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October 29, 2001

Ms. Blanca S. Bayo, Director
Division of the Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

Dear Ms. Bayo:

RE: Docket No. 010001-EI

Enclosed are an original and ten copies of the Prehearing Statement of Gulf Power Company to be filed in the above docket.

Also enclosed is a 3.5 inch double sided, high density diskette containing the Statement in WordPerfect 8 for Windows 6.1 format as prepared on a Windows NT based computer.

Sincerely,

A handwritten signature in cursive script that reads "Susan D. Ritenour (lew)".

Susan D. Ritenour
Assistant Secretary and Assistant Treasurer

lw

Enclosure

cc: Beggs and Lane
J. A. Stone, Esquire

DOCUMENT NUMBER-DATE
13763 OCT 31 2001
FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Fuel and Purchased Power Cost)
Recovery Clauses and Generating)
Performance Incentive Factor)
)
_____)

Docket No. 010001-EI
Date Filed: October 30, 2001

PREHEARING STATEMENT OF GULF POWER COMPANY

Gulf Power Company, (“Gulf Power”, “Gulf”, or “the Company”), by and through its undersigned attorneys, and pursuant to Rule 25-22.038(3), Florida Administrative Code, files this prehearing statement, saying:

A. APPEARANCES:

JEFFREY A. STONE, Esquire, and RUSSELL A. BADDERS,
Esquire, of Beggs & Lane, 700 Blount Building, 3 West Garden
Street, P.O. Box 12950, Pensacola, FL 32576-2950
On behalf of Gulf Power Company.

B. WITNESSES: All witnesses known at this time, who may be called by Gulf Power

Company, along with the subject matter and issue numbers which will be covered by the witness'

testimony, are as follows:

	<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
	<u>(Direct)</u>		
1.	M. F. Oaks (Gulf)	Fuel Adjustment, true-up and projections; Hedging fuel transactions	1, 2, 4, 11, 17A, 22A
2.	T. A. Davis (Gulf)	Fuel Adjustment, true-up and projections; Regulatory treatment of capital projects	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 15, 16, 25, 26, 27, 28, 29, 30, 31
3.	J. R. Douglas (Gulf)	GPIF, reward/penalty and targets and ranges	23, 24
4.	M. W. Howell (Gulf)	Purchased Power -- energy and capacity purchases and sales, projections; Management of wholesale energy risks; Crist Unit 2 outage	1, 2, 4, 9, 10, 22A, 25, 26, 28
5.	S. D. Ritenour	Authorized return on common equity and fuel and purchased power cost recovery clause	17
6.	R. J. McMillan	Regulatory treatment of gains, losses and other costs and receipts related to hedging; Regulatory treatment of capital projects	12, 13, 14, 15, 22B, 22C

C. EXHIBITS:

<u>Exhibit Number</u>	<u>Witness</u>	<u>Description</u>
_____ (MFO-1)	Oaks	Coal Suppliers January 2000 - December 2000
_____ (MFO-2)	Oaks	Projected vs. actual fuel cost of generated power March 1991 - December 2002
_____ (TAD-1)	Davis	Calculation of Final True-Up for Fuel and Capacity, January 2000 - December 2000
_____ (TAD-2)	Davis	Calculation of Estimated True-Up for Fuel and Capacity, January 2001 - December 2001
_____ (TAD-3)	Davis	Calculation of Projected Costs for Fuel and Capacity, January 2002 - December 2002
_____ (JRD-1)	Douglas	Gulf Power Company GPIF Results January 2000 - December 2000
_____ (JRD-2)	Douglas	Gulf Power Company GPIF Targets and Ranges January 2002 - December 2002
_____ (MWH-1)	Howell	Gulf Power Company Projected Purchased Power Contract Transactions January 2002 - December 2002

D. STATEMENT OF BASIC POSITION:

Gulf Power Company's Statement of Basic Position:

It is the basic position of Gulf Power Company that the proposed fuel factors present the best estimate of Gulf's fuel expense for the period January 2002 through December 2002 including the true-up calculations, GPIF and other adjustments allowed by the Commission.

E. STATEMENT OF ISSUES AND POSITIONS:

Generic Fuel Adjustment Issues

ISSUE 1: What are the appropriate final fuel adjustment true-up amounts for the period January 2000 through December 2000?

