

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 030001-EI

**FUEL COST AND PURCHASED POWER COST
RECOVERY CLAUSE**

PREPARED DIRECT TESTIMONY AND EXHIBIT

OF

H. HOMER BELL

**FUEL COST RECOVERY
JANUARY 2004 – DECEMBER 2004**

**CAPACITY COST RECOVERY
JANUARY 2004 – DECEMBER 2004**

SEPTEMBER 12, 2003



A SOUTHERN COMPANY

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1 GULF POWER COMPANY

2 Before the Florida Public Service Commission

3 Direct Testimony of

4 H. Homer Bell

5 Docket No. 030001-EI

6 Date of Filing: September 12, 2003

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

8 A. My name is H. Homer Bell, and my business address is One Energy
9 Place, Pensacola, Florida 32520. I am a Senior Engineer in the
10 Generation Services Department of Gulf Power Company.

11 Q. Have you previously filed testimony with this Commission?

12 A. Yes. I have filed testimony in support of Gulf Power Company's projection
13 and true-up of capacity and energy costs in this docket.

14 Q. Please summarize your educational and professional background.

15 A. I received my Bachelor of Science Degree in Electrical Engineering from
16 Mississippi State University in 1980 and I received my Master of Business
17 Administration Degree from the University of Southern Mississippi in
18 1982. That year I joined Gulf Power Company (Gulf) as an associate
19 engineer in Gulf's Pensacola District Engineering Department, and have
20 since held engineering positions in the Rates and Regulatory Matters
21 Department and the Transmission and System Control Department. I was
22 promoted to my current position as Senior Engineer in the Generation
23 Services Department in 2002. I am primarily responsible for the
24 administration of Gulf's Intercompany Interchange Contract (IIC) and
25

1 coordination of Gulf's generation planning activities.

2 During my years of service with the company, I have gained
3 experience in the areas of distribution operation, maintenance, and
4 construction; retail and wholesale electric service tariff administration;
5 wholesale transmission service tariff administration; IIC and bulk power
6 sales contract administration; and transmission and control center
7 operations.

8

9 Q. What is the purpose of your testimony in this proceeding?

10 A. The purpose of my testimony is to support Gulf Power Company's (Gulf)
11 projection of purchased power recoverable costs for energy purchases
12 and sales for the period January 2004 - December 2004. I will also
13 support Gulf's projection of purchased power capacity costs for the
14 January 2004 - December 2004 recovery period.

15

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

18 A. Yes. I have one exhibit to which I will refer.

19

20 Counsel: We ask that Mr. Bell's Exhibit HHB-1 be
21 marked for identification as
22 Exhibit_____(HHB-1).

23

24

25

1 Q. What is Gulf's projected purchased power recoverable cost for energy
2 purchases for the January 2004 - December 2004 recovery period?

3 A. Gulf's projected recoverable cost for energy purchases, shown on line 13
4 of Schedule E-1 of the fuel filing, is \$12,776,000. These purchases result
5 from Gulf's participation in the coordinated operation of the Southern
6 electric system (SES) power pool. This amount is used by Gulf's witness
7 Ms. Davis as an input in the calculation of the fuel and purchased power
8 cost adjustment factor.

9
10 Q. What is Gulf's projected purchased power fuel cost for energy sales for
11 the January 2004 - December 2004 recovery period?

12 A. The projected fuel cost for energy sales, shown on line 19 of Schedule
13 E-1, is \$108,525,000. These sales are a product of Gulf's participation in
14 the coordinated operation of the SES power pool. This amount is used by
15 Gulf's witness Ms. Davis as an input in the calculation of the fuel and
16 purchased power cost adjustment factor.

17
18 Q. Please compare Gulf's projected purchased power recoverable costs for
19 energy purchases and sales for the January 2004 - December 2004
20 recovery period to those projected costs for January 2003 - December
21 2003 recovery period and explain the reasons the differences.

22 A. Gulf's projected purchased power recoverable cost for energy purchases
23 for the 2004 recovery period is \$12,776,000, or \$5,863,225 more than
24 projected for the 2003 recovery period. This increase in energy purchase
25 cost results from an increase in Gulf's projected customer loads that will

1 require the company to purchase more SES pool energy in 2004.

2 Gulf's projected purchased power fuel cost for energy sales in 2004
3 is \$108,525,000, or \$9,941,000 more than projected for the 2003 recovery
4 period. This increase is primarily driven by an increase in the volume of
5 Unit Power Sales to off-system customers and higher expected average
6 prices for sales to other SES operating companies. Of course, the
7 increased cost related to these sales is fully paid by the purchasing utility.
8 Gulf's customers thus receive credit for the cost of energy generation, as
9 well as the vast majority of any mark-up on opportunity sales.

