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ORIGINAL



September 2, 2004

Ms. Blanca S. Bayo, Director  
Division of the Commission Clerk and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee FL 32399-0870

Dear Ms. Bayo:

Enclosed for official filing in Docket No. 040007-EI are an original and ten copies of the following:

1. The Petition of Gulf Power Company. 09697-04
2. Prepared direct testimony of J. O. Vick. 09698-04
3. Prepared direct testimony and exhibit of T. A. Davis. 09699-04

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

Sincerely,

CMP \_\_\_\_\_  
COM 5 *Susan D. Ritenour*  
CTR \_\_\_\_\_ Susan D. Ritenour  
ECR \_\_\_\_\_ Secretary and Treasurer and Regulatory Manager  
GCL \_\_\_\_\_ db  
OPC \_\_\_\_\_  
MMS \_\_\_\_\_ Enclosures  
RCA \_\_\_\_\_ cc: Beggs and Lane  
SCR \_\_\_\_\_ Jeffrey A. Stone, Esquire  
SEC 1  
OTH \_\_\_\_\_

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RECEPTION CENTER NUMBER-DATE

09697 SEP-3 3

FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Environmental Cost Recovery )  
Clause )  
\_\_\_\_\_ )

Docket No. 040007-EI

Certificate of Service

this 2<sup>nd</sup> I HEREBY CERTIFY that a copy of the foregoing has been furnished  
day of September 2004 by U.S. Mail or hand delivery to the following:

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ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Environmental Cost Recovery Clause )  
 )  
 ) Docket No.: 040007-EI  
 ) Filed: September 3, 2004  
 )  
 \_\_\_\_\_ )

**PETITION OF GULF POWER COMPANY FOR APPROVAL OF  
 FINAL ENVIRONMENTAL COST RECOVERY TRUE-UP AMOUNT FOR  
 JANUARY 2003 THROUGH DECEMBER 2003; ESTIMATED ENVIRONMENTAL  
 COST RECOVERY TRUE-UP AMOUNT FOR JANUARY 2004 THROUGH  
 DECEMBER 2004; PROJECTED ENVIRONMENTAL COST RECOVERY AMOUNTS  
 FOR JANUARY 2005 THROUGH DECEMBER 2005 INCLUDING NEW  
 ENVIRONMENTAL ACTIVITIES/PROJECTS; AND ENVIRONMENTAL COST  
 RECOVERY FACTORS TO BE APPLIED BEGINNING WITH THE PERIOD  
 JANUARY 2005 THROUGH DECEMBER 2005**

Notices and communications with respect to this petition and docket should be addressed to:

Jeffrey A. Stone	Susan D. Ritenour
Russell A. Badders	Secretary and Treasurer
Beggs & Lane	Gulf Power Company
P. O. Box 12950	One Energy Place
Pensacola, FL 32591	Pensacola, FL 32520-0780

GULF POWER COMPANY (“Gulf Power”, “Gulf”, or “the Company”), by and through its undersigned counsel, hereby petitions the Florida Public Service Commission (“Commission”) for approval of the Company's final environmental cost recovery true-up amount for the period January 2003 through December 2003; for approval of the Company’s estimated environmental cost recovery true-up amount for the period January 2004 through December 2004; for approval of the Company’s projected environmental cost recovery amounts for the period January 2005 through December 2005 including new environmental activities/projects; and for approval of environmental cost recovery factors to be applied in customer billings beginning with the period January 2005 through December 2005. As grounds for the relief requested by this petition, the Company would respectfully show:

DOCUMENT NUMBER DATE  
 09697 SEP -3 04  
 FPSC-COMMISSION CLERK

### **FINAL ENVIRONMENTAL COST RECOVERY TRUE-UP**

(1) By vote of the Commission following hearings in November 2003, estimated true-up environmental cost recovery amounts were approved by the Commission for the period January 2003 through December 2003, subject to establishing the final environmental cost recovery true-up amounts. According to the data filed by Gulf for the period ending December 31, 2003, the final environmental cost recovery true-up amount for the period ending December 31, 2003, should be an actual over recovery of \$394,531. This amount is submitted for approval by the Commission to be refunded in the next period. The supporting data has been prepared in accordance with the uniform system of accounts as applicable to the Company's environmental cost recovery and fairly presents the Company's environmental costs to be considered for recovery through the Environmental Cost Recovery ("ECR") clause for the period. The environmental activities and related expenditures reflected in the true-up amounts shown for the period ending December 31, 2003 are reasonable and necessary to achieve or maintain compliance with environmental requirements applicable to Gulf Power Company and therefore, the amounts identified are prudent expenditures which have been incurred for utility purposes.

