fuel savings possible.

6 So, yes, that is a good way to summarize  
7 it.

8 **COMMISSIONER EDGAR:** Mr. Chairman, can I  
9 ask a few more questions?

10 **CHAIRMAN GRAHAM:** Sure.

11 **COMMISSIONER EDGAR:** Thank you.

12 You have mentioned, Mr. Butler, that it is  
13 past practice and probably still -- probably  
14 accurate also to say even a goal of this Commission  
15 to incentivize decisions by utilities that will  
16 ultimately save fuel, save costs, et cetera. But  
17 you also, and I appreciate your candor, noted that  
18 this is a project that will occur regardless of  
19 whether cost-recovery is included.

20 From a policy standpoint, or a  
21 philosophical, or some other standpoint, how do I  
22 rationalize the requirement of the utility under the  
23 regulatory compact to take actions that will reduce  
24 costs, and will be more efficient, and will be to  
25 the benefit of ratepayers whether or not there is

1       there is separate cost-recovery?

2                   **MR. BUTLER:** Well, utilities certainly  
3       have an obligation to run their business as  
4       cost-effectively. And, in general, I think that is  
5       a principle that regardless of the recovery  
6       mechanisms, FPL and other utilities strive to  
7       achieve that goal. But I think that what the fuel  
8       clause does that is a little bit different than what  
9       is often the case is to have these two different  
10      mechanisms that apply to the costs and the savings  
11      and the attempt of Item 10 was to put them on the  
12      same footing.

13                   Let's take an example of a capital project  
14      that could make it more efficient and cheaper to  
15      trim trees. You spend money now on a capital  
16      project that may be it's just better tree-trimming  
17      equipment and, therefore, you reduce your O&M  
18      expense to trim the trees. In the period in between  
19      base rates being set, the utility is actually seeing  
20      both sides of that. They spend the money on the  
21      capital project, it wasn't projected in the original  
22      base rates, so it is out of pocket for that, but it  
23      also sees the savings that are resulting from that  
24      as a reduction in its current expenses and that  
25      helps its earnings until the next time that its base

1 rates are set, and then sort of both the costs and  
2 the benefits of that capital improvement project are  
3 taken into account in the new base rates.

4 What is different, and what I think Item  
5 10 is trying to address here is that with respect to  
6 projects that mainly are implemented to save fuel  
7 costs, you don't have that same sort of parallel  
8 impact of the recovery. The utility is spending the  
9 money on the capital project. It does not get  
10 immediate recovery for it, but the fuel savings that  
11 result from it, it doesn't keep those as sort of an  
12 offset to its expenditure. They are all flowed  
13 100 percent through to customers.

14 And I agree with you that notwithstanding  
15 that sort of unlevel playing field, utilities have  
16 an obligation to be reasonable and prudent in their,  
17 you know, management of their businesses, but I also  
18 think it is true that the Commission has recognized  
19 that it is instances like that where the playing  
20 field isn't level. That sometimes it is appropriate  
21 to provide a mechanism that levels the playing  
22 field, and that's what I understand Item 10 to do.  
23 Applying it in this instance, I think, would level  
24 the playing field.

25 **COMMISSIONER EDGAR:** One more question.

1           In your opinion, is there a relationship  
2 or some interplay between the cost recovery or rate  
3 base accounting between -- let me start over. Is  
4 there an interplay between this project with the  
5 settlement agreement and the flexibility that the  
6 utility now has as far as managing earnings.

7           **MR. BUTLER:** I guess there is. I mean, I  
8 guess that -- and I'm sort of just thinking this up  
9 off the top of my head.

10           **COMMISSIONER EDGAR:** Me, too.

11           **MR. BUTLER:** And that is dangerous, but  
12 presumably if you don't allow cost recovery through  
13 the fuel clause here, what we will have is an  
14 increased base rate recovery requirement for the  
15 cost of the project that will, to some extent, you  
16 know, reduce our earnings from what they would  
17 otherwise be, and that we would end up having the  
18 mechanism of the settlement agreement to use some  
19 additional portion of, you know, the reserve surplus  
20 amortization to offset that. Of course in doing so,  
21 we would thereby increase rate base down the road  
22 for the reasons we were talking about earlier. So I  
23 suppose there is that, you know, there is some  
24 measure of interaction between them in that regard.  
25 So, yes, I guess that's the answer to your question.

1           I think that the mechanism that we have in  
2 Item 10 is intended to establish symmetry. I think  
3 that it does a lot clearer and more direct job of  
4 doing it than what you just described, but there is  
5 some measure of sort of second order effect under  
6 the settlement agreement, as you suggest.

7           **COMMISSIONER EDGAR:** And I would just ask  
8 if any of the other participants would like to  
9 comment on any of that, Mr. Beck or Ms. Kaufman, or  
10 both?

