

Robert L. McGee, Jr.
Regulatory & Pricing Manager

One Energy Place
Pensacola, Florida 32520-0780

Tel 850.444.6530
Fax 850.444.6026
RLMCGEE@southernco.com

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COMMISSION
CLERK



October 4, 2012

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

RE: Docket No. 120007-EI

Dear Ms. Cole:

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

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

Sincerely,

Robert L. McGee, Jr.
Regulatory and Pricing Manager

wb

Enclosures

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

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FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Environmental Cost Recovery) Docket No. 120007-EI
Clause) Date Filed: October 5, 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-12-0060-PCO-EI, issued February 10, 2012, 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, 11A
2. R.W. Dodd (Gulf)	Environmental compliance cost recovery calculations (True-Ups and Projection)	1, 2, 3, 4, 5, 6, 7, 8

C. EXHIBITS:

<u>Exhibit Number</u>	<u>Witness</u>	<u>Description</u>
(RWD-1)	Dodd	Calculation of Final True-up 1/11 – 12/11
(RWD-2)	Dodd	Calculation of Estimated True-up 1/12 – 12/12
(RWD-3)	Dodd	Calculation of Projection 1/13 - 12/13

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 2013 through December 2013 including the true-up calculations and other adjustments allowed by the Commission.

E. STATEMENT OF ISSUES AND POSITIONS

Generic Environmental Cost Recovery Issues

ISSUE 1: What are the final environmental cost recovery true-up amounts for the period ending December 31, 2011?

GULF: Under recovery of \$5,275,632. (Vick, Dodd)

ISSUE 2: What are the actual/estimated environmental cost recovery true-up amounts for the period January 2012 through December 2012?

GULF: Over recovery of \$7,453,359. (Vick, Dodd)

ISSUE 3: What are the projected environmental cost recovery amounts for the period January 2013 through December 2013?

GULF: \$141,059,079.¹ (Vick, Dodd)

¹ Gulf's positions on Issues 3, 4, and 7 reflect the correction of an error in the Accumulated Depreciation Balance for the Air Quality Assurance Testing project. The appropriate accumulated depreciation balance was not properly carried forward from 12/31/12 to 1/1/13.

ISSUE 4: What are the environmental cost recovery amounts, including true-up amounts and revenue taxes for the period January 2013 through December 2013?

GULF: Recovery of \$138,981,347. (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 2013 through December 2013?

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 2013 through December 2013?

GULF: The demand jurisdictional separation factor is 96.57346%. 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 2013 through December 2013 for each rate group?

GULF: See table below: (Dodd)

RATE CLASS	ENVIRONMENTAL COST RECOVERY FACTORS ¢/KWH
RS, RSVP	1.253
GS	1.244
GSD, GSDT, GSTOU	1.233
LP, LPT	1.195
PX, PXT, RTP, SBS	1.167
OS-I/II	1.193
OSIII	1.214

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 2013 and thereafter through the last billing cycle for December 2013. The first billing cycle may start before January 1, 2013, and the last cycle may be read after December 31, 2013, 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 11A: Should the Commission approve Gulf's Environmental Compliance Program Update as reasonable?

GULF: Yes. Gulf's updated Environmental Compliance Program reflects a comprehensive assessment of requirements Gulf and its customers face in meeting various existing environmental rules. In assessing the most cost-effective means of meeting these significant regulatory requirements, the Company considered four primary options: fuel switching, purchase of allowances, retrofit installations, and retirement and replacement of existing units. Based upon comprehensive technical and economic evaluations of alternatives, Gulf assessed the best means of meeting plant-by-plant emission requirements through retrofit measures supplemented by allowance purchases and compared those options to retiring and replacing existing units. It appears that Gulf's Environmental Compliance Program is the most reasonable and cost effective option available to Gulf under the planning assumptions at that time.

On July 16, 2011, the EPA issued the Cross State Air Pollution Rule (CSAPR) which serves as the replacement for the CAIR. On August 21, 2012, the D.C. Circuit Court of Appeals issued a decision vacating and remanding CSAPR back to EPA. EPA is ordered to continue administering CAIR pending the completion of rulemaking. Gulf will continue to operate and comply with the Company's currently approved CAIR compliance strategy until EPA reinstates CSAPR or its replacement.

