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October 17, 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. 050001-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: Fuel and Purchased Power Cost)
Recovery Clauses and Generating)
Performance Incentive Factor)
_____)

Docket No. 050001-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, 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>Subject Matter</u>	<u>Issues</u>
	<u>(Direct)</u>		
1.	H. R. Ball ¹ (Gulf)	Fuel Adjustment, true-up and projections; Purchased Power -- energy and capacity purchases and sales, projections	1, 2, 11, 12, 16A, 16B, 16C, 16D, 24, 25, 27,
2.	T. A. Davis (Gulf)	Fuel Adjustment, true-up and projections	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 24, 25, 26, 27, 28, 29
3.	L. S. Noack (Gulf)	GPIF, reward/penalty and targets and ranges	18, 19

¹ By letter dated October 12, 2005, Gulf advised the Commission and all parties that Mr. Ball will be adopting the final true-up testimony of H. H. Bell filed March 1, 2005.

C. EXHIBITS:

<u>Exhibit Number</u>	<u>Witness</u>	<u>Description</u>
(HRB-1)	Ball	Coal Suppliers January 2004 - December 2004
(HRB-2) ²	Ball	Projected vs. actual fuel cost of generated power March 1996 - December 2006
(TAD-1)	Davis	Calculation of Final True-Up January 2004 – December 2004
(TAD-2)	Davis	Estimated true-up January 2005 – December 2005
(TAD-3)	Davis	Projection January 2006 – December 2006
(LSN-1)	Noack	Gulf Power Company GPIF Results January 2004 - December 2004
(LSN-2)	Noack	Gulf Power Company GPIF Targets and Ranges January 2006 - December 2006

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 factors proposed by the Company present the best estimate of Gulf's fuel expense for the period January 2006 through December 2006 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 final fuel adjustment true-up amounts for the period January 2004 through December 2004?

GULF: Over recovery \$18,641,731. (Ball, Davis)

² This exhibit was filed with Mr. Ball's testimony dated September 16, 2005 and was inadvertently labeled HRB-1.

ISSUE 2: What are the appropriate estimated fuel adjustment true-up amounts for the period January 2005 through December 2005?

GULF: Under recovery \$30,102,348. (Ball, Davis)

ISSUE 3: What are the appropriate total fuel adjustment true-up amounts to be collected/refunded during the period January 2006 through December 2006?

GULF: Under recovery 11,460,617. (Davis)

ISSUE 4: Should the Commission revise the fuel cost recovery factors in April 2006, after the final 2005 true-up filing, if a utility's estimated 2005 under-recovery developed during the 2005 hurricane season exceeds the actual under-recovery?

GULF: The Commission should not rule on this issue at this time, but should instead follow its existing policy that requires utilities to notify the Commission when the utility becomes aware that its fuel clause over-recovery or under-recovery to exceed ten percent. Upon receipt of such notification, the Commission can then determine whether a mid-course adjustment to the utility's fuel cost recovery factors is warranted under the facts and circumstances at that time. The general policy regarding the establishment of fuel cost recovery factors adopted by the Commission is that the factors should be set on an annual calendar year basis (see Order No. 98-0691-FOF-PU issued May 19, 1998 in Docket No. 980269-PU). This policy was reviewed and reaffirmed by the Commission in Order No. PSC-01-1665-PAA-EI issued August 15, 2001 in Docket No. 010001-EI, made final by consummating Order No. PSC-01-1817-CO-EI issued September 10, 2001. In those decisions, the Commission cited five objectives for changing to an annual calendar-year recovery period, and concluded that an annual, calendar-year recovery period can meet or exceed these objectives better than any alternative recovery period length. The existing policy and mechanisms in place regarding mid-course adjustments are adequate and appropriate for addressing the concern identified in this issue without compelling the Commission to make a premature decision without the benefit of the facts and circumstances at the time such decision would be more appropriate. (Davis)

ISSUE 5: 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 of January 2006 through December 2006?

GULF: 1.00072. (Davis)

ISSUE 6: What are the projected net fuel and purchased power cost recovery amounts to be included in the recovery factor for the projection period of January 2006 through December 2006?

GULF: \$347,469,048. (Davis)

ISSUE 7: What are the appropriate levelized fuel cost recovery factors for the period January 2006 through December 2006?

GULF: 3.076 (Davis)

ISSUE 8: What are the appropriate fuel recovery loss multipliers to be used in calculating the fuel cost recovery factors charged to each rate class?

GULF: See table below: (Davis)

Group	Rate Schedules	Line Loss Multipliers
A	RS, GS, GSD, SBS, OSIII	1.00526
B	LP, LPT, SBS	0.98890
C	PX, PXT, RTP, SBS	0.98063
D	OSI/II	1.00529

ISSUE 9: What are the appropriate Fuel Cost Recovery Factors for each rate group adjusted for line losses?

GULE: See table below: (Davis)

Group	Rate Schedules*	Line Loss Multipliers	Fuel Cost Factors ¢/KWH		
			Standard	Time of Use	
				On-Peak	Off-Peak
A	RS, GS, GSD, SBS, OSIII	1.00526	3.092	3.615	2.869
B	LP, LPT, SBS	0.98890	3.042	3.557	2.823
C	PX, PXT, RTP, SBS	0.98063	3.016	3.527	2.799
D	OSI/II	1.00529	3.060	N/A	N/A

*The recovery factor applicable to customers taking service under Rate Schedule SBS is determined as follows: customers with a Contract Demand in the range of 100 to 499 KW will use the recovery factor applicable to Rate Schedule GSD; 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 customers with a Contract Demand over 7,499 KW will use the recovery factor applicable to Rate Schedule PX.

