Gulf Power®

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-VIA ELECTRONIC FILING-

Mr. Adam Teitzman
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

RE: Docket No. 20200242-EI – Gulf Power Company's Responses to Staff's Second Data Request (Nos. 1-12)

Dear Mr. Teitzman:

Please find enclosed for electronic filing Gulf Power Company's responses to Staff's Second Data Request (Nos. 1-12).

If there are any questions regarding this filing, please contact me at (561) 304-5662.

Sincerely,

<u>/s/ William P. Cox</u>
William P. Cox
Fla. Bar No. 0093531

Enclosure

cc: Shaw Stiller, Sr. Attorney
Russell Badders, Esq., VP & Associate General Counsel, Gulf Power Company

QUESTION:
Please refer to Gulf's Petition for approval of regulatory assets related to the retirements of plant Crist 4-7 (Petition), paragraphs 1, 3, 5 and 6, as well as Exhibit 2, Attachment AE-1. Please also refer to Rule 25-6.0436(7)(a), F.A.C., which provides that:

Prior to the date of retirement of major installations, the Commission shall approve capital recovery schedules to correct associated calculated deficiencies where a utility demonstrates that (1) replacement of an installation or group of installations is prudent and (2) the associated investment will not be recovered by the time of retirement through the normal depreciation process.

a. Paragraph 3 and Attachment AE-1, footnote, of the Petition indicate that Gulf retired Crist 4-7 on October 15, 2020, is this retirement date correct?

b. If your response to Question 1.a is affirmative, please explain why Gulf did not seek the Commission's approval to establish regulatory assets for the Crist Units 4-7 capital recovery deficiencies prior to the date of Crist 4-7 retirements as required by Commission Rule, given that Gulf has planned "the retirement of coal generation assets and capacity at Crist 4-7 (including common assets)" even before filing its 2020 Ten Year Site Plan as indicated in paragraph 1 of the Petition.

c. If your response to Question 1.a is negative, please identify the retirement date of Crist 4-7.

RESPONSE:
a. Yes.

b. As stated in Gulf's Petition in this docket, Gulf sought the Commission's approval to establish regulatory assets for the Crist Units 4-7 capital recovery deficiencies as soon as practicable following an assessment of the damage from Hurricane Sally to the units' coal generation assets and capability and the cost to repair those units. Gulf has stated previously in its 2020 Ten Year Site Plan (pp. 86 and 90) that it planned to convert the Crist units 6-7 to natural gas-fired generation in the summer of 2020, which would naturally include the retirement of the Crist Units 6-7 coal assets and capability. However, the timing of those plans to complete the conversion for those units, as well as the retirement of the coal assets and capability for Units 4-7, was not final at the time of the filing of the 2020 Ten-Year Site Plan. It was subsequently determined that Gulf may not have been able to complete the conversion and coal retirements for the Crist units until sometime in Q1 or Q2 2021. Testing for the conversion of units 6-7 is scheduled to be completed this month, December 2020.

As such, prior to Hurricane Sally, Gulf had planned to file with the Commission for approval of regulatory assets and/or capital recovery schedules for the Crist units coal retirement in 2021 by separate petition or with its planned base rate case filing. However, the timing of the Crist units coal retirement was accelerated unforeseeably by the damage to the units from Hurricane Sally. Based on the analysis completed by Gulf following its assessment of the damage to the Crist units from Hurricane Sally, Gulf determined it was the prudent decision to retire the Crist coal capability and assets immediately (October 15, 2020), as opposed to repairing the units damaged by Hurricane Sally and, upon completion of the repairs by January 2021, retiring them six months later in June 2021. Gulf estimated that the early coal retirement would save Gulf and its customers an estimated $3.6 million.

c. Not applicable.

QUESTION:
Please refer to the Petition, Exhibit 1, Attachment MG-1 for the following questions (1.a through 1.h).

a. Please identify the source(s) and dates of Gulf's fuel price forecast used to derive the gas and coal costs (including both commodity and transportation) as presented in this Exhibit.

b. Please list any other Commission proceedings in which Gulf has filed and/or utilized the same fuel price forecast used to derive the gas and coal costs presented in this Exhibit.

c. Has Gulf compared the fuel price forecast used to derive the gas and coal costs presented in this Exhibit to any other publicly available source of forecasted fuel prices, such as the Energy Information Administration (EIA)? If so, please discuss the results of any analysis performed.