11           **MR. BECK:** Just briefly, Commissioner. I  
12 think I generally agree with what Mr. Butler said,  
13 but I think it is important to point out that as  
14 long as the company is earning within its range, it  
15 is recovering that plant. So, you know, the premise  
16 that it is not recovering that, I think, is false.  
17 As long as it is earning a reasonable rate of return  
18 it is recovering the cost of that plant.

19           **MS. KAUFMAN:** And I don't have anything to  
20 add other than to say that I do agree with Mr. Beck,  
21 and to have you think as Mr. Beck and I discussed  
22 previously is what we are talking about here is a  
23 turbine, a big piece of equipment that is typically  
24 recovered as a capital item through base rates, and  
25 I think that there is no exception that I'm aware of

1 for this particular project. But to your question  
2 about the settlement, I do think there is interplay  
3 between that, just as Mr. Butler has described.

4 **CHAIRMAN GRAHAM:** Commissioner Balbis.

5 **COMMISSIONER BALBIS:** Thank you, Mr.  
6 Chair.

7 I just want to focus a little bit on the  
8 cost-recovery from Mr. Butler. You made the  
9 statement that this is an unanticipated expense that  
10 wasn't included in the rate case, so, therefore, you  
11 wouldn't be able to recover it through traditional  
12 base rates, et cetera. The question is couldn't you  
13 argue that this is more of a replacement of a piece  
14 of equipment, which should be, one, included in your  
15 plant-in-service costs, so therefore it is  
16 recoverable, or there is some other contingency fund  
17 that you would have for R&R type projects like this  
18 where you are already collecting for that and by  
19 definition would be recoverable. And why couldn't  
20 you not consider this a replacement rather than a  
21 new piece of capital equipment that you weren't  
22 anticipating?

23 **MR. BUTLER:** Well, it is not a repair or a  
24 replacement in the sense of a component that has  
25 either failed or degraded and needs to be replaced.



1 My understanding is the existing high pressure  
2 turbine works just fine. It just doesn't generate  
3 as much output as efficiently as the new one would.  
4 So this is one of those purely elective capital  
5 upgrade projects that FPL has chosen to undertake in  
6 order to increase the output and offset the  
7 parasitic loads as Mr. Hamp described.

8 So it is the sort of thing that  
9 conventionally would be recovered through base  
10 rates, and I would note that is what Item 10 is  
11 addressed to is things that are conventionally  
12 recovered through base rates, but which because of  
13 the timing, and just reiterating here, we projected  
14 the 2010 test year in late 2008. It really wasn't  
15 until early 2010 that this window of opportunity  
16 that Mr. Hamp had described became apparent where we  
17 could do this project without running afoul of the  
18 environmental requirements that would otherwise  
19 apply when you upgrade the turbine.

20 And so we did not have anything in our  
21 base rate filing for this item. And, therefore,  
22 focusing on that particular item, there was no  
23 recovery built into base rates. And Mr. Beck had  
24 noted that if we are earning within our authorized  
25 return that we recover on whatever is in base rates,

1 and at some level that is true, but I would just go  
2 back to, again, my understanding of the purpose of  
3 Item 10 is symmetry, that you are wanting to have a  
4 mechanism that is as sensitive and responsive on the  
5 base rate side with respect to the capital projects  
6 as the expense side is on the fuel savings once they  
7 are beginning to flow through to customers. And  
8 that is really what this is about is the symmetry of  
9 the recovery.

10 **COMMISSIONER BALBIS:** Okay. And then one  
11 follow-up on the discussion on the flexibility with  
12 the stipulation.

13 **MR. BUTLER:** Uh-huh.

14 **COMMISSIONER BALBIS:** Again, what is the  
15 total cost of this project for the turbines is  
16 approximately --

17 **MR. BUTLER:** \$7 million.

18 **COMMISSIONER BALBIS:** \$7 million. The  
19 question is, so, theoretically, FPL if there is a  
20 month where there is potential overearnings in lieu  
21 of having additional depreciation during that month,  
22 they could recover the costs for the \$7 million or a  
23 portion of which over a period of time. Again, just  
24 clarifying that there is flexibility with the  
25 stipulation to do those types of things.

1           **MR. BUTLER:** That is true. I mean, just  
2 to be precise, this is a capital expenditure so what  
3 really happens is it goes into rate base. There are  
4 return requirements on it, and depreciation on it is  
5 what would be showing up monthly in the surveillance  
6 report as one of the revenue requirements for the  
7 company. But to the extent they are higher because  
8 it is in there and not recovered through the fuel  
9 clause or the environmental clause, that would pull  
10 down our return from where it otherwise would be.  
11 And as we discussed earlier, the settlement  
12 agreement has the provision for varying the amount  
13 of reserve surplus that's taken.

