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March 31, 2015

REDACTED

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

Re: Docket No. 150007-EI

Dear Ms. Stauffer:

Enclosed for official filing in the above-referenced docket is an original and fifteen copies of Gulf Power Company's Environmental Compliance Program Update.

Sincerely,

Robert L. McGee, Jr.
Regulatory and Pricing Manager

md

Enclosures

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

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**GULF POWER COMPANY
AIR QUALITY COMPLIANCE
PROGRAM UPDATE**

April 1, 2015



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1.0 EXECUTIVE SUMMARY

Since the Clean Air Act Amendments (CAAA) were passed by Congress in 1990, Gulf Power Company (Gulf Power or Gulf) has reviewed and updated its environmental compliance planning as needed on an on-going basis. The goal of this process is to identify reasonable, cost-effective compliance strategies that minimize the impact on Gulf Power's customers while achieving environmental objectives and assuring compliance with all environmental requirements.

Gulf's original environmental Compliance Plan was filed on March 29, 2007. The original document: (a) addressed the requirements of the Clean Air Interstate Rule (CAIR), Clean Air Mercury Rule (CAMR), and the Clean Air Visibility Rule (CAVR); (b) reviewed the decision process for assuring compliance at Gulf Power; and (c) provided cost estimates for incorporating these requirements at Gulf Power. The document reviewed the specific issues, timing, alternatives, process, and costs necessary for compliance with the new federal rules and the corresponding implementation programs developed by the Florida Department of Environmental Protection (FDEP) and the Mississippi Department of Environmental Quality (MDEQ). Gulf's original Compliance Plan was submitted with the Company's petition for review and approval of the plan and acceptance of its components for cost recovery through the Environmental Cost Recovery Clause (ECRC).

On June 22, 2007, the Office of Public Counsel (OPC), the Florida Industrial Power Users' Group (FIPUG) and Gulf filed a petition for approval of a stipulation regarding substantive provisions of Gulf's Compliance Plan. That stipulation identified 10 specific components of Gulf's Program that were entering the implementation phase as being reasonable and prudent and set forth a process for review in connection with subsequent components of the Program. On August 14, 2007, the Florida Public Service Commission (Commission or FPSC) voted to approve the stipulation with the proviso that Gulf provide an annual status report regarding cost-effectiveness and prudence of the subsequent phases of its program. The Commission's approval of the stipulation is memorialized in Order No. PSC-07-0721-S-EI.

This document is the eighth update of Gulf's original environmental Compliance Plan. Since the plan was originally approved, Gulf has installed the following air emission control equipment in order to comply with the Cross State Air Pollution Rule (CSAPR)/CAIR, Mercury and Air Toxics Standards (MATS)/CAMR, and the CAVR: Plant Crist FGD scrubber, Plant Crist Unit 6 Selective Catalytic Reduction (SCR), Plant Smith Unit 1 and Unit 2 Selective Non-Catalytic Reduction (SNCR), Plant Smith CAIR parametric monitor, Plant Daniel Low NOx burners, and the Plant Scholz mercury monitoring system. Gulf is on schedule to complete its MATS compliance projects during 2015. The Plant Daniel scrubbers as well as the bromine and activated carbon injection (ACI) systems are expected to be placed in-service by December 2015. The transmission upgrades needed for MATS compliance at Plant Smith and Plant Crist are projected to be completed by June 2015. In

early 2015, the Company finalized its MATS compliance strategy for Plant Smith and determined that the most cost-effective option was to retire the Plant Smith coal-fired Units 1 and 2 in March of 2016. Plant Smith's remaining units will continue to operate and generate electricity. As previously discussed, Gulf has determined that it is not economical to add the environmental controls at Plant Scholz necessary to comply with MATS and Plant Scholz will retire in April 2015.

