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July 28, 2014

Ms. Paula Cobb, Director
Division of Air Resource Management
Florida Department of Environmental Protection
2600 Blair Stone Road, M.S. 5500
Tallahassee, FL. 32399-2400

Subject: MATS Compliance Extension Request for Plant Crist Units 4, 5, 6 and 7 and Plant Smith Units 1 and 2. Facility Numbers 0330045 and 0050014.

Dear Ms. Cobb:

The Mercury and Air Toxics Standards (MATS) Rule, 40 C.F.R. Part 63, Subpart UUUUU, imposes stringent standards for hazardous air pollutants from coal- and oil-fired electric utility steam generating units. The rule requires that existing units comply with these standards by April 16, 2015. The Florida Department of Environmental Protection (FDEP) has authority under the MATS rule to grant an extension of the compliance deadline for up to 12 months, or until April 16, 2016. By this letter, Gulf is requesting a 12 month extension of the MATS compliance deadline for Plant Crist Units 4, 5, 6 and 7 and Plant Smith Units 1 and 2 in order to maintain electric system reliability during the period of transition to Gulf's new systems for compliance with MATS. As detailed below, Gulf is seeking a reasonable opportunity to ensure the new systems work as planned to simultaneously achieve full compliance with the MATS requirements and continue to provide reliable electric service to Gulf's retail customers in Northwest Florida.

The MATS requirements apply to Gulf Power's four coal-fired units at Plant Crist and two coal-fired units at Plant Smith. As discussed in greater detail below, Gulf is in the midst of a substantial transmission construction program to enable it to continue to meet the power needs of its customers in Northwest Florida while simultaneously operating in full compliance with the MATS requirements. Once these transmission system upgrades are completed and fully operational, Gulf will be able to achieve full compliance with the MATS requirements and reasonably assure the continued reliability of Gulf's electric service to its retail customers in Northwest Florida. All transmission projects are currently on schedule and construction is currently projected to be completed in time to allow compliance with the MATS requirements under normal operating conditions by the April 16, 2015 compliance date. However, unforeseen delays associated with factors such as supply chains, weather, etc. could negatively impact the planned completion dates for these reliability-critical upgrades. The requested extension will allow Gulf to complete its MATS related transmission construction program. The 12 month extension will also allow a reasonable opportunity for Gulf to operate under the new system

while simultaneously having continued access to the existing local generation for reliability purposes during the transition to the newly upgraded transmission system. The requested extension is needed in order to continue to meet the reliability needs of Florida electric consumers served by Gulf during the transition period.

After an extensive and detailed evaluation process, Gulf developed its plans for compliance with the MATS requirements. Through two separate petitions in 2013 that became the subject of FPSC Docket Nos. 130092-EI and 130140-EI respectively, Gulf Power requested approval of specific planned transmission system upgrades related to Gulf's compliance with the MATS requirements. The first petition was filed by Gulf on April 1, 2013 and resulted in the establishment of Docket No. 130092-EI ("Gulf's April 1 petition"). The second petition was filed July 12, 2013 in support of the Company's request for base rate relief in Docket No. 130140-EI. Both proceedings sought the FPSC's approval of the transmission components of Gulf's MATS compliance plan. Pursuant to Chapter 366 of the Florida Statutes, the FPSC is assigned jurisdiction over the planning, development, and maintenance of a coordinated electric power grid throughout Florida to assure an adequate and reliable source of energy for operational and emergency purposes. As discussed in greater detail below, the MATS related transmission upgrades transition Gulf from its historical reliance on local generation to maintain reliability to a system that allows for the efficient import of power from outside sources of generation.

Testimony in support of Gulf's MATS compliance plan was submitted to the FPSC in both dockets. In particular, the rebuttal testimonies of Jeffrey A. Burleson and P. Chris Caldwell filed by Gulf as part of FPSC document no. 06783-13 on November 6, 2013,¹ is relevant to the reliability basis for the proposed transmission projects. This testimony is based on comprehensive reliability assessments conducted by Southern Company Services Transmission (SCST). SCST is a registered NERC Transmission Planner (TP) and Planning Coordinator (PC)² for the Southeastern Sub-region of the SERC Regional Reliability Organization (SERC)³, including the entire Gulf Power transmission system. As the registered NERC TP and PC, SCST is responsible for performing comprehensive reliability assessments for the planning area to demonstrate full compliance with all NERC Reliability Standards applicable to Transmission Planning and to meet SERC's compliance enforcement requirements. The FPSC ultimately approved the MATS compliance-related transmission projects when it approved the Stipulation and Settlement Agreement submitted in Docket No. 130140-EI on November 22, 2013 [FPSC

