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November 3, 1998

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

Dear Ms. Bayo:

RE: Docket No. 980007-EI

Enclosed are an original and ten copies of the Prehearing Statement of Gulf Power Company.

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

Sincerely,

Susan D. Cranmer

Susan D. Cranmer
Assistant Secretary and Assistant Treasurer

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cc: Beggs and Lane
Jeffrey A. Stone, Esquire

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FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Environmental Cost Recovery)
 Clause)
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Docket No. 980007-EI
 Date Filed: Nov. 4, 1998

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>(Direct)</u>	<u>Subject Matter</u>	<u>Issues</u>
1. J. O. Vick (Gulf)	Environmental compliance activities (True-up and Projections)	1, 2, 7, 7A, 9, 9B, 9D, 9E
2. S. D. Cranmer (Gulf)	Environmental compliance cost recovery calculations (True-up and Projections)	1, 2, 3, 4, 5, 6, 7, 7A, 9A, 9C, 9E

C. EXHIBITS:

<u>Exhibit Number</u>	<u>Witness</u>	<u>Description</u>
<u> </u> (JOV-1)	Vick	DEP Rule 62-4.246
<u> </u> (SDC-1)	Cranmer	Schedules 42-1P through 42-7P (1/99-12/99); 42-1E through 42-8E (10/97-9/98 and 10/98-12/98)

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 environmental cost recovery factors present the best estimate of Gulf's environmental compliance costs recoverable through the environmental cost recovery clause for the period January 1999 through December 1999 including the true-up calculations and other adjustments allowed by the Commission.

E. STATEMENT OF ISSUES AND POSITIONS

Generic Environmental Cost Recovery Issues

ISSUE 1: What are the estimated environmental cost recovery true-up amounts for the period October, 1997, through December, 1998? *(For Florida Power & Light Company and Gulf Power Company only)*

GULF: For the period October 1997 through September 1998, an over-recovery of \$1,366,965 is currently estimated. However, as approved by the Commission in Order No. PSC-98-1224-FOF-EI, an estimated over-recovery of \$105,224 is already being refunded in the period October 1998 through December 1998. The difference between these two amounts, \$1,261,741, should be refunded in the period January 1999 through December 1999.

For the period October 1998 through December 1998, an over-recovery of \$2,411,941 is currently estimated.
(Vick, Cranmer)

ISSUE 2: What are the appropriate projected environmental cost recovery amounts for the period January, 1999, through December, 1999?

GULF: \$8,472,306. (Vick, Cranmer)

ISSUE 3: What is the appropriate recovery period to collect the total environmental cost recovery true-up amounts?

GULF: January 1999 through December 1999. (Cranmer)

ISSUE 4: What should be the effective date of the environmental cost recovery factors for billing purposes?

GULF: The factors should be effective beginning with the specified billing cycle and thereafter for the period January, 1999 through December, 1999. Billing cycles may start before January 1, 1999 and the last cycle may be read after December 31, 1999 so that each customer is billed for twelve months regardless of when the adjustment factor became effective. (Cranmer)

ISSUE 5: What depreciation rates should be used to develop the depreciation expense included in the total environmental cost recovery true-up amounts to be collected?

GULF: The depreciation rates used to calculate the depreciation expense should be the rates that are in effect during the period the allowed capital investment is in service. (Cranmer)

ISSUE 6: What are the appropriate Environmental Cost Recovery Factors for the period January, 1999, through December, 1999, for each rate group?

GULF: See table below: (Cranmer)

RATE CLASS	ENVIRONMENTAL COST RECOVERY FACTORS ¢/KWH
RS, RST	0.097
GS, GST	0.096
GSD, GSDT	0.086
LP, LPT	0.078
PX, PXT, RTP, SBS	0.072
OSI, OSII	0.057
OSIII	0.076
OSIV	0.129

ISSUE 7: Should the Commission require utilities to petition for approval of recovery of new projects through the Environmental Cost Recovery Clause at least three months prior to the due date for projection filing testimony?

