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 Fourth Data Request (Nos. 1-5)

Dear Mr. Teitzman:

Please find enclosed for electronic filing Gulf Power Company's responses to Staff's Fourth Data Request (Nos. 1-5).

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

Sincerely,

/s/ William P. Cox
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 paragraph 5 of Gulf's Petition. Please verify if approval of the Company's request for the creation of the regulatory asset would still allow the Commission to review, without prejudice, whether the conversion to natural gas and/or early retirement of the coal generation assets of Crist Units 4-7 was reasonable and prudent as part of the Company's next base rate proceeding.

a. Verify whether at the Company's next base rate proceeding, the Commission could make any adjustments at that time if necessary, up to and including the unwinding of the regulatory asset, if it finds early retirement to have been unreasonable and/or imprudent.

RESPONSE:
The Commission's approval of the Company's request in this docket for the creation of the regulatory assets (base and ECRC) associated with the early retirement of the coal generation assets and capability of Crist Units 4-7 would still allow the Commission to review, without prejudice, in the Company's next base rate proceeding whether the conversion to natural gas for Crist Units 4-7 was reasonable and prudent. The Commission would be ruling on the prudence of the early retirement of the coal generation assets of Crist Units 4-7 in approving the regulatory assets requested by Gulf's petition in this docket.

The Commission can approve the creation of regulatory assets and deferral of recovery and capital recovery schedules along with corresponding ECRC mid-course correction based on its determination of the prudence of early retirement of coal assets and capability triggered by Hurricane Sally; this approval would be subject to further review of prudence of the holistic project to convert the coal assets to natural gas (which Gulf has not presented or requested approval for in this filing) and determination of the amortization period for recovery of remaining net book value of the retired coal assets in its upcoming rate case.

a. At the Company's next base rate proceeding, assuming the Commission approves the requested regulatory assets for the early retirement in this docket and finds such early retirement to be prudent, the Commission could make any adjustments to the regulatory assets necessary to address the conversion to natural gas if it finds such conversion is not prudent. Further, Gulf agrees that the Commission's approval to record the regulatory assets for accounting purposes does not limit the Commission's ability to review the amounts and recovery period for reasonableness in future proceedings in which the regulatory assets are included.

<u>QUESTION</u>:
Please refer to Gulf's response to Staff's Third Data Request, Questions No. 3 and 9. Explain why Gulf selected the assumption of six months to burn the remaining coal, instead of a shorter time period (i.e., 2-3 months) to minimize the duration needed to consume the available coal supplies. What effect would a shorter duration of burn have on the estimated costs for each scenario, if any?

<u>RESPONSE</u>:
The duration of six months was determined based on historical and forecasted coal consumption after consulting with the plant operations team. A shorter duration analysis was performed assuming a 3-month coal burn for the coal on-site (January through March 2021. Please see Attachment 1 to this response for the 3-month coal burn scenario analysis. In that scenario, we assumed that we would be able to renegotiate our limestone contract and not increase our monthly limestone costs, despite burning twice as much coal each month. However, monthly base O&M and other ECRC related costs must increase to accommodate the higher coal burn rate. In addition, the rebuild of 2 coal pulverizers is required. Customers do benefit from having a shorter duration due to reduced total operating costs; however, this is offset by the higher cost of fuel and the increased monthly costs already identified. Despite the aggressive assumption on limestone costs, the net effect to customers is still nearly $2 MM worse than retiring coal. An inherent risk in the 3-month scenario is that it assumes normal weather conditions. Given the large amount of coal being burned each month in this scenario, a mild winter where loads are reduced could result in coal being burned at Crist while displacing a more economic unit elsewhere on the Gulf system or would result in taking longer than 3 months to burn the coal. This was not modeled as a cost, but is a risk to the 3-month scenario.

Scenario #2a: Return coal capability and burn the on-site ~120k tons of coal over 3 months

CPVRR (fav) unfav *$ millions*			**Repair Coal Unit**	**Do NOT Repair Coal Unit**
Repair/Replace Coal Equipment	Capital	Base	21.4	-
Insurance Proceeds	Capital	Base	(21.3)	(2.8)
Site operating costs to run on coal	Base O&M	Base	2.3	-
Gas Fuel Costs	Fuel	Clause	2.3	9.4
Coal Fuel Costs	Fuel	Clause	9.5	
Other costs to run on Coal	ECRC	Clause	4.4	-
Transportation	Fuel	Clause	-	1.1
Sell Coal Inventory	Fuel	Clause	(3.4)	(3.4)
Coal Inventory Cost	Fuel	Clause	8.4	17.4
Total Net Revenue Requirement			**23.4**	**21.7**
Total Base		Base	2.4	(2.8)
Total Clause		Clause	21.0	24.5
Total Net Revenue Requirement			**23.4**	**21.7**
Not Repairing Coal Unit is (fav) unfav to Repairing				**(1.7)**

QUESTION:
Please refer to Gulf's response to Staff's Third Data Request No. 9.

a. Explain why coal fuel costs would be incurred for the coal already in Gulf's inventory at Plant Crist given that in retirement scenario would result in the same coal being sold for no or minimal net gain to ratepayers.

b. Explain why coal fuel costs would be incurred for the coal already in Gulf's inventory at the Alabama docks, given that in retirement scenario would result in the same coal being sold for the estimated $3.4 million net gain to ratepayers.

