



March 31, 2003

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. 030001-EI are an original and ten copies of the following:

- ~~03031-03~~ 1. Prepared direct testimony and exhibit of H. R. Ball.
- 03032-03 2. Prepared direct testimony of H. H. Bell, III.
- 03033-03 3. Prepared direct testimony and exhibits of L. S. Noack.
- 03034-03 4. Prepared direct testimony and exhibit of T. A. Davis.

Sincerely,

A handwritten signature in cursive script that reads "Susan D. Ritenour".

Susan D. Ritenour
Assistant Secretary and Assistant Treasurer

lw

Enclosures

cc: Beggs and Lane
Jeffrey A. Stone, Esquire

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Fuel and Purchased Power Cost)
Recovery Clause with Generating)
Performance Incentive Factor)
_____)

Docket No. 030001-EI

Certificate of Service

I HEREBY CERTIFY that a true copy of the foregoing was furnished by hand delivery or the U. S. Mail this 31~~st~~ day of March 2003 on the following:

Wm. Cochran Keating, Esquire
FL Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0863

Vicki G. Kaufman, Esq.
McWhirter Reeves
117 S. Gadsden Street
Tallahassee FL 32301

Robert Vandiver, Esquire
Office of Public Counsel
111 W. Madison St., Suite 812
Tallahassee FL 32399-1400

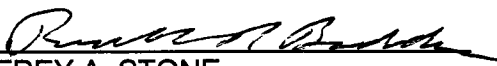
Lee L. Willis, Esquire
James D. Beasley, Esquire
Ausley & McMullen
P. O. Box 391
Tallahassee FL 32302

James McGee, Esquire
Progress Energy Florida, Inc.
P. O. Box 14042
St. Petersburg FL 33733-4042

John W. McWhirter, Jr., Esq.
McWhirter Reeves
400 N Tampa St Suite 2450
Tampa FL 33602

John T. Butler, Esquire
Steel, Hector & Davis LLP
200 S. Biscayne Blvd, Ste 4000
Miami FL 33131-2398

Norman H. Horton, Jr., Esquire
Messer, Caparello & Self, P.A.
P. O. Box 1876
Tallahassee FL 32302-1876


JEFFREY A. STONE
Florida Bar No. 325953
RUSSELL A. BADDERS
Florida Bar No. 0007455
BEGGS & LANE
P. O. Box 12950
Pensacola FL 32591-2950
(850) 432-2451
Attorneys for Gulf Power Company

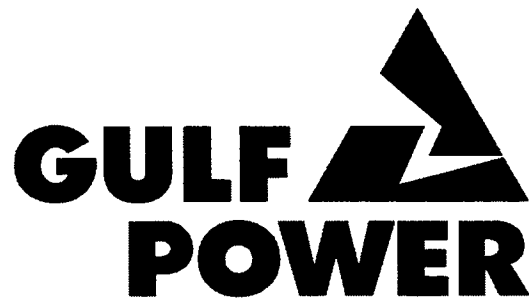
GULF POWER COMPANY

**Before the Florida Public Service
Commission**

**Prepared Direct Testimony & Exhibit of
H. R. Ball**

Docket No. 030001-EI

Date of Filing: April 1, 2003



A SOUTHERN COMPANY

DOCUMENT NUMBER-DATE

03031 APR-18

FPSC-COMMISSION CLERK

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission

3 Prepared Direct Testimony and Exhibit of

4 H. R. Ball

Docket No. 030001-EI

5 Date of Filing: April 1, 2003

6 Q. Please state your name, business address and occupation.

7 A. My name is H. R. Ball. My business address is One Energy Place,
8 Pensacola, Florida 32520-0780. I am the Fuel Manager for Gulf Power
9 Company.