Detailed capital and O&M cost projections for projects included in Gulf's Compliance Program that have not yet been placed in-service are provided in Section 3 of this document. Gulf's annual ECRC projection filings will address ongoing O&M and capital retrofit cost projections for projects that have already been placed in-service. With the exception of the Plant Daniel Units 1 and 2 SCRs, each of the projects addressed in Gulf's Compliance Plan (including the updates since 2007) have either been installed, are projected to go into service in 2015 or have been eliminated from consideration for compliance with CSAPR/CAIR, MATS/CAMR, and the CAVR. The Plant Daniel Units 1 and 2 SCRs have a projected in-service date of 2022. Rather than continue the practice of filing annual updates to the Compliance Plan as adopted by the Company in response to the Commission's approval of the June 22, 2007 stipulation memorialized in Order No. PSC-07-0721-S-EI, Gulf believes that it would be more efficient for the Company to simply provide a periodic status report regarding the Plant Daniel Units 1 and 2 SCRs up until the point that these projects are ready to move from the planning phase to an execution phase.

2.0 REGULATORY AND LEGISLATIVE UPDATE

This section provides a regulatory and legislative update and review of the CAIR and its replacement rule, the Cross State Air Pollution Rule (CSAPR), the National Ambient Air Quality Standards (NAAQS), the CAVR, as well as the vacated CAMR and its replacement rule the Mercury and Air Toxics Standards (MATS).

2.1 CLEAN AIR INTERSTATE RULE / CROSS STATE AIR POLLUTION RULE

In March 2005, the EPA published the final CAIR, a rule that addresses transport of SO₂ and NO_x emissions that contribute to non-attainment of the ozone and fine particulate matter NAAQS in the eastern United States. This cap and trade rule addresses power plant SO₂ and NO_x emissions that were found to contribute to non-attainment of the 8-hour ozone and fine particulate matter standards in downwind states. Twenty-eight eastern states, including Florida and Mississippi, were subject to the requirements of the rule. The rule called for additional reductions of NO_x and SO₂ to be achieved in two phases, 2009/2010 and 2015, as shown in Table 2.1-1.

Table 2.1-1

CAIR Emission Reduction Requirements

Emissions	Phase I reduction from acid rain allocations	Phase II reduction from current allocations
SO ₂	50% (2010)	66% (2015)
NO _x	50% (2009)	65% (2015)

In 2008, the U.S. Court of Appeals for the District of Columbia Circuit issued decisions invalidating certain aspects of the CAIR, but left CAIR compliance requirements in place while the EPA developed a new rule. In 2011, the EPA promulgated the CSAPR to replace CAIR effective January 1, 2012. Like the CAIR, the CSAPR was intended to address interstate emissions of SO₂ and NO_x that interfere with downwind states' abilities to meet or maintain national ambient air quality standards for ozone and/or particulate matter. In 2012, the U.S. Court of Appeals for the District of Columbia Circuit vacated CSAPR in its entirety, but on April 29, 2014, the U.S. Supreme Court overturned that decision and remanded the case back to the U.S. Court of Appeals for the District of Columbia Circuit for further proceedings. The U.S. Court of Appeals for the District of Columbia Circuit granted the EPA's motion to lift the stay of the rule, and the first phase of CSAPR took effect on January 1, 2015.

The states of Florida and Mississippi are preparing state plans to implement CSAPR, and emissions reductions are being accomplished by operation of emission controls installed for CAIR at the Company's coal-fired facilities and/or by the purchase of emission allowances as needed. Decisions regarding Gulf's CAIR/CSAPR compliance strategy were made jointly with the CAVR and CAMR/MATS compliance plans due to co-benefits of proposed controls.

2.2 NATIONAL AMBIENT AIR QUALITY STANDARDS

Final revisions to the National Ambient Air Quality Standard (NAAQS) for SO₂, which established a new one-hour standard, became effective during 2010. No areas within the Company's service area have been designated as non-attainment under this rule. However, the EPA may designate additional areas as non-attainment in the future. Implementation of the revised SO₂ standard could require additional reductions of SO₂ emissions and increased compliance and operational costs.

The EPA regulates ground level ozone through implementation of an eight-hour ozone NAAQS. In 2008, the EPA adopted a more stringent eight-hour ozone standard, which it began to implement in 2011. On December 17, 2014, the EPA published a proposed rule to further reduce the current eight-hour ozone standard. The EPA is required by federal court order to complete this rulemaking by October 1, 2015. Finalization of a lower eight-hour ozone standard could result in the designation of new non-attainment areas within the Company's service area.