¹ The rebuttal testimonies of Mr. Burleson and Mr. Caldwell were submitted to the FPSC under oath as demonstrated by the affidavits of Mr. Burleson and Mr. Caldwell, dated November 6, 2013, and November 5, 2013, respectively. These affidavits were filed with the FPSC by Gulf Power on December 4, 2013, as part of FPSC Document No. 07258-13.

² The responsible entity that coordinates and integrates transmission facility and service plans, resource plans, and protection systems. NERC Glossary of Terms http://www.nerc.com/files/glossary_of_terms.pdf

³ A listing of Southern's registration status is provided on the SERC website at http://www.serc1.org/Documents/SERC%20Registered%20Ballot%20Body/SERC%20RBB%20Registration_By%20Sectors.pdf. The NERC term "Planning Authority" (PA) has been replaced in the NERC glossary by the term "Planning Coordinator" (PC). A listing of the current NERC registry is provided on the NERC website in the "NERC Compliance Registry (Active Entities)" spreadsheet, with Southern Company Transmission listed on row 1113. <http://www.nerc.com/pa/comp/Pages/Registration.aspx>

Document No. 07112-13] by Gulf Power and the Consumer Parties that were intervenors in the docket. The FPSC's order approving the Stipulation and Settlement Agreement [FPSC Document No. 07524-13] was issued December 19, 2013, following the FPSC unanimous vote of approval on December 3, 2013. All of Gulf's MATS compliance-related transmission projects were approved by the FPSC as part of its approval of the Stipulation and Settlement Agreement.

During normal operation with the Plant Crist scrubber and SCRs in-service, the plant will meet MATS requirements. However, the MATS rule limits the ability of the units to operate in the event of a scrubber malfunction or outage or any unplanned bypass of the scrubber. Without the ability to operate the Plant Crist units during such conditions, a significant reliability risk is introduced to the operation of the transmission system as it stands today due to the potential unavailability of local generation situated near a heavy concentration of electrical load. Therefore, transmission upgrades are required to address the reliability risks.

Plant Smith Units 1 and 2 are subject to the MATS rule and cannot meet MATS emission limits under their current configuration. Gulf Power has determined that transmission improvements are needed to continue providing reliable and economic electric service to its customers without continued reliance on generation being available from Plant Smith Units 1 and 2.

In order to comply with the new MATS requirements, after an extensive process of evaluation and development Gulf embarked on the largest transmission system upgrade construction program in its history, which will ultimately enable the Company to continue to reliably serve its customers in Northwest Florida without continued reliance on a base level of generation from existing coal-fired units at Plant Crist and/or Plant Smith during critical high-load periods. As discussed in further detail below, Gulf is requesting a one-year extension of the MATS compliance deadline in order to allow (1) completion of the transmission system upgrade construction program that is 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. This period of operations monitoring, verification and experience is necessary in order to ensure that the new systems will allow Gulf to continue to meet its statutory obligation of service as provided under Chapter 366 of the Florida Statutes.

Prior to the MATS rule, Gulf Power's transmission system was designed and operated to serve customers in Northwest Florida generally, and the Pensacola and Panama City areas specifically, through reliance on a base level of generation being online at Plant Crist and Plant Smith, respectively during critical high-load periods. However, the previously mentioned operational constraint that the MATS rule places on Plant Crist, and the fact that the Plant Smith coal units will not be able to comply with the MATS rule in their current configuration; (i.e. without the addition of controls), means that an alternative source of energy must be available to substitute for this local generation in order to maintain system reliability. As mentioned above, the transmission upgrades will allow the Company to reliably "import" energy from generation outside of northwest Florida to serve the Company's customers in the event generation is unavailable at either Plant Crist or Smith. These transmission system upgrades, once installed and carefully assessed during actual operations under a range of winter and summer peak electric

demand conditions, will eliminate the need to rely on a level of generation being online at Plant Crist and Plant Smith.

