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December 16, 2014

Sent by Electronic Mail – Received Receipt Requested

jovick@southernco.com

Mr. James O. Vick, Director
Environmental Affairs
Gulf Power Company
One Energy Place
Pensacola, Florida 32520-0328

Re: Lansing Smith Plant, Facility ID No. 0050014
MATS Compliance Extension Request for Units 1 and 2

Dear Mr. Vick:

On July 28, 2014, the Department of Environmental Protection's Division of Air Resource Management (Department) received your request and related information^{1,2,3} for a one-year extension, to April 16, 2016, of the compliance deadline of the Mercury and Air Toxics Standards (MATS)⁴ for Gulf Power's coal-fueled Lansing Smith Units 1 and 2. The request meets the criteria for obtaining an extension. The extension will be incorporated into the facility's Title V operating permit with appropriate conditions and milestones.

The Clean Air Act and implementing federal regulations, provide that an owner or operator of an existing source who is unable to comply with a relevant standard may request that the state Title V permitting authority grant an extension allowing the source up to one additional year to comply with the standard, if such additional period is necessary for the installation of controls.⁵ EPA recognized in the preamble to the final MATS rule the need and likelihood of such extensions, stating that the "... fourth year *should be broadly available to enable a facility owner to install controls within 4 years if the 3-year time frame is inadequate for completing the installation.*"⁶ EPA noted that "installation of controls" could include installing typical pollution control equipment but also could include other measures, such as conducting transmission upgrades or constructing replacement generation.⁷ EPA also acknowledged that consideration of bulk electric system reliability issues, confirmed by regional transmission operators or public utility commissions responsible for the planning and reliable operation of the electric system, are appropriate to consider in the review of a compliance extension request.⁸

By way of example, EPA indicated that permitting authorities should consider granting requests for extensions to operate existing units when transmission upgrades are needed to maintain electric system reliability.⁹ This is the case with Smith Units 1 and 2.

¹ Original MATS extension request dated 07/28/14 available at <http://arm-permit2k.dep.state.fl.us/psd/0050014/U0001890.pdf>.

² Gulf Power response dated 11/07/14 available at <http://arm-permit2k.dep.state.fl.us/psd/0050014/U0002034.PDF>.

³ Gulf Power additional information email regarding transmission system project schedule dated 11/21/14 available at <http://arm-permit2k.dep.state.fl.us/psd/0050014/U0002021.pdf>.

⁴ 40 Code of Federal Regulations, Part 63, Subpart UUUUU - National Emission Standards for Hazardous Air Pollutants: Coal- and Oil-Fired Electric Utility Steam Generating Units, available at <http://www.ecfr.gov/cgi-bin/text-idx?SID=873bc4febaf027dbe36c9f36a78d567c&node=sp40.15.63.uuuuu&rgn=div6>

⁵ [Section 112\(i\)\(3\)](#) of the Clean Air Act; [40 CFR 63.6\(i\)](#); [40 CFR 63.6\(i\)\(4\)\(i\)\(A\)](#).

⁶ See pp. 9407-9411 of the [MATS Preamble](#).

⁷ See pp. 9410-9411 of the [MATS Preamble](#).

⁸ Id.

⁹ Id.

As the transmission system currently exists at Plant Smith, Units 1 or 2 must always operate to meet Gulf Power's electric system reliability requirements. Gulf Power proposes transmission system improvements that will allow continued reliable and economic electric service by providing power from distant facilities instead of continued required reliance on generation from Units 1 and 2. Based on Gulf Power's November 21, 2014 email, the following represents the schedule for completing the transmission system upgrades:

| Transmission System Upgrade Description | Target Completion |
|---|-------------------|
| Holmes Creek - Bonifay Tap Section Rebuild Double Circuit (Chibley Tap) | April 2015 |
| Holmes Creek - Highland City New 230 kV Transmission Line | April 2015 |
| Holmes Creek - Highland City Capacitor Autobank (230/115 kV Ring Bus) | April 2015 |
| Highland City +/- 100 MVAR Static VAR Compensator (SVC) | April 2015 |
| System operations monitoring, verification and experience | April 16, 2016 |