d. Please provide a detailed explanation (with specificity) of the sensitivity analyses (high case, low case) Gulf performed with regard to forecasted fuel prices for the purposes of determining the potential savings resulting from the retirement of Crist 4-7. If Gulf did not perform a sensitivity analysis of fuel price forecast, please explain why the Company chose not to do so.

e. Please provide Gulf’s fuel price forecasts (base case in nominal and real terms) used to determine the coal and natural gas costs appearing in Attachment MG-1 CPVRR analyses. Also provide the high and low case coal and natural gas price forecasts complementing these base forecasts for this same period, as relates to Question 1.d.

f. Assuming Gulf’s low case coal price forecast and Gulf’s high case gas price forecast from Question 1.e. were used in deriving the costs shown in Attachment MG-1, what would be the resulting CPVRR outcomes?

g. Assuming Gulf’s high case coal price forecast and Gulf’s low case gas price forecast from Question 1.e. were used in derive the costs shown in Attachment MG-1, what would be the resulting CPVRR outcomes?

h. Please provide Gulf’s commodity, transportation, and delivered nominal fuel price forecasts, for coal and natural gas respectively, used in its evaluation supporting the CPVRR analyses used in Attachment MG-1.

RESPONSE:

a. The weighted average delivered natural gas prices for Crist, for the period January 2021 through June 2021, were developed by using market data for NYMEX natural gas settlement prices as of 10/5/2020. The market prices were then adjusted for the actual cost of contracted natural gas transportation capacity. For this six-month period, this is the same methodology used when a fuel forecast is created for the evaluation of longer-term projects. A forecast was not developed for coal. Instead, the actual cost and volume of existing inventory was used to provide input values for the analysis.

b. There were no fuel price forecasts used in this evaluation.

c. No. For natural gas commodity prices, the forecast methodology relies upon the NYMEX Natural Gas Futures contract prices (forward curve). Forecasts for the availability of natural gas are developed internally and are based on contractual commitments and market experience. The forward curve for natural gas represents expected future prices at a given point in time. The basic assumption made with respect to using the forward curve is that all available data that could impact the price of natural gas in the short-term is incorporated into the curve at all times. A coal price forecast, as discussed in part a, was not developed since actual coal inventory prices were used in the analysis.

d. Gulf did not use a fuel price forecast; therefore, there was no need for a sensitivity analysis.

e. Gulf did not use a fuel price forecast to determine the coal and natural gas costs included in Attachment MG-1 CPVRR.

f. Gulf did not perform high/low cases sensitivities.

g. Gulf did not perform high/low cases sensitivities.

h. As previously noted, Gulf did not need to utilize a fuel price forecast for this analysis due to the short time horizon of only 6 months and coal costs being derived from existing inventory

<u>QUESTION</u>:
Please discuss Gulf's fuel forecast methodology. Please also remark on the approximate length of time Gulf has employed this same or very similar fuel forecasting methodology for Company planning purposes.

<u>RESPONSE</u>:
The weighted average delivered natural gas price forecast to Crist, for the period January 2021 through June 2021, was developed by using market data for NYMEX natural gas settlement prices as of 10/5/2020. The market prices were then adjusted for existing contracted natural gas transportation capacity. A forecast was not developed for coal. Instead, the actual cost and volume of existing inventory was used to provide input values for the analysis.

NYMEX forward curve settlement prices are used to develop the near-term natural gas prices for all current fuel price forecasts.

QUESTION:
Please provide the percent error in Gulf's delivered coal and natural gas price forecasts out 3 years using data which supported Gulf's 2017 through 2019 Ten Year Site Plans, per the following tables. Please provide a detailed explanation for any forecast error rate in excess of 20 percent.

Year	**Coal Price Annual Forecast Error Rate (%)**			**Natural Gas Price Annual Forecast Error Rate (%)**		
	Years Prior			**Years Prior**		
	3	**2**	**1**	**3**	**2**	**1**
2017						
2018						
2019						
Average						

Year	**Coal Price Annual Forecast ($/MMbtu)**			**Natural Gas Price Annual Forecast ($/MMbtu)**		
	Years Prior			**Years Prior**		
	3	**2**	**1**	**3**	**2**	**1**
2017						
2018						
2019						
Average						

RESPONSE:
Gulf has not completed the analysis and calculations responsive to this data request. Moreover, Gulf did not utilize long-term coal and natural gas price forecasts for the instant petition but instead only looked at a six-month period associated with retiring the Crist coal assets and capability on October 15, 2020 as compared to repairing the damage from Hurricane Sally and continuing to run these units for an additional six months upon completion of the repairs.

