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August 31, 2006

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:

Enclosed for official filing in Docket No. 060007-EI are an original and fifteen copies of the following:

1. The Petition of Gulf Power Company
2. Prepared direct testimony of J. O. Vick
3. Prepared direct testimony and exhibit of R. J. Martin.

Also enclosed is a 3.5 inch double sided, double density diskette containing the Petition in Microsoft Word for Windows format as prepared on an NT computer.

Sincerely,

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 JPC _____
 JCA _____
 JCR _____
 JGA _____
 JEC 1
 JTH _____

Susan D. Ritenour

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Enclosures

cc: Beggs & Lane
Jeffrey A. Stone, Esq.

*CCA note:
Diskette was
nonfunctional.
Will be returned
to GPC.*

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Environmental Cost Recovery Clause)

) Docket No.: 060007-EI

) Filed: September 1, 2006

_____))
**PETITION OF GULF POWER COMPANY FOR APPROVAL OF
FINAL ENVIRONMENTAL COST RECOVERY TRUE-UP AMOUNT FOR
JANUARY 2005 THROUGH DECEMBER 2005; ESTIMATED ENVIRONMENTAL
COST RECOVERY TRUE-UP AMOUNT FOR JANUARY 2006 THROUGH
DECEMBER 2006; PROJECTED ENVIRONMENTAL COST RECOVERY AMOUNTS
FOR JANUARY 2007 THROUGH DECEMBER 2007 INCLUDING NEW
ENVIRONMENTAL ACTIVITIES/PROJECTS; AND ENVIRONMENTAL COST
RECOVERY FACTORS TO BE APPLIED BEGINNING WITH THE PERIOD
JANUARY 2007 THROUGH DECEMBER 2007**

_____)

Notices and communications with respect to this petition and docket should be addressed to:

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Russell A. Badders
Steven R. Griffin
Beggs & Lane
P. O. Box 12950
Pensacola, FL 32591

Susan D. Ritenour
Secretary and Treasurer
Gulf Power Company
One Energy Place
Pensacola, FL 32520-0780

GULF POWER COMPANY (“Gulf Power”, “Gulf”, or “the Company”), by and through its undersigned counsel, hereby petitions the Florida Public Service Commission (“Commission”) for approval of the Company's final environmental cost recovery true-up amount for the period January 2005 through December 2005; for approval of the Company's estimated environmental cost recovery true-up amount for the period January 2006 through December 2006; for approval of the Company's projected environmental cost recovery amounts for the period January 2007 through December 2007 including new environmental activities/projects; and for approval of environmental cost recovery factors to be applied in customer billings beginning with the period January 2007 through December 2007. As grounds for the relief requested by this petition, the Company would respectfully show:

FINAL ENVIRONMENTAL COST RECOVERY TRUE-UP

(1) By vote of the Commission following hearings in November 2005, estimated true-up environmental cost recovery amounts were approved by the Commission for the period January 2005 through December 2005, subject to establishing the final environmental cost recovery true-up amounts. According to the data filed by Gulf for the period ending December 31, 2005, the final environmental cost recovery true-up amount for the period ending December 31, 2005, should be an actual over recovery of \$1,659,043. This amount is submitted for approval by the Commission to be refunded in the next period. The supporting data has been prepared in accordance with the uniform system of accounts as applicable to the Company's environmental cost recovery and fairly presents the Company's environmental costs to be considered for recovery through the Environmental Cost Recovery Clause ("ECRC") for the period. The environmental activities and related expenditures reflected in the true-up amounts shown for the period ending December 31, 2005 are reasonable and necessary to achieve or maintain compliance with environmental requirements applicable to Gulf Power Company and, therefore, the amounts identified are prudent expenditures which have been incurred for utility purposes.

