BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ENVIRONMENTAL COST RECOVERY CLAUSE

DOCKET NO. 030007-EI

PREPARED DIRECT TESTIMONY
OF
JAMES O. VICK

PROJECTION FILING
FOR THE PERIOD

JANUARY 2004 – DECEMBER 2004

SEPTEMBER 8, 2003

GULF POWER

A SOUTHERN COMPANY

GULF POWER COMPANY

Before the Florida Public Service Commission

Prepared Direct Testimony of

James O. Vick

Docket No. 030007-EI

September 8, 2003

Q. Please state your name and business address.

A. My name is James O. Vick and my business address is One Energy Place, Pensacola, Florida, 32520.

Q. By whom are you employed and in what capacity?

A. I am employed by Gulf Power Company as the Manager of Environmental Affairs.

Q. Mr. Vick, will you please describe your education and experience?

A. I graduated from Florida State University, Tallahassee, Florida, in 1975 with a Bachelor of Science Degree in Marine Biology. I also hold a Bachelor's Degree in Civil Engineering from the University of South Florida in Tampa, Florida. In addition, I have a Masters of Science Degree in Management from Troy State University, Pensacola, Florida. I joined Gulf Power Company in August 1978 as an Associate Engineer. I have since held various engineering positions such as Air Quality Engineer and Senior Environmental Licensing Engineer. In 1996, I assumed my present position as Manager of Environmental Affairs.

Q. What are your responsibilities with Gulf Power Company?

A. As Manager of Environmental Affairs, my primary responsibility is overseeing the activities of the Environmental Affairs section to ensure the Company is, and remains, in compliance with environmental laws and regulations, i.e., both existing laws and such laws and regulations that may be enacted or amended in the future. In performing this function, I have the responsibility for numerous environmental activities.

Q. Are you the same James O. Vick who has previously testified before this Commission on various environmental matters?

A. Yes.

Q. Mr. Vick, what is the purpose of your testimony?

A. The purpose of my testimony is to support Gulf Power Company's projection of environmental compliance costs recoverable through the Environmental Cost Recovery Clause (ECRC) for the period from January 2004 through December 2004.

Q. Mr. Vick, please identify the capital projects included in Gulf's ECRC calculations.

A. A listing of the environmental capital projects, which have been included in Gulf's ECRC calculations, have been provided to Ms. Ritenour and are included in Schedules 3P and 4P of her testimony. Schedule 4P reflects the expenditures, clearings, retirements, salvage and cost of removal currently projected by month for each of these projects. These amounts

were provided to Ms. Ritenour, who has compiled the schedules and calculated the associated revenue requirements for Gulf's requested recovery.

Q. Have all of the capital projects been previously approved by the Commission?

A. No, there are three projects included in Gulf's 2004 capital projection that have not been previously approved by the Commission. These projects are related to Gulf's existing Air and Water Quality programs. In addition, this is the first time Gulf has included costs associated with the Plant Crist FDEP-Gulf Ozone Agreement previously approved by this Commission in Docket 020943-EI.

Q. Mr. Vick, please describe the new projects within Gulf's Air Quality programs that are to be considered for cost recovery.

A. The first project (PE 1030) involves a Scrubber Study Gulf is required to conduct pursuant to the Environmental Protection Agency's (EPA) implementation of Section 112 of the Clean Air Act, which requires EPA to develop Maximum Achievable Control Technology (MACT) standards for hazardous air pollutions. The pollutant of most concern to the electric utility industry is mercury. EPA is required to propose a mercury MACT standard for coal fired electric utility boilers by December 2003. The standard is to be final by December 2004 with implementation within 3 years (2007). In order for Gulf Power to comply with the proposed MACT standard, it is imperative that Gulf determine the most cost effective

emission control strategy that will ensure compliance with the more stringent standard. Research in control technologies has demonstrated that flue gas scrubber systems have the potential to remove a significant percentage of mercury emissions from coal fired boilers. The study will determine if this technology is best suited for Plant Crist Unit 7.

