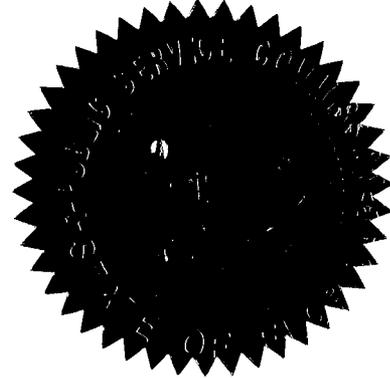


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 070007-EI

In the Matter of
ENVIRONMENTAL COST RECOVERY CLAUSE.



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PROCEEDINGS: AGENDA CONFERENCE
ITEM NO. 7

BEFORE: CHAIRMAN LISA POLAK EDGAR
COMMISSIONER MATTHEW M. CARTER, II
COMMISSIONER KATRINA J. McMURRIAN
COMMISSIONER NANCY ARGENZIANO
COMMISSIONER NATHAN A. SKOP

DATE: Tuesday, August 14, 2007

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: JANE FAUROT, RPR
Official FPSC Reporter
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FPSC-COMMISSION CLERK

1 PARTICIPATING:

2 JEFFREY STONE, ESQUIRE, PENNY MANUEL, and JIM VICK,
3 representing Gulf Power Company.

4 PATRICIA CHRISTENSEN, ESQUIRE, Office of Public
5 Counsel representing the Citizens of the State of Florida.

6 MARTHA BROWN, ESQUIRE, and BILL McNULTY, BOB TRAPP,
7 and JIM BREMAN, representing the Florida Public Service
8 Commission Staff.

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P R O C E E D I N G S

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2 CHAIRMAN EDGAR: We are back on the record. And we
3 are on Item 7, and I'll look to staff to get us started.

4 MR. McNULTY: Commissioners, Item 7 is Gulf Power
5 Company's stipulation with the Office of Public Counsel and
6 Florida Industrial Power Users Group regarding portions of the
7 company's -- it is their stipulation regarding portions of the
8 company's environmental compliance program related to the Clean
9 Air Interstate Rule, the Clean Air Mercury Rule, and the Clean
10 Air Visibility Rule.

11 The stipulation provides that Gulf's compliance plan
12 is a reasonable and sufficient means of complying with the
13 environmental compliance requirements of the referenced rules
14 through the year 2011. The stipulation identifies specific
15 compliance activities that they agree are suitable for
16 attaining compliance. The stipulation also requires Gulf to
17 make a supplementary filing in the ECRC docket to address other
18 components of Gulf's compliance program that are still in the
19 planning phase.

20 Under the stipulation, the parties retain their right
21 to review the actual or projected costs of stipulated
22 components of Gulf's plan for reasonableness and/or prudence in
23 the ECRC proceedings or subsequent base rate proceedings if the
24 costs are to be included in base rates.

25 Staff has reviewed the stipulation and recommends the

1 stipulation be approved. We note that the company and parties
2 are present today for the purposes of addressing this item and
3 staff is prepared to address any questions you may have. Thank
4 you.

5 CHAIRMAN EDGAR: Thank you. I'd like to hear from
6 the parties to the stipulation.

7 Mr. Stone.

8 MR. STONE: Thank you, Chairman.

9 For the record, my name is Jeff Stone. I'm from the
10 Pensacola law firm of Beggs and Lane, and I'm here in my
11 capacity as general counsel to Gulf Power Company.

12 And we're here to support the staff recommendation on
13 the stipulation that we reached with the Office of Public
14 Counsel and the Florida Industrial Power Users Group with
15 regard to Gulf's compliance plan for meeting the environmental
16 requirements under the Clean Air Interstate Rule, the Clean Air
17 Mercury Rule, and the Clean Air Visibility Rule, or as their
18 acronyms are, CAIR, CAMR, and CAVR.

19 We are here before you as a result of a process that
20 began several years ago as a result of the extensive federal
21 and state rulemaking proceedings regarding CAIR.

22 CHAIRMAN EDGAR: Mr. Stone, hold on. And I'm out,
23 too. The court reporter says that she can hear me. Hello,
24 hello.

25 Hold on just a moment.

1 (Pause.)

2 CHAIRMAN EDGAR: These things happen.

3 Mr. Stone, we are going to try again.

4 MR. STONE: I'm not sure that my microphone is
5 working any better now, but I will certainly try and speak up
6 so everyone can hear me.

7 CHAIRMAN EDGAR: Okay. We are not going to try again
8 yet.

9 All right. Folks, I'm sorry, but we are going to
10 take another five minute break. I'm sorry for the delay, but
11 we are going to work on technical difficulties. Everybody, if
12 you would just stay kind of close, but feel free to move around
13 and we will get started when we have a better idea of where we
14 are. Thank you.

15 (Brief recess.)

16 CHAIRMAN EDGAR: Okay. We are we are back on the
17 record. We are going to try again. Thank you all for your
18 patience. I apologize for the delay.

19 Mr. Stone, we were with you.

20 MR. STONE: Thank you. And I guess I will start out
21 by saying I hope it was not something I said that caused it.

22 In any event, as I was starting out, we are here in
23 support of the staff's recommendation. And I was describing
24 the fact that we are here as a culmination of a process that
25 began several years ago as the federal and state environmental

1 regulatory authorities worked through the extensive rulemaking
2 process associated with CAIR, CAMR, and CAVR. And this is an
3 outgrowth of Gulf's philosophy when it comes to environmental
4 compliance.

5 Our process essentially has been the same since the
6 Clean Air Act amendments of 1990 were passed, and Gulf has
7 reviewed and updated its environmental compliance plans as
8 needed on an ongoing basis. And the goal of our process is to
9 identify reasonable and cost-effective compliance strategies
10 that will minimize the impact to Gulf's customers while
11 achieving environmental objectives and assuring compliance with
12 all environmental requirements.

13 We are now before you with the CAIR, CAMR, and CAVR
14 environmental requirements. And a little over two years ago
15 Gulf announced to the Commission through the regular filings in
16 the ECRC what its plan would be for compliance with these three
17 regulatory provisions. And at that time, two years ago, the
18 expectation was that flue gas desulphurization at Plant Crist
19 would be a significant component of our compliance strategy or
20 plan.

21 That began a dialogue with staff and the Office of
22 Public Counsel and other consumer counsel, a dialogue that for
23 two years now has worked cooperatively to come to this point,
24 and we now have before you -- well, one product of that
25 dialogue was this supplemental filing that we agreed to make.

1 Last fall we entered into a stipulation that called for this
2 filing, and we made this filing in March in order to satisfy
3 the concerns that the Office of Public Counsel had expressed
4 and also the staff had with regard to making sure that the
5 entire compliance package was brought before the Commission so
6 that you could see the whole picture.

7 We made that filing and then we continued our
8 dialogue, and we were able to reach a stipulation which was
9 filed in late June that took out and separately dealt with
10 those components of our compliance plan that are already
11 underway, and leave for a future date those elements of the
12 plan that are still on the planning table and there's still
13 flexibility to adapt those parts of the plan to changing
14 conditions.

15 So we are here before you today with that portion of
16 our plan that is already underway in order to meet existing
17 environmental requirements. And we're here with the support of
18 the Office of Public Counsel, the Florida Industrial Power
19 Users Group, and implicitly the support of other consumers
20 counsel in the fact that according to the stipulation that was
21 reached last fall and approved by this Commission, any
22 objections to our plan were to be filed by the end of June this
23 year, and there were no such objections.

24 In fact, I can tell you that we invited a dialogue
25 with other consumer counsel that are not intervenors in the

1 Environmental Cost-Recovery Clause this year, and we were told
2 that they had chosen affirmatively not to intervene, and that
3 we would not be expecting any objections from those other
4 consumer groups, the Florida Retail Federation and the AARP,
5 and that if the Office of Public Counsel and FIPUG were
6 satisfied, they were, too.

7 We are before you again because of the criticality of
8 moving ahead to comply with those requirements and the need to
9 have our biggest units, our Crist units, our most important
10 units with regard to that part of our system ready to meet the
11 environmental requirements that are already part of the
12 regulatory framework. And with that we are here to support the
13 staff recommendation. If you have any questions we will try to
14 address them.

15 CHAIRMAN EDGAR: Thank you.

16 Ms. Christensen.

17 MS. CHRISTENSEN: Good morning. Patty Christensen
18 with the Office of Public Counsel.

19 We are here this morning supporting staff's
20 recommendation on the stipulation that we entered into with
21 Gulf regarding their CAMR, CAIR, and CAVR projects. We were
22 very pleased with the supplemental filing that Gulf filed. It
23 was very helpful in our review of not only the projects that
24 are coming up in the current environmental docket, but it did
25 provide us with a good overview of how Gulf plans on meeting

1 the environmental requirements over the period of time. And
2 with that supplemental filing, we were able to review that
3 plan, have discussions with Gulf, and become comfortable with
4 the terms that are contained in our stipulation and the
5 projects that we have agreed to.