RESPONSE:
a. Coal that has been purchased and resides in inventory has not yet impacted customers. Customers are impacted by the cost of coal when it is burned as fuel, or when it is liquidated from inventory. The coal at Plant Crist must either be: (1) burned and passed through to customers as a fuel cost; or (2) liquidated and netted against whatever revenues from sale that could be garnered. In the retirement scenario, Gulf assumed $0 as the sale price of the coal at Plant Crist, but assumed that Plant Crist would have to write off the full value of the coal on site in an effort to make the "return coal to service" scenarios as beneficial to customers as possible.

b. Coal that has been purchased and resides in inventory has not yet impacted customers. Customers are impacted by the cost of coal when it is burned as fuel, or when it is liquidated from inventory. The coal at the Alabama docks must either be: (1) transported to the plant site and then burned and passed through to customers as a fuel cost; or (2) liquidated and netted against whatever revenues from sale that could be garnered. In our retirement scenario, we assumed $3.4 MM as the sale price of the coal at the docks (based on market data), but assumed that Plant Crist would have to write off the difference of the inventory cost and the sale value in an effort to make the "return coal to service" scenarios as beneficial to customers as possible.

<u>QUESTION</u>:
Please refer to Gulf's response to Staff's Third Data Request, No. 9. Explain how Gulf would receive the amount of insurance proceeds it assumes in the no repair scenarios.

<u>RESPONSE</u>:
Gulf's insurance claim related to Hurricane Sally damage to Plant Crist has two components:

1. For assets which were damaged and repaired or replaced, the property policy, which is an indemnity policy, similar to others in the electric utility industry, allows for the recovery of the actual cost of repairs, as documented once the repairs are complete.

2. For insured assets which were damaged and Gulf decided not to repair or replace (in this case, only the Plant Crist coal assets in the no repair scenarios), there is a two-step process to calculate the claim value for these assets, known as the "actual cash value" (ACV) for the claim:

   a. Gulf estimates the cost of repairing or replacing each asset; and

   b. to calculate the ACV, Gulf adjusts the total repair cost based on the percentage of the asset's life remaining.

The claims process begins immediately upon sustaining a loss. The insurance companies' representatives (the independent adjuster) is involved from that point until the end of the claim. Generally, the formal claim for reimbursement, including components 1 and 2 noted above, is submitted upon completion of the repairs. The claim is reviewed by the adjuster to ensure reasonableness, and Gulf is reimbursed for the final amount less a $25 million deductible. In general, the insurance adjuster has 60 days to review and respond to the claim, and an additional 60 days to actually make the reimbursement. In this case, because the claim is large and complex, the adjustment period may be longer than average.

QUESTION:
Please refer to Gulf's Petition for approval of regulatory assets related to the Mid-Course Correction to its 2021 Environmental Cost Recovery Clause? (ECRC) Factors. On page 9 of the Petition, Gulf is requesting that the Commission approve revised tariff sheets reflecting the revised ECRC factors and that the tariff sheets be effective March 1, 2021. It is typically Commission practice to adjust the actual/estimated or true-up amounts, not the projected amounts, when revising ECRC factors and tariff sheets.

a. Please explain why Gulf adjusted the projected amounts in its proposed tariff sheets alternative to using the true-up amounts for its calculations.

RESPONSE:
a. Gulf adjusted the proposed amounts in the proposed tariffs sheets because the relief sought for the retirement of the Crist coal assets and capability would result in lower ECRC factors that Gulf's customers should benefit from sooner rather than later in the form of lower bills. Although infrequent, the Commission has approved ECRC mid-course corrections previously. For example, the Commission approved a similar mid-course correction in the ECRC that involved adjusting projected costs in the St. John's River Power Park (SJRPP) matter for FPL (Docket No: 20180007-EI, Order No. PSC-2018-0100-FOF-EI, Feb. 22, 2018).

   Additionally, Gulf previously petitioned this Commission to adjust its Fuel and Purchased Power Cost Recovery ("FCR") factors due to forecasted decrease in natural gas costs. On April 1, 2020, Gulf filed a mid-course correction petition in light of the COVID-19 public health pandemic and the resulting economic disruption experienced by a substantial number of customers. Gulf sought to flow back over recovery to customers as quickly as possible and was granted approval in Order No. PSC-2020-0154-PCO-EI, issued May 14, 2020.