The primary transmission projects associated with the Company's MATS compliance plan include new transmission lines, upgrades to existing transmission lines as well as installation of two static var systems comprising capacitors and static var compensators (SVCs) for dynamic voltage support, one for the Panama City area and one for the Pensacola area (see Attachment A for the relevant milestones). Once completed and fully operational, the transmission projects being constructed will provide for reliable electric service and fully meet all NERC planning related compliance requirements.

The scheduled construction period does not allow Gulf the opportunity to gain operational experience with the newly upgraded transmission system prior to the April 16, 2015 MATS compliance deadline. Although the SVCs are expected to be commissioned prior to the MATS compliance date, they will not have benefited from an operational monitoring and verification period that encompasses the wide range of system conditions experienced during summer and winter peak periods to confirm there are no installation or operational issues. The requested extension is intended to allow for a transition period that includes the first summer and winter peak seasons. In the event initial operating issues arise with an SVC during this transitional period associated with the equipments' first summer or winter peak season which cause it to be temporarily unavailable, local generation support from either Plant Crist or Plant Smith would be needed to maintain reliability. Given the operational constraint that the MATS rule places on Plant Crist and Plant Smith, the ability to reliably serve higher load levels would be negatively impacted with the heightened risk that one or more of the SVCs might have to be temporarily taken out of service during their first summer or winter peak periods of operation. If one of the SVCs has to be temporarily taken out of service during higher load conditions in the transitional period associated with the equipments' first summer or winter peak season and Plant Crist and Plant Smith coal generation are unavailable due to MATS operational constraints, involuntary shedding of local area loads (that is, rolling blackouts) could be required to protect the integrity of the overall electric grid. It is expected that any potential issues with the new SVC equipment will be adequately addressed in the transitional period that coincides with the requested extension.

As mentioned previously, the Company will be more reliant on the import of distant generation from outside of northwest Florida for reliability of electric service to customers. To comply with the MATS rule, each of the more than 60 coal units across the Southern Company generation fleet will require some form of significant change, including either retirement, conversion to or co-fire with natural gas, or environmental retrofits. Additionally, significant transmission infrastructure upgrades both inside Northwest Florida and elsewhere on the Southern electric system are required in order for Gulf to continue to be able to provide reliable and economic electric service in a post-MATS era. The scope and scale of these MATS-related changes and upgrades are unprecedented in the short period of time between the issuance of the MATS rule and its compliance date. With the abrupt and significant reliance on the SVCs for reliable electric service in the Panama City and Pensacola areas and the limited time to monitor the actual performance of the SVCs under a wide range of conditions including summer and winter peak conditions, there is a greater than normal amount of reliability risk that the SVCs will not initially perform and interact with the electric system as planned and designed. During

this period of verification, it may be necessary to unexpectedly take the SVCs out of service for some temporary period of time. Given that this risk, if it materializes, could result in the need to involuntarily shed load if local generation is no longer available from the Smith and/or Crist units, a one-year compliance extension will enable a period of operational monitoring, verification and experience with the SVCs under a wide range of actual operating conditions, while maintaining reliability.

The FDEP and EPA have recognized that utilities such as Gulf may need to install or upgrade transmission systems in order to comply with MATS requirements. EPA's discussion of this transmission-compliance option was in the context of maintaining system/grid reliability while specific units installed controls or retired, in order to comply. As noted by DEP, EPA specifically concluded that transmission upgrades fall within the scope of "installation of controls" for purposes of seeking an extension to this deadline where there are reliability concerns, and that "the Department would view an order from the Commission approving Gulf's updated environmental compliance program to be sufficient indication that Gulf's MATS-related plan for transmission system upgrades in regards to Plant Crist and Plant Smith are necessary and appropriate in terms of the continuing functionality of the electric grid."

Under the Clean Air Act (CAA)⁴ and the implementing regulations,⁵ FDEP has the authority to grant a one-year compliance extension of the MATS rule.⁶ In the preamble to the final MATS rule, the EPA stated that "the ultimate discretion to provide a 1-year extension lies with the permitting authority," and the extension should be "broadly available" due to the "large, complex and interconnected nature of electrical generation, transmission and distribution, and the critical role of the electric grid in the functioning of all aspects of the economy. The grid functions as an interconnected system that supplies electricity to end users on a continuous basis."