The extension will allow (1) completion of the transmission system upgrade construction program currently underway, and (2) a period of operational monitoring, verification, and experience with the newly constructed and configured transmission system under a wide range of actual operating conditions. Gulf Power indicates that such new systems are difficult to fully test except under actual conditions. The period of operational verification will allow the plant to gain experience with the new equipment during actual peak summer and winter seasons. Given the units' "must-run" status, Gulf Power will need the ability to operate Units 1 and 2, in a limited manner, during this testing and verification period to prevent involuntary shedding of local area loads (i.e., rolling blackouts). Therefore, Gulf Power requests a one-year extension of MATS for a period of operations monitoring, verification, and experience to ensure that the new systems will allow Gulf Power to continue to meet its statutory obligation of service under Chapter 366 of the Florida Statutes.

All of Gulf Power's MATS compliance-related transmission projects were identified in a Stipulation and Settlement Agreement issued November 22, 2013,¹⁰ which recognizes these specific transmission system upgrades as reasonable and appropriate.¹¹ On December 19, 2013, the Florida Public Service Commission (FPSC) issued an order¹² approving the Stipulation and Settlement Agreement and stating that it is in the ratepayers' best interests and meets the need for reliable electric service. The Stipulation and Settlement Agreement and approval order are the culmination of a process of thorough review and evaluation by both Gulf Power and the FPSC.¹³

During the requested one-year extension period, Units 1 and 2 cannot meet the MATS emission limits. Therefore, to minimize MATS-related emissions during this time, Gulf Power proposes to limit operation to only one applicable unit operating at the minimum required load level necessary to maintain stable generating unit operations. In the event of a system condition resulting in a potential or actual reliability issue with the transmission system, Units 1 and 2 will be allowed to operate in a manner that system control deems appropriate to mitigate and/or eliminate the reliability issue. To ensure Gulf Power minimizes emissions during the extension, the Department will make limited operation a condition in the Title V permit.¹⁴

In its request, Gulf Power notes that performing the transmission upgrades will allow it to meet its Chapter 366 obligations without continued required reliance on Units 1 and 2.¹⁵ As a result, at the end of the extension period,

¹⁰ Stipulation and Settlement Agreement, FPSC Document No. 07112-13, available at <http://www.psc.state.fl.us/library/FILINGS/13/07112-13/07112-13.pdf>.

¹¹ Id at page 14.

¹² FPSC Approval Order, FPSC Document No. 07524-13, available at <http://www.psc.state.fl.us/library/FILINGS/13/07524-13/07524-13.pdf>. The Department views an order from the FPSC approving Gulf Power's MATS compliance program to be sufficient indication that the transmission upgrades are necessary and appropriate in terms of the continuing functionality of the electric grid. Letter from the Division of Air Resource Management to the FPSC dated June 28, 2013 available at <http://www.floridapsc.com/library/FILINGS/13/03682-13/03682-13.pdf>.

¹³ See pp. 9410-9411 of the [MATS Preamble](#).

¹⁴ [40 CFR 63.6\(i\)\(10\)](#)

¹⁵ Original MATS extension request dated 07/28/14 available at <http://arm-permit2k.dep.state.fl.us/psd/0050014/U0001890.pdf>.

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Gulf Power plans to deactivate or retire Units 1 and 2.¹⁶ If Gulf Power decides to install additional emission controls (beyond the transmission upgrades), the units may not be operated until such time as the additional emission controls are functional, allowing the units to operate in full compliance with the MATS requirements. This requirement is consistent with section 112(i)(3)(A) of the Clean Air Act and will be incorporated into the facility's Title V operating permit.¹⁷

Given the above, Gulf Power's request meets the requirements for obtaining an extension. The Department will incorporate the extension into the Lansing Smith Title V air operation permit along with appropriate permit conditions to ensure compliance with the terms of the extension and to minimize emissions.¹⁸ See Attachment A. Also, beginning January 15, 2015, Gulf Power shall provide a written status report for the previous month on the transmission system upgrades and an updated schedule (if necessary) to the Division and Compliance Authority.

If you have any questions regarding this matter, please contact me at 850/717-9083.