QUESTION:
If applicable, please explain how Gulf used its fuel price forecasts extending through the remaining average service life of Plant Crist Units 4-7 to determine the cost effectiveness of the early retirement of its coal generation and handling assets as proposed in its Petition.

RESPONSE:
Not applicable. Gulf did not use its fuel price forecasts extending through the remaining average service life of Plant Crist Units 4-7 to determine the cost effectiveness of the early retirement of its coal generation and handling assets as proposed in its Petition.

<u>QUESTION</u>:
If Gulf did not use its fuel price forecasts extending through the remaining average service life of Plant Crist Units 4-7 to determine the cost effectiveness of the early retirement of its coal generation and handling assets as proposed in its Petition, please explain why it did not do so.

<u>RESPONSE</u>:
Gulf did not use its extended fuel price forecasts to determine cost effectiveness for the early retirement of the Crist coal assets and capability because, for purposes of this petition and the requested relief, Gulf only analyzed whether it was more cost effective to retire the units immediately (October 15, 2020) or repair the damage from Hurricane Sally to the coal-fired generation capability in order to keep the units in operation burning coal for an additional six months. While the units came offline due to damage from Hurricane Sally in October 2020, it was anticipated that all four units would not be repaired and return to service until January 2021, at which time they would run for six months until June 2021. The additional six months would allow Gulf to utilize the remaining coal inventory available at the site prior to the planned conversion to natural gas as the fuel source for the units. Accordingly, Gulf only used a six-month natural gas fuel price forecast to make a decision on the early retirement of the coal assets and capability. Gulf will utilize fuel price forecasts that extend through the remaining average service life of these units when it seeks cost recovery for the conversion of these units from coal to natural gas in its next base rate proceeding and presents the appropriate supporting cost effectiveness analysis at that time.

QUESTION:
Please refer to Gulf's Petition for approval of regulatory assets related to the retirements of Plant Crist 4-7 (Petition), Paragraphs 1 and 4, and Exhibit 1, Attachment MG-1. Has Gulf considered the savings of the environmental compliance costs that would result from the retirements of Crist 4-7 coal units in its CPVRR analyses? These potential savings could include the avoided emission costs of SO_2, NOx, Hg, CO_2 (potentially), the O&M costs associated with operating various environmental compliance equipment.

a. If your response to the above question is negative, please explain why these emission-related savings were not considered in deriving Gulf's CPVRR analyses for the instant case.

b. If your response to the above question is affirmative, please provide an update to Attachment MG-1 by including the emission-related savings, if possible.

RESPONSE:
Gulf considered the environmental compliance cost savings in the three early retirement scenarios although any savings from SO_2 and NOx would be de minimis and were therefore excluded from the analysis. CO_2 savings are $0 since CO_2 has a current price of $0/ton. The O&M costs associated with operating various environmental compliance equipment are included in the analysis and consist primarily of avoided limestone purchases.

a. As stated above, costs for SO_2, NOx and CO_2 were excluded from the analysis as they were either de minimis (SO_2, NOx) or a $0 value ($CO_2$).

b. Not applicable. See above responses to 7. and 7a.

<u>QUESTION</u>:
Please provide Gulf's annual C02 price forecast for 2020 through 2038.

<u>RESPONSE</u>:
Please see the Attachment 1 - Docket 20200242 Staff's 2nd DR 8 Attachment 1 - 2020 CO2 Compliance Cost Forecast.

CO_2 Compliance Cost Forecast Used in the Analysis
(2019 Q4 ICF Forecast, Nominal $)

Year	CO_2 Cost ($/ton)
2020	0.0
2021	0.0
2022	0.0
2023	0.0
2024	0.0
2025	0.0
2026	1.1
2027	1.8
2028	3.1
2029	4.4
2030	5.4
2031	6.4
2032	7.6
2033	8.9
2034	10.3
2035	13.2
2036	16.4
2037	20.1
2038	24.1
2039	28.5
2040	33.4
2041	38.2
2042	43.4
2043	49.2
2044	55.5
2045	62.5
2046	70.0
2047	74.0
2048	78.3
2049	82.7
2050	87.5
2051	89.3
2052	91.2
2053	93.1
2054	95.1
2055	97.1
2056	99.1
2057	101.2
2058	103.3
2059	105.5
2060	107.7
2061	110.0
2062	112.3
2063	114.6
2064	117.0
2065	119.5
2066	122.0
2067	124.6
2068	127.2

QUESTION:
Please provide the source and date of Gulf's annual C02 price forecast for 2020 through 2038.