ISSUE 10: What should be the effective date of the new fuel adjustment charge and capacity cost recovery charge for billing purposes?

GULE: The new fuel factors should be effective beginning with the first billing cycle for January 2006 and thereafter through the last billing cycle for December 2006. The first billing cycle 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)

ISSUE 11: What are the appropriate actual benchmark levels for calendar year 2005 for gains on non-separated wholesale energy sales eligible for a shareholder incentive?

GULF: \$2,717,207. (Ball, Davis)

ISSUE 12: What are the appropriate estimated benchmark levels for calendar year 2006 for gains on non-separated wholesale energy sales eligible for a shareholder incentive?

GULF: \$3,151,487. (Ball, Davis)

Company-Specific Fuel Adjustment Issues

ISSUE 16A: Should Gulf Power recover associated replacement fuel and purchased power costs prior to exhausting all avenues of redress against the party or parties which manufactured, delivered, or installed the turbine at the Smith Unit 3 which failed during 2005?

GULF: Gulf does not believe that it has incurred any replacement fuel or purchased power costs as a result of the outage of the failed combustion turbine at Smith Unit 3. Nevertheless, at this time it does not appear that Gulf has any avenues of redress available against any party for consequential damages resulting from this failure. (Ball)

ISSUE 16B: Has Gulf Power adequately mitigated the price risk of natural gas and purchased power for 2004 through 2006?

GULF: Gulf's natural gas price hedging program has been administered in a reasonable and prudent manner resulting in savings to Gulf's customers of \$17,766,366 over the period 2004 through September 30, 2005. This savings compares favorably to the incremental hedging O&M expense of \$43,172 over the same period. For the remainder of 2005 and thus far for 2006, Gulf has 37% of its budgeted burn covered by fuel price hedges. Gulf continues to examine the market for reasonable hedging opportunities. (Ball)

ISSUE 16C: Did Gulf Power prudently incur its incremental fuel costs due to the impact of the 2005 hurricane season?

GULF: Yes. Gulf did not suffer any fuel supply interruptions as a result of impacts from the 2005 hurricane season. As discussed in Gulf's response to Issue 16B, Gulf's natural gas price hedging program has been administered in a reasonable and prudent manner. Gulf continues to examine the market for reasonable hedging opportunities. (Ball)

ISSUE 16D: Is Gulf Power Company's incremental 2006 hedging O&M expense of \$28,080 reasonable and appropriate for recovery?

GULF: Yes. As discussed in Gulf's response to Issue 16B, Gulf's natural gas price hedging program has been administered in a reasonable and prudent manner. The savings achieved through this program compare favorably to the incremental hedging O&M expense associated with administering the program. (Ball)

Generic Generating Performance Incentive Factor Issues

ISSUE 18: What is the appropriate GPIF reward or penalty for performance achieved during the period January 2004 through December 2004?

GULF: \$441,988 reward. (Noack)

ISSUE 19: What should the GPIF targets/ranges be for the period January 2006 through December 2006?

GULF: See table below: (Noack)

Unit	EAF	POF	EUOF	Heat Rate
Crist 4	87.1	12.1	0.8	10,493
Crist 5	92.4	6.3	1.3	10,375
Crist 6	90.2	0.0	9.8	10,171
Crist 7	80.8	8.2	11.0	10,268
Smith 1	98.1	0.0	1.9	10,176
Smith 2	84.1	6.3	9.6	10,222
Daniel 1	93.6	2.5	3.9	10,181
Daniel 2	81.5	15.3	3.2	10,027

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

Generic Capacity Cost Recovery Issues

ISSUE 24: What is the appropriate final purchased power capacity cost recovery true-up amount for the period January 2004 through December 2004?

GULF: Over recovery of \$428,009. (Ball, Davis)

ISSUE 25: What is the estimated purchased power capacity cost recovery true-up amount for the period January 2005 through December 2005?

GULF: Over recovery of \$913,842. (Ball, Davis)

ISSUE 26: What is the appropriate total capacity cost recovery true-up amount to be collected/refunded during the period January 2006 through December 2006?

GULF: \$1,341,851 refund. (Davis)

ISSUE 27: What is the appropriate projected net purchased power capacity cost amount to be included in the recovery factor for the period January 2006 through December 2006?

GULF: \$27,149,254. (Ball, Davis)

ISSUE 28: What are the appropriate jurisdictional separation factors for capacity revenues and costs to be included in the recovery factor for the period January 2006 through December 2006?

GULF: 96.64872%. (Davis)

ISSUE 29: What are the appropriate capacity cost recovery factors for the period January, 2006 through December, 2006?

GULF: See table below: (Davis)

RATE CLASS	CAPACITY COST RECOVERY FACTORS ¢/KWH
RS, RSVP	0.272
GS	0.263
GSD, GSDD, GSTOU	0.233
LP, LPT	0.202
PX, PXT, RTP, SBS	0.169
OS-I/II	0.116
OSIII	0.175

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:

Request for confidential classification required for CCE-4 on Exhibit TAD-2 for T.A. Davis filed September 16, 2005.

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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Attorneys for Gulf Power Company

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Fuel and Purchased Power Cost)
Recovery Clause with Generating)
Performance Incentive Factor)
_____)

Docket No. 050001-EI

Certificate of Service

I HEREBY CERTIFY that a true copy of the foregoing was furnished by hand delivery or the U. S. Mail this 17th day of October 2005 on the following:

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