Sincerely,

Jeffery F. Koerner, Program Administrator
Office of Permitting and Compliance
Division of Air Resource Management

cc: Mr. James O. Vick, Gulf Power (jovick@southernco.com)
Mr. Greg Terry, Gulf Power, gnterry@southernco.com
Mr. Robert Manning, Hopping Green & Sams (robertm@hgslaw.com)
Ms. Diana Csank, Sierra Club (diana.csank@sierraclub.org)
Ms. Alisa Coe, Earth Justice (aco@earthjustice.org)

¹⁶ Id. See also EPA's Enforcement Response Policy for MATS dated 12/16/2011 available at <http://www2.epa.gov/sites/production/files/documents/mats-erp.pdf> and pp. 9408-09 of [MATS Preamble](#) (recognizing temporary closure or deactivation).

¹⁷ Clean Air Act Section 112(i) available at <http://www.epa.gov/ttn/atw/112ipg.html>, (“...no person may operate such source in violation of such standard, limitation or regulation”) [emphasis added].

¹⁸ [40 CFR 63.6\(i\)\(10\)](#)

ATTACHMENT A
Conditions for Draft Title V Air Operation Permit

1. **Compliance Date:** For affected Units 1 and 2, the MATS compliance date is extended from April 16, 2015 to April 16, 2016 for all requirements subject to the conditions in this section. [40 CFR 63.6(i); and Rule 62-204.800(11)(d)1., F.A.C.]
2. **Transmission System Upgrades:** The permittee shall complete the transmission system upgrades authorized by the Florida Public Service Commission in its December 19, 2013 order. The permittee shall meet the following schedule for completing these transmission systems upgrades, unless the permittee notifies the Department in advance:

| Transmission System Upgrade Description | Target Completion |
|---|-------------------|
| Holmes Creek - Bonifay Tap Section Rebuild Double Circuit (Chipley Tap) | April 2015 |
| Holmes Creek - Highland City New 230 kV Transmission Line | April 2015 |
| Holmes Creek - Highland City Capacitor Autobank (230/115 kV Ring Bus) | April 2015 |
| Highland City +/- 100 MVAR Static VAR Compensator (SVC) | April 2015 |
| System operations monitoring, verification and experience | April 15, 2016 |

By the 15th day of each month, beginning the month following the effective date of this permit, the permittee shall provide a written status report for the previous month on the transmission system upgrades and an updated schedule if necessary to the Division and Compliance Authority. The permittee shall provide advance notice to the Division and Compliance Authority if it is unable to meet a target in the above schedule and shall identify a new completion date. Once the transmission system upgrades are complete, these reports shall summarize the findings of the monthly on-site inspections of each SVC and any other monitoring and verification activities. [40 CFR 63.6(i)(10) and (11), Rule 62-204.800(11)(d)1., F.A.C., and Rule 62-4.070, F.A.C.]

3. **Units 1 and 2 - Limited Operation:** To minimize MATS-related emissions during the one-year extension period, the permittee shall limit operation to only one affected unit (Unit 1 or 2) and operate that unit at the minimum level necessary to maintain stable generating unit operations in compliance with all other conditions of this permit. However, in the event of a transmission system condition resulting in a potential or actual reliability issue during the one-year extension period, Units 1 and/or 2 may operate in a manner that system control deems necessary to mitigate or eliminate the reliability issue in compliance with all other conditions of this permit. During the one-year extension period, Units 1 and 2 shall not be dispatched for any other reasons. Within 15 days following each calendar quarter, the permittee shall submit a summary report identifying the hours of operation and the capacity factor for each unit. The report shall provide an explanation for each event requiring operation of the units to resolve a reliability issue (e.g., new transmission system upgrades unavailable or unable to stabilize grid and other circumstances). [40 CFR 63.6(i)(10) and (11), Rule 62-204.800(11)(d)1., F.A.C., and Rule 62-4.070, F.A.C.]
4. **Units 1 and 2 - Off-Line:** Before April 16, 2016, the permittee shall cease operating Units 1 and 2. If the permittee wishes to operate Unit 1 and 2, the permittee shall apply for and obtain any air construction permits prior to installing any additional air pollution control equipment needed to comply with the MATS rule. Thereafter, Units 1 and 2 shall operate only in full compliance with the MATS rule upon recommencing operations. [40 CFR 63.6(i)(10), Subpart UUUUU in 40 CFR 63, and section 112(i)(3)(A) of the Clean Air Act]