ESTIMATED ENVIRONMENTAL COST RECOVERY TRUE-UP

(2) Gulf has calculated its estimated environmental cost recovery true-up amounts for the period January 2006 through December 2006. Based on six months actual and six months projected data, the Company's estimated environmental cost recovery true-up amount for the period January 2006 through December 2006 is an over-recovery of \$2,874,720. The estimated environmental cost recovery true-up is combined with the final environmental cost recovery true-up for the period ending December 31, 2005 to reach the total environmental cost recovery true-up that is to be addressed in the next cost recovery period (January 2007 through December 2007). Gulf is requesting that the Commission approve this total environmental cost recovery true-up amount excluding revenue taxes, \$4,533,763 for refund during the January 2007 through December 2007 recovery period.

PROJECTED ENVIRONMENTAL COST RECOVERY AMOUNTS

(3) Gulf has calculated its projected environmental cost recovery amounts for the months January 2007 through December 2007 in accordance with the principles and policies for environmental cost recovery found in §366.8255 of the Florida Statutes and Commission Order No. PSC-93-0044-FOF-EI. The calculated factors reflect the recovery of the projected environmental cost recovery amount of \$48,178,803 for the period January 2007 through December 2007, plus the net true-up amount adjusted for revenue taxes.

The computations and supporting data for the Company's environmental cost recovery factors are set forth on Schedules attached as part of the exhibit to the testimony of R. J. Martin filed herewith. Additional supporting data for the environmental cost recovery factors is provided in the testimony of J. O. Vick also filed herewith. The methodology used by Gulf in determining the amounts to include in these factors and the allocation to rate classes is in accordance with the requirements of the Commission as set forth in Order No. PSC-94-0044-FOF-EI. The amounts included in the calculated factors for the projection period are based on reasonable projections of the costs for environmental compliance activities that are expected to be incurred during the period January 2007 through December 2007. The calculated factors and supporting data have been prepared in accordance with the uniform system of accounts and fairly present the Company's best estimate of environmental compliance costs for the projected period. The activities described in the testimony of Mr. Vick are reasonable and necessary to achieve or maintain compliance with environmental requirements applicable to Gulf Power Company and the projected costs resulting from the described compliance activities are also reasonable and necessary. Therefore, the costs identified are prudent expenditures that have been or will be incurred for utility purposes and for which the Company should be allowed to recover the associated revenue requirements.

FDEP/GULF POWER COMPANY AGREEMENT COMPLIANCE

(4) Gulf continues to implement the agreement between itself and the Florida Department of Environmental Protection (FDEP) dated August 28, 2002 (Agreement) which was approved for cost recovery through the environmental cost recovery clause in Order PSC-02-1396-PAA-EI. During 2007, Gulf will be replacing the SCR catalyst and installing an additional ash piping system to manage waste products associated with the operation of the SCR system on Crist Unit 7. For the 2007 projection, Gulf has included \$2.24 million of capital costs associated with implementation of the Plant Crist FDEP Agreement for Ozone Attainment to meet the terms of the August 28, 2002 agreement with FDEP.

NEW ENVIRONMENTAL ACTIVITIES/PROJECTS

(5) Gulf seeks approval of the following new activities/projects for cost recovery through the Environmental Cost Recovery Clause:

(A.) CAIR/CAMR Compliance Program: This program is necessary to comply with the Clean Air Interstate Rule (CAIR) and the Clean Air Mercury Rule (CAMR) regulations promulgated by the United States Environmental Protection Agency (EPA) in March 2005 and subsequently adopted by FDEP in June, 2006.