The EPA regulates fine particulate matter concentrations on an annual and 24-hour average basis. All areas within the Company's service area have achieved attainment with the 1997 and 2006 particulate matter NAAQS. In 2012, the EPA issued a final rule that increases the stringency of the annual fine particulate matter standard. The EPA promulgated final designations for the 2012 annual standard on December 18, 2014, and no new non-attainment areas were designated within the Company's service area. The EPA has, however, deferred designation decisions for certain areas in Florida, so future non-attainment designations in these areas are possible.

Revisions to the NAAQS for nitrogen dioxide (NO₂), which established a new one-hour ozone standard, became effective in April 2010. The EPA signed a final rule with area designations for the new NO₂ standard in January 2012, designating the entire country as "unclassifiable/attainment," with no non-attainment areas designated. While this standard is not focused on the electric utility sector, the new NO₂ standard could result in additional compliance and operational costs for units that require new source permitting.

2.3 CLEAN AIR VISIBILITY RULE

The Clean Air Visibility Rule (formerly called the Regional Haze Rule) was finalized in 2005, with a goal of restoring natural visibility conditions in certain areas (Class 1 areas—primarily national parks and wilderness areas) by 2064. The rule involves the application of Best Available Retrofit Technology (BART) to certain sources built between 1962 and 1977 and any additional emissions reductions necessary for each designated area to achieve reasonable progress toward the natural conditions goal by 2018 and for each 10-year planning period thereafter. In 2005, the EPA determined that compliance with the CAIR satisfies BART obligations under CAVR, but, on June 7, 2012, the EPA issued a final rule replacing CAIR with CSAPR as an alternative means of satisfying BART obligations.

Florida submitted a revised State Implementation Plan (SIP) on September 17, 2012. This SIP proposed a series of Electric Generating Unit (EGU)-specific BART and Reasonable Progress determinations which included BART limits for the coal-fired units at Plant Smith and no further controls for Plant Crist. The EPA completed a review of the Florida SIP and published final approval on August 29, 2013 with an effective date of September 30, 2013. On October 15, 2013, environmental groups challenged EPA's approval of Florida's SIP in the U.S. Court of Appeals, Eleventh Circuit. On August 13, 2014, the Sierra Club and the National Parks Conservation Association filed a motion with the court seeking to voluntarily dismiss their challenge and the 11th Circuit granted that motion on September 2, 2014.

The Mississippi Department of Environmental Quality (MDEQ) requested a source-specific BART analyses be submitted by December 15, 2012. The BART analysis for Plant Daniel submitted in December of 2012 demonstrated that the plant already meets “top level control” relative to BART. The EPA had until June 7, 2014 to finalize an approval or disapproval. Following the Supreme Court ruling and the lower court's reinstatement of CSAPR, neither MDEQ nor EPA have taken any action. Until these issues are resolved, it remains uncertain what additional controls, if any, will ultimately be required for CAVR and BART compliance.

2.4 CLEAN AIR MERCURY RULE / MERCURY AND AIR TOXICS STANDARDS

In March 2005, the EPA published the final Clean Air Mercury Rule (CAMR), a cap and trade program for the reduction of mercury emissions from coal-fired power plants. In February 2008, however, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion vacating the federal CAMR, thus eliminating requirements for generating facilities to install mercury controls to meet the CAMR cap and trade emission limits.

In a separate proceeding, the U.S. District Court for the District of Columbia, under a consent decree, required the EPA to develop a Maximum Achievable Control Technologies (MACT)

rule that would limit the emission of numerous hazardous air pollutants, including mercury, from power plants. On February 16, 2012, the EPA published the Mercury and Air Toxics Standards (MATS) rule that imposes stringent emissions limits for acid gases, mercury, and particulate matter on coal- and oil-fired electric utility steam generating units. Compliance for existing sources is required by April 16, 2015 or April 16, 2016 for affected units for which extensions have been granted. On November 25, 2014, the U.S. Supreme Court granted a petition for review of the final MATS rule.

3.0 GULF'S COMPLIANCE PROGRAM

3.1 GULF POWER'S ELECTRIC GENERATING SYSTEM

Gulf Power owns and operates three fossil-fueled generating facilities in Northwest Florida (Plants Crist, Smith and Scholz). Gulf also owns a 50 percent undivided ownership interest in Units 1 and Unit 2 at Mississippi Power Company's Plant Daniel. This fleet of generating units consists of ten fossil steam units, one combined cycle (CC) unit, and one combustion turbine (CT). The nameplate generating capacity of Gulf's generating fleet affected by CAIR/CSAPR, NAAQS, MATS, and/or CAVR is 2,783 megawatts (MW).

