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October 14, 2005

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. 050007-EI

Enclosed are an original and ten copies of the Prehearing Statement of Gulf Power Company to be filed in the above docket.

Sincerely,

Susan D. Ritenour

lw

Enclosure

cc: Beggs and Lane
J. A. Stone, Esquire

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Environmental Cost Recovery)
Clause)
_____)

Docket No. 050007-EI
Date Filed: October 14, 2005

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, and Order No. PSC-05-0264-PCO-EI, files this prehearing statement, saying:

A. APPEARANCES:

JEFFREY A. STONE, Esquire, RUSSELL A. BADDERS, 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:

<u>Witness</u> <u>(Direct)</u>	<u>Subject Matter</u>	<u>Issues</u>
1. J. O. Vick (Gulf)	Environmental compliance activities (True-ups and Projection)	1, 2, 4, 11a, 11c, 11e, 11g, 11h
2. T. A. Davis (Gulf)	Environmental compliance cost recovery calculations (True-ups and Projection)	1, 2, 3, 4, 5, 6, 7, 8, 11b, 11d, 11f

C. EXHIBITS:

<u>Exhibit Number</u>	<u>Witness</u>	<u>Description</u>
(JOV-1)	Vick	Correspondence; Program Documentation
(TAD-1)	Davis	Calculation of Final True-up 1/04 – 12/04
(TAD-2)	Davis	Calculation of Estimated True-up 1/05 – 12/05
(TAD-3)	Davis	Calculation of Projection 1/06 - 12/06

D. STATEMENT OF BASIC POSITION

Gulf Power Company's Statement of Basic Position:

It is the basic position of Gulf Power Company that the environmental cost recovery factors proposed by the Company present the best estimate of Gulf's environmental compliance costs recoverable through the environmental cost recovery clause for the period January 2006 through December 2006 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 appropriate final environmental cost recovery true-up amounts for the period ending December 31, 2004?

GULF: Over recovery \$628,050. (Vick, Davis)

ISSUE 2: What are the estimated environmental cost recovery true-up amounts for the period January 2005 through December 2005?

GULF: Over recovery \$646,587. (Vick, Davis)

ISSUE 3: What are the total environmental cost recovery true-up amounts to be collected/refunded during the period January 2006 through December 2006?

GULF: Refund of \$1,274,637 (excluding revenue taxes). (Davis)

ISSUE 4: What are the appropriate projected environmental cost recovery amounts for the period January 2006 through December 2006?

GULF: \$41,572,348. (Vick, Davis)

ISSUE 5: What depreciation rates should be used to develop the depreciation expense included in the total environmental cost recovery amounts for the period January 2006 through December 2006?

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. (Davis)

ISSUE 6: What are the appropriate jurisdictional separation factors for the projected period January 2006 through December 2006?

GULF: The demand jurisdictional separation factor is 96.64872%. Energy jurisdictional separation factors are calculated each month based on retail KWH sales as a percentage of projected total territorial KWH sales. (Davis)

ISSUE 7: What are the appropriate Environmental Cost Recovery Factors for the period January 2006 through December 2006 for each rate group?

GULF: See table below: (Davis)

RATE CLASS	ENVIRONMENTAL COST RECOVERY FACTORS ¢/kWh
RS, RSVP	.364
GS	.362
GSD, GSDT, GSTOU	.356
LP, LPT	.346
PX, PXT, RTP, SBS	.337
OS-I/II	.334
OSIII	.345

ISSUE 8: What should be the effective date of the new 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 2006, through December 2006. Billing cycles may start before January 1, 2006, and the last cycle may be read after December 31, 2006, so that each customer is billed for twelve months regardless of when the adjustment factor became effective. (Davis)

Company - Specific Environmental Cost Recovery Issues

ISSUE 11A: Should the Commission approve Gulf's request for recovery of costs for groundwater arsenic remediation activities at Plants Crist and Scholz?

GULF: Yes. The FDEP published a new arsenic groundwater standard that lowered the limit from 0.5 mg/L to 0.01 mg/L, effective January 1, 2005. Historical groundwater monitoring data from Plant Crist and Plant Scholz indicate that these facilities are not likely to be able to comply with the lower standard without remediation or other solutions. Gulf projects capital expenditures of \$500,000

during 2006 to complete and evaluate the results from studies to determine the nature of the potential impacts to groundwater and identify solutions necessary to ensure compliance with the new standard. Depending on the results, mitigation measures may also be implemented during 2006. These are costs incurred to comply with new environmental legal requirements imposed on the Company and this compliance activity is not being recovered through base rates or any other means. (Vick)

ISSUE 11B: How should the costs for GULF's arsenic groundwater remediation activities at Plants Crist and Scholz be allocated to the rate classes?