Against this backdrop, Gulf Power is requesting a one-year compliance extension of all requirements under the MATS rule for Plant Crist Units 4, 5, 6, and 7 and Plant Smith Units 1 and 2. This includes all pending deadlines and obligations imposed by or through the application of the MATS rule, for example, the compliance date and any dates calculated from that date, as well as any obligations under the General Provisions of 40 C.F.R. Part 63 (Subpart A). To the extent any waiver of these provisions is required, Gulf Power requests such waiver. Specifically, this extension is needed to allow for significant transmission upgrades that cannot be completed and comprehensively verified prior to April 16, 2015. Plant Crist Units 4, 5, 6 and 7 and Plant Smith Units 1 and 2 must be available to operate for transmission system support until the upgrades are completed and given a period of operational monitoring, verification and experience under a wide range of actual operating conditions.

⁴ CAA §112(i)(3)(B)

⁵ 40 C.F.R. 63 .6 (2010)

⁶ The President reiterated this authority in its Presidential Memorandum, Flexible Implementation of the Mercury and Air Toxics Standards, Memorandum for the Administrator of the Environmental Protection Agency. 76 Fed. Reg. 80727.

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As part of the one-year extension request, Gulf Power agrees to operate the coal-fired units in a manner that minimizes MATS regulated emissions while still providing system reliability support. (See Attachment B for proposed operational constraints.)

Gulf Power appreciates your consideration of this request. If you have any questions regarding this request, please contact Jim Vick at (850) 444-6311.

Sincerely,



James O. Vick
Director of Environmental Affairs
Gulf Power Company



Jeffrey A. Burleson
Vice President of System Planning
Southern Company Services, Inc.

Enclosures

ATTACHMENT A – MATS Related Transmission Project Milestones

| <u>Description</u> | <u>target completion</u> |
|--|--------------------------|
| Alligator Swamp Substation | completed |
| 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 |
| Alligator Swamp +/- 100 MVAR Static VAR Compensator (SVC) | April 2015 |
| Highland City +/- 100 MVAR Static VAR Compensator (SVC) | April 2015 |
| Alligator Swamp 100 MVAR Capacitor Bank | April 2015 |
| West Pensacola 100 MVAR Capacitor Bank (Bellview) | April 2015 |
| North Brewton – Alligator Swamp New 230 kV Transmission Line | June 2015 |
| Operational verification and validation period | April 2016 |
| <p style="margin-left: 40px;">During the period of extension, Gulf anticipates performing monthly on-site inspections (duration of 2 to 4 hours per inspection) of each of the SVCs. Additionally, Gulf will be continuously monitoring the SVCs' Human Machine Interface for any alarms or event notifications.</p> | |

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| June 2014 | Construction of one of the nine transmission projects completed |
| April 2015 | Construction of seven more of the nine transmission projects completed |
| June 2015 | Construction of the one remaining transmission project completed |
| April 2016 | Completion of operational verification and validation |

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ATTACHMENT B - Proposed Operational Constraints

SMITH

For all applicable emission units, Emission Units 001 and 002, compliance with all requirements and deadlines imposed by or through the application of the MATS rule is extended for one year to April 16, 2016. During the one-year extension, in order to minimize MATS related emissions, operation of the affected units is limited to only one applicable unit operating at the minimum required 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, Emission Units 001 and 002 will be allowed to be operated in a manner that system control deems appropriate to mitigate and/or eliminate the reliability issue.

CRIST

For all applicable emission units, Emission Units 004, 005, 006 and 007, compliance with all requirements and deadlines imposed by or through the application of the MATS rule is extended for one year to April 16, 2016. During the one-year extension, the affected units will operate in compliance with the MATS emission limits except during scrubber bypass events that result from unplanned scrubber outages, malfunctions or other unplanned scrubber bypassing. For such events, the units that are operating at the time of the event are allowed to continue to operate throughout the duration of the unplanned bypass. In the event of a system condition resulting in a potential or actual reliability issue with the transmission system, any of the Crist units that were not on line at the time of the forced event will be allowed to be operated in a manner that system control deems appropriate to mitigate and/or eliminate the reliability issue.