14           **COMMISSIONER BALBIS:** Okay. And you made  
15 a good point. I'm glad you brought that up. Since  
16 this will be an asset that I assume will be  
17 depreciated over the life of the asset, so the  
18 overall \$7 million over a 10, 15, 20-year life, or  
19 what it may be, it should be an insignificant,  
20 relatively insignificant monthly cost to the books,  
21 et cetera, and gives you maybe more flexibility,  
22 rather than a \$7 million hit, and maybe much less  
23 than that per month.

24           **MR. BUTLER:** It certainly wouldn't be  
25 \$7 million per month. I mean, it is a significant

1 amount, because when you take into account both the  
2 return requirement, the taxes on the return  
3 requirement, and the depreciation, I always think of  
4 something in the order of 15 to 20 percent of the  
5 capital amount as what gets recovered in the revenue  
6 requirement each year, so it's certainly a seven  
7 figure number, but it is not as large as 7 million  
8 if you took it just as a lump sum recovery.

9 **COMMISSIONER BALBIS:** Okay. Thank you.  
10 No further questions.

11 **CHAIRMAN GRAHAM:** No lights are on. Can I  
12 get a motion from somebody? Somebody want the  
13 gavel?

14 (Laughter.)

15 **CHAIRMAN GRAHAM:** I move staff  
16 recommendation on Issue Number 2.

17 **COMMISSIONER EDGAR:** Commissioners, we  
18 have a motion on Issue 2. Is there a second for  
19 discussion?

20 **COMMISSIONER BALBIS:** I will second for  
21 purposes of discussion.

22 **COMMISSIONER EDGAR:** A motion has been  
23 made and seconded. Is there discussion? I don't  
24 have any button lights, or anything, so just wave at  
25 me.

1                   **COMMISSIONER BALBIS:** I just want to,  
2 again, clarify from Ms. Brown on the Attachment A  
3 that is included in the staff recommendation.  
4 Again, it lists the 15 other projects where capital  
5 costs were recovered through the fuel clause. And,  
6 again, not to summarize the summary recommendation,  
7 but staff's position is that of the two items that  
8 were truly capital costs that they are really not  
9 comparable to this turbine project, is that correct?

10                   **MS. BROWN:** Yes, I think that would be  
11 correct. If you want more specifics on that, I  
12 would defer to Mr. Lester or Mr. Hinton.

13                   **MR. HINTON:** Mr. Butler has pointed to the  
14 nuclear plant turbine upgrade as directly applicable  
15 in this case, and it would seem to be very similar  
16 because in both cases you are talking about a  
17 turbine. But that case in and of itself -- I'm not  
18 sure I should be saying this, but I don't believe  
19 that was a good decision to allow a nonfossil fuel  
20 related capital expenditure through the fuel clause.  
21 And I certainly wouldn't recommend that that  
22 decision and that rationale be repeated here.

23                   There is also the security costs. That  
24 was truly an anomaly. That was quickly put into a  
25 different -- it was put into capacity cost-recovery

1 clause. Everything else that you have on that list  
2 deals with either changing to a lower priced fuel or  
3 capital item that was going to decrease the price of  
4 fuel coming to the plant.

5 You know, the project that we have here  
6 has nothing to do with the purchase of fuel, the  
7 storage of fuel, the transportation of fuel. It's  
8 about the efficiency of the plant.

9 **COMMISSIONER BALBIS:** Thank you. Just a  
10 follow up, as well. From a precedent standpoint, I  
11 know you made the comment on the improved efficiency  
12 project. Just speculating, what other types of --  
13 if we set this precedent now, what other types of  
14 efficiency projects do you see possibly people  
15 trying to push through in this manner?

16 **MR. HINTON:** Not to give a lot ideas,  
17 but --

18 **MS. BROWN:** Everything.

19 **MR. HINTON:** There are all kinds of  
20 different projects. Any turbine blade upgrade will  
21 result in more efficient plant. I don't know if we  
22 have got an engineer up here that can answer more  
23 specifics.

24 **MR. LESTER:** Pete Lester with staff. Any  
25 improvement to the nuclear plant is going to be a

1 low cost generation compared to fossil fuel. It  
2 would displace fossil fuel generation, so it could  
3 be interpreted as being something that could go  
4 through the fuel clause. It would be pretty wide  
5 open to any nuclear plant improvement.

6 **COMMISSIONER BALBIS:** Okay. Thank you.

7 **COMMISSIONER BROWN:** I just have a comment  
8 since we don't have the button.

9 **CHAIRMAN GRAHAM:** I'm sorry, I've got the  
10 gavel back.

11 **COMMISSIONER BROWN:** Oh, good. Thank you.

12 I just have a comment. While it does at  
13 first flush, looking at the fuel clause, it does  
14 seem that there is more latitude obviously in this  
15 particular matter versus the ECRC. At further  
16 review, it just appears that this -- that there is  
17 another mechanism for recovery of the costs  
18 associated with it. That combined with the  
19 settlement agreement, I'm just offering some comment  
20 for discussion, I'm inclined to support staff's  
21 recommendation, because I do feel that it would not  
22 be fitting if you read the fine lines of recovery  
23 under the fuel clause. I think there is another  
24 mechanism that would support those costs. So just  
25 offering up conversation for discussion here.

