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October 3, 2006

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. 060007-EI

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

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

Sincerely,

A handwritten signature in cursive script that reads "Susan D. Ritenour".

bh

Enclosure

cc: Beggs & Lane  
J. A. Stone, Esq.

DOCUMENT NUMBER-DATE  
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FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Environmental Cost Recovery )  
Clause ) Docket No. 060007-EI  
) Date Filed: October 3, 2006  
)

**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, Esquire  
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> (Direct)	<u>Subject Matter</u>	<u>Issues</u>
1. J. O. Vick (Gulf)	Environmental compliance activities (True-ups and Projection)	1, 2, 3, 4, 12A, 12B
2. R. J. Martin (Gulf)	Environmental compliance cost recovery calculations (True-ups and Projection)	1, 2, 3, 4, 5, 6, 7, 8

C. EXHIBITS:

<u>Exhibit Number</u>	<u>Witness</u>	<u>Description</u>
(JOV-1)	Vick	Florida Clean Air Interstate Rule; Florida Clean Air Mercury Rule; NPDES permits for Plants Crist and Scholz
(TAD-1)	Martin	Calculation of Final True-up 1/05 – 12/05
(RJM-2)	Martin	Calculation of Estimated True-up 1/06 – 12/06
(RJM-3)	Martin	Calculation of Projection 1/07 - 12/07

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 2007 through December 2007 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 final environmental cost recovery true-up amounts for the period ending December 31, 2005?

**GULF:** Over recovery \$1,659,043. (Vick, Martin)

**ISSUE 2:** What are the estimated environmental cost recovery true-up amounts for the period January 2006 through December 2006?

**GULF:** Over recovery \$2,874,720. (Vick, Martin)

**ISSUE 3:** What are the projected environmental cost recovery amounts for the period January 2007 through December 2007?

**GULF:** \$48,178,803. (Vick, Martin)

**ISSUE 4:** What are the environmental cost recovery amounts, including true-up amounts, for the period January 2007 through December 2007?

**GULF:** \$43,645,040, excluding revenue taxes. (Vick, Martin)

**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 2007 through December 2007?

**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. (Martin)

**ISSUE 6:** What are the appropriate jurisdictional separation factors for the projected period January 2007 through December 2007?

**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. (Martin)

**ISSUE 7:** What are the appropriate environmental cost recovery factors for the period January 2007 through December 2007 for each rate group?

**GULF:** See table below: (Martin)

<b>RATE CLASS</b>	<b>ENVIRONMENTAL COST RECOVERY FACTORS ¢/kWh</b>
RS, RSVP	.387
GS	.385
GSD, GSDT, GSTOU	.379
LP, LPT	.367
PX, PXT, RTP, SBS	.357
OS-I/II	.354
OSIII	.367

**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 2007 through December 2007. Billing cycles may start before January 1, 2007, and the last cycle may be read after December 31, 2007, so that each customer is billed for twelve months regardless of when the adjustment factor became effective. (Martin)

**Company - Specific Environmental Cost Recovery Issues**

**ISSUE 12A:** Should the Commission approve Gulf's request for recovery of compliance costs relating to the Clean Air Interstate Rule and the Clean Air Mercury Rule as a project that qualifies for recovery through ECRC?

**GULF:** Yes. The Clean Air Interstate Rule (CAIR) and Clean Air Mercury Rule (CAMR) Compliance Program is necessary to comply with the CAIR and CAMR regulations promulgated by the United States Environmental Protection Agency (EPA) in March 2005 and subsequently adopted by the Florida Department of Environmental Protection (FDEP) in June 2006. Gulf expects portions of the program totaling approximately \$35.8 million to close to plant-in-service during 2007. 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 12B:** Should the Commission approve Gulf's request for recovery of its General water sampling quality boat as a project that qualifies for recovery through ECRC?

**GULF:** Yes. Gulf expects to incur capital expenditures of \$28,600 during 2007 to purchase a boat for new surface water sampling that is required by the Plant Crist and Plant Scholz National Pollutant Discharge Elimination System (NPDES) permits. Pursuant to Chapter 62 Part 302.520(1), Florida Administrative Code, the FDEP has included new biological evaluation requirements in Gulf's recently issued NPDES permits for both Plants Crist and Scholz. In addition, these NPDES permits, also have a condition that requires compliance with Chapter 40 of the Code of Federal Regulation (CFR) Parts 125.95(a)(1) and (2), also known as 316(b), which requires monitoring aquatic communities within each plant's once through cooling water systems. Purchasing a boat to conduct these studies in-house will reduce a portion of the compliance expenses. 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. (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 6-8, 2006, Gulf respectfully requests an opportunity to submit additional statements of position and, if necessary, file additional testimony.

Dated this 3<sup>rd</sup> day of October, 2006.

Respectfully submitted,



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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: **Environmental Cost  
Recovery Clause**

Docket No.: **060007-EI**

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a copy of the foregoing has been furnished this 3rd day of October, 2006, by U. S. mail to the following:

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