GULE: Over recovery \$6,907,921. (Oaks, Howell, Davis)

ISSUE 2: What are the estimated fuel adjustment true-up amounts for the period January 2001 through December 2001?

GULE: Under recovery \$17,609,612. (Oaks, Howell, Davis)

ISSUE 3: What are the total fuel adjustment true-up amounts to be collected from January, 2002 to December, 2002?

GULE: Under recovery \$10,701,691. (Davis)

ISSUE 4: What are the appropriate levelized fuel cost recovery factors for the period January, 2002 to December, 2002?

GULE: 2.212¢/KWH. (Oaks, Howell, Davis)

ISSUE 5: What should be the effective date of the fuel adjustment charge and capacity cost recovery charge for billing purposes?

GULE: The factors should be effective beginning with the specified billing cycle and thereafter for the period January, 2002 through December, 2002. Billing cycles may start before January 1, 2002 and the last cycle may be read after December 31, 2002 so that each customer is billed for twelve months regardless of when the adjustment factor became effective. (Davis)

ISSUE 6: What are the appropriate fuel recovery line loss multipliers to be used in calculating the fuel cost recovery factors charged to each rate class/delivery voltage level class?

GULF: See table below: (Davis)

Group	Rate Schedules	Line Loss Multipliers
A	RS, GS, GSD, SBS, OSIII, OSIV	1.01228
B	LP, SBS	0.98106
C	PX, RTP, SBS,	0.96230
D	OSI, OSII	1.01228

ISSUE 7: What are the appropriate Fuel Cost Recovery Factors for each rate class/delivery voltage level class adjusted for line losses?

GULF: See table below: (Davis)

Group	Rate Schedules*	Fuel Cost Factors ¢/KWH		
		Standard	Time of Use	
			On-Peak	Off-Peak
A	RS, RSVP, GS, GSD, SBS, OSIII, OSIV	2.239	2.713	2.038
B	LP, LPT, SBS	2.170	2.629	1.975
C	PX, PXT, RTP, SBS	2.129	2.579	1.938
D	OSI, OSII	2.208	N/A	N/A

*The recovery factor applicable to customers taking service under Rate Schedule SBS is determined as follows: customers with a Contract Demand in the range of 100 to 499 KW will use the recovery factor applicable to Rate Schedule GSD; customers with a Contract Demand in the range of 500 to 7,499 KW will use the recovery factor applicable to Rate Schedule LP; and customers with a Contract Demand over 7,499 KW will use the recovery factor applicable to Rate Schedule PX.

ISSUE 8: What is the appropriate revenue tax factor to be applied in calculating each company's levelized fuel factor for the projection period of January, 2002 to December, 2002?

Gulf: 1.01597. (Davis)

ISSUE 9: What is the appropriate benchmark level for calendar year 2001 for gains on non-separated wholesale energy sales eligible for a shareholder incentive as set forth by Order No. PSC-00-1744-PAA-EI, in Docket No. 991779-EI, issued September 26, 2000, for each investor-owned electric utility?

GULF: \$830,000. (Davis, Howell)

ISSUE 10: What is the appropriate estimated benchmark level for calendar year 2002 for gains on non-separated wholesale energy sales eligible for a shareholder incentive as set forth by Order No. PSC-00-1744-PAA-EI, in Docket No. 991779-EI, issued September 26, 2000, for each investor-owned electric utility?

GULF: \$1,208,241. (Davis, Howell)

ISSUE 11: Has each investor-owned utility taken reasonable steps to manage the risks associated with its fuel transactions through the use of physical and financial hedging practices?

GULF: Yes, with regard to Gulf Power Company. (Oaks)

ISSUE 12: What is the appropriate regulatory treatment for gains and losses from hedging an investor-owned electric utility's fuel transactions through futures contracts?

GULF: All gains, losses and other costs and receipts related to hedging fuel transactions through futures should be included in the determination of the recoverable fuel costs by the utility in the Commission's fuel and purchased power cost recovery clause. (McMillan)

ISSUE 13: What is the appropriate regulatory treatment for the premiums received and paid for hedging an investor-owned electric utility's fuel transactions through options contracts?