6 And there is also limitations to the stipulation at
7 this point. We reserve the right to look at the prudence of
8 the costs as they come in annually through the ECRC docket. We
9 feel that that is important because at this time there is no
10 way of determining whether or not how they are spending to meet
11 those particular projects are prudent, and that is something
12 that we will be taking a look at on an ongoing basis. And
13 there were several projects that are further out in time that
14 are not being done at the current time that may need to be done
15 in the future that are not part of the stipulation, and we, as
16 the Office of Public Counsel, were of the opinion that that was
17 not ripe to enter any kind of stipulation as to those projects
18 because at this point it's uncertain as to whether or not those
19 will be prudent or not prudent and if those were the best ways
20 to meet future needs.

21 So, with that said, we were very pleased with the
22 supplemental filing, and we have been -- or we feel that this
23 has been a very productive process and we are here to support
24 staff's recommendation.

25 CHAIRMAN EDGAR: Thank you.

1 Commissioners, questions? Okay. Commissioner
2 Argenziano, we'll go down the line.

3 COMMISSIONER ARGENZIANO: Thank you.

4 I have a lot of -- well, maybe a lot of concern, but
5 several questions. And, I guess, Madam Chair, in today's vote
6 we are voting for the prudence of the project, correct?

7 CHAIRMAN EDGAR: My understanding, though I will look
8 to staff to join in, but it is that we will be approving the
9 stipulation which contains the plan.

10 COMMISSIONER ARGENZIANO: And if we approve that we
11 would be committing to approving whatever project costs are
12 reasonable and prudent in the future.

13 MS. BROWN: Yes, Commissioner, that's correct.
14 Subject to audit on an ongoing basis.

15 COMMISSIONER ARGENZIANO: Okay. In the document
16 filed March 29th, '07, they go into detail -- actually, I would
17 like some detail on the compliance plan options for the
18 retrofit retire choice, whoever can give me that. It basically
19 says that they looked at all incremental costs of a peaking
20 unit, and from what I understand the peakers are low
21 construction costs but very inefficient, so higher fuel costs.
22 Did you use peakers as a comparison for the replacement plant?

23 MR. STONE: There is a screening level that is done
24 and the peaker was the basis of the screening level, and if it
25 passed the screening level, then we would have to do a more

1 detailed level. And we have done -- if it failed the peaker
2 level, we would not have to do the more detailed level. And it
3 passed, and we have done -- and so, therefore, we have done
4 what you have asked.

5 The peaker would not be the more cost-effective
6 choice, nor would the base load units of a combined cycle. We
7 are able to get more benefit by scrubbing the existing units
8 and complying with the environmental requirements in that
9 fashion.

10 COMMISSIONER ARGENZIANO: But did you use the
11 combined cycle base load plants?

12 MR. STONE: With me today is Mr. Jim Vick, who is the
13 Director of Environmental Affairs, and your question may be
14 more appropriately addressed by Mr. Vick, but the point of our
15 screening analysis was to determine what is the most
16 cost-effective means of meeting the requirement. And, yes, it
17 was screened at the peaking level and --

18 COMMISSIONER ARGENZIANO: Madam Chair, that's my
19 point. You are telling me that -- how can you tell me that the
20 cost of retiring the coal plants and replacing with other base
21 load power is not economic if you haven't compared the -- I
22 mean, if you compared to peakers and not base load natural gas
23 units. That's what I'm looking for.

24 CHAIRMAN EDGAR: And let me -- if I may, Commissioner
25 Argenziano, I think Commissioner Skop had a question on this

1 point as well, so let's go ahead and get them both out there,
2 and then we will ask for the response.

3 COMMISSIONER SKOP: Thank you, Madam Chair.

4 Can everyone hear me? Yes, I have a similar concern
5 on that same line of questioning, because the plant in
6 question, I believe is 970 megawatts, and that is a base load
7 generating unit. So why would a peaking unit be used as a
8 comparison, because peakers are about 200 megawatts,
9 150 megawatts, be used as the base line comparison as opposed
10 to looking at a combined cycle plant for that initial
11 comparison that was done?

12 MR. STONE: The basic point, and I will ask Mr. Vick
13 to elaborate, if necessary, but the basic point is by doing the
14 screening level analysis that we were able to do we were able
15 to make sure that the benefits associated with a scrubber were
16 held to the highest scrutiny. These units that we are talking
17 about putting flue gas desulphurization on are our base load
18 units. Replacing them with peakers, the peaker methodology for
19 a screening level has shown the economic viability of
20 continuing to get the benefits from these base load units and
21 the efficiencies that are associated with them.

22 COMMISSIONER SKOP: As a follow-up to that, are you
23 suggesting that the coal plant would remain in operation and
24 you would add a peaker for intermittent operation to maintain
25 your -- because, again, right on point with Commissioner

1 Argenziano's question, if you're talking about a base load
2 unit, it seems like your screening analysis is not on an
3 apples-to-apples basis. It's departing from that and using a
4 peaker for something to project costs, and certainly a peaker
5 has much higher operational costs and much less efficiency than
6 the combined cycle plant.

7 MR. VICK: Hi, I'm Jim Vick with Gulf Power.

8 Let me see if I can maybe address that. The analysis
9 can be run both at a screening level and a more detailed
10 methodology. The basic methodology is used in both analyses,
11 whether it is the screening or the more detailed. The
12 screening level uses the lower cost replacement value or
13 alternative than the more detailed methodology would.

14 Basically, what you're doing is looking at peaking
15 capacity that is priced at the Southern Electric System's cost
16 of energy as opposed to a combined cycle unit. If you pass the
17 screening level, which is our most -- it uses the more
18 stringent of the methodologies, if you pass that, then you
19 pretty well assume that it would be more cost beneficial and
20 reasonable to retrofit that unit as opposed to retire it.

21 CHAIRMAN EDGAR: Mr. Vick, let me let Commissioner
22 Argenziano jump in.

23 MR. VICK: Okay.

24 COMMISSIONER ARGENZIANO: Thank you.

25 In regards to what you just said, there may be lower

1 construction costs, but aren't there higher fuel costs
2 associated with that? And I seem to remember in Glades, FPL
3 ran many different base analysis, and it seemed to be a better
4 way to go. Are you saying you haven't run anything other than
5 just the screening that you are talking about?

6 MR. VICK: The way the analysis works, if you run the
7 screening analysis and it fails that analysis, then you would
8 run a more detailed analysis on a more site specific.

9 COMMISSIONER ARGENZIANO: Okay. I have read that a
10 couple of times. Now let me ask you a different question.
11 Then how can you tell me, and I just asked the other gentleman
12 this, that the cost of retiring the coal plants and replacing
13 it with other base load power is not economic if you have
14 compared to peakers and not the base load natural gas units?

15 MR. VICK: We have compared to both. There was a
16 request by staff a couple of weeks ago where they asked us to
17 look at combined cycle. The actually net benefit of
18 retrofitting our coal-fired units has a substantial, more
19 substantial savings with the peak than it does with the
20 combined cycle.

21 COMMISSIONER ARGENZIANO: Madam Chair, I have not
22 seen any of that information. I don't have any of that
23 additional information.

24 MR. VICK: Okay. The net benefit on just the peaking
25 units is about, I will say about one -- go ahead.

1 MR. STONE: Commissioner Argenziano, the more
2 detailed evaluations were supplied to staff under a notice of
3 intent to seek confidential classification of that material.
4 It is on file with the Commission pursuant to that notice and
5 the staff does have access to that information.

6 COMMISSIONER ARGENZIANO: Madam Chair.

7 CHAIRMAN EDGAR: Yes, Commissioner.

8 COMMISSIONER ARGENZIANO: I don't have it, which
9 means I don't have the ability to make comparisons or make
10 determinations. So, unfortunately, I would like that
11 information. I just don't have that information to --

12 CHAIRMAN EDGAR: And, Commissioner, we are having a
13 little trouble hearing you. If you will maybe pull the mike a
14 little closer.

15 COMMISSIONER ARGENZIANO: Mine is a little strange,
16 but, okay.

17 It is just that I don't have that, and I think it is
18 very important to have that information before I can make a
19 determination.

20 MR. McNULTY: Commissioner, if I could just say there
21 are two options that we could pursue at this point if you want
22 to entertain them. One is I have with me the net benefit
23 values in a confidential folder. They are not available to
24 you. We could either pass them down the bench; we could take a
25 break; we can have them copied and you could have them before

1 you within a short period of time.

2 The other option we could take is with the concerns
3 that have been noted today, you could consider the possibility
4 of a deferral to a later agenda to look at this item when you
5 have had more time to review the data, and we could make that
6 data available to each of you.

7 CHAIRMAN EDGAR: Commissioner, my understanding is
8 that staff -- they believe they have some information that they
9 have used in their review that may be responsive to some of the
10 questions that you have raised, but we certainly will make sure
11 that you have the time and the information that you need to be
12 comfortable. What can we do to help you get there?

13 COMMISSIONER ARGENZIANO: Madam Chair, I don't want
14 to shortchange the company either by only having a few seconds
15 to make a determination, and it is critical to me because I
16 have a lot of concerns as far as policy moving forward. You
17 know, do we want to invest \$800 million in coal plants? Do you
18 want to invest the money today with the risk increases in the
19 carbon tax? I mean, there are so many things that can go on.

