

REQUEST TO ESTABLISH DOCKET

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 COMMISSION
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Date:	4/29/2013	Docket No.:	130092-EI
1. From Division / Staff:	Gcl/Murphy		
2. OPR:	ENG Graves TB		
3. OCR:	GCL Murphy cm		
4. Suggested Docket Title:	Petition of Gulf Power Company to include the Plant Daniel Bromine and ACI Project, the Plant Crist Transmission Upgrades Project and the Plant Smith Transmission Upgrades Project in the Company's Compliance Program and approve the costs associated with these compliance strategies for recovery through the ECRC.		
5. Program/Module/Submodule Assignment:	A3d		
6. Suggested Docket Mail List.			
a. Provide NAMES/ACRONYMS, if registered company.		<input checked="" type="checkbox"/> Provided as an Attachment	
Company Code, if applicable:	Parties (include address, if different from MCD):	Representatives (name and address):	
EI 804	Gulf Power Company	Same as Docket No. 130007-EI	
b. Provide COMPLETE NAME AND ADDRESS for all others. (match representatives to companies)			
Company Code, if applicable:	Interested persons, if any, (include address, if different from MCD):	Representatives (name and address):	
	See Comment Below	See Comment Below	
7. Check one:	<input checked="" type="checkbox"/> Supporting Documentation Attached		<input type="checkbox"/> To be provided with Recommendation
Comments: Petition was originally filed in Docket No. 130007-EI; all parties and interested parties in that Docket should be listed as interested parties in the new docket with the same contact information.			

DOCUMENT NUMBER - DATE
 02223 APR 29 2013
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March 29, 2013

COMMISSION
CLERK



Ms. Ann Cole, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 130007-EI

130092 - E1

Dear Ms. Cole:

Enclosed for official filing in the above referenced docket is an original and fifteen copies of the following:

1. Third Supplemental Petition of Gulf Power Company regarding its Environmental Compliance Program
2. Prepared direct testimony and exhibits of James O. Vick.
3. Prepared direct testimony of Noel M. Cain.

Enclosed is a CD containing the Petition in Microsoft Word format as prepared on a Windows based computer. Also enclosed are sixteen CD's containing exhibit JOV-2 to James O. Vick's testimony in pdf format as prepared on a Windows based computer.

Sincerely,

Robert L. McGee, Jr.
Regulatory and Pricing Manager

COM 5+cds
 AFD 1+cd
 APA 1+cd md
 ECO 1+cd
 ENG 5+cds Enclosures
 GCL 1+cd
 IDM _____ cc :
 TEL _____
 CLK 1-Gt Rep + cd

Beggs & Lane
Jeffrey A. Stone, Esq.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

Ms. Ann Cole, Commission Clerk
Florida Public Service Commission
March 29, 2013
Page 2

bc w/encl.: R. W. Dodd
N. M. Cain
L. P. Evans
A. J. Jansen
R. L. McGee
S. Sozier
J. O. Vick
B. S. Yablonski

bc w/o encl.:
B. C. Terry(electronic)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Environmental Cost)
Recovery Clause.)
_____)

Docket No. 130007-EI
Filed: April 1, 2013

THIRD SUPPLEMENTAL PETITION
OF GULF POWER COMPANY REGARDING ITS
ENVIRONMENTAL COMPLIANCE PROGRAM¹

Gulf Power Company, ("Gulf Power", "Gulf", or "the "Company"), by and through its undersigned attorneys, hereby petitions the Florida Public Service Commission ("Commission") for approval of inclusion of compliance strategies necessary for the Company to achieve and maintain compliance with the Mercury and Air Toxics Standards (MATS) rule in the Company's Compliance Program as set forth in Gulf's Environmental Compliance Program Update dated April 1, 2013. In support of this request, the Company states:

1. Gulf is a utility subject to the jurisdiction of the Florida Public Service Commission pursuant to chapter 366, Florida Statutes. It has principal offices at 500 Bayfront Parkway, Pensacola Florida.
2. Notices and communications with respect to this petition and docket should be addressed to:

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

Robert L. McGee
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¹ The title of Gulf's Compliance Program (also referred to as Compliance Plan) has been revised to reflect new or replacement rules that have developed since the original compliance plan was filed in March of 2007. Previous iterations of this compliance plan have been titled Gulf's CAIR/CAVR Environmental Compliance Program Update. CSAPR, NAAQS, and MATS were added to the title when the rules were adopted. Likewise, CAMR was removed from the title when the CAMR rule was vacated. A history of the rules covered by Gulf's Environmental Compliance Program can be found in Section 2 of Exhibit JOV-1.