1                   **CHAIRMAN GRAHAM:** Anyone else?

2                   Commissioner Brisé.

3                   **COMMISSIONER BRISÉ:** Thank you, Mr.

4                   Chairman.

5                   I think I concur with my colleagues in  
6                   that I think even one of the clauses that was  
7                   presented is probably not the most appropriate  
8                   avenue to attempt to recover these costs. But then  
9                   more importantly is the potential of setting  
10                  precedent for a wide open door, and I think that  
11                  that concerns me more than this particular instance.  
12                  I think the other decisions in the past have  
13                  actually predicated this particular situation, and  
14                  if we do this today we will open the door for  
15                  further situations. So with that, I think I'm  
16                  inclined to support staff's recommendation on this  
17                  issue.

18                  **CHAIRMAN GRAHAM:** Seeing no other lights  
19                  on, all in favor say aye.

20                  (Vote taken.)

21                  **CHAIRMAN GRAHAM:** Those opposed?

22                  By your action you have approved staff  
23                  recommendation on Issue Number 2.

24                  Issue Number 3. Can I get someone to move  
25                  staff recommendation?



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**COMMISSIONER EDGAR:** So moved.

**CHAIRMAN GRAHAM:** And second?

**COMMISSIONER BROWN:** Second.

**CHAIRMAN GRAHAM:** All in favor say aye.

(Vote taken.)

**CHAIRMAN GRAHAM:** Those opposed?

By your action you have approved staff  
recommendation on Issues 1, 2, and 3, which  
concludes Item Number 11. And unless I have missed  
something, staff, we are adjourned.

\* \* \* \* \*

1 STATE OF FLORIDA )

2 : CERTIFICATE OF REPORTER

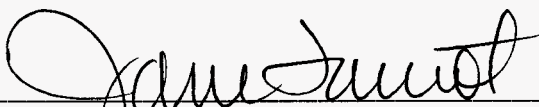
3 COUNTY OF LEON )

4 I, JANE FAUROT, RPR, Chief, Hearing Reporter  
5 Services Section, FPSC Division of Commission Clerk, do  
6 hereby certify that the foregoing proceeding was heard  
at the time and place herein stated.

7 IT IS FURTHER CERTIFIED that I  
8 stenographically reported the said proceedings; that  
9 the same has been transcribed under my direct  
supervision; and that this transcript constitutes a  
true transcription of my notes of said proceedings.

10 I FURTHER CERTIFY that I am not a relative,  
11 employee, attorney or counsel of any of the parties,  
12 nor am I a relative or employee of any of the parties'  
attorney or counsel connected with the action, nor am I  
financially interested in the action.

13 DATED THIS 14th day of January, 2010.

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16 \_\_\_\_\_  
17 JANE FAUROT, RPR  
18 Official FPSC Hearings Reporter  
19 (850) 413-6732  
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# AUGUST 19, 2010 INFORMAL MEETING New CAIR Compliance Project Activity: Scherer Unit 4 Turbine Upgrade

Partic/Staff Handout  
Internal Affairs/Agenda  
on 11/11/11  
Item No. 11  
Docket No. 100404-EI

## **CAIR Compliance Project at Scherer Unit 4**

### **Compliance with Georgia Multi-pollutant rule and CAIR requires installation of controls on Scherer Unit 4**

- Installation of emission controls on Plant Scherer Unit 4 was proposed, and subsequently approved by this Commission, as a cost-effective approach to meet the emission reductions required under the Clean Air Interstate Rule (CAIR) and the Clean Air Mercury Rule (CAMR) cap-and-trade programs.
- On December 3, 2008 the Georgia Environmental Protection Division adopted the Multi-Pollutant Rule 391-3-1-(sss), (GA MPR), requiring reduction of SO<sub>2</sub>, NO<sub>x</sub> and Mercury emissions through installation of pollution controls on specific coal-fired units in Georgia including Scherer Unit 4.
- The GA MPR specifies that Scherer Unit 4 is required to install and operate a sorbant injection/baghouse, Selective Catalytic Reduction (SCR) and Flue Gas Desulfurization (FGD) no later than December 31, 2012.

## Timing of implementing turbine upgrade is important

### Turbine Upgrade must be performed prior to Unit 4 return to service following installation of FGD & SCR

- Major New Source Review (NSR) requirements of the Clean Air Act require sources to apply New Source Performance Standards and Best Available Control Technology (BACT) for new major sources of air pollutants, and for major modifications of existing sources.
- Modification of the Scherer Unit 4 HP turbine without installation of pollution controls would represent a major modification and require NSR applicability.
- Similarly, emission increases from an upgrade of the HP turbine made after installation of pollution controls would also represent a major modification requiring NSR applicability.
- Installation of the Scherer Unit 4 turbine upgrade immediately prior to, or concurrently with, installation of pollution controls would not represent a major modification, thus avoiding incremental NSR applicability requirements.