The EPA's CAIR, which is published in Chapter 40 of the Code of Federal Regulations (CFR) Parts 51, 72, 73, 74, 77, 78, and 96, restricts sulfur dioxide ("SO₂") and nitrogen oxide ("NO_x") air emissions that contribute to fine particulate and ground level ozone in downwind states. The basic EPA requirements were subsequently adopted by FDEP on June 29, 2006 in Chapter 62 Florida Administrative Code (F.A.C.) Parts 204, 210, and 296. The CAIR will use a two-phase cap and trade approach to reduce NO_x and SO₂ emissions from electric generating units in 28 eastern states including Florida starting in 2009 and 2010, respectively. The emissions controlled by the CAIR requirements are also impacted by a separate regulatory scheme that will require Gulf to

meet the Best Available Retrofit Technology (BART) emission control requirements under the Regional Haze Rule. The Regional Haze Rule was promulgated by EPA on July 6, 2005 to reduce visibility impairing pollutants from twenty-six source categories, including electric generating units. The FDEP will begin rulemaking in September 2006 to adopt a State Implementation Plan requiring BART-eligible sources (generating units built between 1962 and 1977, which have the potential to emit more than 250 tons per year of any visibility impairing pollutant) to propose BART controls or to demonstrate through modeling why they should be exempt from BART regulation. Both EPA and FDEP have indicated that compliance with CAIR through retrofit technology added to generating units to control emissions may also meet the BART requirements of the Regional Haze Rule. This dual compliance benefit would not be available if a strategy of exclusively purchasing allowances is used to meet the requirements of the CAIR rule.

The CAMR (Chapter 40 CFR Parts 60, 72, and 75) limits mercury emissions from new and existing coal-fired power plants. Like CAIR, CAMR will also be implemented through a market-based cap and trade approach, achieving a reduction in mercury emissions in two phases of approximately 20% by 2010 and approximately 70% by 2018. The basic EPA requirements of CAMR were also adopted by FDEP on June 29, 2006 in Chapter 62 of the Florida Administrative Code, Parts 204, 210, and 296. The State of Mississippi plans to adopt verbatim the EPA CAIR and CAMR rules later this year.

Immediately after the passage of the EPA CAIR and CAMR in 2005, Gulf began extensive engineering, design, and other planning activities in order to be prepared to move ahead with the most reasonable strategy for compliance with the CAIR and CAMR requirements once they were adopted by Florida. This strategy was finalized shortly after the adoption of the Florida CAIR and CAMR this past June and implementation has begun. Due to the applicability of the Commission's rule regarding use of AFUDC, the program requirements for Gulf's CAIR/CAIR strategy do not begin impacting ECRC revenue requirements until 2007.

Any strategy that involves these types of expenditures over the course of several years is subject to being modified. Gulf's strategy for compliance with these regulations will be reevaluated on a regular basis, taking into account new regulatory initiatives and new and evolving pollution control technologies, to ensure that the most cost effective and least risk method of compliance is being implemented. Based on today's regulatory requirements and the current state of pollution control technology, Gulf has determined that the most reasonable strategy for compliance with CAIR and CAMR requirements is to utilize a combination of pollution control technologies on its coal-fired generation along with supplemental purchases of allowances as warranted.

For the 2007-2012 time period, Gulf's CAIR/CAMR Compliance Program will require the installation of Scrubbers at Plants Crist (2009) and Daniel (2011), Selective Catalytic Reduction (SCR) control technology at Plant Crist on Unit 6 (2010), Selective Non-Catalytic Reduction (SNCR) controls at Plants Smith (2009), Scholz (2010), and Daniel (2009), as well as Low NOx burners at Plant Daniel (2009). It will also require new mercury emission monitoring equipment for mercury compliance verification at all of Gulf's generating units (2007-2008) as well as the Plant Daniel units (2007-2008).

For the 2013-2017 time period, Gulf's CAIR/CAMR Compliance Program is currently projected to include the addition of a scrubber and a baghouse at Plant Smith and SCRs at Plant Daniel. The in-service dates for this equipment will be partially determined by the final BART rules and the onset of Phase II of the Florida CAIR, the Florida CAMR, the Mississippi CAIR, and the Mississippi CAMR.