20 So I would hope that I would have time to digest that
21 information, and it may be that you could hand it to me and I
22 could get it quickly, but maybe that's the way to go and then
23 determine from there whether I needed more time.

24 CHAIRMAN EDGAR: Okay. Well, let's maybe try this.
25 I think I had seen maybe some other hands, so let's go ahead

1 and get the questions that we have at the bench out there and
2 answers to those that can be answered and then see what
3 questions maybe we might need a little more time and see where
4 that takes us.

5 Commissioner Skop.

6 COMMISSIONER SKOP: Thank you, Madam Chair.

7 I just had a follow-up question to Mr. Vick with
8 respect to the screening analysis that was done. And, again, I
9 was having trouble hearing, but I think a comment was made that
10 they found that the screening analysis for a peaking unit was
11 more cost-effective than a combined cycle limitation or
12 something along that line. Can you repeat what you had
13 previously said, please.

14 MR. VICK: The screening analysis indicated that when
15 you looked at the combined cycle and compared it with the
16 peaking unit, that the peaking unit analysis indicated a
17 substantial net benefit over the combined cycle, and that is
18 with regard to retrofitting the unit with a combined cycle
19 versus -- excuse me, retrofitting the unit with the pollution
20 controls versus retiring the unit and replacing it with
21 combined cycle versus retrofitting the unit with pollution
22 control equipment and replacing it with the peaking unit. In
23 other words, the peaking unit analysis indicated more of a net
24 benefit ultimately to Gulf Power's customers than did the
25 combined cycle analysis.

1 COMMISSIONER SKOP: And as a follow-up, that's on a
2 complete replacement. That would be retiring that unit and
3 replacing it with either, A, a peaking unit or, B, a combined
4 cycle plant?

5 MR. VICK: That's correct.

6 COMMISSIONER SKOP: How could that logically be,
7 because -- excuse my ignorance but, again, one of the arguments
8 that Gulf advanced in staff's recommendation is it talks to the
9 need to maintain Crist 6 and 7, I believe, because they are
10 base load generating units, and peakers aren't, you know,
11 traditionally base load. Their efficiency is not that of a
12 combined cycle plant. So if we are talking cost-effectiveness
13 and we are talking replacing, for instance, the Crist Plant
14 with 970 megawatts, why would you not go with a combined cycle
15 implementation? And let me let you answer that and I will get
16 to what my key concern with this is.

17 MR. VICK: When you look at -- when I talk about
18 replacing the Crist coal units with a peaking unit, I'm not
19 necessarily saying go there and build a peaking unit. What you
20 are talking about is buying power from the Southern Company
21 pool in the form of peaking units.

22 COMMISSIONER SKOP: So what we are telling me is we
23 are not doing a true generating asset replacement, we are
24 talking about merely purchasing power from a source that
25 perhaps is cheaper than building a plant, but -- let me just

1 move on to what my concern is.

2 Irrespective of the screening analysis which were
3 done, which I seem to have some problems with, I'm generally
4 supportive of the environmental compliance program issues
5 through the stipulated agreement. That being said, you know, I
6 also share Commissioner Argenziano's concerns.

7 You know, I think that a lot of hard work has gone
8 into reaching the stipulation between the parties, and there is
9 merit to having a balanced energy supply and fuel supply
10 diversity. The problem I'm having primarily, and perhaps if
11 this does get continued or whichever way it goes, maybe that
12 could be addressed, but I'm looking at the capital cost for the
13 scrubber for Crist Plants 4 through 7, and it's listed as
14 \$528 million. And looking at that, that plant in its entirety
15 could be replaced with a combined cycle plant for the same
16 amount of cost as that scrubber, essentially. I mean, not very
17 far off. I don't think anyone in this room would probably
18 disagree.

19 But I guess that's my concern is that, you know, we
20 have the plant and we could put a capital investment in old
21 plant to bring it up to admission standards and environmental
22 compliance, but in this particular instance has any thought or
23 consideration -- and apparently it has because you have done
24 some screening analysis. But, again, that seems to be a
25 screening done on purchasing power as opposed to building a

1 physical generating asset as a replacement generator. But it
2 seems to me that you could put a combined cycle plant in, and,
3 again, for the same capital cost as a scrubber get a cleaner
4 emissions profile, but then you would still have some
5 volatility to natural gas, which I'm very, very, very sensitive
6 to. But, again, in that region you are more proximate to
7 supply. So if you could maybe briefly speak or address that.

8 But that is my primary concern. It is not so much
9 with the environmental compliance program and the stipulation,
10 but it is just that one capital expense. You know, I think it
11 becomes a decision point to the extent where I want to be
12 reasonably assured before I buy off on this that a combined
13 cycle replacement option was diligently considered as opposed
14 to just merely installing the scrubber.

15 Thank you.

16 MR. STONE: If I may, Commissioner. We perhaps have
17 not done as good a job at explaining the analysis that has been
18 undertaken, and I apologize for that. There is an extensive
19 discussion about the screening level and then the more detailed
20 analysis that appears at Page 22 of our compliance plan
21 document. And I recognize you may not have it. The analysis,
22 and I'm quoting from the document, "This analysis can be run at
23 both the screening level and using a more detailed methodology.
24 The basic methodology is the same for both types of analyses.
25 However, the screening analysis employs some simplifying but

1 more stringent assumptions. The screening level analysis uses
2 a lower cost replacement alternative than is used in the more
3 detailed methodology. The comparison there is essentially
4 between peaking capacity with energy priced at Southern
5 Electric System's marginal cost of energy instead of an
6 equivalent amount of combined cycle capacity that would replace
7 the unit that would be retired."

8 The point of all of this is that we have done both
9 the screening level and a more detailed analysis. And as I
10 have indicated, we have filed those with the staff pursuant to
11 a notice of intent to seek confidential classification. I can
12 tell you that the results of those detailed studies show net
13 present value cost savings by continuing to operate our
14 existing units as compared to either the screening level or the
15 more detailed analysis. By continuing to operate and receiving
16 the continued benefits of the fuel price differential between
17 coal and the combined cycle, that's the analysis that we have
18 undertaken, and we have shown that benefit for Plant Crist
19 alone is around \$776 million over the remaining life of the
20 unit. So we have taken that into consideration. We have run
21 that analysis. And we have compared the continue-to-run option
22 with the retrofit option to replacement with a combined cycle,
23 and it does show net benefits to our customers.

24 COMMISSIONER SKOP: Just one follow-up on that line.
25 And, again, I do appreciate that, and I need to speak to staff

1 with respect to, you know, it would be beneficial to me having
2 seen that document prior to what have you. But, again, I don't
3 have that before me.

4 Just real quick, are you aware of whether your
5 screening analysis factored in or put contingencies in for
6 additional compliance cost in terms of emissions and greenhouse
7 gas taxes, or cap and trade issues, or what have you?

8 MR. STONE: You know, we have been following the
9 federal debate on these issues for some time and have factored
10 in some sensitivities with regard to that, and our Crist unit,
11 in particular, met those sensitivities. So, yes, we have
12 analyzed that. More recently, of course, the Governor has
13 proposed a new regulatory regime. And as indicated in the
14 staff's recommendation, we have done some preliminary analysis,
15 and the result of that analysis is that in order to comply with
16 that regimen, we would be, in fact, closing some coal plants in
17 Florida, but that those coal plants are those that would be
18 scrubbed later in our compliance plan and not the Crist units.

19 COMMISSIONER SKOP: Right, I read that. Thank you
20 very much for that explanation. I just wanted to make sure
21 that that was considered. Again, not having that information
22 before me, probably, you know, would have allowed me to answer
23 some of those questions myself. And so my apologies in that
24 regard. But to me it is just a matter of making sure that all
25 of my concerns are remedied.

1 But, again, in general I am supportive of the, you
2 know, stipulated agreement between the parties. I know a lot
3 of hard work went into that. I just need to reasonably assure
4 myself that the combined cycle for replacement isn't perhaps a
5 better, cleaner option for the state of Florida and your
6 consumers. Thank you.

7 CHAIRMAN EDGAR: Commissioner Argenziano.

8 COMMISSIONER ARGENZIANO: Some questions for staff if
9 they could answer these. Is there enough replacement power for
10 sale if the plants were shut down to buy replacement power from
11 the grid?

12 MR. McNULTY: Commissioner, I know that the
13 sensitivity that has been discussed here today has to do with
14 buying peaking power. I think that the company has presented
15 that because it is a realistic option, but not a cost-effective
16 option. So I assume that they could do the purchasing on the
17 grid to get the power that they needed to do replacements, but
18 I would assume that you would also have to say at what level.
19 How many megawatts are we talking about, how many power plants
20 are being considered to be replaced.

21 COMMISSIONER ARGENZIANO: What about emissions
22 credits, and are they going to be available in the short-term
23 if new power plants are going to be built?

24 MR. McNULTY: If new power plants are going to be
25 built. In other words, that you are not going to go through

1 the retrofit? Well, it depends upon the emission credits or
2 the type of allowances you're talking about. There are two
3 allowances. You are really looking at four different types of
4 allowance markets. There are two that are established and two
5 that are not. And the two that are in the midst of being
6 established today, it's uncertain as to exactly how they would
7 work and whether or not the full availability of those
8 credits --

9 COMMISSIONER ARGENZIANO: How long would it take to
10 site or permit and construct the new -- just some kind of an
11 idea for a natural gas base load unit.