RESPONSE:
The source of the projected compliance costs is the consultant ICF. The date of the projection is December 2019.

QUESTION:
Please explain whether Gulf's CO_2 price forecast from 2020 through 2038 is relevant to determining the cost effectiveness of the early retirement of its coal generation and handling assets as proposed in its Petition.

RESPONSE:
Gulf's CO_2 price forecast from 2020-2038 is not relevant as the decision whether to restore and place the coal units back into operation looked at the time period from October 2020 through June 2021. As CO_2 prices are expected to remain at $0 during this time period, CO_2 costs would be $0 and therefore have no impact on the analysis.

<u>QUESTION</u>:

Compare the short term, medium term, and long term fuel price forecasts presented in Gulf's 2020 Ten Year Site Plan to Gulf's current fuel price forecasts supporting its Petition. Please identify any significant changes in the price forecasts and the reasons for such changes.

<u>RESPONSE</u>:

The fuel price forecast used in Gulf's 2020 Ten Year Site Plan and the forecast used in this Petition both utilize the same methodology for determining near-term natural gas prices. A forecast for coal was not developed for this Petition because it was not necessary given the circumstances. Instead, coal pricing was derived from existing coal inventory volumes and costs.

QUESTION:
Please refer to Paragraph 6 of the Petition, which provides in part "[t]o the extent the Commission believes a waiver of Rule 25-6.0436(7)(a), F.A.C. is necessary for granting this requested relief, Gulf hereby requests a limited waiver of this rule under Section 120.542, Fla. Stat."

a. From what portion or portions of Rule 25-6.0436(7)(a) does Gulf request a limited waiver?

b. What does Gulf mean by "limited" waiver? Is the requested limit on the timing or scope of the waiver or some other issue or combination of issues?

c. Explain in detail the "substantial hardship on Gulf" as that phrase is used in Paragraph 6 of the Petition.

d. Explain in detail the manners in which a limited waiver of Rule 25-6.0436(7)(a) would "comply with the purpose of the underlying statutes, Section[s] 350.115, 366.04(2)(f), and 366.06(1), Fla. Stat."

e. Explain in detail the facts that demonstrate that the purpose of Sections 350.115, 366.04(2)(f), and 366.06(1), Fla. Stat., will be or has been achieved by other means by Gulf, as is required by Section 120.542(2), Fla. Stat.

RESPONSE:
a. Gulf is only seeking relief from the Commission to address the retirement of the coal assets and capability for Crist Units 4-7 and not for the entirety of all assets and capability for the Crist generation installations. In addition, Gulf is not seeking approval of its planned conversion to natural gas for Crist Units 6-7 or associated cost recovery at this time. Due to damage from Hurricane Sally, Gulf has determined the prudent and most economic decision for Gulf and its customers is to retire the Crist coal assets and capability earlier than planned, as discussed in Gulf's response to Staff's Second Data Request No. 1, and that is the subject of the instant petition and the requested relief.

   As a result, and in seeking to comply with Rule 25-6.0436(7)(a), Gulf was not able to obtain Commission approval prior to the retirement of the Crist coal assets and capability on October 15, 2020, as required by the rule, due to the unexpected damage from Hurricane Sally. Accordingly, Gulf seeks a limited waiver of this rule as it relates to the timing of the required Commission approval, requesting that the Commission approve the creation of the regulatory assets associated with the October 15, 2020 retirement, adjust the ECRC factors to provide immediate rate relief for Gulf's customers, and address cost recovery schedules for the regulatory assets in Gulf's next base rate proceeding. Specifically, Gulf is seeking a limited waiver as it relates to timing of the required approval as underlined in Rule 25-6.0436(7)(a) below:

(7)(a) Prior to the date of retirement of major installations, the Commission shall approve capital recovery schedules to correct associated calculated deficiencies where a utility demonstrates that (1) replacement of an installation or group of installations is prudent and (2) the associated investment will not be recovered by the time of retirement through the normal depreciation process.

b. Gulf's waiver request is limited in that the retirement at issue occurred prior to Commission approval of regulatory assets and recovery schedules due to an unforeseeable natural disaster (Hurricane Sally), but ultimately Gulf's requested relief remains subject to Commission approval of regulatory assets and adjustment to ECRC factors in this docket and recovery schedules for regulatory assets in Gulf's next base rate proceeding, as required by Rule 25-6.0436(7)(a).