## Customer Fuel Savings from project are significant

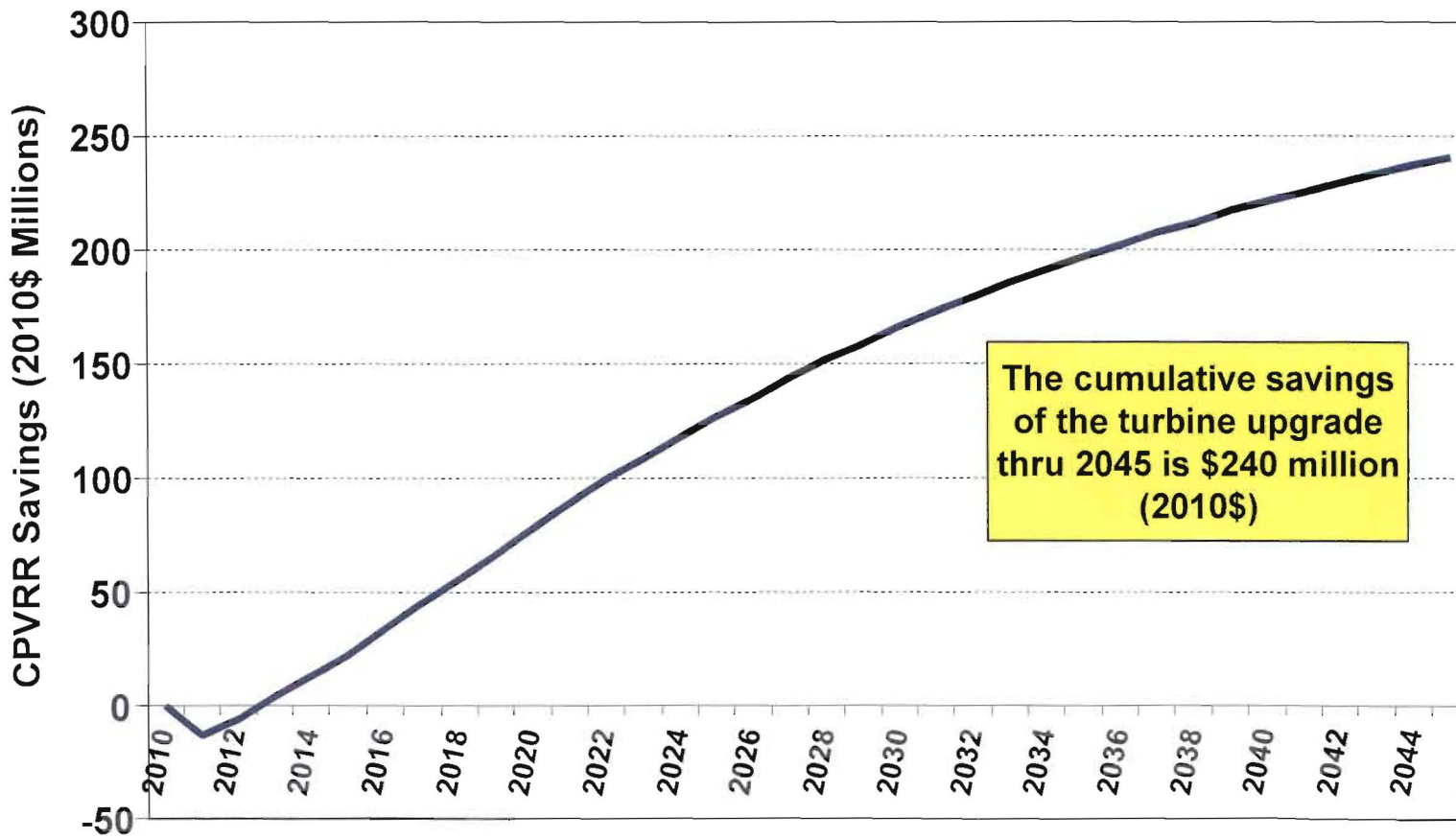
### Steam Turbine Upgrade is highly cost effective way to offset MW loss from pollution controls

- Without the Upgrade, FPL will have to replace more than 215 GWh per year of coal-fired output with more expensive generation.
- Heat rate efficiency improvement from Upgrade results in fuel savings
- Upgrade is highly cost-effective, with a capital investment of approximately \$7 million yielding NPV savings to FPL's customers of \$240 million (2010\$) thru 2045.
- Added Scherer Unit 4 output improves fuel diversity by reducing dependence on natural gas generation.
- Upgrade helps maintain system capability and reserve margins.