12 MR. McNULTY: Within the company's filing there was a
13 suggestion that -- and, again, this is something that I haven't
14 confirmed with the company and it might be useful to confirm it
15 today. But there was a supposition in one of the filings that
16 they made that 2010, that is a time frame that was provided in
17 response to a request for information.

18 COMMISSIONER ARGENZIANO: And just a couple of other
19 questions. How do you think or how does staff perceive the
20 stipulation, and how does it comport with the Governor's
21 executive orders and the new rules that DEP will be developing
22 and how to implement them?

23 MR. McNULTY: Essentially, staff did raise that
24 concern about the possibility of requirements for carbon
25 capture in accordance with Executive Order 07-127. And as you

1 know, that order specifies time specific reductions of carbon
2 emissions, and those carbon emissions are set for 2017, 2025,
3 and 2050 at reductions to the 2000 level, 1990 level, and
4 20 percent level respectively.

5 And so in looking at those, and in questioning the
6 company about, you know, since your base analysis, your
7 screening analysis does not include any costs associated with
8 carbon, what would be the effect of the implementation of that
9 order that requires the Department of Environmental Protection
10 to establish rulemaking to go in the direction of making those
11 requirements.

12 The company has indicated they there would be the
13 need to essentially close down 600 megawatts of power on their
14 system, and they specify the units that would have to be closed
15 down as being Plant Smith Units 1 and 2, and Scholz Units 1 and
16 2, which are going to be shut down anyway in 2011. And then,
17 in addition, there is the possibility of closure of Units 4 and
18 5 at Plant Crist. And that is how they would attain their
19 600 megawatts. That would allow them to get to the 2017 level.

20 Now to go beyond that to the 2025 level, I don't
21 believe that's been addressed. Some of these plants, such as
22 Plant Crist Units 6 and 7, have shut down dates or retirement
23 dates that are well into the 2032/2035 time frame. So those
24 are some areas that haven't fully been explored in terms of
25 that, but I should say that the company has indicated that it

1 looks to the implementation, and the parties in this case are
2 in agreement that the implementation of carbon capture will
3 most likely take place at a slower level and that they look at
4 the executive order requirements as being on one end of the
5 spectrum being the more extreme end the spectrum in terms of
6 carbon capture requirements that may be imposed upon Gulf
7 Power.

8 COMMISSIONER ARGENZIANO: And the last question if
9 you can answer this, what's the average cost for a new combined
10 cycle unit?

11 MR. McNULTY: The average cost of a combined cycle
12 unit is -- I know that we have at least one instance of it with
13 Gulf Power under the ten-year site plan if I can speak to that.
14 There is a unit that is scheduled to go on-line, commercial
15 in-service date of, I believe, June of 2014, and the direct
16 construction costs for a combined cycle unit is shown there to
17 be \$550 per kW. And this is from the 2007 Ten-Year Site Plan
18 for the company.

19 COMMISSIONER ARGENZIANO: Thank you.

20 CHAIRMAN EDGAR: Commissioners, it is my
21 understanding that our dedicated staff would like to look at a
22 few of the documents in order to be able to help answer some of
23 the questions that have been raised. So let me make this
24 suggestion and see if this works for the body. In order to
25 give them a little time and also us, of course, to digest some

1 of the information that we've been getting in response to
2 questions, I'm suggesting that we just table this item for now.
3 We will come back to it. But I think the next two items that
4 we have on our agenda, which are 11 and 14, may go a little
5 quicker. I'm not trying to rush them; we can spend as much
6 time on them as we need to, but I think that we may be able to
7 go ahead and take those up. And that would also then give the
8 staff who are on those items the ability to move on to their
9 other work.

10 So my suggestion is that we table Item 7 for now. We
11 will come back to it, but we go ahead then and take up Items 11
12 and 14. Does that work, Commissioners, for each of you?

13 COMMISSIONER CARTER: That's a good idea.

14 CHAIRMAN EDGAR: All right. Then we will ask our
15 staff to do whatever it is they need to do, realizing that we
16 will come back to this item and ask the parties to stay with us
17 for this item.

18 Yes, Mr. McNulty.

19 MR. McNULTY: Yes, Chairman. Is it your wish that we
20 provide those confidential documents relating to net present
21 value or net contribution --

22 CHAIRMAN EDGAR: I'm seeing some interest in that, so
23 I will ask you to do that.

24 MR. McNULTY: Very well. We will prepare those for
25 you.

1 CHAIRMAN EDGAR: Okay. Thank you very much.

2 MR. McNULTY: Thank you.

3 * * * * *

4 CHAIRMAN EDGAR: Commissioners, I note that it is
5 about 12:05. I'm thinking that maybe we would take a lunch
6 break and give our staff time to get out those special red
7 folders.

8 Commissioners Carter, is that in line with your
9 thinking? I'm seeing nods. How about 1:30, does that work?
10 And for our staff and all? Okay. Then we are on lunch break
11 and we will come back at 1:30 to take up the remainder of our
12 discussions on Item 7.

13 (Lunch recess.)

14 CHAIRMAN EDGAR: We will go back on the record.

15 We are back from our lunch break. And, Commissioners
16 and staff, as you recall, and parties, that before we went on
17 lunch break we were discussing the Gulf Power/OPC stipulation,
18 and we had asked our staff to distribute some additional
19 information, which I know was delivered to every office. And
20 also, of course, as you are well aware, we have the red folders
21 marking the confidential information. And our legal staff has
22 suggested to me that if we are going to ask questions or
23 discuss information that is contained in that confidential,
24 that we do things like refer to the number as, say, the third
25 column, second number down, those sorts of things to, of

1 course, keep within the confidentiality requirements.

2 So with that, we will look to our staff to help us
3 start off our discussion this afternoon.

4 MS. BROWN: Madam Chairman, let me just make a
5 comment about the confidential information. There are two
6 documents here; one has yellow highlighting, the other one does
7 not, but that document is also confidential.

8 CHAIRMAN EDGAR: Thank you.

9 MR. STONE: Madam Chairman, if I may, I would like to
10 apologize to the Commissioners. I muddled up something earlier
11 this morning, and I take responsibility for that, and did not
12 clearly answer the questions that were asked.

13 In an effort to try and get us back on track, I would
14 like to introduce Penny Manuel, who has been our Vice President
15 of Generation and the Senior Production Officer at Gulf during
16 the period of time that we were undertaking all of these
17 studies and analysis. And if you will indulge us a moment, we
18 would like to explain what I was supposed to have said with
19 regard to the analysis that has been presented to you in some
20 brief comments.

21 CHAIRMAN EDGAR: We will look to the expert.

22 MS. MANUEL: First, thank you so much. The first
23 thing that we wanted to clear up was the confusion about the
24 process that we used in the comparison of these retrofit
25 projects to both combustion turbine and combined cycle

1 replacement generation.

2 Our process does first compare this retrofit project
3 with a CT replacement. And it was found that the retrofit
4 project was the most economic thing for the customer in
5 compared to a CT project. We then have compared this project
6 with replacement with a combined cycle unit, and the retrofit
7 project at Crist is the most economic for the customer compared
8 with a combined cycle unit, as well. So the answer to the
9 question is, yes, we have compared it with both of those, and
10 it remains the most economic choice for the customer.

11 The number that is in the data request that we gave,
12 the 776 million, the analysis showed that over the life of the
13 project it was more economic to the customer by a number of
14 \$776 million in compared with replacement with a combined cycle
15 unit. That is not intuitively obvious, as Commissioner Skop
16 was saying, about investing \$500 million in the plant and it
17 being the most economical choice, but the answer to that is in
18 the fuel savings that are available to the customer over the
19 life of this unit.

20 And we have provided the fuel assumptions that we
21 made to the staff. I believe that was a confidential filing,
22 but we have given them the fuel numbers that we used. So that
23 was the first thing that we wanted to clear up was that we have
24 compared the project to both combined cycle and combustion
25 turbine, and it remains the most economic choice for the

1 customer.

2 CHAIRMAN EDGAR: Thank you.

3 Commissioner Skop.

4 COMMISSIONER SKOP: Thank you, Madam Chair.

5 And, again, I would like to just offer my apologies
6 for the delay and any possible delay that may result to the
7 parties to the stipulated agreement herein.

8 I did over the lunch break have the opportunity to
9 get the documents that I was previously lacking, and I did
10 review them with as much possible diligence as I could in the
11 small time that we had. I do want to revisit the issue that
12 you just mentioned and some of the things that were previously
13 conveyed. Because to me, having reviewed the thick bound
14 material, there still appears to be a little bit a disconnect
15 in terms of what was just said versus what I read over lunch
16 time. And I need to make sure that my concerns are
17 appropriately addressed. Again, I do agree with the stipulated
18 agreement in principle, however, I think my comments regard the
19 capital costs associated with the scrubber of the Crist units,
20 and I think that I'm going to limit my discussion to that.

