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COMMISSION
CLERK



October 3, 2011

Ms. Ann Cole, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Dear Ms. Cole:

Re: Docket No. 110007-EI

Enclosed is the Prehearing Statement of Gulf Power to be filed in the above docket.

Also, enclosed is a CD containing the Prehearing Statement in Microsoft Word.

Sincerely,

A handwritten signature in cursive script that reads "Terry A. Davis".

mw

Enclosures

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

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4+100 containing prehearing statement.

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FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Environmental Cost Recovery) Docket No. 110007-EI
Clause) Date Filed: October 3, 2011
)
)

PREHEARING STATEMENT OF GULF POWER COMPANY

Gulf Power Company, (“Gulf Power”, “Gulf”, or “the Company”), by and through its undersigned attorneys, and pursuant to Order No. PSC-11-0150-PCO-EI, issued March 4, 2011, establishing the prehearing procedure in this docket, 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, (Generic) A, C, D, E (Company Specific)
2. R.W. Dodd (Gulf)	Environmental compliance cost recovery calculations (True-ups and Projection)	1, 2, 3, 4, 5, 6, 7, 8 (Generic) B, C, D (Company Specific)

C. EXHIBITS:

<u>Exhibit Number</u>	<u>Witness</u>	<u>Description</u>
(JOV-1)	Vick	Plant Crist NPDES Permit
(RWD-1)	Dodd	Calculation of Final True-up 1/10 – 12/10
(RWD-2)	Dodd	Calculation of Estimated True-up 1/11 – 12/11
(RWD-3)	Dodd	Calculation of Projection 1/12 - 12/12

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 (ECRC) for the period January 2012 through December 2012 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 January 2010 through December 31, 2010?

GULF: Over recovery of \$861,325. (Vick, Dodd)

ISSUE 2: What are the estimated/actual environmental cost recovery true-up amounts for the period January 2011 through December 2011?

GULF: Over recovery of \$14,380,513. (Vick, Dodd)

ISSUE 3: What are the projected environmental cost recovery amounts for the period January 2012 through December 2012?

GULF: \$169,103,827. (Vick, Dodd)

ISSUE 4: What are the environmental cost recovery amounts, including true-up amounts, for the period January 2012 through December 2012?

GULF: Recovery of \$153,861,989 (excluding revenue taxes). (Dodd)

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 2012 through December 2012?

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. (Dodd)

ISSUE 6: What are the appropriate jurisdictional separation factors for the projected period January 2012 through December 2012?

GULF: The demand jurisdictional separation factor is 96.44582%. Energy jurisdictional separation factors are calculated each month based on retail KWH sales as a percentage of projected total territorial KWH sales. (Dodd)

ISSUE 7: What are the appropriate Environmental Cost Recovery Factors for the period January 2012 through December 2012 for each rate group?

GULF: See table below: (Dodd)

RATE CLASS	ENVIRONMENTAL COST RECOVERY FACTORS ¢/KWH
RS, RSVP	1.328
GS	1.320
GSD, GSDT, GSTOU	1.308
LP, LPT	1.278
PX, PXT, RTP, SBS	1.261
OS-I/II	1.267
OSIII	1.289

ISSUE 8: What should be the effective date of the new environmental cost recovery factors for billing purposes?

GULF: The new environmental cost recovery factors should be effective beginning with the first billing cycle for January 2012 and thereafter through the last billing cycle

for December 2012. The first billing cycle may start before January 1, 2012, and the last cycle may be read after December 31, 2012, so that each customer is billed for twelve months regardless of when the adjustment factor became effective. (Dodd)

F. COMPANY-SPECIFIC ISSUES

Gulf Power Company

ISSUE A: Should Gulf be allowed to recover the costs associated with its proposed Impoundment Integrity Inspection Project?

GULF: Yes. The Plant Crist NPDES permit renewal, issued during January of 2011, requires that a qualified person with knowledge and training in impoundment integrity inspect all ash impoundments at Plant Crist annually. The permit requires that summarized findings of all monitoring activities, inspections, and corrective actions pertaining to the impoundment integrity, and operation and maintenance of all impoundments must be documented and kept onsite and made available to FDEP inspectors. All findings and corrective actions related to impoundment integrity at Plant Crist must be complied with per the permit condition. (Vick)

ISSUE B: How should the costs associated with Gulf's proposed Impoundment Integrity Inspection Project be allocated to the rate classes?

GULF: Capital costs for the Impoundment Integrity Inspection Project should be allocated to the rate classes on an average 12 CP demand and 1/13th energy basis. (Dodd)

ISSUE C: Should Gulf be allowed to recover the costs associated with the Plant Crist Units 6 and 7 turbine upgrades?

GULF: Yes. The Plant Crist Unit 6 and 7 turbine upgrades were planned as part of the Plant Crist Flue Gas Desulfurization (scrubber) project. These upgrades, which include the Plant Crist Unit 7 HP/IP turbine upgrades placed in service January 2010, are needed to regain generating capacity at Plant Crist to offset the increased station service requirements associated with installation of the Plant Crist scrubber. The increased station service requirements associated with the scrubber reduces the amount of generation capacity from Plant Crist available to serve Gulf's customer load. The installation of the Plant Crist turbine upgrade components presented in the table below were incorporated into the scrubber project to ensure that the overall project provides for its own electric service requirements.