c. Gulf's early retirement of the Crist coal assets and capability is a direct result of damage to Crist from Hurricane Sally, a natural disaster beyond Gulf's control. It would be impossible and patently unfair to require Gulf to seek prior approval for retirement of unit assets and capability that were significantly damaged due to an unforeseeable natural disaster and thereby effectively deny Gulf and its customers the cost savings benefits of that early retirement. A denial of the waiver and rejection of the early retirement request would thereby impose a substantial hardship on Gulf and its customers and violate principles of fairness by forcing Gulf in effect to not retire and instead engage in uneconomic repair, restoration, and continuing operation of the coal assets and capability of these generation units.

d. In sum, Gulf's requested limited waiver for the Crist coal early retirement will comply with the purposes of the underlying statutes for Rule 25-6.0436(7)(a) (§§ 350.115, 366.04(2)(f), and 366.06(1), Fla. Stat.) by permitting the Commission to determine an appropriate capital recovery schedule that results in adequate, fair, and reasonable depreciation charges, overall fair and reasonable rates with cost savings for Gulf and its customers, and the reporting to the Commission of reasonably available data from Gulf necessary for the Commission to exercise its jurisdiction over the utility. Each statutory provision is addressed specifically below.

1. **350.115 Uniform systems and classifications of accounts.—The commission may prescribe by rule uniform systems and classifications of accounts for each type of regulated company and approve or establish adequate, fair, and reasonable depreciation rates and charges.**

Gulf's request relief under the waiver permits and asks the Commission for approval to establish fair, adequate, and reasonable depreciation rates and charges associated with the capital recovery of the retired assets through regulatory assets that the Commission would address in Gulf's next base rate proceeding.

2. **366.04(2)(f) Jurisdiction of commission.—**
   2) **In the exercise of its jurisdiction, the commission shall have power over electric utilities for the following purposes:**

…

   (f) **To prescribe and require the filing of periodic reports and other data as may be reasonably available and as necessary to exercise its jurisdiction hereunder.**

With the requested limited waiver, Gulf has provided, is providing, and will continue to provide data and periodic reports to the Commission as requested and required by the Commission that it needs to exercise its jurisdiction over Gulf and its electric service rates, including information regarding the appropriate capital recovery schedule and depreciation rates and charges associated with the Crist Units 4-7 coal generation assets and capability.

3. **§366.06(1) Rates; procedure for fixing and changing.—**
   (1) **A public utility shall not, directly or indirectly, charge or receive any rate not on file with the commission for the particular class of service involved, and no change shall be made in any schedule. All applications for changes in rates shall be made to the commission in writing under rules and regulations prescribed, and the commission shall have the authority to determine and fix fair, just, and reasonable rates that may be requested, demanded, charged, or collected by any public utility for its service. The commission shall investigate and determine the actual legitimate costs of the property of each utility company, actually used and useful in the public service, and shall keep a current record of the net investment of each public utility company in such property which value, as determined by the commission, shall be used for ratemaking purposes and shall be the money honestly and prudently invested by the public utility company in such property used and useful in serving the public, less accrued depreciation, and shall not include any goodwill or going-concern value or franchise value in excess of payment made therefor. In fixing fair, just, and reasonable rates for each customer class, the commission shall, to the extent practicable, consider the cost of providing service to the class, as well as the rate history, value of service, and experience of the public utility; the consumption and load characteristics of the various classes of customers; and public acceptance of rate structures.**

Under Gulf's limited waiver request for approval of the regulatory assets for the Crist coal retirement and adjustments to the ECRC factors, Gulf would not charge any rate unless and until approved by Commission under its proposal. The Commission would maintain its jurisdiction and statutory role under Section 366.06(1) to fix, fair, just, and reasonable rates, which would include the retirement of the Crist Units 4-7 coal assets and capability. Likewise, the Commission would maintain its authority to allow Gulf to only charge customers electric service rates associated with utility property that is used and useful for serving the public, less accrued depreciation. Gulf's proposal for early retirement will result in an estimated $3.6 million in customer savings when compared to repairing and restoring the damage to the Crist Units 4-7 coal generation assets and capability.

e. See Gulf's response to Staff's Second Data Request No. 12(d). Under Gulf's requested limited waiver, the Commission continues to have the jurisdiction and authority to regulate Gulf and its electric service rates as specified in Sections 350.115, 366.04(2)(f), and 366.06(1), Fla. Stat. Specifically, the Commission will still have oversight and authority to approve or deny Gulf's requested regulatory assets, adjustment to ECRC factors, and capital recovery schedules to determine fair, just, and reasonable rates in Gulf's next base rate proceeding, including appropriate depreciation rates and charges.