3. This third supplemental petition is made by the Company to comply with its obligations under the terms of a stipulation negotiated between Gulf, the Office of Public Counsel and the Florida Industrial Power Users Group and approved by the Commission in Order No. PSC-07-0721-S-EI issued September 5, 2007, in Docket No. 070007-EI. In that Order, the Commission approved certain components of Gulf's Compliance Program which included the addition of several retrofit applications at Plant Crist, Plant Daniel², Plant Smith and Plant Scholz. The approved retrofit applications are as follows:

- Crist Units 4 through 7 Scrubber.
- Crist Unit 6 Selective Catalytic Reduction (SCR) Project.
- Crist Units 4 through 7 CAIR and Mercury Monitors.
- Daniel Units 1 and 2 Scrubbers.
- Daniel Units 1 and 2 Selective Non-Catalytic Reduction (SNCR) Projects and Low NO_x Burners.
- Daniel Units 1 and 2 CAIR and Mercury Monitors.
- Smith Units 1 and 2 SNCRs.
- Smith Units 1 and 2 CAIR and Mercury Monitors.
- Scholz Units 1 and 2 Mercury Monitors.
- Market Purchase of Additional Emission Allowances

The Commission held that the costs associated with these retrofit applications were clearly eligible for recovery through the Environmental Cost Recovery Clause (ECRC) subject to ongoing review of costs within the annual review process.

4. At page 7 of Order No. PSC-07-0721-S-EI, the Commission discussed how Gulf would address the remaining components of its compliance plan:

The remaining components of Gulf's proposed compliance plan, (j), (k), and (l), are still in the planning phase for possible implementation after 2011 and, as Gulf puts it, "remain flexible." These components include the Plant Daniel Units 1-2 SCRs, the Plant Smith Units 1-2 scrubber, and

² Plant Daniel Units 1 and 2 are co-owned by Gulf and its sister company, Mississippi Power Company.

the Plant Smith Unit 2 Baghouse. The parties state in their stipulation that since Gulf has not yet made its decision whether to implement these three components, there is no agreement at this time regarding their reasonableness or prudence. The stipulation provides that once Gulf makes a decision to proceed with implementation, Gulf agrees to make a supplementary filing in the ECRC docket similar to the filing it made here that will identify the timing of the planned implementation and updated estimates prior to incorporating them in the normal projection or true-up filings under the ECRC. The parties state that it is their intent that the supplementary filing would contemplate a period during which all parties to the ECRC would have the opportunity to conduct discovery and to object to the filing within the time periods similar to those established in compliance with the stipulation the Commission approved in Order No. PSC-06-0972-FOF-EI.

5. Gulf filed its second supplemental petition on April 1, 2010 to update its compliance program to include the Plant Daniel Units 1-2 SCRs. In Order No. PSC-10-0683-FOF-EI dated November 15, 2010, the Commission approved the inclusion of the Plant Daniel Units 1-2 SCRs in Gulf's Compliance Plan and held that the costs associated therewith were eligible for recovery through the ECRC.

6. Gulf files this third supplemental petition to update its Compliance Program to include compliance strategies necessary for the Company to meet the requirements of the Mercury and Air Toxics Standards (MATS) rule which is the replacement rule for CAMR addressed in Gulf's original Compliance Program. The final MATS rule was published in

the Federal Register on February 16, 2012. The MATS rule imposes stringent emissions limits for mercury, acid gases and particulate matter on coal and oil-fired electric utility generating units. Compliance for existing sources is required by April 16, 2015 with provisions for one and two year extensions under limited circumstances. Specifically, Gulf's 2013 Compliance Program was updated to include the Plant Daniel Bromine and Activated Carbon Injection (ACI) Project, the Plant Crist Transmission Upgrade Project and the Plant Smith Transmission Upgrade Project that will be required for compliance with the MATS rule.

7. The testimony and exhibits of James O. Vick and the testimony of Noel M. Cain accompany this petition. The contents of this testimony and accompanying exhibits are an essential part of this third supplemental petition and are incorporated herein by reference. Exhibit JOV-1 to the testimony of James O. Vick is a document entitled "Gulf Power Company Environmental Compliance Program Update for Clean Air Interstate Rule, National Ambient Air Quality Standards, Mercury and Air Toxics Standards and Clean Air Visibility Rule" ("Compliance Program"). Exhibit JOV-2 is an electronic copy of the MATS rule.

GULF'S COMPLIANCE PROGRAM

8. The first two sections of Gulf's Compliance Program provide an executive summary and a discussion of applicable rules and regulatory requirements including the MATS rule. Section 3 of the Compliance Program is devoted to a discussion of the planning process utilized by Gulf to select the most reasonable and prudent strategy for compliance with the MATS rule and a plant-by-plant discussion of the resulting compliance strategy. Section 4 of the Compliance Program is a discussion of future environmental rules and

regulations that may impact Gulf's operations.

