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GULF POWER
A SOUTHERN COMPANY

October 5, 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:

RE: Docket No. 060001-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
bh

bh

Enclosure

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

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Fuel and Purchased Power Cost Recovery Clauses and Generating Performance Incentive Factor	)))))	Docket No. 060001-EI Date Filed: October 5, 2006

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, RUSSELL A. BADDERS, Esquire, and STEVEN R. GRIFFIN, 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:

	Witness	Subject Matter	Issues
(Direct)			
1.	H. R. Ball (Gulf)	Fuel Adjustment, true-up and projections; Purchased Power -- energy and capacity purchases and sales, true-up and projections	1, 2, 10, 11, 14, 18A, 18B, 18C, 29, 30, 32, 35
2.	R. J. Martin (Gulf)	Fuel Adjustment, true-up and projections; Capacity, true-up and projections	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 29, 30, 31, 32, 33, 34, 35
3.	L. S. Noack (Gulf)	GPIF reward/penalty and targets and ranges	20, 21, 22, 23, 24

C. EXHIBITS:

Exhibit Number	Witness	Description
(HRB-1)	Ball	Coal Suppliers January 2005 - December 2005
(HRB-2)	Ball	Projected vs. actual fuel cost of generated power March 1997 - December 2007
(TAD-1)	Martin	Calculation of Final True-Up 1/05 - 12/05
(RJM-2)	Martin	Estimated True-Up 01/06 – 12/06
(RJM-3)	Martin	Projection 01/07 – 12/07.
(LSN-1)	Noack	Gulf Power Company GPIF Results January 2005 - December 2005
(LSN-2)	Noack	Gulf Power Company GPIF Targets and Ranges January 2007 - December 2007

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 and capacity cost recovery factors proposed by the Company present the best estimate of Gulf's fuel and capacity expense for the period January 2007 through December 2007 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 fuel adjustment true-up amounts for the period January 2005 through December 2005?

GULF: Under recovery $20,174,117. (Ball, Martin)

ISSUE 2: What are the appropriate estimated/actual fuel adjustment true-up amounts for the period January 2006 through December 2006?

GULF: Under recovery $26,505,347. (Ball, Martin)

ISSUE 3: What are the appropriate total fuel adjustment true-up amounts to be collected/refunded from January 2007 to December 2007?

GULF: Collection of $46,679,464. (Martin)

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 January 2007 through December 2007?

GULF: 1.00072. (Martin)

ISSUE 5: What are the appropriate projected net fuel and purchased power cost recovery amounts to be included in the recovery factor for the period January 2007 through December 2007?

GULF: $454,779,064. (Martin)

ISSUE 6: What are the appropriate levelized fuel cost recovery factors for the period January 2007 through December 2007?

GULF: 3.939 cents/kWh (Martin)

ISSUE 7: 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: (Martin)

Group	Rate Schedules	Line Loss Multipliers
A	RS, RSVP, GS, GSD, GSDT, GSTOU, OSIII, SBS(1)	1.00526
B	LP, LPT, SBS(2)	0.98890
C	PX, PXT, RTP, SBS(3)	0.98063
D	OSI/II	1.00529
(1) Includes SBS customers with a contract demand in the range of 100 to 499 KW (2) Includes SBS customers with a contract demand in the range of 500 to 7,499 KW (3) Includes SBS customers with a contract demand over 7,499 KW		

ISSUE 8: What are the appropriate fuel cost recovery factors for each rate class/delivery voltage level class adjusted for line losses?

GULF: See table below: (Martin)

Group	**Rate Schedules***	**Line Loss Multipliers**	**Fuel Cost Factors ¢/KWH**		
			Standard	**Time of Use**	
				On-Peak	**Off-Peak**
A	RS, RSVP, GS, GSD,GSDT GSTOU, OSIII, SBS(1)	1.00526	3.960	4.415	3.774
B	LP, LPT, SBS(2)	0.98890	3.895	4.343	3.712
C	PX, PXT, RTP, SBS(3)	0.98063	3.863	4.307	3.681
D	OSI/II	1.00529	3.939	N/A	N/A

*The recovery factor applicable to customers taking service under Rate Schedule SBS is determined as follows: (1) customers with a contract demand in the range of 100 to 499 KW will use the recovery factor applicable to Rate Schedule GSD; (2) 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 (3) 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 fuel adjustment charge and capacity cost recovery charge for billing purposes?