GULF: Any premiums received and paid for hedging fuel transactions through the use of options contracts should be included in the determination of the recoverable fuel costs by the utility in the Commission's fuel and purchased power cost recovery clause. (McMillan)

ISSUE 14: What is the appropriate regulatory treatment for the transaction costs associated with an investor-owned electric utility hedging its fuel transactions?

GULF: All transaction costs associated with hedging fuel transactions should be included in the determination of the recoverable fuel costs by the utility in the Commission's fuel and purchased power cost recovery clause. (McMillan)

ISSUE 15: What is the appropriate regulatory treatment for capital projects with an in-service date on or after January 2002, that are expected to reduce long-term fuel costs?

GULF: The carrying costs associated with capital projects that are related to the fuel program should be recoverable by the utility in the Commission's fuel and purchased power cost recovery clause. (Davis, McMillan)

ISSUE 16: What is the appropriate rate of return on the unamortized balance of capital projects with an in-service date on or after January 1, 2002, that are expected to reduce long-term fuel costs?

GULF: The rate of return used should be based on the utility's capital structure and cost rates that were approved in that utility's last rate case. The mid-point of the allowed range for return on equity has been utilized in this and in other cost recovery clauses. (Davis)

ISSUE 17: If an investor-owned electric utility exceeds the ceiling on its authorized return on common equity, can and/or should the Commission reduce by a commensurate amount recovery of prudently-incurred expenditures through the Commission's fuel and purchased power cost recovery clause?

GULF: No. (Ritenour)

ISSUE 17A: Should voluntary funding of the Gas Research Institute (GRI) surcharge be recovered through the fuel and purchased power cost recovery clause?

GULF: The GRI surcharge paid by Gulf is not a voluntary charge. This surcharge is included in the transportation costs associated with Gulf's gas purchases. All natural gas transportation costs, including the GRI surcharge, should be recoverable by the utility in the Commission's fuel and purchased power cost recovery clause. (Oaks)

Company-Specific Fuel Adjustment Issues

ISSUE 22A: Were Gulf Power's replacement fuel costs for the unplanned outage at Crist Unit 2, commencing on August 2, 2000, reasonable?

GULF: Yes. Gulf did not buy any additional fuel to specifically compensate for the unavailability of this peaking unit. During the majority of this unplanned outage, Crist Unit 2 would not have been called upon in economic dispatch had it been available. (Howell, Oaks)

ISSUE 22B: As stated in Audit Disclosure No. 3 of Audit Control No. 01-053-1-1, and Audit Disclosure No. 3 of Audit Control No. 01-023-1-1, did Gulf Power Company overstate Interchange Sales reported for the year ended December 31, 2000, by \$385,796?

GULF: The Company inadvertently overstated the emission allowance costs related to Interchange Sales in August 2000, which understated the net recoverable fuel expense by \$385,796. The error was found, documented and provided to the FPSC auditor during an audit. (McMillan)

ISSUE 22C: If Gulf Power Company did overstate Interchange Sales reported for the year ended December 31, 2000, by \$385,796, what are the appropriate corrective actions that Gulf Power Company should take?

GULF: Gulf has already made a correcting entry in July 2001 by reducing the emission costs for July by the same amount. In the over/under recovery calculation, this corrects the understatement of net recoverable fuel expenses in the previous period. (McMillan)

Generic Generating Performance Incentive Factor Issues

ISSUE 23: What is the appropriate GPIF reward or penalty for performance achieved by Gulf Power Company during the period January, 2000 through December, 2000?

GULF: \$379,732 reward. (Douglas)

ISSUE 24: What should the GPIF targets/ranges be for the period January, 2002 through December, 2002?

GULF: See table below:

Unit	EAF	POF	EUOF	Heat Rate
Crist 4	90.9	6.3	2.8	10,499
Crist 6	77.3	15.9	6.8	10,546
Crist 7	79.7	10.1	10.2	10,196
Smith 1	90.7	6.8	2.5	10,054
Smith 2	86.6	10.7	2.7	10,050
Daniel 1	86.6	0.0	13.4	10,169
Daniel 2	87.2	0.0	12.8	9,774

EAF = Equivalent Availability Factor
POF = Planned Outage Factor
EUOF = Equivalent Unplanned Outage Factor

(Douglas)

Company-Specific GPIF Issues

NONE RAISED BY GULF POWER COMPANY

Generic Capacity Cost Recovery Factor Issues

ISSUE 25: What is the appropriate final purchased power capacity cost recovery true-up amounts for the period January, 2000 through December, 2000?