21 But if I could draw your attention just briefly to
22 Page 22 of the environmental compliance program binder, if you
23 will. And hopefully between both of us you might be able to
24 walk me through so I can better understand, because, again,
25 this is the first time that I'm seeing a lot of this. But, in

1 terms of methodology on Page 22, and I quote, "To calculate
2 those associated energy costs, Gulf assumes energy purchased
3 from Southern Electric System at the system incremental cost.
4 The costs associated with capacity to replace a unit and the
5 associated energy costs are characterized as the avoided cost
6 as these are the costs that are avoided by operating the
7 retrofitted unit."

8 Further, going on to Page 23, under avoided costs,
9 the second paragraph, "Capacity costs are the costs of the
10 peaking generator used for system reliability to meet peak
11 loads. Capital costs for the replacement option in the
12 screening analysis were based on a peaking capacity price
13 forecast that assumes short-term purchases from the market
14 until 2012, and the economic carrying costs of a self-build
15 combustion turbine thereafter." And it mentions also the
16 strategist model.

17 Moving on additionally to -- bear with me for one
18 second -- Page 34, Section 5.4.1 with respect to Plant Crist,
19 it mentions Units 4 and 5, the nameplate capacity, Unit 6 and
20 Unit 7. And then further moving on to Page 37, the top
21 paragraph, "An economic screening analysis was performed to
22 assess the costs over a period from 2006 until the current
23 planned retirement date for each of the four Plant Crist units.
24 The costs of operating the retrofit units and its effect on
25 system dispatch costs and the need to purchase allowances to

1 meet any remaining emissions, all of which are characterized as
2 incremental costs, were compared to the cost of a generic
3 peaking unit and associated energy costs." And then it goes on
4 to speak of the results of the analysis.

5 Again, I need to get some clarification, and
6 hopefully it may be contained in the red material. But based
7 on what I have read and also reviewing what I have read and
8 some of the comments that were made this morning, I wanted to
9 get an answer to a question on Page 22, where they speak to a
10 lower cost replacement alternative. And I think what I want to
11 know with respect to that, and that is in the second paragraph
12 under Section 4.3.4, and it speaks to the screening level
13 analysis uses a lower cost replacement alternative than is used
14 in the more detailed methodology. Essentially, peaking
15 capacity with energy priced at the Southern Electric System's
16 marginal cost of energy instead of the equivalent amount of
17 combined cycle capacity replacing the unit that would be
18 retired.

19 Now, in terms of low cost alternative, are you
20 speaking to simply the lower capital cost of the combustion
21 turbine as opposed to the combined cycle plant?

22 MS. MANUEL: No, sir. When we are saying low cost,
23 that is the lower evaluated cost. Again, it is not -- it is
24 taking into consideration that the Crist units are dispatched
25 as part of the Southern Company model, and the lower cost to

1 the Gulf Power customers would be to replace that with peaking
2 capacity, which is the lowest capital cost and the highest fuel
3 cost, and energy from the Southern Company pool is determined
4 to be the lowest cost alternative as far as replacement goes.
5 And so we compared retrofitting the Crist unit and then
6 dispatching it with the Southern Company and what the Gulf
7 Power customers would pay versus peaking CT and energy from the
8 pool.

9 COMMISSIONER SKOP: Well, that's exactly the question
10 I was trying to flesh out there to the extent that it is the
11 lower capital cost, but you mentioned the higher fuel cost that
12 would be experienced by a peaker over a combined cycle, and
13 that is due to the thermodynamic efficiency and the heat rates
14 and such. But I guess would you acknowledge that peaking
15 generation is more costly to run in terms of generation than
16 combined cycle?

17 MS. MANUEL: Yes, sir.

18 COMMISSIONER SKOP: And I think where I'm at,
19 because, again, it seems to me that -- and I have only had a
20 short period of time to get comfortable with what I see before
21 me and what I have read, but it seems to me that this screening
22 level analysis is done on a peaking unit and somehow
23 rationalizing that into a system generating cost based upon
24 what it would cost to generate that incremental generation, so
25 it is almost like a synthetic type number that they are kind of

1 coming up with.

2 I mean, I'm sure it is a firm number, but in terms of
3 a pro forma that would deal directly with the firm generating
4 asset, it seems to me like they are kind of substituting a firm
5 generating asset for what they could procure the equivalent
6 amount of peaking energy from the system, would that be my
7 understanding in terms of how this screening level analysis was
8 performed?

9 MS. MANUEL: I believe you understand the methodology
10 of the screening level analysis. The confusion may be in the
11 fact that we have called that the lowest cost. I think that is
12 where -- and please don't let me put words in your mouth, but
13 that is our screening level analysis, because in a pure world
14 that would be the lowest cost to replace those units with, and
15 that would be the low capital cost CT and energy from the pool.
16 But this whole process, that is a one step, then we went the
17 next step with the Crist units and compared it to the CC
18 capacity, and it still turned out to be the most economic for
19 the customer.

20 COMMISSIONER SKOP: Okay. Let me just follow up on
21 the combustion turbine, and then I will move on to the combined
22 cycle. But I guess what really, really concerned me and raised
23 a flag was on 23 when they talked about the capacity costs of
24 the peaking generator, and if those costs were built into a
25 financial pro forma model, or a screening analysis, I'm sure

1 there is a huge or reasonably sure there is a huge capacity
2 payment, I would think, associated with not only combined
3 cycle, but also a peaking unit to the extent that I'm wondering
4 whether -- and, again, this is the confusion, the lower cost
5 replacement alternative. For me it would be very simple to put
6 in a low capital cost generator, like a combustion turbine, but
7 knowing I've got huge fuel costs and have it potentially skew
8 the effect of the analysis, if you will, versus maybe looking
9 at it on an apples-to-apples basis where you consider the
10 replacement or retirement of a coal-fired unit noting that the
11 capital costs that you would have to incur for putting the
12 scrubber, which is nearly on par with what it would cost to
13 build a brand new equivalent combined cycle combustion plant of
14 similar nameplate.

15 And, you know, to me -- and maybe it has already been
16 done, and hopefully you can explain it to me, but to me,
17 similar to what was contained in staff's analysis for another
18 coal related unit, which I will speak to kind of cryptically,
19 but there was a matrix there in terms of sensitivities and
20 looking at various analysis and making apples-to-apples
21 comparisons. So I'm just wanting to convince myself, because I
22 would respectfully disagree with the methodology that was used
23 to develop the underlying screening level analysis basing it on
24 the combustion turbine option. I'm just not -- maybe there is
25 something I don't understand, but that is just not a valid

1 comparison.

2 I think I would feel a lot more comfortable if it
3 already exists or there was some other data to directly show
4 the -- if you are evaluating a project based on making the
5 capital improvement via the scrubber to the coal plant to
6 retrofit the coal plant versus building a whole new combined
7 cycle plant, because the capital costs for the two projects are
8 very similar. I know that fuel costs eventually for combined
9 cycle would be probably a lot more than coal, depending upon
10 what fuel forecast you used. But, again, I'm trying to find
11 out what the benefits are, because there are some benefits to
12 the environment, there is some regulatory uncertainty to the
13 extent of what things may happen in terms of additional
14 emissions requirements on coal and the costs to meet those
15 requirements.

16 So, again, if you can speak to the analysis or direct
17 my attention, maybe, within the data that is marked as
18 confidential, and do it so that we don't violate the
19 confidentiality, I would be happy to know where I could find
20 the comparison to the combined cycle and also what initial
21 capital costs were used as the basis for the combustion turbine
22 versus the combined cycle plant that would have been used as
23 the baseline capital investment for building either one of
24 those options.

25 MS. MANUEL: Okay. I will attempt to do that. But,

1 first, let me point -- and I think I said this, but in case I
2 have not, in response to staff's questions of a couple of weeks
3 ago, we did show them where we had performed the analysis as it
4 compared to a combined cycle unit, so we have done that, and
5 the value to the Gulf Power customers was \$776 million over the
6 life. We have performed that analysis. I just wanted to make
7 sure that staff knew that we had done that.

8 MR. McNULTY: Commissioner, if I could respond to
9 that. If you look in the second packet that you have before
10 you, I think I can divulge the title of it without divulging
11 confidential information. The second packet is titled one
12 dollar gas price decrease sensitivity. Now, go to the last
13 page, and you will see the \$776 million at the bottom of the
14 page in the table that is at the bottom on the left. The first
15 column there, not the labeled column, but you will see that
16 number there. It has already been revealed, so it is public,
17 and everything else that's within these documents, as I
18 understand it, is confidential. But you can see that, yes, for
19 the title header there is, "Retire Crist 4 through 7 replace
20 with two-by-two on one GCC or combined cycle, January 1, 2010,
21 minus base case." So there you have that the company did
22 provide that information. I'm not in dispute with the company
23 on that matter.

24 COMMISSIONER SKOP: Okay. But in terms of -- can
25 somebody from staff perhaps follow up and speak to that

1 analysis, or is staff comfortable with those numbers?