GULF: The new fuel factors should be effective beginning with the first billing cycle for January 2007 and thereafter through the last billing cycle for December 2007. The first billing cycle may start before January 1, 2007, and the last cycle may be read after December 31, 2007, so that each customer is billed for twelve months regardless of when the adjustment factor became effective. (Martin)

ISSUE 10: What are the appropriate actual benchmark levels for calendar year 2006 for gains on non-separated wholesale energy sales eligible for a shareholder incentive?

GULF: $3,546,453. (Martin, Ball)

ISSUE 11: What are the appropriate estimated benchmark levels for calendar year 2007 for gains on non-separated wholesale energy sales eligible for a shareholder incentive?

GULF: $3,092,606. (Martin, Ball)

ISSUE 12: What is the appropriate methodology for calculating over and under recoveries of projected fuel costs, pursuant to Commission Order No. 13694 and PSC-98-0691?

GULF: Pursuant to FPSC Order No. 13694 issued September 20, 1984, as reaffirmed by FPSC Order No. PSC-98-0691-FOF-PU issued May 19, 1998, Gulf continuously monitors the fuel and purchased power (energy) costs over or under recovery balance monthly to determine if it is greater or less than 10% of projected fuel costs. Gulf appropriately calculates the over or under recovery balance monthly for fuel costs based on actual data to the extent it is available and estimated data for the remainder of the applicable recovery period. The over or under recovery balance is the difference between actual/estimated jurisdictional fuel costs and actual/estimated jurisdictional fuel recovery revenue. The over or under recovery balance projected for the end of the applicable recovery period is divided by the total jurisdictional fuel cost originally filed for the recovery period to determine if the over or under recovery balance is in excess of 10% of projected fuel costs. (Martin)

ISSUE 13: At what point in time should a utility notify the Commission that an over or under recovery exceeds 10% of the projected fuel costs?

GULF: In accordance with FPSC Order No. 13694 issued September 20, 1984, as reaffirmed by FPSC Order No. PSC-98-0691-FOF-PU issued May 19, 1998, Gulf continuously monitors the fuel over or under recovery balance monthly, and if a greater or less than 10% over or under recovery of fuel and purchased power (energy) costs is projected for the applicable recovery period, then the Company notifies the Commission promptly. (Martin)

ISSUE 14: What are the appropriate credits for emissions allowances for power sales for each investor-owned utility for the years 2005-2007?

GULF:

2005	$10,229,597	
2006	$19,580,767	(Jan. – Jul. actual; Aug. – Dec. estimated)
2007	$29,645,000	(Projected)

(Ball, Martin)

Company-Specific Fuel Adjustment Issues

ISSUE 18A: What is the appropriate mechanism for recovery of the natural gas storage costs that are included in the calculation of Gulf's 2007 fuel factor?

GULF: The natural gas storage costs included in the calculation of Gulf's 2007 fuel factors is the projected variable operating cost for the fees and charges Gulf is contracted to pay for natural gas storage at the Bay Gas Storage Facility. These costs are appropriately recovered through Gulf's Fuel Cost Recovery Clause since they are subject to changes due to fluctuations in volume and the number of withdrawals and injections of gas. Per FPSC Order No. 14546, dated July 8, 1985, in Docket No. 850001-EI-B, "Prudently incurred fossil fuel-related expenses which are subject to volatile changes should be recovered through an electric utility's fuel adjustment clause." (Ball)

ISSUE 18B: Has Gulf adequately mitigated the price risk for natural gas and purchased power for 2005 through 2007?

GULF: Yes. Gulf had adequate gas hedges in place for 2005 to mitigate price risk Gulf currently has gas and purchased power hedges in place for 2006 and 2007 and continues to look for opportunities to enter into financial hedges that we believe will be of benefit to the customer. Since the inception of the gas hedging program at Gulf in 2003 through August 31, 2006, the net result of the gas hedging program has been a reduction in recoverable fuel cost of $21,436,789.

The strategic plan for gas hedging can be found in Gulf's "Risk Management Plan for Fuel Procurement" filed April 3, 2006 in this docket. Gulf hedging activities have adhered to its filed risk management plan in each of the years 2005 through 2007. (Ball)

ISSUE 18C: Has Gulf taken reasonable and prudent steps to find replacement fuel at reasonable costs in order to mitigate the coal shortfall caused by a contract dispute with a coal provider?