The second project (PE 1297) is the purchase of a Fourier Transform Infrared (FTIR) spectrometer, a device used to measure and analyze various low concentration stack gas emissions. The purchase of this instrument will enable Gulf to measure formaldehyde in stack emissions on units affected by EPA's new MACT standards for hazardous air pollutants under Section 112 of the Clean Air Act. Additionally, the monitor will be used to measure ammonia slip emissions required in the air construction permit on Crist Unit 7.

Q. Mr. Vick, please describe the new Water Quality program that Gulf seeks to recover.

A. The Plant Crist Stormwater project, (PE 1272), is required as a result of a more stringent July 17, 2002 revision to Title 40 Code of Federal Regulation Part 112, which is commonly referred to as the Spill Prevention Control and Countermeasures (SPCC) regulation. Prior to the 2002 revision, equipment containing mineral oil, such as electric transformers and regulators, were excluded from regulation. The recent revision is now inclusive of oil-containing electrical equipment. Oil-filled electrical equipment that has the potential to discharge to navigable

waters must be provided with appropriate containment and/or diversionary structures to prevent such a discharge. The SPCC project at Plant Crist will route stormwater from the switchyard drain to the oil skimmer pond where any potential spill would be captured, preventing the oil from reaching surface water. Gulf expects to spend $250,000 on this project in 2004.

Q. Mr. Vick, are there any previously approved capital projects included in the 2004 capital projection that are required for environmental compliance but have yet to incur expenses?

A. Yes, the FDEP and Gulf Power entered into an agreement on August 28, 2002 to ensure compliance with the new ozone air quality standards. This agreement calls for Gulf to install Selective Catalytic Reduction (SCR) controls on Plant Crist Unit 7 and relocate the Crist Unit 7 precipitator. On August 30, 2002 Gulf petitioned to recover the costs of implementing the agreement through the ECRC. Gulf was granted approval for recovery of the costs incurred to complete these activities in Docket No. 020943-EI through proposed agency action order PSC-02-1396-PAA-EI, issued October 9, 2002. The consummating order PSC-02-1593-CO-EI was issued November 18, 2002. Gulf expects the first phase of this project to go in service in June 2004, at which time almost $38 million of capital investment will move into the ECRC.

Q. Mr. Vick, please identify any expansions of previously approved capital projects for the projection period that are required for environmental compliance.

A. There are three other previously approved capital projects that will be expanded. These include the Plant Crist Diesel Fuel Oil Remediation project, Plant Crist and Plant Daniel Continuous Emission Monitoring (CEMs) replacements, and the Plant Crist Low NOx Burner replacement.

On February 27, 2003, Gulf Power received approval from the FDEP to construct an impervious surface (concrete cap) for the Crist Diesel Fuel Oil Remediation project (PE 1270). A small area of impacted soils remain in-place at Crist and Gulf will install a concrete cap in 2004 to reduce the migration of contaminants to groundwater. Expenditures for this project are expected to be $20,000.

During the 2004 recovery period the CEMs project includes the replacement of flow monitors and the CEMs shelter for Units 6 and 7 at Plant Crist (PE 1217) and the replacement of gas analyzers at Plant Daniel on Units 1 and 2 (PE 1560). The gas analyzers and flow monitors are necessary in order to provide Gulf with the accuracy and reliability needed to measure SO2, NOx, CO2, opacity, and gas flow and further maintain compliance with the Clean Air Act Amendment (CAAA) requirements. Expenditures for this project are expected to be $242,000 and will be allocated on an energy basis, as is all other equipment associated with emission monitoring. All of the existing analyzers are

approaching the end of their useful life, and will be retired upon replacement.

Gulf previously reported that expenditures of $1.3 million are expected in late 2003 for the Unit 7 Low NOx Burners at Plant Crist. Additional expenditures of approximately $3.4 million in 2004 will be necessary to complete the project. The existing burners are approaching the end of their useful life and must be replaced in order to maintain compliance with the Clean Air Act Acid Rain Program requirements.

Q. Please compare the Environmental Operation and Maintenance (O & M) activities listed on Schedule 2P of Exhibit SDR-3 to the O & M activities approved for cost recovery in past ECRC dockets.