A summary of the Compliance Program Commission-approved capital projects that have not yet been placed in service and associated expenditures are provided in Table 3.1-1. The projected plant O&M expenses associated with the capital projects listed in Table 3.1-1 are included in Table 3.1-2. The cost information is provided by plant and by project. Ongoing O&M and capital retrofit cost projections for projects that have previously been placed in-service will be addressed in Gulf's annual ECRC projection filings.

**Table 3.1-1
Compliance Program
Capital Expenditures for Pending Commission-Approved Projects
\$ in Thousands**

	2015	2016	2017	2018	2019	2020	2021	Total
By Plant								
Plant Crist								
MATS Monitoring								
Plant Daniel								
MATS Monitoring		(Included in Scrubber cost projection)						
Unit 1 SCR								
Unit 2 SCR								
Units 1 & 2 Scrubber								
Unit 1 & 2 Bromine & ACI								
Annual Total	78,971							376,839

Expenditures presented for Plant Daniel represent Gulf's ownership portion.
Allowance cost projections are not included in Table 3.1-1

Table 3.1-2
Compliance Program
O&M Expenses for Pending Commission-Approved Projects
\$ in Thousands

	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
By Plant										
Plant Crist										
Mercury and Air Toxics Monitoring										
Plant Daniel										
Mercury and Air Toxics Monitoring										
Unit 1 SCR										
Unit 2 SCR										
Units 1&2 Scrubbers										
Unit 1 & 2 Bromine & ACI										
Annual Total	220	9,499	9,855	9,952	12,397	15,453	15,576	16,525	17,378	106,855

Expenses presented for Plant Daniel represent Gulf's ownership portion.
 Allowance cost projections are not included in Table 3.1-2.

PLANT-BY-PLANT COMPLIANCE PROGRAM

3.2.1 PLANT CRIST

Plant Crist is a four-unit, coal-fired electric generating facility located just north of Pensacola, Florida. Three older natural gas/oil-fired units at the site have been retired. Units 4 and 5 each have a nameplate rating of 93.75 MW and Units 6 and 7 have nameplate ratings of 370 MW and 578 MW, respectively. All four units are subject to the Acid Rain Program, and the plant has primarily operated on low-sulfur coals since the 1990s to lower SO₂ emissions. All four units are equipped with low-NO_x burner systems. Plant Crist Units 4 and 5 have SNCR systems, while Crist Units 6 and 7 are equipped with SCR systems for NO_x control.

The Plant Crist Unit 7 SCR became operational in 2005, significantly reducing emissions of NO_x from the plant. This project was the result of an agreement between Gulf and the FDEP. The agreement also called for additional NO_x reductions on Plant Crist Units 4 through 6 up to and including an SCR for Unit 6. The Plant Crist Unit 6 SCR was placed in service during 2012.

The Plant Crist Units 4 through 7 flue gas desulfurization (FGD) scrubber became operational in December 2009 and is designed to reduce SO₂ emissions by approximately 95%. With these reductions, Gulf Power will be able to reasonably manage compliance with its SO₂ allowance bank for the acid rain program and CSAPR, as needed. Mercury emissions are also being reduced through the co-benefits of the scrubber and SCRs.

Based on previous economic assessments of Crist Units 4 through 7 and the Crist Unit 6 SCR economic evaluation, the retrofit of Crist Units 4 through 7 with a single scrubber, SNCRs on Units 4 and 5, and SCRs on Units 6 and 7 are the best options for compliance with the current requirements of CSAPR/CAIR, CAVR, and the anticipated NAAQS. These are the only technologies that offer the necessary emission reductions for SO₂ and NO_x, and when used together, the scrubber and the SCRs on Units 6 and 7 provide additional benefit by reducing mercury emissions. Decisions regarding Gulf's CSAPR/CAIR compliance strategy were made jointly with the CAVR and CAMR/MATS compliance plans due to co-benefits of proposed controls. As explained in Gulf's 2013 Compliance Plan, the best option for MATS compliance at Plant Crist was to proceed with the identified transmission projects in order to allow Plant Crist to commit and dispatch in the most economic manner, while avoiding the installation of additional environmental controls. Gulf is in the process of completing the identified transmission projects and expects the final project to be complete in June 2015. The Plant Crist MATS monitoring systems is projected to be placed in-service during 2015.