GULF: Over recovery of \$340,856. (Howell, Davis)

ISSUE 26: What is the estimated/actual capacity cost recovery true-up amount for the period January, 2001 through December, 2001?

GULF: Over recovery of \$1,515,391. (Howell, Davis)

ISSUE 27: What are the appropriate total capacity cost recovery true-up amount to be collected/refunded during the period January, 2002 through December, 2002?

GULE: Refund of \$1,856,247. (Davis)

ISSUE 28: What is the appropriate projected net purchased power capacity cost amount to be included in the recovery factor for the period January, 2002 through December, 2002?

GULE: \$3,307,150. (Howell, Davis)

ISSUE 29: What is the appropriate jurisdictional separation factor for capacity revenues and costs to be included in the recovery factor for the period January, 2002 through December, 2002?

GULE: 96.50747%. (Davis)

ISSUE 30: What are the appropriate capacity cost recovery factors for the period January, 2001 through December, 2001?

RATE CLASS	CAPACITY COST RECOVERY FACTORS ¢/KWH
RS, RST, RSVP	.038
GS, GST	.038
GSD, GSDT	.029
LP, LPT	.026
PX, PXT, RTP, SBS	.022
OSI, OSII	.005
OSIII	.023
OSIV	.011

Company-Specific Capacity Cost Recovery Issues

ISSUE 31: What is the appropriate adjustment to Gulf Power Company’s total recoverable capacity payments to reflect the former capacity transactions embedded in the company’s base rates, as reflected on line 8 of Schedule CCE-1?

GULE: The appropriate adjustment is to increase the annual recovery by \$1,652,000. This amount is twice the semi-annual amount of \$839,290 set forth in Order No. PSC-93-0047-FOF-EI, less revenue taxes. Line 8 reflects the adjustment properly. In Order No. PSC-93-0047-FOF-EI, the Commission allowed Gulf the recovery of its actual net capacity costs associated with the Intercompany Interchange Contract (“IIC”) and an amount equal to the IIC revenues reflected in base rates as a credit to the overall revenue requirement upon which base rates were set. It is this latter amount that is reflected as an adjustment on line 8 of Schedule CCE-1. The amount of the revenue credit reflected in Gulf’s base rates at the time of Gulf’s last rate case, Docket No. 891345-EI, was based on Gulf’s previous position as a net seller under the IIC. By the time the capacity clause was created, Gulf had become a net purchaser of capacity under the IIC. In Order No. PSC-93-0047-FOF-EI, the Commission determined the amount that must be

added back in the calculation of the capacity factor in order to fully reflect the Commission's intent to allow recovery of capacity costs not otherwise being recovered in any manner. This adjustment is appropriate until the conclusion of Gulf's current rate case, Docket No. 010949-EI. (Davis)

F. STIPULATED ISSUES

GULF: Yet to be determined. Gulf is willing to stipulate that the testimony of all witnesses whom no one wishes to cross examine be inserted into the record as though read, cross examination be waived, and the witness's attendance at the hearing be excused.

G. PENDING MOTIONS:

GULF: NONE.

H. OTHER MATTERS:

GULF: To the best knowledge of counsel, Gulf has complied, or is able to comply, with all requirements set forth in the orders on procedure and/or the Commission rules governing this prehearing statement. If other issues are raised for determination at the hearings set for November 21-22, 2001, Gulf respectfully requests an opportunity to submit additional statements of position and, if necessary, file additional testimony.

Dated this ^{29th} day of October, 2001.

Respectfully submitted,



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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Fuel and Purchased Power Cost)
Recovery Clause with Generating)
Performance Incentive Factor)
_____)

Docket No. 010001-EI

Certificate of Service

I HEREBY CERTIFY that a true copy of the foregoing was furnished by hand delivery or the U. S. Mail this 29th day of October 2001 on the following:

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