A. All of the O & M activities listed on Schedule 2P have been approved for recovery through the ECRC in past proceedings except for Line Item 1.18, SPCC Substation Project. The O & M activities are grouped into four major categories: Air Quality, Water Quality, Environmental Affairs Administration, and Solid and Hazardous Waste.

Q. Mr. Vick, please describe the regulation requiring the addition of the SPCC line item (Line Item 1.18).

A. On July 17, 2002 EPA published a revision to Title 40 Code of Regulation Part 112, commonly referred to as the SPCC regulation. As previously explained in my testimony, the revision expanded applicability of the rule to include oil containing electrical transformers and regulators, which had

previously been excluded from the SPCC regulations. Gulf has assessed its substations to determine which are subject to the revised SPCC regulations. Gulf will be required to install additional containment and/or diversionary structures or equipment at several substations to prevent a potential discharge of mineral oil to navigable waters of the United States or adjoining shorelines. Gulf expects expenses of $100,000 for this project during the 2004 recovery period.

Q. What O & M activities are included in the Air Quality category?

A. There are five O & M activities included in this category:

The first, Sulfur (Line Item 1.1) reflects operational expenses associated with the burning of low sulfur coal. This item refers to the flue gas sulfur injection system needed to improve the collection efficiency of the Crist Unit 7 electrostatic precipitator. There are no expenses projected for this project during the 2004 recovery period.

The second activity listed on Schedule 2P, Air Emission Fees (Line Item 1.2) represents the expenses projected for the annual fees required by the CAAA that are payable to the FDEP. The expenses projected for the recovery period total $789,874.

The third activity listed on Schedule 2P, Title V (Line Item 1.3), represents projected expenses associated with the implementation of the Title V

permits. The total estimated expense for the Title V Program during 2004 is $94,136.

The fourth activity listed on Schedule 2P, Asbestos Fees (Line Item 1.4), consists of the fees required to be paid to the FDEP for the purpose of funding the State's asbestos abatement program. The expenses projected for the recovery period total $2,000.

The fifth activity listed on Schedule 2P, Emission Monitoring (Line Item 1.5), reflects an ongoing O & M expense associated with the Continuous Emission Monitoring equipment (CEM) as required by the CAAA. These expenses are incurred in response to EPA's requirements that the Company perform Quality Assurance/Quality Control (QA/QC) testing for the CEMs, including Relative Accuracy Test Audits (RATAs) and Linearity Tests. Other activities within this category include the testing, development, and implementation of new Periodic Monitoring and Compliance Assurance Monitoring (CAM) associated with the Clean Air Act Amendment. The expenses expected to occur during the 2004 recovery period for these activities total $488,968.

Q. What O & M activities are included in Water Quality?

A. The first activity, General Water Quality (Line Item 1.6), identified in Schedule 2P, includes Soil Contamination Studies, Dechlorination, Groundwater Monitoring Plan Revisions and Surface Water Studies. All of the programs included in Line Item 1.6, General Water Quality, have

been approved in past proceedings. The expenses expected to be incurred during the projection recovery period for these activities total $340,655.

The second activity listed in the Water Quality Category, Groundwater Contamination Investigation (Line Item 1.7), was previously approved for environmental cost recovery in Docket No. 930613-EI. This activity is projected to incur incremental expenses totaling $922,143.

Line Item 1.8, State NPDES Administration, was previously approved for recovery in the ECRC and reflects expenses associated with annual fees for Gulf's three generating facilities in Florida. These expenses are expected to be $42,000 during the projected recovery period.

Finally, Line Item 1.9, Lead and Copper Rule, was also previously approved for ECRC recovery and reflects sampling, analytical and chemical costs related to lead and copper in drinking water. These expenses are expected to total $9,000 during 2004.

Q. What activities are included in the Environmental Affairs Administration Category?

A. Only one O & M activity is included in this category on Schedule 2P (Line Item 1.10) of Ms. Ritenour's exhibit. This Line Item refers to the Company's Environmental Audit/Assessment function. This program is an on-going compliance activity previously approved and is expected to incur

$5,000 of expenses during the recovery period.