The scrubber, MATS monitoring system, SNCRs, and SCRs have been approved for recovery through the ECRC in past proceedings, subject to ongoing review of costs within

the ECRC annual review process. Each of the projects for Plant Crist that were addressed in Gulf's Compliance Plan (including the updates since 2007) have either been installed, are projected to go into service in 2015 or have been eliminated from consideration for compliance with CSAPR/CAIR, MATS/CAMR, and the CAVR.

3.2.2 PLANT DANIEL

Gulf Power's ownership interest at Plant Daniel is associated with two coal-fired electric generating units that have a nameplate rating of 548.25 MW each. Gulf Power and Mississippi Power Company each own 50 percent of Daniel Units 1 and 2. The plant is operated by Mississippi Power. The facility is located just north of Pascagoula, Mississippi, with direct transmission access across Alabama and into Florida. Both coal-fired units were affected by the Acid Rain Program and have operated on low-sulfur coals since the 1990s. These New Source Performance Standards (NSPS) units are relatively low NO_x emitters, and as a result, these units are part of a NO_x Averaging Plan allowing delayed installation of controls and associated costs required under the Acid Rain Program. Low NO_x burners were installed on Daniel Units 1 and 2 during 2010 and 2008, respectively, for the CAIR annual and seasonal NO_x cap and trade allowance programs.

For compliance with the CSAPR/CAIR, CAVR, MATS and the anticipated NAAQS, Plant Daniel Units 1 and 2 needed significant emission reductions. Only a few technologies have demonstrated the ability to provide the necessary emission reductions at the commercial scale required for the coal units at Plant Daniel. Retrofit options are each reviewed below specifically for Plant Daniel.

Plant Daniel Retrofit Options

Plant Daniel Unit 1 and Unit 2 Flue Gas Desulfurization Scrubber Projects

The Plant Daniel scrubber projects are currently under construction and scheduled to be placed in service by December 2015. On-site labor peaked in January 2015 and major equipment such as the vessels, stack, booster fans are now set in position. Some functional testing is also in progress. The scrubbers will minimize reliance on the SO₂ allowance market and allow Plant Daniel to comply with the MATS mercury, particulate matter (PM) and surrogate SO₂ limits as well as the CSAPR, CAVR, and the anticipated NAAQS. The Daniel scrubber projects are designed to reduce SO₂ emissions by approximately 95%. With these reductions, Gulf Power will be able to reasonably manage compliance using its SO₂ allowance bank.

Plant Daniel NOx Reduction Projects

The Daniel Unit 1 and 2 Low NOx burners were planned for CAIR annual and seasonal NOx cap and trade allowance programs. The Daniel Unit 2 Low NOx burners were installed during 2008 and the Unit 1 Low NOx burners were placed in-service in 2010. This control strategy will be continued to meet the CSAPR implementation requirements in 2015.

The Plant Daniel Units 1 and 2 SCRs are now scheduled to be in service by 2022. This projected timeline for compliance with the anticipated ozone NAAQS revisions is based on promulgation of a revised, lower ozone standard in 2015. This timeline is subject to change because it is influenced by several different parties and factors, including the EPA and state regulatory agencies, atmospheric modeling, and ambient air quality. The SCRs, along with the Unit 1 and 2 scrubbers, will provide a co-benefit of reducing mercury emissions and assisting in compliance with MATS.

Plant Daniel MATS Requirements

As explained in Gulf's 2013 Compliance Plan, the best option to meet the MATS limits at Plant Daniel includes installing the Commission-approved scrubbers and bromine and activated carbon injection (ACI). Engineering, procurement, and construction of the Plant Daniel bromine and ACI systems began in January 2014. Both injection systems are projected to be placed in service with the scrubbers during fourth quarter of 2015. The MATS monitoring systems are projected to be placed in-service during 2015.