# Customer Fuel Savings from project are significant

## Scherer Turbine Upgrade Project Net Present Value of Revenue Requirements

Scherer 4 Turbine 35 MW Upgrade  
Project CPVRR Savings



## Scherer Turbine Upgrade Cost Recovery

### Commission has previously approved ECRC cost recovery for similar project at another facility

- Commission approved ECRC recovery of capital costs for Progress Energy Florida's Modular Cooling Tower Project, which reduced limitation on generating unit output from discharge temperature requirements. *(PSC-07-0722-FOF-EI)*
- Similarly, the Scherer Unit 4 Steam Turbine Upgrade will reduce the limit on generating unit output resulting from installation and operation of CAIR and CAMR pollution controls, thus providing cost effective generation that:
  - **Restores system capability**
  - **Promotes fuel diversity**
  - **Improves unit efficiency**



## Scherer Turbine Upgrade Cost Recovery

**Commission also has previously approved FCR Clause cost recovery for similar project at another facility**

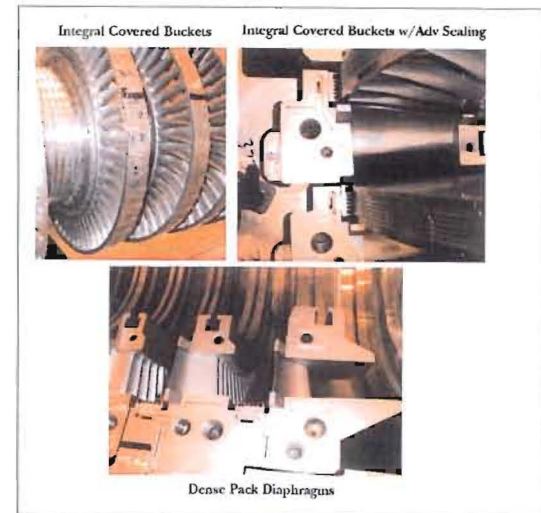
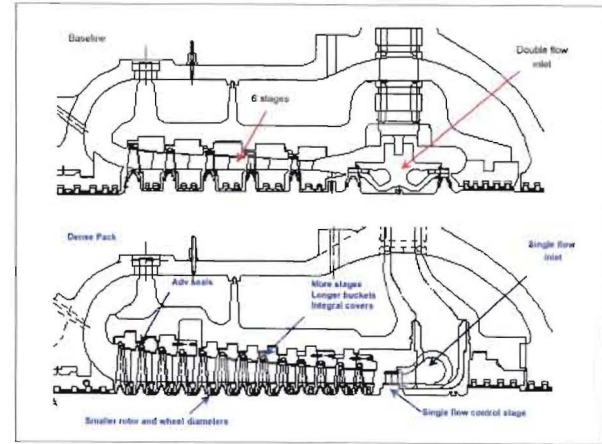
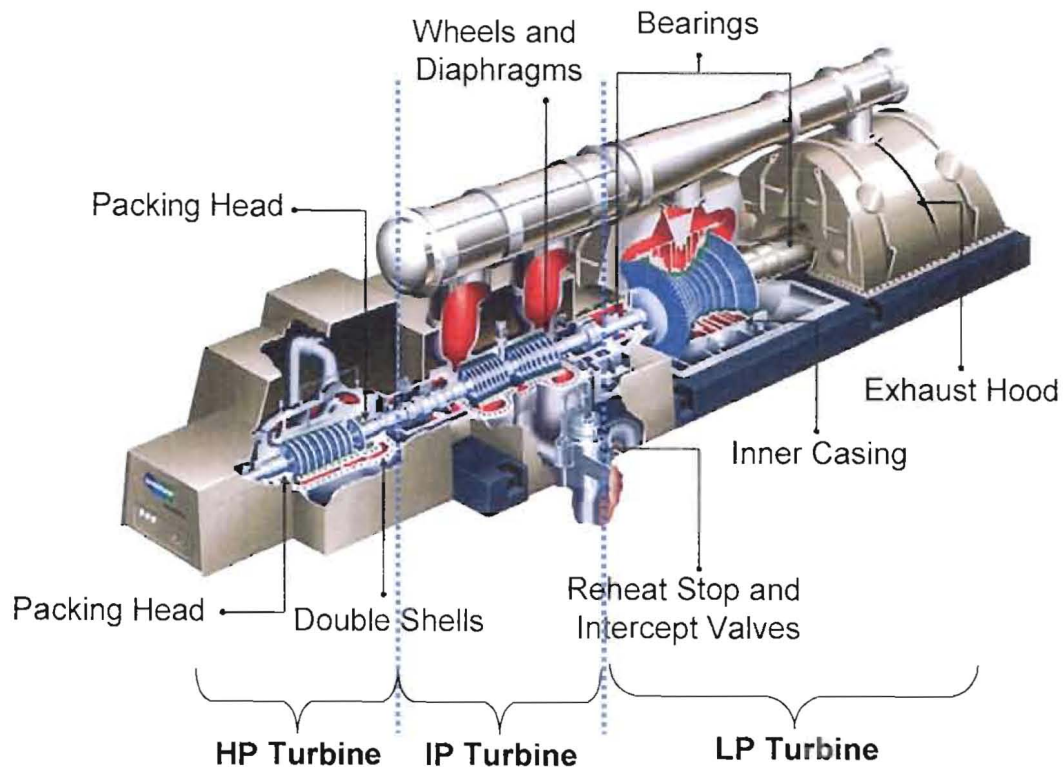
- Commission approved recovery of FPL thermal uprate projects at Turkey Point nuclear units 3 & 4 under the FCR clause because they which reduced FPL system requirements for fossil fuel generation and thus saved fossil fuel costs, as contemplated in Order No. 14546 (*PSC-96-1172-FOF-EI*)
- Similarly, the Scherer Unit 4 Steam Turbine Upgrade will increase coal-fired generation, which will reduce FPL system requirements for fossil fuel generation and thus save fossil fuel costs.