2 MR. McNULTY: Staff spent the majority of its -- did
3 the majority of its analysis on the screening methodology, and
4 the screening methodology we understood it to be a conservative
5 methodology that was based upon low cost capacity costs, a
6 peaker unit is known to be less expensive than either an
7 intermediate load or base load capacity plant, and then also
8 buying power off of the Southern System is based on essentially
9 a mixture of fuel sources. And the company can correct me if
10 I'm wrong on that, but my understanding is since you have
11 entered a very complex interconnected network within the
12 Southern System, that that was a conservative analysis and why
13 it would be more conservative than looking at a straight
14 combined cycle approach based upon a brownfield combined cycle.

15 Does that address your question?

16 COMMISSIONER SKOP: Yes.

17 Just as one additional follow-up, they looked at it
18 as a system evaluated approach as opposed to just the
19 brownfield?

20 MR. McNULTY: Yes. And in addition to that, there
21 were some sensitivities done at the screening level using the
22 peaking power. They looked at price sensitivities that are
23 also part of your packet. You can look at that. It was the
24 packet that we were just looking at, and you see Pages 1, 2,
25 and 3 of that. They are not numbered, but you see them there,

1 and you can see the net contributions at the bottom of the page
2 there based upon an assumption that the gas price forecast
3 would be one dollar below the base forecast for gas. And then
4 the second page, \$3 below, and \$4 below. And you can see at
5 what point you start to develop, you know, parenthased
6 (phonetic) numbers which would be an indication of negative
7 numbers. You see where that happens for the various units in
8 question, so you can see at what point you have to go in terms
9 of reducing your fuel price forecasts in order to generate what
10 essentially would be an uneconomic decision for doing the
11 retrofit.

12 COMMISSIONER SKOP: Thank you for drawing my
13 attention to that. And I have looked at those numbers and do
14 agree there would be a substantial downshift from what the
15 current projected fuel price would be to capture savings that
16 would make the proposed retrofit uneconomical, at least from
17 what I am seeing. So, as long as staff has got a comfort level
18 with the analysis that was presented, that would mitigate my
19 concern that I had.

20 MR. McNULTY: We do have that comfort level.

21 COMMISSIONER SKOP: Thank you.

22 MS. MANUEL: I would like to also address a question
23 that Commissioner Argenziano had before the lunch break about
24 the availability of generation to purchase to replace these
25 units. The Crist facility is a transmission critical facility,

1 and we have -- our transition planning organization has looked
2 at the cost to put transition capability to import any
3 generation capacity if it was available. And I cannot answer
4 the specific question is the generation available, but the
5 transmission would be the limiting factor to import all of the
6 power to Plant Crist. It would clearly be the most economic
7 thing for our customers to have generation of some type at the
8 Crist site as opposed to buying it all, but I did want
9 Commissioner Argenziano to know that we had looked at that
10 option, as well.

11 Before the lunch break we had talked about building a
12 new combined cycle unit, and in our filing the staff just read
13 in the paragraph it talks about a combined cycle unit in 2010,
14 that number was for evaluation, economic evaluation purposes
15 only. The time frame to build a new combined cycle unit at
16 this point in time, to permit and build is about five years.
17 So if we started right now it would probably about be about
18 2012 before we could get new combined cycle generation on.

19 And then the last point that I would like to make is
20 what we have done in response to Governor Crist's orders around
21 climate change and how we have looked at these projects. And
22 in light of his orders, if they go in exactly as he has
23 outlined them to go, as mentioned before, we would be shutting
24 down 600 megawatts of coal-fired generation, and that would be
25 the Smith Units 1 and 2 coal-fired plants, the Scholz Units 1

1 and 2 coal-fired plants, and the Crist Units 4 and 5 coal-fired
2 plants. And with those plants removed from our carbon
3 emissions, we would be able to physically meet the carbon
4 reductions that the Governor has outlined.

5 We did some more high level economic studies and show
6 that Crist 6 and 7 continue to be economic for our customers
7 beyond 2025, even if the Governor's orders are implemented
8 exactly as he has outlined. The Units 4 and 5 would be shut
9 down. However, it is more economic for us to scrub them at
10 this time along with 6 and 7 for the added SO2 allowances that
11 we will gain by having them. Even if the Governor's orders go
12 in and we have to shut those units down in 2017, it is still
13 the right thing to do.

14 We are scrubbing all four units on a single vessel.
15 There are some re-engineering costs that we would have to
16 undergo if we were to not scrub those units, and there are some
17 physical capabilities that having those units scrub allows us
18 to use the existing 4 and 5 stack as a pressure release stack,
19 so to speak, on that. So it is still the right thing for us to
20 do to scrub the Crist units, even if the Governor's orders go
21 in exactly as he has planned for them to.

22 CHAIRMAN EDGAR: Commissioner Skop.

23 COMMISSIONER SKOP: Thank you, Madam Chair. I
24 appreciate Gulf Power answering all of those questions,
25 because, again, what I read in the thing gave me an

1 understanding that I had not seen in the other data which kind
2 of explained my concerns. So, Madam Chair, at the appropriate
3 time I would be willing to make a motion to approve the
4 proposed stipulation.

5 COMMISSIONER ARGENZIANO: Madam Chair.

6 CHAIRMAN EDGAR: Let's see if we have got some
7 questions first.

8 Commissioner Argenziano.

9 COMMISSIONER ARGENZIANO: Before we go there, I would
10 like to just speak of some concerns, and then possibly suggest
11 a motion with a little twist. And let me start off with I know
12 that today's vote is to see the prudence of the project, and my
13 initial concerns were do we want to invest 800 million, maybe
14 more, in coal plants when we seem to be moving away from that.
15 Do we know the Department of Environmental Protection future
16 regs, are they going to increase, the ramifications of the
17 Governor's executive order.

18 I appreciate the confidential documents. That helped
19 me some, but I've got to tell you it doesn't have all the
20 numbers that I need. And I am concerned with, you know, where
21 the numbers you have come from. The particulars are what I
22 don't find. Some things are very helpful: What went into the
23 numbers; what were the particulars; did OPC look into or factor
24 in the environmental costs; did the company look at the
25 possible coal increases, prices increase? And today, what I

1 look at now is I really don't have any other options to replace
2 the 600 megawatts, so that's a real concern, of course.

3 So what I would like to suggest is that -- and,
4 Commissioners, what I am throwing out to you is that perhaps we
5 approve the stipulations with the stipulation that it's subject
6 to a continued obligation by the company to report yearly of
7 the cost-effectiveness and prudence and of any additional
8 phases or additional projects. Because while I think it may be
9 prudent to initiate this, I don't know that it is prudent for
10 us to be voting for something years down the road or sticking
11 us in a corner. I would just like to see a yearly report back
12 on the effectiveness and the prudence, and maybe that's
13 something we could think about.

14 CHAIRMAN EDGAR: And I appreciate you putting that
15 out there, and let's have some discussion, absolutely. And I
16 would just like to say I'm enjoying this discussion very much.
17 It's a great prelude to some of the issues that we are going to
18 be talking about tomorrow, as well, when we have our workshop
19 on the Ten-Year Site Plan.

20 So I'm going to pose this to staff, and then please
21 look to my colleagues to jump in with Commissioner Argenziano's
22 suggestion of a yearly report back, kind of a status report
23 with some specific information included.

24 And, staff, can you help me think through how that
25 would work with the information that would be coming in

1 annually as part of the ECRC review that we do every November.

2 MS. BROWN: Commissioner, the staff will continue to
3 review this project, and I don't think Gulf would object to
4 that, because they understand that it's a moving target and
5 things can change. They have to make certain decisions that
6 aren't going to be easy to change, but we will always review
7 them, and with the cooperation of the company I think, with
8 their yearly filing. And I don't think Gulf -- I don't want to
9 speak for Gulf, but I think they would be happy to do that.

10 MR. STONE: Absolutely. To answer your concern,
11 Commissioner Argenziano, that is, in fact, what we envisioned
12 by having the bifurcated nature of the stipulation, that we
13 continue to examine our projects going forward, and in light of
14 the dollars that we have spent up to that point and what could
15 be avoided. So we will continue to examine the
16 cost-effectiveness of our plan, and if we find that there is a
17 reason to change course, we will be bringing it back to the
18 Commission and to the other parties to the stipulation.

19 COMMISSIONER ARGENZIANO: Madam Chair.

20 CHAIRMAN EDGAR: Okay. Let me get Commissioner
21 Skop's question and then we will come back down.

22 Commissioner Skop.

23 COMMISSIONER SKOP: Thank you, Madam Chair.

24 And I think Commissioner Argenziano raised a very
25 valid, prudent point. And I would also draw the Commission's

1 attention to the last part of Page 11 of the staff
2 recommendation. Towards the bottom of that conclusion
3 paragraph it says, "Staff notes that the stipulation provides
4 for ongoing review of such costs within the annual review
5 process. Staff supports the stipulation, including the
6 agreement to review the parts of Gulf's plan still in a
7 'flexible' planning stage at a later date. As the parties have
8 agreed, only prudently incurred costs will be recoverable
9 through the clause."

10 So, again, with what is in the staff rec as well as
11 some additional safeguards that Commissioner Argenziano had
12 mentioned, as well as the stipulation by the parties to be
13 agreeable and amenable to that, I think that hopefully we will
14 address some of those concerns.