GULF: The proposed capitalized costs should be allocated to the rate classes on 12 coincident peak demand and 1/13 average demand basis. (Davis)

ISSUE 11C: Should the Commission approve GULF's request for recovery of costs for water conservation measures at Plant Crist?

GULF: Yes. This program is part of Gulf's water conservation and consumptive use efficiency program required by the consumptive water use permit issued to Gulf for Plant Crist by the Northwest Florida Water Management District (NFWFMD). Gulf plans to install automatic level controls on the fire water tanks at Plant Crist to reduce groundwater consumption by an estimated 1.3 million gallons per year. The NFWFMD has agreed that this plan is a valid project to pursue for continued implementation of the water conservation effort as required by the consumptive use permit. The costs associated with this project are being incurred to comply with new environmental legal requirements imposed on the Company and this compliance activity is not being recovered through base rates or any other means. (Vick)

ISSUE 11D: How should the costs for GULF's Plant Crist water conservation measures be allocated to the rate classes?

GULF: The proposed capitalized costs should be allocated to the rate classes on 12 coincident peak demand and 1/13 average demand basis. (Davis)

ISSUE 11E: Should the Commission approve GULF's request for recovery of costs for replacement of the copper condenser tubes at Plant Crist with stainless steel condenser tubes?

GULF: Yes. The water quality based copper effluent limitations included in Chapter 62, Part 302, Florida Administrative Code, were amended in April 2002 with an effective date of May 2002 to create a more stringent hardness based standard. The more stringent standard has been included by reference in the industrial wastewater permit issued to Gulf for Plant Crist. Surface water studies conducted from 2003 through 2005 have determined that the Crist Unit 6 condenser is the main source of the incremental copper increase in the Plant Crist discharge. Gulf plans to install stainless steel condenser tubes on Crist Unit 6 to eliminate this source of copper in the plant's discharge canal in order to meet the new water quality standard. The new tubes are expected to be placed in service during May 2006 with estimated project expenditures totaling \$5.5 million. These are costs incurred to comply with new environmental legal requirements imposed on the Company and this compliance activity is not being recovered through base rates or any other means. (Vick)

ISSUE 11F: How should the costs for GULF's Plant Crist condenser tube replacement be allocated to the rate classes?

GULF: The proposed capitalized costs should be allocated to the rate classes on 12 coincident peak demand and 1/13 average demand basis. (Davis)

ISSUE 11G: Should Gulf be permitted to include its proposed Scrubber Project in its 2006 projections for the ECR clause?

GULF: The Scrubber Project (Line Item 1.26) was inadvertently omitted from the Company's petition when it was filed on September 15, 2005. This project is proposed as an addition to Gulf's Air Quality programs because it is necessary to comply with new environmental regulations as described in the testimony of Gulf's witness James O. Vick filed on September 15, 2005. The Scrubber Project is a capital project of such magnitude in dollars and construction time that the Commission's policy regarding AFUDC is applicable. As a result, there is no dollar impact on the ECRC factors for 2006 from this program. The dollars spent on this project in 2006 will be capitalized along with the applicable AFUDC and will be reflected in the proposed ECRC factors for the year when the projects are expected to close to plant-in-service. (Vick)

ISSUE 11H: Should Gulf be permitted to include its proposed Plant Smith Baghouse Project in its 2006 projections for the ECR clause?

GULF: The Plant Smith Baghouse Project (Line Item 1.27) was inadvertently omitted from the Company's petition when it was filed on September 15, 2005. This project is proposed as an addition to Gulf's Air Quality programs because it is necessary to comply with new environmental regulations as described in the testimony of Gulf's witness James O. Vick filed on September 15, 2005. The Scrubber Project is a capital project of such magnitude in dollars and construction time that the Commission's policy regarding AFUDC is applicable. As a result, there is no dollar impact on the ECRC factors for 2006 from this program. The dollars spent on this project in 2006 will be capitalized along with the applicable AFUDC and will be reflected in the proposed ECRC factors for the year when the projects are expected to close to plant-in-service. (Vick)

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:

GULF: 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 7-9, 2005, Gulf respectfully requests an opportunity to submit additional statements of position and, if necessary, file additional testimony.

Dated this 14th day of October, 2005.

Respectfully submitted,



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Certificate of Service

I HEREBY CERTIFY that a copy of the foregoing has been furnished
this 14th day of October 2005 by U.S. Mail or hand delivery to the following:

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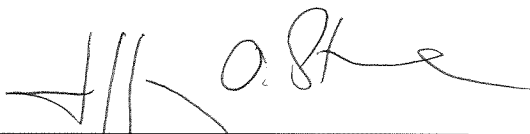
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