Gulf Power is currently evaluating potential options to comply with the Mercury Air Toxics Standards (MATS) rule, formerly known as the EGU MACT rule. Compliance with this rule is likely to require substantial capital expenditures and compliance costs at the Company's facilities. These costs may arise from unit retirements, installation of additional emission controls, changing fuel sources for certain existing units, the addition of new generating resources, and/or upgrades to the transmission system. The MATS rule also requires installation of additional continuous emission monitors and/or additional emissions testing.

Once the Company determines the most cost-effective compliance options, Gulf will submit revisions to the Environmental Compliance Program for the Commission's review. (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 April 2, 2012, relating to Gulf Power Company's Environmental Compliance Program Update (DN 01952-12).
2. Request for confidentiality filed April 13, 2012, relating to Gulf Power Company's responses to Staff's First Set of Interrogatories (DN 02263-12).
3. Request for confidentiality filed May 30, 2012, relating to Gulf Power Company's response to Staff's Second Set of Interrogatories (DN 03439-12).
4. Request for confidentiality filed June 11, 2012, relating to a portion of Staff's audit work papers (ACN 12-019-1-1) (DN 03797-12).

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 5-7, 2012, Gulf respectfully requests an opportunity to submit additional statements of position and, if necessary, file additional testimony.

Dated this 4th day of October, 2012.

Respectfully submitted,



JEFFREY A. STONE

Florida Bar No. 0325953

RUSSELL A. BADDERS

Florida Bar No. 0007455

STEVEN R. GRIFFIN

Florida Bar No. 0627569

Beggs & Lane

P. O. Box 12950

Pensacola, FL 32591-2950

(850) 432-2451

Attorneys for Gulf Power Company

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No.: **120007-EI**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing was furnished by U.S. mail this 4th day of October, 2012 on the following:

Ausley Law Firm
James D. Beasley
J. Jeffrey Wahlen
Post Office Box 391
Tallahassee, FL 32302
jbeasley@ausley.com

Brickfield, Burchette, Ritts & Stone, PC
James W. Brew
F. Alvin Taylor
Eighth Floor, West Tower
1025 Thomas Jefferson St, NW
Washington, DC 20007-5201
jbrew@bbrslaw.com
ataylor@bbrslaw.com

Federal Executive Agencies
Captain Samuel Miller
USAF/AFLOA/JACL/ULFSC
139 Barnes Drive, Suite 1
Tyndall AFB, FL 32403-5319
Samuel.Miller@Tyndall.af.mil

Florida Industrial Power Users Group
c/o Moyle Law Firm
Vicki Gordon Kaufman
Jon C. Moyle, Jr.
118 North Gadsden Street
Tallahassee, FL 32301
vkaufman@moylelaw.com

Florida Power & Light Company
John T. Butler
700 Universe Boulevard
Juno Beach, FL 33408-0420
John.Butler@fpl.com

Florida Power & Light Company
Kenneth Hoffman
215 South Monroe Street, Suite 810
Tallahassee, FL 32301-1858
Ken.Hoffman@fpl.com

Office of Public Counsel
J. R. Kelly
P. Christensen
C. Rehwinkel
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32399-1400
Christensen.patty@leg.state.fl.us

Progress Energy Florida, Inc.
Paul Lewis, Jr.
106 East College Avenue, Suite 800
Tallahassee, FL 32301
Paul.lewisjr@pgnmail.com

Progress Energy Service Co.
John T. Burnett
Dianne M. Triplett
Post Office Box 14042
St. Petersburg, FL 33733
John.burnett@pgnmail.com

Tampa Electric Company
Ms. Paula K. Brown
Regulatory Affairs
P. O. Box 111
Tampa, FL 33601-0111
Regdept@tecoenergy.com

White Springs Agricultural Chemicals,
Inc.
Randy B. Miller
Post Office Box 300
White Springs, FL 32096
RMiller@pcsphosphate.com

Office of the General Counsel
Charles Murphy
2540 Shumard Oak Blvd
Tallahassee, FL 32399-0850
cmurphy@psc.state.fl.us

Hopping Law Firm
Gary V. Perko
P. O. Box 6526
Tallahassee, FL 32314
gperko@hgslaw.com


JEFFREY A. STONE
Florida Bar No. 325953
RUSSELL A. BADDERS
Florida Bar No. 007455
STEVEN R. GRIFFIN
Florida Bar No. 0627569
BEGGS & LANE
P. O. Box 12950
Pensacola FL 32591-2950
(850) 432-2451
Attorneys for Gulf Power