GULF: This issue should be deferred in order to give Staff and the parties an opportunity to meet in an informal workshop setting to discuss the perceived problems that led to this issue and any alternative means of addressing such problems that may be feasible. (Vick, Cranmer)

ISSUE 7A: Should the Commission set minimum filing requirements for utilities upon a petition for approval of recovery of new projects through the Environmental Cost Recovery Clause?

GULF: This issue should be deferred in order to give Staff and the parties an opportunity to meet in an informal workshop setting to discuss the perceived problems that led to this issue and any alternative means of addressing such problems that may be feasible. (Vick, Cranmer)

Company - Specific Environmental Cost Recovery Issues

Gulf Power Company

ISSUE 9: Should the Commission approve Gulf Power Company's request for recovery of costs of the Crist Units 4-7 Ash Pond Diversion Curtains project through the Environmental Cost Recovery Clause?

GULF: Yes. This is a prudent environmental compliance activity resulting from a change in permit requirements since Gulf Power's last rate case and is appropriate for recovery through the Environmental Cost Recovery Clause. The proposed Diversion Curtains that are to be added to the Crist Units 4-7 Ash Pond through this environmental project/activity are intended to slow the flow of industrial wastewater from the Crist Plant that is discharged to the ash pond. By increasing the retention time wastewater spends in the ash pond before release to the cooling water discharge canal, Gulf Power expects to achieve more effective precipitation of solids. This project is the only practical and cost effective means available to decrease the discharge of substances that will be subject to the new lower discharge limits that will be imposed in the new NPDES permit that will be issued for Plant Crist by the Florida Department of Environmental Protection. The proposed project is in the budget planning stage at this time. Prior to commencement of the project, the Company expects to solicit competitive bids. Any difference between the budget planning amounts for this project included in the projection for the upcoming recovery period and the actual project cost resulting from the bidding process will be addressed in an upcoming true-up cycle. (Vick)

ISSUE 9A: How should the newly proposed environmental costs for the Crist Units 4-7 Ash Pond Diversion Curtains project be allocated to the rate classes?

GULF: This project should be allocated to the rate classes on a 12 CP and 1/13 average demand basis. (Cranmer)

ISSUE 9B: Is it appropriate for Gulf Power Company to recover costs for low NO_x burner tips on Plant Smith Unit 1 through the Environmental Cost Recovery Clause?

GULF: Yes. This project is substantially the same as a similar project that was approved by the Commission for Crist Units 4 and 5 in Order No. PSC-98-0803-FOF-EI issued June 9, 1998.

The Clean Air Act Amendments of 1990 (CAAA) imposed stricter environmental standards on electric utility power plants, including new NO_x emission specifications which will become effective in the year 2000 under Title IV Acid Rain Phase II of the CAAA. Specifically, Gulf Power must comply with Phase II Low NO_x rules and regulations under 40 CFR Part 72, 40 CFR Part 76, and Rule 62-214.420(3), Florida Administrative Code. The installation of low NO_x burner tips on Smith Unit 1 is the most cost-effective way in which to achieve compliance with the new standards. Low NO_x burner tips are primarily a low cost option for small boilers. The burner tips have a low installation cost as compared to other available compliance technologies such as full low NO_x burners and selective catalytic reduction. The project to upgrade Smith Unit 1 to incorporate low NO_x burner tips is an operation and maintenance item which includes both material and labor costs. The low NO_x burner tips will be installed on Smith Unit 1 during the Fall 1999 boiler outage.

In order to recover environmental compliance costs through the ECRC, a proposed project must meet the specific criteria listed in Order No. PSC-94-0044-FOF-EI. The three components are as follows: (1) such costs were prudently incurred after April 13, 1993; (2) the activity is legally required to comply with a governmentally imposed environmental regulation enacted, became effective, or whose effect was triggered after the Company's last test year upon which rates are based, and (3) such costs are not recovered through some other cost recovery mechanism or through base rates. The first threshold is met because the upgrades to incorporate low NO_x burner tips are being performed during a boiler outage in 1999, therefore, the costs for this project will be incurred after April 13, 1993. The second component of the criteria for recovery is also met because the project is the most cost-effective approach for compliance with Phase II of the CAAA, whose effect was triggered after the Company's last test year upon which rates are based. Finally, the third component of the criterion for recovery is met because the expenses for the upgrade to low NO_x burner tips are not recovered through any other cost recovery mechanism or through base rates. (Vick)

ISSUE 9C: How should environmental costs for the low NO_x burner tips on Plant Smith Unit 1 be allocated to the rate classes?