For the purpose of the 2007 projection of ECRC revenue requirements, the Plant Crist scrubber will incur expenditures totaling \$34.4 million. This will include relocating the Unit 7 cooling tower and several sections of existing transmission lines. These activities will be completed during 2007 to create space for construction of the scrubber vessel and other ancillary equipment. Other 2007 projected expenditures include materials, site preparation, and foundation construction as well as detailed engineering

and design costs. The 2007 projected expenditures for the Smith SNCRs, totaling \$3.5 million, and the Daniel Low NOx burners, \$540,000, primarily include expenditures for engineering and material procurement. The projected 2007 expenditures for installation and certification of new mercury emissions monitoring systems to comply with CAMR are \$1.4 million. The amounts associated with the CAIR/ CAMR Compliance Program are capital expenditures which are not recovered through any other cost recovery mechanism or through base rates. The expenditures associated with this project will be allocated to the rate classes on an energy basis.

(B.) The General Water Quality Sampling Boat project: Gulf expects to incur capital expenditures of \$28,600 during 2007 to purchase a boat for new surface water sampling that is required by the Plant Crist and Plant Scholz NPDES permits. Pursuant to Chapter 62 Part 302.520(1), F.A.C., the FDEP has included new requirements in Gulf's recently issued NPDES permits for both Plants Crist and Scholz. These permits now require Gulf Power to establish a biological evaluation plan and implementation schedule for each plant. Gulf must now evaluate the effects from each plant's water discharge on the biological communities in the receiving water bodies. Additional monitoring of aquatic species in each plant's respective receiving water must take place to comply with these new permit conditions. Plant Crist's Plan must be submitted before November 14, 2007 with monitoring projected to begin in 2008. Plant Scholz's Plan was submitted during January 2006 and monitoring will begin in 2007. In addition, these NPDES permits, also have a condition that requires compliance with 40 CFR Part 125.95(a)(1) and (2), also known as 316(b), which requires the monitoring of aquatic communities to determine the effects of impingement and entrainment on organisms within each plant's once through cooling systems. Purchasing a boat to conduct these studies in-house will reduce a portion of the anticipated 316(b) expenses that are currently being recovered through the ECRC as part of the previously approved Cooling Water Intake Program. The General Water Quality Sampling Boat project is a capital

expenditure which is not recovered through any other cost recovery mechanism or through base rates. The capital expenditures associated with this project are projected to be \$28,600 in 2007. The expenditures associated with this project will be allocated to the rate classes on a 12/13 coincident peak demand and 1/13 energy basis.

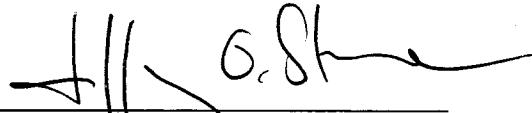
ENVIRONMENTAL COST RECOVERY FACTORS

(6) The calculated environmental cost recovery factors by rate class, including true-up, are:

RATE CLASS	ENVIRONMENTAL COST RECOVERY FACTORS ¢/KWH
RS, RSVP	.387
GS	.385
GSD, GSDT, GSTOU	.379
LP, LPT	.367
PX, PXT, RTP, SBS	.357
OS-I/II	.354
OSIII	.367

WHEREFORE, Gulf Power Company respectfully requests the Commission to approve the final environmental cost recovery true-up amounts for the period January 2005 through December 2005; estimated environmental cost recovery true-up amounts for the period January 2006 through December 2006; the projected environmental cost recovery amounts for the period January 2007 through December 2007; the new environmental projects consistent with this petition; and the environmental cost recovery factors to be applied in customer billings beginning with the period January 2007 through December 2007.

Dated the 31st day of August, 2006.



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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: **Environmental Cost
Recovery Clause**

Docket No.: **060007-EI**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing has been furnished
this 31st day of August, 2006, by U. S. mail to the following:

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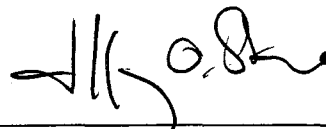
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