### **ESTIMATED ENVIRONMENTAL COST RECOVERY TRUE-UP**

(2) Gulf has calculated its estimated environmental cost recovery true-up amounts for the period January 2004 through December 2004. Based on six months actual and six months projected data, the Company's estimated environmental cost recovery true-up amount for the period January 2004 through December 2004 is an under recovery of \$113,651. The estimated environmental cost recovery true-up is combined with the final environmental cost recovery true-up for the period ending December 31, 2003 to reach the total environmental cost recovery true-up that is to be addressed in the next cost recovery period (January 2005 through December 2005). Gulf is requesting that the Commission approve this total environmental cost recovery true-up amount excluding revenue taxes, \$280,880 for refund during the January 2005 through December 2005 recovery period.

### **PROJECTED ENVIRONMENTAL COST RECOVERY AMOUNTS**

(3) Gulf has calculated its projected environmental cost recovery amounts for the months January 2005 through December 2005 in accordance with the principles and policies for environmental cost recovery found in §366.8255 of the Florida Statutes and Commission Order No. PSC-94-0044-FOF-EI. The calculated factors reflect the recovery of the projected environmental cost recovery amount of \$26,067,223 for the period January 2005 through December 2005, plus the net true-up amount adjusted for revenue taxes.

The computations and supporting data for the Company's environmental cost recovery factors are set forth on Schedules attached as part of the exhibit to the testimony of T.A. Davis filed herewith. Additional supporting data for the environmental cost recovery factors is provided in the testimony of J. O. Vick also filed herewith. The methodology used by Gulf in determining the amounts to include in these factors and the allocation to rate classes is in accordance with the requirements of the Commission as set forth in Order No. PSC-94-0044-FOF-EI. The amounts included in the calculated factors for the projection period are based on reasonable projections of the costs for environmental compliance activities that are expected to be incurred during the period January 2005 through December 2005. The calculated factors and supporting data have been prepared in accordance with the uniform system of accounts and fairly present the Company's best estimate of environmental compliance costs for the projected period. The activities described in the testimony of Mr. Vick are reasonable and necessary to achieve or maintain compliance with environmental requirements applicable to Gulf Power Company and the projected costs resulting from the described compliance activities are also reasonable and necessary. Therefore, the costs identified are prudent expenditures that have been or will be incurred for utility purposes and for which the Company should be allowed to recover the associated revenue requirements.

## **FDEP/GULF POWER COMPANY OZONE ATTAINMENT AGREEMENT**

(4) Gulf continues to implement the agreement between itself and the Florida Department Environmental Protection dated August 28, 2002 (Agreement) which was approved for cost recovery through the environmental cost recovery clause in Order PSC-02-1396-PAA-EI. The Agreement requires Gulf to perform an engineering feasibility study on NOx reduction technologies for Crist Units 4, 5, and/or 6. Gulf has completed this study and based on the results of the study has chosen Selective Non-Catalytic Reduction (SNCR), low NOx burner/overfire air technologies for Unit 6, and Units 4 and 5 if necessary. A more detailed discussion of the results of the study and the selection of the most cost-effective means of complying with the FDEP mandated emission limit can be found in the testimony of J. O. Vick accompanying this petition. Consistent with Order PSC-02-1396-PAA-EI, Gulf has obtained written concurrence from FDEP that the SNCR, low NOx burner/overfire air technologies for Unit 6, and Units 4 and 5 if necessary, meet the intent of the Agreement and are prudent for the purposes of ensuring that Plant Crist supports the Escambia/Santa Rosa County area's compliance with the 8-hour ozone ambient air quality standard. A copy of the referenced FDEP letter is attached to the testimony of J. O. Vick filed herewith. Utilization of SNCR, low Nox burner/overfire air technologies as proposed by Gulf is the most cost-effective means of achieving compliance with the emission limit mandated by FDEP. During 2005, approximately \$19 million of capital investment related to the SNCR will be placed into service.

Gulf has added "FDEP NOx Reduction Agreement" as a new Air Quality O&M category. This category includes the operation and maintenance expenses associated with the Selective Catalytic Reduction project that was included in the FDEP NOx Reduction Agreement. At this time, Gulf will incur expenses of \$757,241 for anhydrous ammonia, air monitoring, and general operation and maintenance.

## NEW ENVIRONMENTAL ACTIVITIES/ PROJECTS

(5) The Consumptive Use-Shield Water Project has been renamed to “Consumptive Use Conservation Project”. This title more appropriately identifies the activities being undertaken by Gulf to ensure compliance with new environmental requirements that are a part of the Consumptive Use Permit (Permit) issued by the Northwest Florida Water Management District (“NFWWMD”) for Gulf’s Plant Smith. The Permit mandates a 25% reduction of groundwater usage at Plant Smith. The costs to be incurred in 2005 are for the installation of a closed loop cooling system for the laboratory sampling system at Plant Smith. Gulf has received approval from the NFWWMD to use this project to achieve the required reductions in groundwater usage. This project is a capital expenditure which is not recovered through any other cost recovery mechanism or through base rates. **The closed loop chiller was determined to be the most cost effective compliance alternative.** The capital expenditures associated with this project are projected to be \$120,000. The expenditures associated with this project will be allocated to the rate classes on a demand basis.