GULF: This project should be allocated to the rate classes on an energy basis. (Cranmer)

ISSUE 9D: Is it appropriate for Gulf Power Company to recover costs for the purchase of an additional mobile groundwater treatment system through the Environmental Cost Recovery Clause?

GULF: Yes. The additional mobile groundwater treatment system that Gulf purchased in the last quarter of 1997 has been placed in-service as part of Gulf Power's approved Groundwater Monitoring environmental compliance activity. This activity is associated with the monitoring and remediation of groundwater at numerous substation sites. The Groundwater Monitoring environmental activity was approved for cost recovery through the Environmental Cost Recovery Clause in Order No. PSC-94-0044-FOF-EI which was issued in response to Gulf Power's initial petition seeking to establish the recovery clause for environmental compliance costs. The activity, as originally approved, involved Gulf Power's lease of a mobile groundwater treatment system for use at the Company's Lynn Haven substation site. Gulf's subsequent purchase of the first mobile groundwater treatment system was addressed in Gulf Power's projection filing for the October 1995 through September 1996 recovery period which was reviewed by the Commission and approved in Order No. PSC-95-1051-FOF-EI. The original mobile groundwater treatment system is still in-service at the Lynn Haven substation site. The second mobile groundwater treatment system that is the subject of this issue was purchased in part because the first system is still in-service and also because greater treatment capacity is needed for other sites. This second trailer is currently in-service at the Company's Fort Walton Beach substation site. The costs associated with the new mobile groundwater treatment system have been prudently incurred after April 13, 1993 in order to comply with governmentally imposed environmental requirements that have become effective after the Company's last test year upon which its base rates were established. These costs are not recovered through some other cost recovery mechanism or through base rates and are therefore appropriate for recovery through the Environmental Cost Recovery Clause. (Vick)

ISSUE 9E: What adjustment, if any, should be made to the Environmental Cost Recovery Clause to reflect an amount which may be in base rates for the costs of the underground fuel storage tanks which have been replaced by above ground fuel storage tanks as reported in Audit Disclosure No. 1 of the Florida Public Service Commission's Environmental Cost Recovery Clause Audit Report for the Period Ended September 30, 1997?

GULF: No adjustment should be made to the Environmental Cost Recovery Clause. The Underground Fuel Tank Replacement Project (PE 4397) was approved in Order No. PSC-94-0044-FOF-EI as a project that is in response to new environmental regulations and that was not considered in Gulf's last rate case. The underground fuel tanks were retired prior to the end of their useful economic life due to the more strict dictates of new environmental regulations. Consistent with standard utility group accounting practices, the rate base recovered through base rates has not been reduced as a result of this premature retirement of underground storage tanks that were, but for the new environmental regulations, still viable for fuel storage. Therefore, the entire cost of the new above ground storage tanks represents the increased cost to Gulf Power resulting from the new environmental requirements that became effective since the last rate case. The carrying cost for this new investment is not currently being recovered through any other cost recovery mechanism or through base rates and is therefore appropriate for recovery through the Environmental Cost Recovery Clause. (Vick, Cranmer)

E. 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:

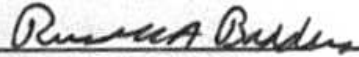
GULF: NONE.

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 23-25, 1998, Gulf respectfully requests an opportunity to submit additional statements of position and, if necessary, file additional testimony.

Dated this 3rd day of November, 1998.

Respectfully submitted,



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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Environmental Cost Recovery)
Clause)
_____)

Docket No. 980007-EI

Certificate of Service

I HEREBY CERTIFY that a copy of the foregoing has been furnished
this 3rd day of November 1998 by U.S. Mail or hand delivery to the following:

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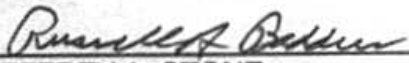
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