# Appendix

Rev. 1  
7/30/10

# Steam Turbine





Unit 3/4 Wet Stack

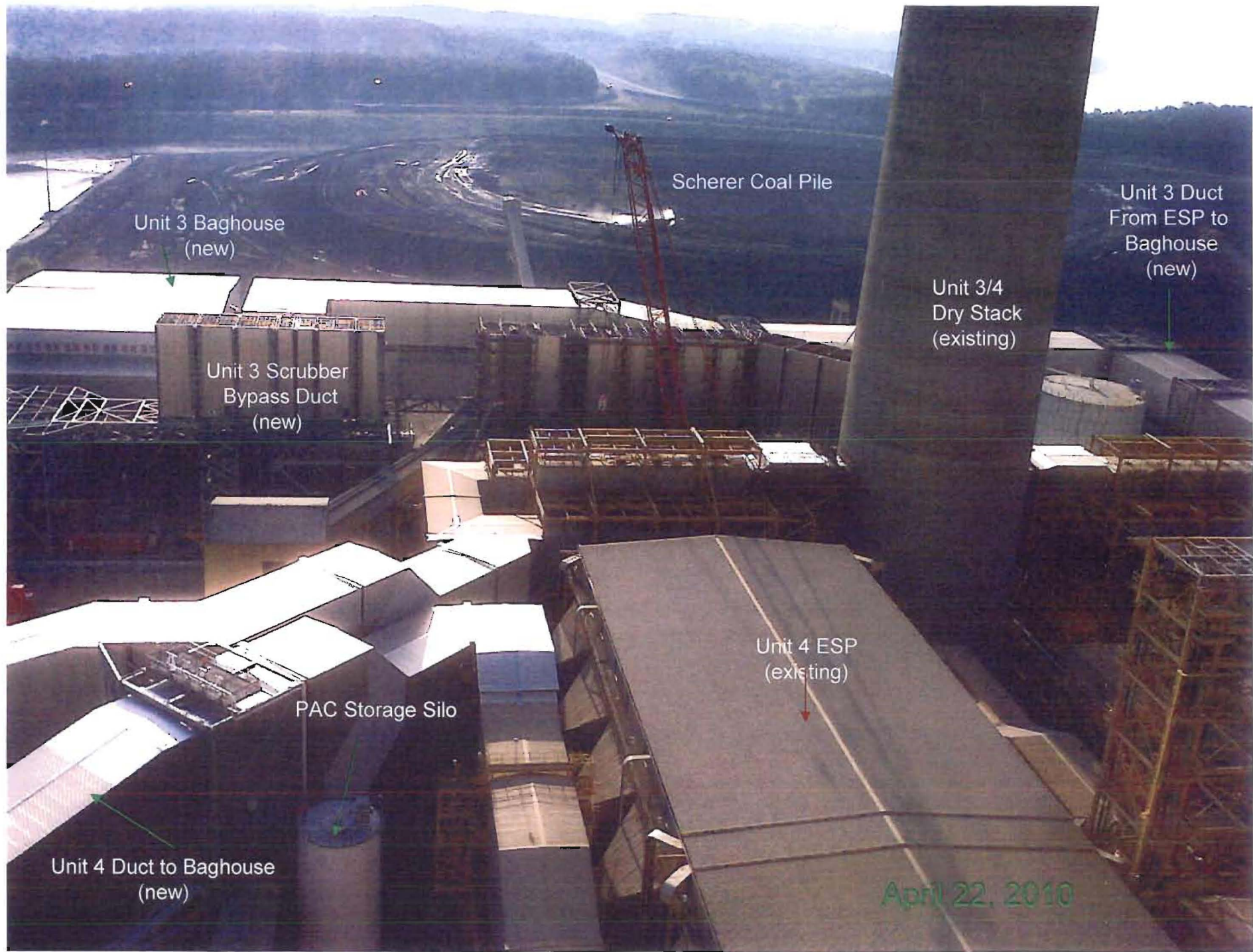
Unit 4 Scrubber Vessel

Unit 4 Baghouse

Unit 4 Gypsum Removal Support

PAC/Ash Silo

April 22, 2010



Scherer Coal Pile

Unit 3 Baghouse  
(new)