(6) Gulf seeks approval of the following new activities/projects for cost recovery through the Environmental Cost Recovery Clause:

(A.) Compliance Assurance Monitoring (CAM) Precipitator Upgrades:

Compliance Assurance Monitoring (CAM) Precipitator Upgrades are required to comply with the CAM regulations. CAM requirements are regulated under Title V of the 1990 Clean Air Act Amendments (CAAA) which require a method of continuously monitoring particulate emissions. Opacity can be used as a surrogate parameter if the facility demonstrates a correlation between opacity and particulate matter. Gulf demonstrated this correlation by stack testing in 2003 and 2004, and submitted the results as part of the CAM plan included in Gulf’s Title V Air Permit renewal applications in June 2004. Gulf expects permit approval in December 2004. Gulf has determined that upgrades to the precipitator on certain of its generating units are necessary for Gulf to meet the proposed surrogate opacity limit. The first phase of this project, the Smith Unit 2 precipitator project is expected to be placed in service in May 2005. The second phase, the

Smith Unit 1 precipitator upgrade, will be initiated in 2006 with an estimated completion date of April 2007. Similar precipitator upgrades at Gulf's other generating units may be required in the future as a result of the CAM regulations. The precipitator upgrades will take place over time in order to coincide with Gulf's planned outages on its generating units. CAM Precipitator Upgrades is a capital expenditure which is not recovered through any other cost recovery mechanism or through base rates. The capital expenditures associated with this project are projected to be \$8,488,126. The expenditures associated with this project will be allocated to the rate classes on an energy basis.

(B.) Turtle Protective Lighting Program : The United States Fish and Wildlife Service is charged with protecting endangered and threatened wildlife. Three species of sea turtle found along the Northwest Florida shoreline from Panama City to Perdido are listed as either endangered or threatened pursuant to title 50 Code of Federal Regulations, Part 17- Endangered and Threatened Wildlife and Plants. A determination has been made by the United States Fish and Wildlife Service and two local governments in Northwest Florida that outdoor lighting along the shore from Panama City to Perdido is causing harm to these protected species. A letter stating the United States Fish and Wildlife Service's formal position on these three species of sea turtle as well as the two local ordinances addressing outdoor lighting and its impact on sea turtles accompany the testimony of J. O. Vick. The United States Fish and Wildlife Service and these two ordinances impose new environmental requirements on Gulf in an effort to protect the sea turtle nesting areas. Compliance with the new laws will require the use of sea turtle protective lighting. The Turtle Protective Lighting Program is an operating and maintenance expense which is not recovered through any other cost recovery mechanism or through base rates. The expenses associated with this project are projected to be approximately \$13,000 in 2005 and will be allocated to the rate classes on a demand basis.

(C.) Cooling Water Intake Program: Gulf must implement the Cooling Water Intake Program in order to comply with new environmental requirements established by the United States Environmental Protection Agency (EPA). On July 9, 2004, the EPA published its

final rule implementing Section 316(b) of the Clean Water Act. Section 316(b) addresses the impingement and entrapment of fish and shellfish through new performance standards and mandates that the EPA “shall require that the location, design, construction, and capacity of cooling water intake structures reflect the best technology available for minimizing adverse environmental impact.” 33 U.S.C §1326 These new performance standards must be met by implementing one of five “compliance alternatives” set forth by the EPA. Gulf must submit a Proposal for Information Collection (PIC) to the FDEP. The PIC will be used by the FDEP and Gulf in the development of a compliance strategy and implementation schedule for Gulf. The Cooling Water Intake Program is an operating and maintenance expense which is not recovered through any other cost recovery mechanism or through base rates. The expenses associated with this project are projected to be \$234,602 in 2005 and will be allocated to the rate classes on a demand basis.

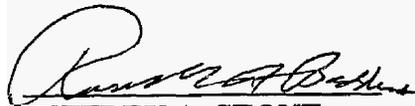
**ENVIRONMENTAL COST RECOVERY FACTORS**

(7) The calculated environmental cost recovery factors by rate class, including true-up, are:

RATE CLASS	ENVIRONMENTAL COST RECOVERY FACTORS ¢/KWH
RS, RSVP	.240
GS	.239
GSD, GS DT, GSTOU	.234
LP, LPT	.226
PX, PXT, RTP, SBS	.218
OS-I/II	.215
OSIII	.224

WHEREFORE, Gulf Power Company respectfully requests the Commission to approve the final environmental cost recovery true-up amounts for the period January 2003 through December 2003; estimated environmental cost recovery true-up amounts for the period January 2004 through December 2004; the projected environmental cost recovery amounts for the period January 2005 through December 2005; the new environmental projects consistent with this petition; and the environmental cost recovery factors to be applied in customer billings beginning with the period January 2005 through December 2005.

Dated the 2<sup>nd</sup> day of September, 2004.



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