9. Overall, Gulf's Compliance Program identifies the timing and current estimates of costs for specific projects planned by the Company in order to comply with the new MATS requirements along with information regarding the relative value of the planned projects compared to other viable compliance alternatives, if any. Most of the projects discussed in the Compliance Program have been approved previously, and the discussion gives the Commission an update of existing projects that are incurring ECRC expenditures. Gulf's Compliance Program also includes the description and results of the evaluation process that lead Gulf to conclude that the chosen means of compliance is the most reasonable, cost-effective alternative.

**GULF'S REQUESTED APPROVAL OF PLANT CRIST
TRANSMISSION UPGRADES FOR MATS COMPLIANCE**

10. As discussed in Section 3.3.1 of Gulf's Compliance Program, Gulf proposes the addition of certain transmission upgrades as the best, most cost-effective option for Gulf's Plant Crist to achieve and maintain compliance with the MATS rule. The identified transmission projects would allow Plant Crist to commit and dispatch in the most economic manner, while avoiding the installation of additional environmental controls.

11. The MATS requirements apply to the four coal-fired units at Plant Crist. During normal operation with the scrubber and SCRs in-service, Plant Crist should meet MATS requirements without any additional emissions controls such as a baghouse. However, the MATS rule does limit the ability of the units to operate in the event of a scrubber malfunction or outage for any meaningful period of time without the addition of further environmental controls. With the scrubber bypassed, the SO₂ and mercury emissions emitted from the bypass stacks would not meet their respective MATS limits, and Plant Crist

would be unable to operate until the scrubber is back in service. Without the ability to operate the Crist units during a scrubber malfunction or outage, a reliability risk is introduced to the operation of the transmission system as it stands today. Currently, to meet transmission reliability requirements in the Pensacola area, Plant Crist is designated as a must-run facility for the purpose of maintaining transmission system stability. Gulf determined that certain transmission projects would be necessary to alleviate this risk in the event of a scrubber malfunction or outage.

12. Gulf performed a thorough evaluation of the available options for MATS compliance, including the construction of the transmission upgrades as an option, and that evaluation shows that the best option for MATS compliance at Plant Crist for Gulf's customers is to proceed with the identified transmission projects in order to allow Plant Crist to commit and dispatch in the most economic manner, while avoiding the installation of additional environmental controls.

13. Table 3.3-1 at page 17 of the Compliance Program shows the results of the economic evaluation of the available MATS options for Plant Crist. This table indicates that the transmission upgrades are the lowest cost MATS compliance option for Plant Crist. The transmission upgrades have a higher level of certainty than the other options and do not create any plant operational risks. The transmission upgrades will allow the plant to operate under economic dispatch rather than in must-run with significant cost savings to Gulf's customers. The Plant Crist Transmission Upgrades are the most reasonable, cost effective alternative available to Gulf for meeting the MATS requirements impacting Plant Crist.

14. The initial transmission upgrades in the Plant Crist Transmission Upgrades Project are currently projected to be completed by April 2016 with the remaining projects

being placed in-service by 2018. The capital cost for this project is projected to be approximately \$76 million.

**GULF'S REQUESTED APPROVAL OF PLANT DANIEL'S
BROMINE AND ACTIVATED CARBON INJECTION PROJECT**

15. As discussed in Section 3.3.2 of Gulf's Compliance Program, Gulf and Mississippi Power propose the addition of a Bromine and Activated Carbon Injection (ACI) Project on Plant Daniel Units 1 and 2 to achieve and maintain compliance with the MATS rule.

16. During 2010, the Company determined that at a minimum Plant Daniel Units 1 and 2 would require installation of the scrubber projects in order to comply with MATS as well as CAIR, CAVR, and the anticipated NAAQS. While the scrubbers will allow Plant Daniel to achieve compliance with the particulate matter limit for MATS, additional environmental controls are necessary for Plant Daniel to achieve the necessary mercury limits to meet MATS requirements. Gulf has determined that the best option to meet the MATS mercury emission limits at Plant Daniel includes installing the already approved scrubbers and adding bromine injection and activated carbon injection (ACI). The addition of bromine injection and ACI is the most cost-effective solution to achieve and maintain MATS compliance.

17. The Plant Daniel Bromine Injection and ACI Project is scheduled to be placed in service with the scrubbers during the fourth quarter of 2015. Engineering, procurement and construction is to begin in January 2014 and last through 2015. The capital cost for this project is shown on Table 3.1-1 at page 10 of the Compliance Program. Ongoing operation and maintenance costs for the two injection systems are shown on Table 3.1-2 at page 11 of the Compliance Program.