Conclusions for Plant Daniel

The retrofit of Plant Daniel Units 1 and 2 with scrubbers, SCRs, bromine and activated carbon injection, Low-NOx burners, and MATS monitors are the best options for compliance with the CSAPR/CAIR, MATS, CAVR, and the anticipated NAAQS. These projects have been approved for recovery through the ECRC in past proceedings, subject to ongoing review of costs within the ECRC annual review process. Except for the SCRs, each of the projects for Plant Daniel that were addressed in Gulf's Compliance Plan (including the updates since 2007) have either been installed, are projected to go into service in 2015 or have been eliminated from consideration for compliance with CSAPR/CAIR, MATS/CAMR, and the CAVR.

3.2.3 PLANT SMITH

Plant Smith includes two coal-fired electric generating units, Unit 1 and Unit 2, along with a 32 MW oil-fired combustion turbine (CT) and a 556 MW natural gas-fired combined cycle unit. The facility is located just north of Panama City, Florida. Plant Smith Unit 1 has a nameplate rating of 149.6 MW, and Unit 2 has a nameplate rating of 190.4 MW. Both coal-fired units are subject to the Acid Rain Program, and the plant has operated on low-sulfur coals since 2000 to lower SO₂ emissions. Both units are also equipped with low-NO_x combustion systems. Unit 1 has special low-NO_x burner tips, and Unit 2 has low-NO_x burners and a separated overfired air system.

The CAIR required the installation of a parametric emission monitoring system on the Plant Smith CT during 2007. Installation of SNCRs for Plant Smith Units 1 and 2 was needed for Phase I CAIR compliance in 2009. In addition to CAIR compliance, the SNCRs were needed to assist in maintaining local compliance with the anticipated 8-hour ozone non-attainment designation. The Smith Unit 2 SNCR was placed in-service in the fall of 2008, and the Smith Unit 1 SNCR was placed in-service during May of 2009.

Plant Smith MATS Requirements

In early 2015, the Company finalized its MATS compliance strategy and determined that the most cost-effective option to comply with the regulations imposed by EPA was to retire the Plant Smith coal-fired Units 1 and 2 in March of 2016. Plant Smith's remaining units will continue to operate and generate electricity.

Conclusions for Plant Smith

The retrofit of Plant Smith Units 1 and 2 with SNCRs and the installation of a CAIR parametric monitor for the Smith Combustion Turbine were the best option for compliance with CAIR as described in Gulf's original Compliance Plan evaluations. The CAIR parametric monitor, mercury monitor, and SNCRs have been approved for recovery through the ECRC in past proceedings, subject to ongoing review of costs within the ECRC annual review process. Each of the projects for Plant Smith that were addressed in Gulf's Compliance Plan (including the updates since 2007) have either been installed, are projected to go into service in 2015 or have been eliminated from consideration for compliance with CSAPR/CAIR, MATS/CAMR, and the CAVR.

3.2.4 PLANT SCHOLZ

Plant Scholz consists of two coal-fired electric generating units that each have a nameplate rating of 49 MW. The facility is located in Jackson County, Florida. Both units are subject to the Acid Rain Program. Because these units are small and older, NOx averaging was used to achieve compliance with the NOx requirements under the Acid Rain Program without the installation of emission control equipment.

For CAIR and CAVR requirements at Plant Scholz, a thorough assessment was conducted to compare retrofit controls versus retirement and replacement options for compliance. Fuel switching, allowance purchases, and emission control retrofit versus retirement and replacement were all evaluated as options for compliance. Because this small plant is nearing retirement, significant investments in capital equipment to reduce emissions cannot be justified economically. The plant will utilize Company-wide allowance trading options rather than installing additional emission control equipment for CSAPR/CAIR compliance. In response to finalization and evaluation of the MATS rule, Gulf has decided to retire Plant Scholz in April 2015. Gulf has determined that it is not economical to add the environmental controls at Plant Scholz necessary to comply with MATS.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: **Environmental Cost**)
Recovery Clause)

Docket No.: 150007-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing was furnished by overnight mail this 31st day of March, 2015 to the following:

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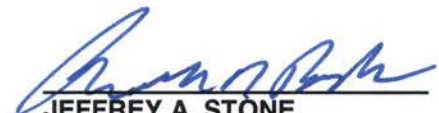
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