10 Q. Please briefly describe your educational background and business
11 experience.

12 A. I graduated from the University of Southern Mississippi in Hattiesburg,
13 Mississippi in 1978 with a Bachelor of Science Degree in Chemistry and
14 graduated from the University of Southern Mississippi in Long Beach,
15 Mississippi in 1988 with a Masters of Business Administration. In 1978, I
16 began my employment with the Southern Company at Mississippi Power
17 Company (MPC) as a Plant Chemist at Plant Daniel. In 1982, I
18 transferred to MPC's Fuel Services Department as a Fuel Business
19 Analyst. In 1987, I was promoted to Supervisor of Chemistry and
20 Regulatory Compliance at Plant Daniel. In 1998, I was promoted to
21 Supervisor of Coal Logistics with Southern Company Services Fuel
22 Services Department located in Birmingham, Alabama. My
23 responsibilities in this position included administering coal supply and
24 transportation agreements and managing the coal inventory program for
25 the Southern Electric System. In March, 2003, I was promoted to my

1 current position as Fuel Manager for Gulf Power Company

2

3 Q. What are your duties as Fuel Manager for Gulf Power Company?

4 A. I manage the Company's fuel procurement, inventory, transportation,
5 budgeting, contract administration, and quality assurance programs to
6 ensure that the generating plants operated by Gulf Power are supplied
7 with an adequate quantity of fuel in a timely manner and at the lowest
8 practical cost.

9

10 Q. What is the purpose of your testimony in this docket?

11 A. The purpose of my testimony is to summarize Gulf Power Company's fuel
12 expenses and to certify that these expenses were properly incurred during
13 the period January, 2002 through December, 2002. Also, it is my intent to
14 be available to answer questions that may arise among the parties to this
15 docket concerning Gulf Power Company's fuel expenses.

16

17 Q. Have you prepared an exhibit that contains information to which you will
18 refer in your testimony?

19 A. Yes, I have.

20 Counsel: We ask that Mr. Ball's Exhibit consisting of two schedules be
21 marked as Exhibit No. _____(HRB-1).

22

23 Q. During the period January, 2002 through December, 2002 how did Gulf
24 Power Company's recoverable fuel expenses compare with the projected
25 expenses?

1 A. Gulf's recoverable fuel expense was \$269,468,985 or 11.29% below the
2 projected amount of \$303,747,744. Actual generation was 13,141,724
3 MWH compared to the projected generation of 15,005,870 or 12.42%
4 below projections. The resulting actual average fuel cost was \$2.0505 per
5 MWH or 1.3% above the projected amount of \$2.0242 per MWH. The
6 lower total fuel expense is attributed to the lower total net generation for
7 the period. The higher average per unit fuel cost is attributed to a higher
8 percentage of generation from natural gas fired units than projected. A
9 portion of this increase is due to Plant Smith Unit 3 beginning commercial
10 operation on April 22, 2002 which was several weeks ahead of schedule.

11

12 Q. How much spot coal did Gulf Power Company purchase during the
13 period?

14 A. Excluding Plant Scherer Unit 3, Gulf purchased 984,200 tons of coal on
15 the spot market. Schedule 1 of my exhibit consists of a list of contract
16 and spot coal purchases for the period.

17

18 Q. How did the total projected cost of coal purchased compare with the
19 actual cost?

20 A. The total actual cost of coal purchased was \$174,717,576 compared to
21 the projected cost of \$220,280,250 or 20.7% less than projected. The
22 lower purchases were primarily due to lower than expected coal fired
23 generation.

24

25

1 Q How did the total projected cost of coal burned compared to the actual
2 cost?

3 A. The total cost of coal burned was \$189,236,088 which is the sum of lines
4 3 and 3A on Schedule A-3. This is 16.04% lower than our projection of
5 \$225,401,546. On a fuel cost per MMBTU basis, the actual cost was
6 \$1.69 per MMBTU which is 1.2% greater than the projected cost of \$1.67
7 per MMBTU. The higher per unit cost of coal is attributed to higher than
8 anticipated costs for Powder River Basin coal burned at Plant Scherer.

9
10 Q. How did the total projected cost of natural gas burned compare to the
11 actual cost?

12 A. The total cost of natural gas burned for generation was \$80,154,832
13 which is from line 60 on Schedule A-5. This is 4.86% higher than our
14 projection of \$76,439,814. The increase can be attributed to Gulf's new
15 combined cycle unit, Smith 3, being placed in commercial operation on
16 April 22, 2002 which is earlier than the projected date of June 1, 2002 and
17 the additional cost of natural gas used for unit start-up testing during
18 January through April. On a natural gas cost per unit basis, the actual
19 cost was \$4.63 per MMBTU which is 11.64% less than the projected cost
20 of \$5.24 per MMBTU.