Q. What O & M activities are included in the Solid and Hazardous Waste category?

A. Only one program, General Solid and Hazardous Waste (Line Item 1.11) is included in the Solid and Hazardous Waste category on Schedule 2P. This activity involves the proper identification, handling, storage, transportation and disposal of solid and hazardous wastes as required by federal and state regulations. This program is an on-going compliance activity previously approved and is projected to incur incremental expenses totaling $209,126.

Q. In addition to the four major O & M categories listed above, are there any other O & M activities which have been approved for recovery?

A. Yes. There are five other O & M categories which have been approved in past proceedings. They are Above Ground Storage Tanks, Low NOx, Ash Pond Diversion Curtains, Mercury Emissions, Sodium Injection System, and Gulf Coast Ozone Study (GCOS).

Q. What O & M activities are included in the Above Ground Storage Tanks?

A. Only one program, Above Ground Storage Tanks (Line Item 1.12), is included in this category. This program is expected to incur $65,000 of expenses during 2004.

Q. Please identify the activities included in the Low NOx (Line Item 1.3) category.

A. This project was for the purchase and installation of Low NOx burner tips at Plant Crist on Units 4 and 5 and at Plant Smith on Unit 1 to comply with Phase II requirements of the CAAA. There are no expenses projected for this project during the 2004 recovery period.

Q. Please identify the activity included in the Mercury Emissions (Line Item 1.15) category.

A. This program, approved by the Commission for recovery in Docket No. 981973-EI, pertains to requirements for Gulf to periodically analyze coal shipments for mercury and chlorine content. There are no expected expenses during the 2004 recovery period. The EPA only mandated that shipments of coal would be analyzed for mercury and chlorine during 1999. No further notices of continued sampling requirements of coal shipments beyond 1999 have been issued by EPA, therefore no expenses have been planned for this activity.

Q. What activity is included in the Sodium Injection (Line Item 1.16) category?

A. The Sodium Injection System, approved in Docket Number No. 990667-EI for inclusion in the ECRC, involves sodium injection to the coal supply at Plant Smith to enhance precipitator efficiencies when burning low sulfur coal. There are no projected expenses for the 2004 recovery period.

Q. Please identify the activity included in the Gulf Coast Ozone Study (Line I Item 1.17) category.

A. This program, approved for recovery in Docket No. 991834-EI for inclusion in the ECRC involves a joint modeling analysis between Gulf Power and the State of Florida to provide an improved basis for assessment of eight-hour ozone air quality for Northwest Florida. The project models past episodes of high ozone levels in Northwest Florida and will be used in developing potential control strategies for both stationary and mobile sources to provide a comprehensive evaluation of the area as required under Title I of the Clean Air Act. This will support FDEP's State Implementation Plan (SIP) revisions. This evaluation is considered pre-engineering work necessary to evaluate the most viable, low cost emission control technologies available that may be required to meet the new eight-hour ambient air ozone standard. Expenses for this project during the 2004 recovery period are anticipated to be $20,000.

Q. Please describe the activity included in the SO2 allowances (Line Item 1.19).

A. This program includes expenses for SO2 allowances for Gulf's plants. The expenses are offset by gains realized from the sale of SO2 allowances.

Q. Are there any project or program expenses resulting from either new or more stringent environmental regulations which may significantly increase

O & M costs for the recovery period January 2004 through December 2004?

A. Gulf Power is not aware of any at this time.

Q. Mr. Vick, does this conclude your testimony?

A. Yes.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 030007-EI

Before me the undersigned authority, personally appeared James O. Vick, who being first duly sworn, deposes, and says that he is the Manager of Environmental Affairs of Gulf Power Company, a Maine corporation, and that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.

James O. Vick
Manager of Environmental Affairs

Sworn to and subscribed before me this 5th day of September 2003.

Notary Public, State of Florida at Large

Commission Number:

Commission Expires:

ROLLANDA R. COTHRAN
MY COMMISSION # DD 068475
EXPIRES: February 26, 2006
Bonded Thru Notary Public Underwriters