15 CHAIRMAN EDGAR: And we are gaining additional
16 comfort.

17 Commissioner Argenziano.

18 COMMISSIONER ARGENZIANO: Just to make sure, so we
19 would not be locking ourselves into a position for some other
20 phase down the line right now? That's what I'm trying to get
21 at.

22 CHAIRMAN EDGAR: I understand, and I appreciate the
23 question.

24 Mr. Cooke, can you respond, please?

25 MR. COOKE: I think what we are being asked to do is

1 approve a stipulation of the parties. And my reading of the
2 stipulation says that for Projects A through I that the parties
3 are saying that they are reasonable and prudent. So if we
4 adopt and approve that stipulation, we are essentially making
5 that part of our order.

6 Now, if you add the caveat that we would want an
7 annual report and we are not necessarily passing judgment on
8 prudence under changed circumstances in the future, you know,
9 that would give us some opportunity down the road to revisit
10 prudence.

11 We have had a lot of discussion in recent weeks about
12 administrative finality. And not that I want to bring up a
13 sore subject, but if there are changed circumstances, the
14 Commission does have an opportunity to revisit its prior
15 orders. There are hurdles that have to be overcome. I think
16 if you just -- I guess what I'm saying is if you just adopt
17 staff's recommendation without the kind of language that
18 Commissioner Argenziano is suggesting, then I think our
19 approving the prudence and reasonableness of those items, A
20 through I, I see the ERC clause in the future as looking at
21 truing up the costs. In other words, we are saying today that
22 this course of action is prudent, but the actual costs have to
23 be proved up every year in the clause. That is how I would see
24 it.

25 Now, that doesn't mean even if we do that that there

1 is not a chance to revisit that decision if there are changed
2 circumstances in the future, subject to that whole concept of
3 administrative finality. But if you add in what Commissioner
4 Argenziano was saying, that might give us some more protection.
5 It is an unusual condition, and I'm having a hard time really
6 knowing exactly what it would do. It would certainly give us a
7 better argument in the future.

8 MR. STONE: If I may comment further. The decision
9 we are faced with today is we are already spending the dollars
10 on these Projects A through I. And we acknowledge that as
11 additional information comes forward the dollars we have spent
12 at the point that additional information comes forward will be
13 at that point sunk costs. We will be under an annual
14 obligation to continue to review the costs that are going
15 forward from that point on and determine whether or not a
16 change in course is appropriate, and we will be communicating
17 that back to you.

18 But with regard to what we -- if the stipulation is
19 approved today with the stipulation that Commissioner
20 Argenziano has proposed, we will be moving forward with the
21 scrubber project and the other projects that are identified in
22 A through I. In the next annual review, if additional
23 information has come forward that says maybe we need to stop
24 the projects at that point, then we would identify the
25 comparison of what it would be versus to stop the projects and

1 to recover the costs that were incurred to date versus going
2 ahead with the projects and other alternatives.

3 So we understand that we have to continue to justify
4 moving forward at all steps of the project and the other phases
5 of the project, as well. But as far as where we are today, the
6 stipulation, if it's approved says, yes, you are doing the
7 right thing moving forward with the scrubber project, and the
8 dollars that, quite frankly, we have been spending throughout
9 2006 and 2007 were prudently spent subject to audit and true-up
10 and all of those things, which the stipulation leaves open for
11 review. If additional information comes forward a year from
12 now that warrants a relook at the analysis in terms of going
13 further into the project, then we will report that back to you.

14 Does that help clarify your concern, Commissioner
15 Argenziano? I'm trying not to make it muddier.

16 COMMISSIONER ARGENZIANO: I think it got muddier,
17 because I'm not sure now that -- and I mean this with all due
18 respect. You are saying that if something changes that you
19 will report back to us. What if something changes and it's not
20 in the best interest or it is not something that I would agree
21 with?

22 I don't know that I could right now say that I'm
23 going to be in agreement with everything that comes down in
24 future phases. I think what I was trying to say, and I'm not
25 sure if I have gotten it confused, is that I think it is

1 prudent to initiate the stipulation, but to make sure that
2 there are safeguards for this Commission and me, I can only
3 speak for myself, to be able to say, wait a minute, I think
4 things have changed and may not necessarily be something you
5 want to change to, but I think should be changed that may not
6 be prudent for the consumer out there.

7 MR. STONE: And what I was trying to give you comfort
8 in, in our annual reporting process we will give you the
9 information to know if there is something that makes you
10 uncomfortable. We will give you that information and you will
11 be able to determine whether you are uncomfortable with
12 continuing the project from that point forward.

13 COMMISSIONER ARGENZIANO: I'm just hoping, Madam
14 Chair, that it is more information than I got in the
15 confidential information, because I'm having a hard time, you
16 know, getting to where the numbers that you came up with, where
17 they come from. And I'm not sure, Counsel, do you have --

18 MR. COOKE: We would have the opportunity to ask
19 questions, also, to develop any data the Commissioner would be
20 interested in obtaining to assess that question, as well.

21 CHAIRMAN EDGAR: And I think we've got questions down
22 the line. So let's go ahead and take them and, again, see
23 where we are.

24 Commissioner Carter.

25 COMMISSIONER CARTER: Thank you, Madam Chair.

1 I just wanted to ask Ms. Christensen, based upon --
2 you have heard the discussion and the questions by the
3 Commissioners, and also looking at the agreement, is OPC
4 comfortable that going forward you have an opportunity, if
5 there is something in the annual reviews and all that gives you
6 heartburn, that you feel comfortable enough that you can bring
7 it back to the Commission?

8 MS. CHRISTENSEN: Well, the reason that there is the
9 certain breakdown of the agreement to the projects that we
10 stipulated to and the ones that we didn't was due to the timing
11 of having to implement certain projects. I mean, the
12 projects -- essentially, A through I -- are those that are
13 being implemented starting in 2007, and will be finished up
14 through 2011. So the Office of Public Counsel recognizes that
15 there needs to be some dollars spent now to comply with the
16 environmental requirements that are going to come on-line in
17 the near future. So we don't see those projects as having
18 great uncertainty that they need to be done other than the
19 economic discussions that we have had here this morning.

20 But as far as there are concrete environmental
21 regulations that need to be met, these projects from our
22 analysis seem to be an appropriate way to meet them. And that
23 is why we entered into the stipulation saying that it appears
24 from our review of the information and our discussions, we felt
25 this was a prudent thing to do to move forward with those

1 particular projects.

2 We did reserve and separate out the cost of the
3 projects going forward, because things come up annually and,
4 you know, we can't know in the implementation of these projects
5 going forward if there will not be issues that arise that need
6 to be addressed in the annual fuel proceedings.

7 The remainder of the projects were ones that we are
8 not certain that the company in our discussions -- through our
9 discussions had not determined what the appropriate course of
10 action was going to be. The company had not even made that
11 decision. So if the company had not determined that in their
12 opinion that was the most prudent, it would be very difficult
13 for us to say whether or not we agree with that.

14 So that is why those outlying projects were left off
15 the table. And given some uncertainty as to some future
16 environmental type laws and regulations that may be coming down
17 the pike, that may impact whether or not those projects will be
18 done in the future or whether it is appropriate for those
19 projects to be done in the future.

20 COMMISSIONER CARTER: Thank you.

21 COMMISSIONER ARGENZIANO: Could I ask staff a
22 question when you're done?

23 CHAIRMAN EDGAR: Commissioner McMurrrian.

24 COMMISSIONER McMURRIAN: Thanks.

25 I wanted to try it this way, and I'm not sure if this

1 is going to help or make it worse or not, but I thought maybe
2 it is worth asking. And perhaps, Mr. Breman, maybe you can
3 help me here. What exactly are we going to have before us in
4 the very next environmental clause hearing, and talk about
5 exactly what parts of the projects we will be approving or not
6 through that clause hearing, and then maybe talk about what we
7 would be doing next year according to the plan. But at what
8 point we would have some ability to say perhaps now with new
9 information that we may get from the company at that point,
10 maybe we need to look at that and maybe at that point we would
11 make a different decision. Can you help sort of lay that out,
12 or someone?

13 MR. BREMAN: Yes, ma'am, I can give it a try.

14 In general terms, you would have essentially
15 everything Mr. Stone has described, but not just for this
16 project, it would be for every environmental project run
17 through the clause. The company makes actual filings, the
18 filings of what it actually incurred, and what it projects with
19 the next year. So this November you're going to get
20 projections for 2008. You will be addressing those projections
21 this November. So this November you are going to see the
22 company's change in plans, if any. That is my expectation.
23 That is the norm for the environmental clause.

24 COMMISSIONER McMURRIAN: Thank you, Chairman.

25 And would there also be -- would there also be

1 information in there about actual costs that have already been
2 spent on some of these projects that we will be --

3 MR. BREMAN: Yes, ma'am. There would be actual costs
4 that have been audited. The prior year, 2006, would have been
5 completed, the audit of that would have been completed. The
6 true-up of 2007 would have be reestimated. Those two amounts
7 would be added into the projected amount that you will be using
8 to set the factors for 2009.

9 COMMISSIONER McMURRIAN: And those would include
10 parts of a lot of these projects in A through I. Whatever
11 started already in 2006 and 2007 might be included in those
12 actual amounts. And what they propose to start doing in 2008,
13 the pieces of the projects that they plan to do then they would
14 propose to recover in the factors for 2008 on customer bills.