**GULF'S REQUESTED APPROVAL OF PLANT SMITH
TRANSMISSION UPGRADES FOR MATS COMPLIANCE**

18. As discussed in Section 3.3.3 of Gulf's Compliance Program, Gulf proposes the addition of certain transmission upgrades as the first part of its compliance strategy for Plant Smith to achieve and maintain cost-effective compliance with the MATS rule. The installation of certain transmission upgrades at Plant Smith are part of the best, most economic MATS strategy for the customer in the event that additional emissions controls are installed at Plant Smith Units 1 and 2 for MATS compliance or if the decision is to retire these units as a result of MATS. The same transmission upgrades are required if these units retire or are controlled as a result of MATS. Construction of the identified transmission upgrades preserves the decision to install MATS controls or to retire the two units for a future time when more is known with regard to costs of compliance requirements associated with additional environmental regulations. Once a decision to control or retire Smith Units 1 and 2 has been made, Gulf will update its Compliance Program with the Commission.

19. Plant Smith Units 1 and 2 are subject to the MATS rule. Plant Smith is unable to meet MATS requirements for acid gases and mercury limits without additional environmental controls. As a result, Plant Smith Units 1 and 2 will be unable to generate past 2015 without the installation of environmental controls. So the ultimate MATS compliance options for Plant Smith Units 1 and 2 are either retirement or installation of additional environmental controls. The same transmission upgrades are necessary with either of these compliance options, and their implementation will save Gulf customers money by removing the Smith units from must run status during certain operational conditions.

20. Gulf evaluated MATS compliance options for Plant Smith that included retirement of Smith Units 1 and 2 as well as options that would allow continued coal-fired operation of Smith Units 1 and 2. Table 3.3-2 at page 26 of the Compliance Program shows the results of the economic evaluation of the available MATS options for Plant Smith. Gulf's evaluation shows that the installation of the transmission upgrades, as a part of the MATS compliance strategy with retirement or with the addition of environmental controls, are the most cost-effective option for continued operation and allow further evaluation of the retirement option since retirement would also require the same transmission improvements.

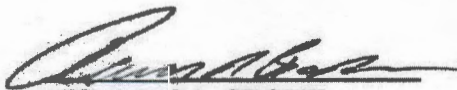
21. The Plant Smith Transmission Upgrades Project is scheduled to be placed in service by April 2015. The estimated cost for this project is approximately \$77 million.

WHEREFORE, Gulf Power Company respectfully requests that the Florida Public Service Commission issue an order approving Gulf's inclusion of the Plant Daniel Bromine and ACI Project, the Plant Crist Transmission Upgrades Project and the Plant Smith Transmission Upgrades Project in the Company's Compliance Program and approving the costs associated with these compliance strategies for recovery through the ECRC subject to ongoing review of costs within the annual review process or other such cost recovery mechanism as appropriate. Given the very limited compliance window afforded by the MATS rule and consistent with the stipulation of the parties approved by the Commission in Order No. PSC-07-0721-S-EI³, Gulf requests a filing/discovery /decision timeline similar to that set forth at page 9 of Order No. PSC-06-0972-FOF-EI issued November 22, 2006, in Docket No. 060007-EI. Gulf Power further requests that the Commission set forth its

³ Order No. PSC-07-0721-S-EI, at page 7, "[t]he parties state that it is their intent that the supplementary filing would contemplate a period during which all parties to the ECRC would have the opportunity to conduct discovery and to object to the filing within the time periods similar to those established in compliance with the stipulation the Commission approved in Order no. PSC-06-0972-FOF-EI."

approval of Gulf's inclusion of the Plant Daniel Bromine and ACI Project, the Plant Crist Transmission Upgrades Project and the Plant Smith Transmission Upgrades Project in the Company's Compliance Program as reasonable and prudent through the issuance of a Proposed Agency Action ("PAA") order that will require interested parties that object to the inclusion of any of these projects in Gulf's Compliance Program to specifically state their objections prior to June 30, 2013, and thereby request that the resulting issues be set for hearing as soon as possible thereafter. In the event that the Commission is not able to issue the requested PAA order such that the parties are compelled to respond before June 30, 2013, Gulf respectfully requests that the prehearing officer set this matter for hearing as soon as possible to allow Gulf to meet its compliance deadlines. Gulf Power further requests that the Commission grant such other relief as is just and reasonable under the circumstances set forth in this supplemental petition.

Respectfully submitted this 1st day of April, 2013.



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