Unit 3 Scrubber  
Bypass Duct  
(new)

Unit 3/4  
Dry Stack  
(existing)

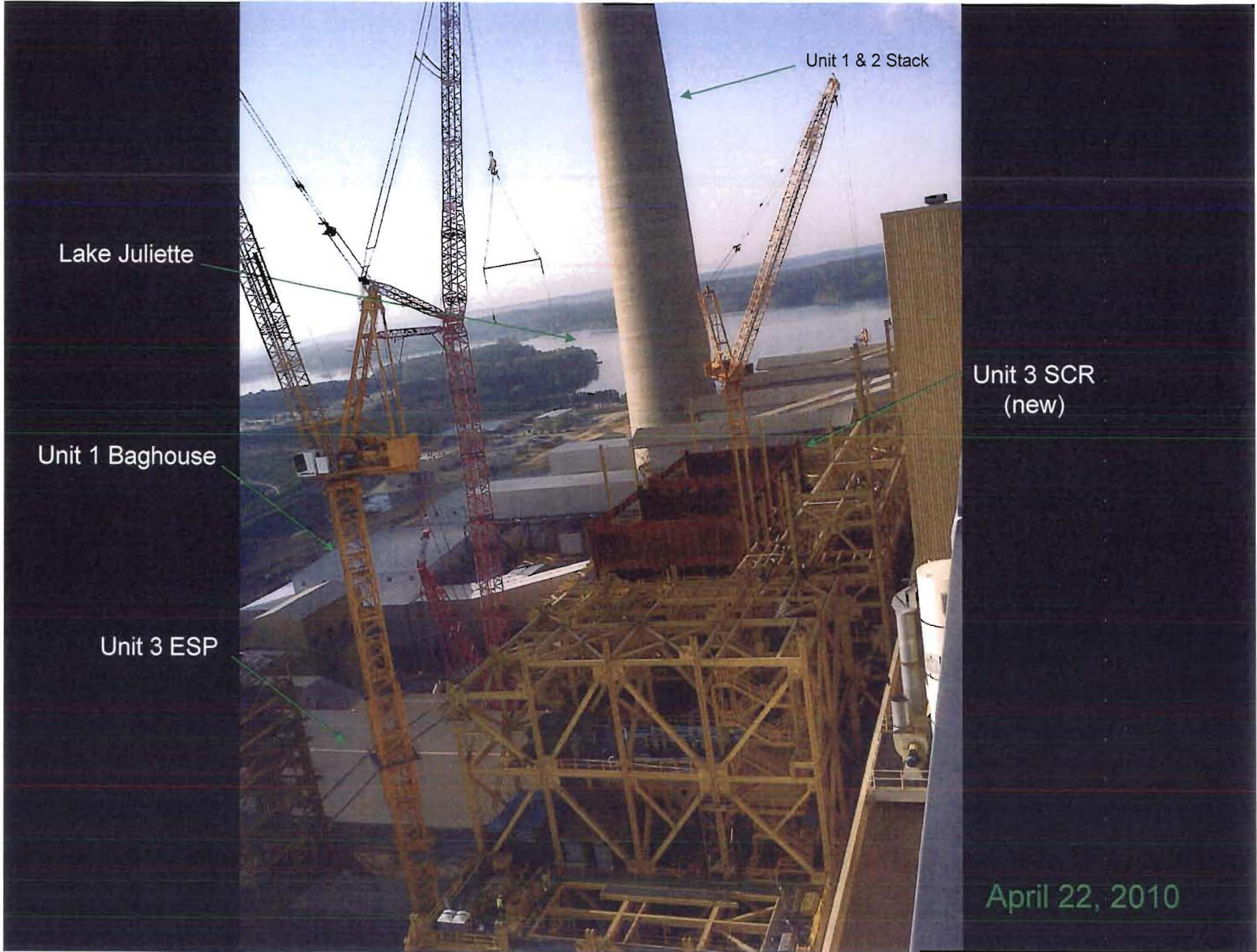
Unit 3 Duct  
From ESP to  
Baghouse  
(new)

Unit 4 ESP  
(existing)

PAC Storage Silo

Unit 4 Duct to Baghouse  
(new)

April 22, 2010



Lake Juliette

Unit 1 Baghouse

Unit 3 ESP

Unit 1 & 2 Stack

Unit 3 SCR  
(new)

April 22, 2010