GULF: Yes. A Request for Proposals was issued on April 12, 2006 for new coal supply agreements to be initiated on January 1, 2007. These proposals have been received and evaluated on the basis of economics and reliability of supply to determine the successful bidders. Gulf Power expects to finalize these agreements in the near term. These firm coal supply commitments adhere to the annual percent of burn coverage for the four year period beginning January 1, 2007 as specified in Gulf's strategic plan for coal procurement. This strategic plan can be found in Gulf's "Risk Management Plan for Fuel Procurement" filed April 3, 2006 in this docket. (Ball)

Generic Generating Performance Incentive Factor Issues

ISSUE 20: What is the appropriate generation performance incentive factor (GPIF) reward or penalty for performance achieved during the period January 2005 through December 2005 for each investor-owned utility subject to the GPIF?

GULF: $842,874 penalty. (Noack)

ISSUE 21: Should the Commission amend or modify the existing GPIF mechanism so as to incorporate a "dead band" around the scale of Generating Performance Incentive Points in the amounts proposed by OPC?

GULF: No. The Commission should not amend or modify the existing GPIF mechanism to incorporate a "dead band" around the scale of Generating Performance Incentive Points as proposed by OPC. (Noack)

ISSUE 22: If the "dead band" amendment to the GPIF mechanism is implemented by the Commission should it be applied for the current year so that the rewards or penalties are applied commencing January 1, 2007?

GULF: No. The "dead band" amendment to the GPIF mechanism should not be applied for the current year. The "dead band" amendment to the GPIF mechanism should not be implemented by the Commission. (Noack)

ISSUE 23: Should OPC's proposed modification to the GPIF methodology be approved?

GULF: No. The Commission should continue to use its current longstanding methodology associated with GPIF. (Noack)

ISSUE 24: What should the GPIF targets/ranges be for the period January 2007 through December 2007 for each investor-owned electric utility subject to the GPIF?

GULF: See table below: (Noack)

Unit	EAF	POF	EUOF	Heat Rate
Crist 4	98.3	0.0	1.7	10,545
Crist 5	97.1	0.0	2.9	10,422
Crist 6	85.3	8.2	6.5	10,258
Crist 7	83.5	3.3	13.2	10,225
Smith 1	78.6	19.7	1.7	10,259
Smith 2	89.4	0.0	10.6	10,328
Daniel 1	82.5	13.4	4.0	10,046
Daniel 2	93.9	1.9	4.2	9,834

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

Generic Capacity Cost Recovery Factor Issues

ISSUE 29: What are the appropriate capacity cost recovery true-up amounts for the period January 2005 through December 2005?

GULF: Over recovery of $112,632. (Ball, Martin)

ISSUE 30: What are the appropriate estimated/actual capacity cost recovery true-up amounts for the period January 2006 through December 2006?

GULF: Under recovery of $223,116. (Ball, Martin)

ISSUE 31: What are the appropriate total capacity cost recovery true-up amounts to be collected/refunded during the period January 2007 through December 2007?

GULF: Collection of $110,484. (Martin)

ISSUE 32: What are the appropriate projected net purchased power capacity cost recovery amounts to be included in the recovery factor for the period January 2007 through December 2007?

GULF: $31,663,162. (Ball, Martin)

ISSUE 33: What are the appropriate capacity cost recovery factors for the period January, 2007 through December, 2007?

GULF: See table below: (Martin)

RATE CLASS	CAPACITY COST RECOVERY FACTORS ¢/KWH
RS, RSVP	0.311
GS	0.301
GSD, GSDT, GSTOU	0.267
LP, LPT	0.231
PX, PXT, RTP, SBS	0.193
OS-I/II	0.133
OSIII	0.200

ISSUE 34: What are the appropriate jurisdictional separation factors for capacity revenues and costs to be included in the recovery factor for the period January 2007 through December 2007?

GULF: 96.64872%. (Martin)

ISSUE 35: What are the appropriate credits for transmissions allowances for power sales for each investor-owned electric utility for the years 2005 through 2007?

GULF:
2005 $200,008
2006 $203,633 (Jan. – Jul. actual; Aug. – Dec. estimated)
2007 $275,000 (Projected)
(Ball, Martin)

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 6-8, 2006, Gulf respectfully requests an opportunity to submit additional statements of position and, if necessary, file additional testimony.

Dated this 5th day of October, 2006.

Respectfully submitted,

Russell A. Badders

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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.: **060001-EI**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing was furnished by U. S. mail this 5th day of October, 2006, on the following:

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