15 MR. BREMAN: Yes, ma'am.

16 COMMISSIONER McMURRIAN: But would we -- if we
17 approve the stipulation, would we have the ability, for
18 instance, maybe even talking about 2009, for instance, and we
19 have some new information in, perhaps there is a law about
20 carbon emissions and we have more certainty about that, and
21 perhaps would there be an ability there to say we have new
22 information and perhaps some of those costs that we are looking
23 at in projections for 2009, would we have an ability at that
24 point to say perhaps we need to look at this, or would we be
25 violating what we had approved in the stipulation somehow?

1 MR. BREMAN: To the extent I'm not making a legal
2 statement --

3 COMMISSIONER McMURRIAN: That's true.

4 MR. BREMAN: -- from a review point, a perspective, a
5 planner, a staff person, we have sunk costs. When we get new
6 information, we are essentially climbing a staircase and we
7 don't know what's at the top. When we get to a landing, we
8 reevaluate everything. That landing where you reevaluate
9 everything and the next course of direction will be the
10 November proceeding where you take in all factors that you know
11 at that time. So maybe in November you're going to know
12 something you don't know today. And the company would be in
13 the same posture. And you may agree or may not agree as to
14 what the next course of action will be in November.

15 MR. TRAPP: If I may.

16 CHAIRMAN EDGAR: Mr. Trapp.

17 MR. TRAPP: Let me try to cut closer to the question
18 and make a commitment to you on behalf of my staff in response
19 to Commissioner Argenziano's question. We have been talking
20 about sunk costs, actual costs, prudence of those costs going
21 through the clause, which basically will be addressed by this
22 stipulation. What I'm hearing, though, is the Commission wants
23 a look-forward assurance that the continuation of these
24 projects, given changes that may occur with regard to carbon
25 control and other issues, are being looked at.

1 Let me make that commitment to you that staff will,
2 through the discovery process, through prompting questions to
3 the company, directing them to file testimony if necessary,
4 whatever, as those changes take place, we will continually be
5 asking those looking-forward questions, is this project still a
6 good idea. So let me make that commitment, yes, staff will do
7 that.

8 CHAIRMAN EDGAR: Commissioner Argenziano.

9 COMMISSIONER ARGENZIANO: I appreciate that very
10 much, because then that tells me that there is the possibility
11 down the line to keep looking into those things, ever changing
12 things as far as prudence and effectiveness, and not just
13 putting money into one area that may become not as prudent as
14 we thought it was today. But just one other question for
15 staff. Have you seen any of the sensitivities with various
16 fuel prices including environmental impacts or issues at all?

17 MR. McNULTY: Commissioner, the sensitivities for
18 various fuel prices are in that second document, and you can
19 see what the net contribution in thousands of dollars are that
20 are listed in each of those cases. Maybe I didn't understand
21 your question correctly and let me make sure. You're asking
22 the specific cost per MMBtu and that sort of thing?

23 COMMISSIONER ARGENZIANO: If there were any
24 environmental concerns factored in.

25 MR. McNULTY: The environmental concerns all relate

1 to CAIR, CAMR, and CAVR, and the aspect of carbon was not
2 included. However, upon our inquiry into that matter, we asked
3 them very directly the eventuality or the possibility of the
4 executive order going into place, what would happen, and the
5 utility did respond with a comfort level that we needed to be
6 able to understand what they would have to do would not be
7 affecting the retrofits that are part of this stipulation.

8 So you have a retrofit on Plant Crist that is
9 expensive, Plant Daniel that is expensive for scrubbers, for
10 SCR, those kind of things. They seemed to be fitting well with
11 the concept that there might be carbon legislation down the
12 road that could affect what the company has to do in the
13 2012/2017 time period, but not in the 2007 through the 2011
14 period, which incorporates the projects that are part of this
15 stipulation before us today.

16 COMMISSIONER ARGENZIANO: Okay. I'll leave it at
17 that. Thank you.

18 CHAIRMAN EDGAR: Commissioner McMurrian.

19 COMMISSIONER McMURRIAN: I guess to perhaps follow up
20 on that a little bit, it seems to me that it is a reasonable
21 sensitivity to look at the differences or the changes in gas
22 prices, and I think that is, of course, included in these first
23 three pages. And I guess maybe I'm oversimplifying it, but it
24 seems to me that if you do put in carbon regulations that the
25 price of natural gas is probably going to increase. Now, maybe

1 that's an assumption I shouldn't be making. I'm definitely not
2 a fuel price expert. But it seems to me that that probably
3 would happen if you do have carbon regulations, and that in a
4 sense, at least, it has factored in, perhaps, some
5 environmental sensitivity through that, by looking at what
6 would happen if you had a higher natural gas price. Am I way
7 off? Please correct me if I'm jumping out on a limb I
8 shouldn't be.

9 MR. McNULTY: I don't think you are missing the mark
10 at all, Commissioner. I think when you look at not one dollar,
11 but when you are looking at three and four-dollar price
12 variations on natural gas price, you are looking at a
13 significant change. And, you know, there are any number of
14 things that affect the natural gas prices. As we know it is a
15 very volatile market for natural gas and there are so many
16 things that affect it. One more aspect of it would be, yes,
17 environmental legislation could push, you know, natural gas
18 prices to higher levels.

19 CHAIRMAN EDGAR: Commissioner Skop.

20 COMMISSIONER SKOP: Thank you, Madam Chair.

21 I just wanted to follow up on a question, and I guess
22 Commissioner McMurrin kind of jogged my memory on that one
23 from a previous question I asked this morning. But one of the
24 questions I thought I asked was whether potential additional
25 impacts for greenhouse emissions would be -- were factored into

1 the analysis. And I thought the answer to the question that I
2 asked at the time was yes, they were. But it seems like, in
3 fact, they were not, but they may be proxy represented by the
4 sensitivities in fuel, is that correct.

5 MS. MANUEL: At the request of staff we did show
6 where we had evaluated the viability, the economic viability of
7 the Crist units, assuming that carbon orders -- that Governor
8 Crist's carbon orders went in exactly as he has outlined them,
9 and we did arrive at the fact that the Crist Units 6 and
10 7 would continue to be economically viable for our customers
11 through 2025 and beyond. So I think the answer is yes, we did
12 look at that. Yes, sir.

13 COMMISSIONER SKOP: Thank you. That's all I needed
14 to know.

15 CHAIRMAN EDGAR: Commissioners, further questions?
16 Commissioner McMurrian.

17 COMMISSIONER McMURRIAN: I guess one more time just
18 to make sure we are all clear about the motion with the twist
19 that Commissioner Argenziano -- I think, how she described it.
20 I think it is worth maybe asking the company are they -- it
21 sounded like from what you said earlier that you are
22 comfortable with that sort of yearly review, and I think you
23 probably said you would be doing something like that anyway.

24 But as the rules of the game change over time and
25 there are different environmental standards, for instance, you

1 are always going to be looking at what changes you should be
2 making, but with the motion as laid out on the table, are you
3 all clear about what is being proposed as far as the annual
4 review?

5 MR. STONE: Yes. Commissioner, as I understand it,
6 we are undertaking a forward-looking annual review as part of
7 this if the motion with the twist were to be the prevailing
8 vote. And, yes, the company is prepared to make -- is willing
9 to make that commitment.

10 CHAIRMAN EDGAR: Further questions?

11 Commissioner Argenziano, if you would, for my
12 benefit, tell me what the twist is again.

13 COMMISSIONER ARGENZIANO: The twist is just an annual
14 review that we can make sure that there is still
15 cost-effectiveness and prudence in the phases that we are
16 moving into. Kind of a review of how things are. And if
17 things have changed, then they could be incorporated into a
18 possible change that benefits not only the company but the
19 consumer.

20 COMMISSIONER CARTER: I second the motion with the
21 twist.

22 CHAIRMAN EDGAR: Okay.

23 Then, Commissioner Argenziano, we are going to
24 recognize that you have made a motion in support of the staff
25 recommendation with the additional discussion and reporting

1 that you have described to us. Commissioner Carter has
2 seconded that.

3 Is there further discussion? Seeing none, all in
4 favor say aye.

5 (Unanimous affirmative vote.)

6 CHAIRMAN EDGAR: Opposed?

7 Show it adopted.

8 Thank you everyone, and we are adjourned.

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1 STATE OF FLORIDA)

2 : CERTIFICATE OF REPORTER

3 COUNTY OF LEON)

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I, JANE FAUROT, RPR, Chief, Hearing Reporter Services
5 Section, FPSC Division of Commission Clerk, do hereby certify
6 that the foregoing proceeding was heard at the time and place
herein stated.

7

IT IS FURTHER CERTIFIED that I stenographically
8 reported the said proceedings; that the same has been
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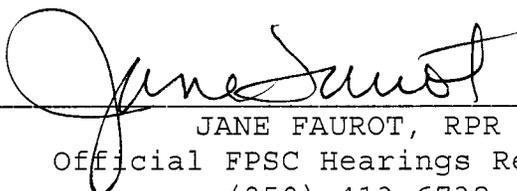
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DATED THIS 21st day of August, 2007.

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