21
22 Q. For the period in question, what volume of natural gas was actual hedged
23 using a fixed price contract or instrument?

24 A. Gulf Power's hedging program was not approved until the fall of 2002.
25 The company hedged 1,050,000 MMBTU of natural gas for the months of

1 November and December of 2002 using fixed price financial swaps.

2

3 Q. What types of hedging instruments were used by Gulf Power Company
4 and what type and volume of fuel was hedged by each type of
5 instrument?

6 A. Natural gas was hedged using financial swaps that fixed the price of gas
7 to a certain price. These swaps settled against either a NYMEX Last Day
8 price or Gas Daily price. The entire amount (1,050,000 MMBTU) of gas
9 hedged was hedged using these financial instruments as reflected on
10 Schedule 2 of my exhibit.

11

12 Q. What was the average period of each hedge?

13 A. One month.

14

15 Q. What was the actual total cost (e.g., fees, commissions, option premiums,
16 futures gains and losses, swap settlements) associated with each type of
17 hedging instrument?

18 A. Schedule 2 in my exhibit consists of a table of all natural gas hedge
19 transactions and associated costs. No fees, commissions, or option
20 premiums were paid. Gulf's 2002 hedging program resulted in a net
21 financial gain of \$238,750.

22

23 Q. Were there any other significant developments in Gulf's fuel procurement
24 program during the period?

25 A. No.

1 Q. Should Gulf's fuel purchases for the period be accepted as reasonable
2 and prudent?

3 A. Yes, Gulf's coal supply program is based on a mixture of long term
4 contracts and spot purchases at market prices. Coal suppliers are
5 selected using procedures that assure reliable coal supply, consistent
6 quality, and competitive delivered pricing. The terms and conditions of
7 coal supply agreements have been administered appropriately. Natural
8 gas is purchased using agreements that tie price to published market
9 index schedules and is transported using a combination of firm and
10 interruptible gas transportation agreements. Natural gas storage is
11 utilized to assure that supply is available during times when gas supply is
12 curtailed or unavailable. Gulf's fuel oil purchases were made from
13 qualified vendors using an open bid process to assure competitive pricing
14 and reliable supply.

15
16 Q. Mr. Ball, does this complete your testimony?

17 A. Yes.

18
19
20
21
22
23
24
25

**GULF POWER COMPANY
COAL SUPPLIERS
January 1, 2002 – December 31, 2002**

<u>Contract Coal Suppliers</u>	<u>Tons Purchased</u> <u>(1)</u>
Peabody Coal Sales	1,833,240
Black Mountain Resources	125,025
Arch Coal Sales - West Elk	691,730
TOTAL Contract Coal	<u>2,649,995</u>
	<u>Tons Purchased</u> <u>(1)</u>
<u>Spot Coal Suppliers</u>	
Peabody Coaltrade	225,845
Consolidation Coal	272,846
Glencore Ltd.	75,145
Cyprus Amax Coal Sales	500,914
TOTAL Spot Coal	<u>1,074,750</u>
GRAND TOTAL COAL PURCHASES	<u>3,724,745</u>

(1) Excludes Plant Scherer: The inventory at Plant Scherer is reported on a BTU basis. Coal inventory expressed in tons is not maintained.

Florida Public Service Commission
Docket No. 030001-EI
GULF POWER COMPANY
Witness: H. R. Ball
Exhibit No. _____ (HRB-1)
Schedule 2
Page 1 of 1

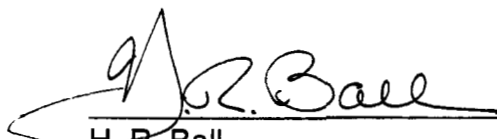
This information has been provided pursuant to the Request for Confidential
Classification filed on April 1, 2003.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 030001-EI

Before me the undersigned authority, personally appeared H. R. Ball, who being first duly sworn, deposes, and says that he is the Fuel Manager at Gulf Power Company, a Maine corporation, and that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.



H. R. Ball
Fuel Manager

Sworn to and subscribed before me this 1st day of April, 2003



Notary Public, State of Florida at Large

Commission Number:

Commission Expires:

