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A SOUTHERN COMPANY

October 15, 2004

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. 040001-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 Microsoft Word for Windows format as prepared on a Windows NT based computer.

Sincerely,

Susan D. Ritenour (lw)

- CMP _____
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- RCA _____
- SCR _____
- SEC 1 _____
- OTH _____

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Enclosure

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

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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. 040001-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 15th day of October 2004 on the following:

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Fuel and Purchased Power Cost)
Recovery Clauses and Generating) Docket No. 040001-EI
Performance Incentive Factor) Date Filed: October 17, 2004
)
)

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, P.O. Box 12950, Pensacola, FL
32591-2950
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>
(Direct)			
1.	H. R. Ball (Gulf)	Fuel Adjustment, true-up and projections	1, 2
2.	T. A. Davis (Gulf)	Fuel Adjustment and Purchased Power, true-up and projections	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 24, 25, 26, 27, 28, 29
3.	L. S. Noack (Gulf)	GPIF, reward/penalty and targets and ranges	18, 19, 22A, 22B, 22C
4.	H. Homer Bell, III (Gulf)	Purchased Power -- energy and capacity purchases and sales, projections	1, 2, 10, 11, 12, 24, 25, 27,

C. EXHIBITS:

<u>Exhibit Number</u>	<u>Witness</u>	<u>Description</u>
(HRB-1)	Ball	Coal Suppliers January 2003 - December 2003
(HRB-2)	Ball	Projected vs. actual fuel cost of generated power March 1995 - December 2005
(TAD-1)	Davis	Calculation of Final True-Up 1/03 - 12/03
(TAD-2)	Davis	Estimated true-up 01/04 – 12/04. Schedules E-1A, E-1B, E-1B-1, CCE-1a,CCE-1b
(TAD-3)	Davis	Projection 01/05 – 12/05. Schedules E-1 through E- 11, H1, CCE-1, CCE-1A, CCE-1b, CCE-2
(LSN-1)	Noack	Gulf Power Company GPIF Results January 2003- December 2003
(LSN-2)	Noack	Gulf Power Company GPIF Targets and Ranges January 2005 - December 2005
(HHB-1)	Bell	Gulf Power Company Projected Purchased Power Contract Transactions January 2005 - December 2005

D. STATEMENT OF BASIC POSITION:

Gulf Power Company's Statement of Basic Position:

It is the basic position of Gulf Power Company that the fuel factors proposed by the Company present the best estimate of Gulf's fuel expense for the period January 2005 through December 2005 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 2003 through December 2003?

GULF: Over recovery \$2,535,018. (Ball, Bell, Davis)

ISSUE 2: What are the appropriate estimated fuel adjustment true-up amounts for the period January 2004 through December 2004?

GULF: Under recovery \$29,107,969. (Ball, Bell, Davis)

ISSUE 3: What are the appropriate total fuel adjustment true-up amounts to be collected/refunded during the period January 2005 through December 2005?

GULF: Under recovery \$26,572,951. (Davis)

ISSUE 4: What is the appropriate revenue tax factor to be applied in calculating each investor-owned electric utility's levelized fuel factor for the projection period of January 2005 through December 2005?

GULF: 1.00072. (Davis)

ISSUE 5: What are the projected net fuel and purchased power cost recovery amounts to be included in the recovery factor for the projection period of January 2005 through December 2005?

GULF: \$310,521,528. (Davis)

ISSUE 6: What are the appropriate levelized Fuel Cost Recovery Factors for the period January 2005 through December 2005?

GULF: 2.822. (Davis)

ISSUE 7:

What are the appropriate fuel recovery loss multipliers to be used in calculating the fuel cost recovery factors charged to each rate class?

GULF:

See table below: (Davis)

Group	Rate Schedules	Line Loss Multipliers
A	RS, GS, GSD, SBS, OSIII	1.00526
B	LP, LPT, SBS	0.98890
C	PX, PXT, RTP, SBS	0.98063
D	OSI/II	1.00529

ISSUE 8: What are the appropriate Fuel Cost Recovery Factors for each rate group adjusted for line losses?

GULF: See table below: (Davis)

Group	Rate Schedules*	Line Loss Multipliers	Fuel Cost Factors ¢/KWH		
			Standard	Time of Use	
				On-Peak	Off-Peak
A	RS, GS, GSD, SBS, OSIII	1.00526	2.837	3.322	2.631
B	LP, LPT, SBS	0.98890	2.791	3.268	2.588
C	PX, PXT, RTP, SBS	0.98063	2.767	3.241	2.567
D	OSI/II	1.00529	2.808	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 9: What should be the effective date of the new fuel adjustment charge, oil backout charge and capacity cost recovery charge for billing purposes?

The new fuel factors should be effective beginning with the first billing cycle for January 2005 and thereafter through the last billing cycle for December 2005. The first billing cycle may start before January 1, 2005, and the last cycle may be read after December 31, 2005, so that each customer is billed for twelve months regardless of when the adjustment factor became effective. (Davis)

ISSUE 10: What are the appropriate actual benchmark levels for calendar year 2004 for gains on non-separated wholesale energy sales eligible for a shareholder incentive?

GULF: \$2,415,211. (Davis, Bell)

ISSUE 11: What are the appropriate estimated benchmark levels for calendar year 2005 for gains on non-separated wholesale energy sales eligible for a shareholder incentive?

GULF: \$2,524,525. (Davis, Bell)

ISSUE 12: Should each investor-owned utility be required to report its capacity charges and costs, estimated and actual, for wholesale capacity sales and purchases in a schedule similar in format to Schedules E-6, A-6, E-7, A-7, E-8, A-8, E-9, and A-9?

GULF: No. This issue should be deferred until the utilities have a chance to fully evaluate the resource needs and confidentiality issues involved in the preparation of these schedules. (Davis, Bell)

Company-Specific Fuel Adjustment Issues

NONE RAISED BY GULF POWER COMPANY

Generic Generating Performance Incentive Factor Issues

ISSUE 18: What is the appropriate GPIF reward or penalty for performance achieved during the period January 2003 through December 2003?

GULF: \$625,280 reward. (Noack)

ISSUE 19: What should the GPIF targets/ranges be for the period January 2005 through December 2005?

GULF: See table below: (Noack)

Unit	EAF	POF	EUOF	Heat Rate
Crist 4	98.8	0.0	1.2	10,610
Crist 5	96.9	0.0	3.1	10,548
Crist 6	72.9	19.7	7.4	10,416
Crist 7	70.9	21.6	7.5	10,340
Smith 1	90.0	8.2	1.8	10,273
Smith 2	72.2	19.7	8.1	10,213
Daniel 1	79.0	17.3	3.7	9,953
Daniel 2	88.2	8.2	3.6	9,742
EAF = Equivalent Availability Factor POF = Planned Outage Factor EUOF = Equivalent Unplanned Outage Factor				

Company-Specific GPIF Issues

ISSUE 22A: Should the Commission approve the generating units proposed by Gulf Power Company for the company's 2005 GPIF units?

GULF: Yes. The generating units proposed by Gulf Power Company for the company's 2005 GPIF units represent all of Gulf Power's qualifying base and intermediate load units for GPIF. (Noack)

ISSUE 22B: Should the Commission consider excluding the Daniel units from the 2004 GPIF reward/ penalty calculation due to the burning of low Btu coal at those units in some months?

GULF: Yes. In accordance with the GPIF Implementation Manual, the 2004 heat rate targets for the Daniel units were set based on those units' recent history of burning high-Btu bituminous coal. Due to economics and lower resulting costs to customers, the Daniel units switched from burning high-Btu bituminous coal to a low-Btu sub-bituminous coal blend during 2004. Because the 2004 heat rate targets are based on the units' burning high-Btu coal, the heat rate targets are not valid for the Daniel units while burning the low-Btu coal blend. Consequently, there is no reasonable way to determine what portions of the units' heat rates are due to actual unit performance and what portions are due to the lower-Btu fuel mix. The GPIF process was not established to reward or penalize units for fuel switching, and by excluding these units from the 2004 heat rate targets, Gulf Power will be neither rewarded nor penalized for this change in fuel. (Noack)

ISSUE 22C: Should the Commission approve the exclusion of the Daniel units from the 2005 heat rate targets?

GULF: Yes. The Daniel units are currently projected to burn a low-Btu coal blend for the 2005 time period. In accordance with the GPIF Implementation Manual, there is no historical data on which to set reasonable heat rate targets for this projected fuel burn. By excluding these units from the 2005 heat rate targets, Gulf Power is neither rewarded nor penalized for this projected fuel change. (Noack)

Generic Capacity Cost Recovery Issues

ISSUE 24: What is the appropriate final purchased power capacity cost recovery true-up amount for the period January 2003 through December 2003?

GULF: Over recovery of \$1,053,779. (Bell, Davis)

ISSUE 25: What is the estimated purchased power capacity cost recovery true-up amount for the period January 2004 through December 2004?

GULF: Over recovery of \$1,797,696. (Bell, Davis)

ISSUE 26: What is the appropriate total capacity cost recovery true-up amount to be collected/refunded during the period January 2005 through December 2005?

GULF: \$2,851,475 refund. (Davis)

ISSUE 27: What is the appropriate projected net purchased power capacity cost amount to be included in the recovery factor for the period January 2005 through December 2005?

GULF: \$20,368,493. (Bell, Davis)

ISSUE 28: What are the appropriate jurisdictional separation factors for capacity revenues and costs to be included in the recovery factor for the period January 2005 through December 2005?

GULF: 96.64872%. (Davis)

ISSUE 29: What are the appropriate capacity cost recovery factors for the period January, 2004 through December, 2004?

GULF: See table below: (Davis)

RATE CLASS	CAPACITY COST RECOVERY FACTORS ¢/KWH
RS, RSVP	0.210
GS	0.204
GSD, GSDT, GSTOU	0.180
LP, LPT	0.156
PX, PXT, RTP, SBS	0.131
OS-I/II	0.090
OSIII	0.135

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:

NONE

H. OTHER MATTERS:

GULF: To the best knowledge of counsel, Gulf has complied 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 8-10, 2004, Gulf respectfully requests an opportunity to submit additional statements of position and, if necessary, file additional testimony.

Dated this 15th day of October, 2004.

Respectfully submitted,



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