These turbine upgrades were discussed in testimony of James O. Vick in the following Environmental Cost Recovery Clause filings: 1) 2009 ECRC Projection filing dated August 28, 2008, 2) 2009 ECRC Estimated True-Up filing dated August 3, 2009, 3) 2010 ECRC Projection filing dated August 28, 2009, and 4) 2012 ECRC Projection filing dated August 26, 2011. Revenue requirements for the Plant Crist Unit 7 HP/IP components were initially included for recovery and reflected in Gulf's 2009 ECRC factors approved in Commission Order PSC-08-0775-FOF-EI. Subsequently, Gulf's ECRC factors for 2010 and 2011 approved by the Commission continued to reflect costs related to this equipment. In addition to the Plant Crist Unit 7 HP/IP, Gulf's proposed 2012 ECRC factors include the revenue requirements for the Crist Unit 6 HP/IP and the Crist Unit 7 LP components projected to be placed in service in May and December 2012. Gulf's pending rate case in Docket No. 110138-EI assumes continued ECRC recovery for all components of the Plant Crist scrubber project, including those turbine upgrades already in-service and those projected to be placed in-service in 2012. (Vick, Dodd)

Turbine Upgrades	Description	Projected Placed-in-Service Date	Actual Placed-in-Service Date
Plant Crist Unit 7 HP/IP	Upgraded inner and outer High Pressure and Intermediate Pressure cylinder and rotor	Dec 2009	Jan 2010
Plant Crist Unit 6 HP/IP	Upgraded inner and outer High Pressure and Intermediate Pressure cylinder and rotor.	May 2012	N/A
Plant Crist Unit 7 LP	Upgraded both LP turbine sets with inner Low Pressure cylinder and rotor.	Dec 2012	N/A

ISSUE D: Should the Commission approve Gulf's proposed treatment of its CAIR-related NOx allowances?

GULF: Yes. Gulf's Environmental Compliance Program for the Clean Air Interstate Rule and Clean Air Visibility Rule contained the purchase of annual SO₂, annual NO_x and ozone seasonal NO_x allowances. Gulf acted in a reasonable and prudent manner by purchasing NO_x allowances based on a forecasted need using the best information available at the time. Annually, the Commission receives an update outlining the number of allowances Gulf projects the need to purchase, along with the estimated costs. Gulf's purchase of allowances in conjunction with retrofit projects comprised the most reasonable, cost-effective means for Gulf to meet CAIR requirements.

The CAIR Annual NOx allowance purchases that are included in working capital are costs that were prudently incurred to comply with the EPA regulations as they existed. Recovery of any stranded investment in allowances that are no longer useful under revised EPA regulations is a cost of compliance appropriate for recovery through the Environmental Cost Recovery Clause (ECRC). Whether or not the balance of annual NOx allowances on hand at the end of 2011 will have any value in the future is yet to be determined pending potential litigation related to the EPA's new Cross-State Air Pollution Rule (CSAPR). If CSAPR is stayed and/or reconsidered, Gulf's existing NOx emission allowances are expected to retain value and continue to be used to satisfy environmental compliance and be expensed and recovered through the ECRC mechanism.

If the EPA's new CSAPR is not stayed or reconsidered and any unused NOx allowances issued under the CAIR are deemed to have no value as of year-end 2011 or the Commission determines that it is not appropriate to continue to include the NOx emission allowance inventory in working capital considered in the development of cost recovery rates in the ECRC mechanism, then the Commission should authorize Gulf to begin amortizing the remaining inventory balance evenly through the ECRC mechanism over a reasonable period of time commensurate with period of time the allowances would have been used and expensed had the EPA regulations not been changed. The unrecovered balance should continue to be reflected in ECRC working capital revenue requirements. (Vick, Dodd)

ISSUE E: Should the Commission approve Gulf's Environmental Compliance Program Update for the Clean Air Interstate Rule and Clean Air Visibility Rule (Compliance Program) that was submitted on April 1, 2011?

GULF: Yes. This document provides an update of Gulf's original Compliance Program set forth in the Stipulation between OPC, FIPUG, and Gulf which was approved by the Commission in Order No. PSC-07-0721-S-EI and was submitted in compliance with the terms of that order. In the Update, Gulf Power outlines its ongoing compliance projects and the reasons Gulf plans to continue these projects. The list of capital projects identified in the 2010 update approved last year have not changed in the 2011 update, with no additions or deletions. The cost assumptions have been updated as part of the updated economic analysis that was performed. The Compliance Plan set forth in the Update represents the most cost-effective alternative for Gulf to assure environmental compliance while preserving flexibility to address future compliance requirements. (Vick)

G. 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.

H. PENDING MOTIONS:

GULF: NONE.

I. PENDING CONFIDENTIALITY REQUEST:

1. Request for confidentiality filed June 10, 2011, relating to documents produced in connection with the Commission Staff's 2010 Environmental Cost Recovery Clause Audit (ACN 11-005-1-2) (DN 04035-11).

J. 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 1-3, 2011, Gulf respectfully requests an opportunity to submit additional statements of position and, if necessary, file additional testimony.

Dated this 3rd day of October, 2011.

Respectfully submitted,

/s/ Steven R. Griffin

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: **Environmental Cost**)
Recovery Clause)
_____)

Docket No. 110007-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing has been furnished this 3rd day of October, 2011, by U.S. mail to the following:

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