10

11 Q. What information is contained in your exhibit?

12 A. My exhibit lists the long-term power contracts that are included for
13 capacity cost recovery, their associated megawatt amounts, and the
14 resulting capacity dollar amounts. Also listed on my exhibit are the
15 revenues produced by the same non-firm market capacity sales
16 agreements between the SES operating companies and utilities outside
17 the system that were included in Gulf's 2003 projection.

18

19 Q. Which power contracts produce capacity transactions that are recovered
20 through Gulf's purchased power capacity cost adjustment factor?

21 A. Two power contracts that produce recoverable capacity transactions
22 through Gulf's purchased power capacity adjustment factor are the SES
23 Intercompany Interchange Contract (IIC), under which Gulf participates in
24 the SES reserve equalization process, and Gulf's cogeneration purchased
25 power contract with Solutia. The Commission has authorized the

1 Company to include capacity transactions under the IIC for recovery
2 through the purchased power capacity cost adjustment factor. Gulf will
3 continue to have IIC capacity transactions during the January 2004 -
4 December 2004 recovery period. The energy transactions under this
5 contract are recovered through the fuel cost adjustment factor.

6 The Gulf/Solutia cogeneration purchased power contract enables
7 Gulf to purchase 19 megawatts of firm capacity until June 1, 2005. Gulf
8 has included the contract's annual cost for the January 2004 - December
9 2004 recovery period in this projection. The energy transactions under
10 this contract have also been approved by the Commission for recovery,
11 and these costs are included for cost recovery purposes through the fuel
12 cost adjustment factor.

13
14 Q. Are there any other arrangements that produce capacity transactions that
15 are recovered through Gulf's purchased power capacity cost adjustment
16 factor?

17 A. Yes. Gulf, as a member of the SES, continues to participate in the same
18 two agreements to sell non-firm market capacity to non-associated utilities
19 that were included in Gulf's capacity cost projections for the January 2003
20 - December 2003 recovery period. During the 2004 recovery period, Gulf
21 will continue to receive capacity revenues associated with these contracts.
22 The revenues from these non-firm sales will produce credits that will lower
23 the overall 2004 projected capacity costs. Any scheduled energy
24 transactions associated with these capacity sales are handled for cost
25 recovery purposes through the fuel cost adjustment factor.

1 Q. What are Gulf's IIC capacity transactions that are projected for the
2 January 2004 - December 2004 recovery period?

3 A. As shown on my Exhibit HHB-1, IIC capacity purchases in the amount of
4 \$19,027,487 are projected for the 2004 recovery period.
5

6 Q. What is the cost of Gulf's capacity purchase from Solutia that is projected
7 for the January 2004 - December 2004 recovery period?

8 A. As shown on my Exhibit HHB-1, Gulf is projected to pay \$746,424, or
9 \$62,202 per month, to Solutia for the firm capacity purchase made
10 pursuant to the Commission approved contract. This amount has not
11 changed from the amount that was projected for recovery in 2003.
12

13 Q. What amount of revenues associated with Gulf's market capacity sales is
14 projected for the January 2004 - December 2004 recovery period?

15 A. As shown on my Exhibit HHB-1, Gulf is projected to receive a total of
16 \$119,004 from the sale of non-firm capacity to non-associated utilities.
17

18 Q. Are there other projected revenues that Gulf has included in its capacity
19 cost recovery clause for the 2004 recovery period?

20 A. Yes. In accordance with Florida Public Service Commission Order No.
21 PSC-99-2512-FOF-EI, issued December 22, 1999, Gulf will continue to
22 include an estimate of transmission revenues in its capacity cost recovery
23 clause. For the 2004 recovery period, Gulf expects to receive
24 transmission revenues in the amount of \$112,000. This amount is shown
25 on Schedule CCE-1 of Gulf's witness Ms. Davis' testimony.

1 Q. What are Gulf's total projected net capacity transactions for the January
2 2004 - December 2004 recovery period?

3 A. As shown on my Exhibit HHB-1, the IIC capacity purchases, the Solutia
4 contract purchases, and the non-firm market capacity sales will result in a
5 projected net capacity cost of \$19,654,907. Including the estimated
6 transmission revenues that are shown on Schedule CCE-1, Gulf's total
7 projected net capacity cost for the 2004 recovery period is \$19,542,907.
8 This figure is used by Gulf's witness Ms. Davis as an input into the
9 calculation of the total capacity transactions to be recovered through the
10 purchased power capacity cost adjustment factor for this annual recovery
11 period.

12
13 Q. Please compare Gulf's January 2004 - December 2004 total projected net
14 capacity cost to those projected costs for January 2003 - December 2003
15 recovery period and explain the reason for the difference.

16 A. Gulf's 2004 net capacity cost is projected to be \$11,332,025 higher than
17 its October 2003 estimate of \$8,210,882 due primarily to Gulf's higher IIC
18 capacity reserve sharing cost that is produced by Gulf's higher purchases
19 of SES capacity reserves under the provisions of the IIC.

20
21 Q. What factors contribute to Gulf's increased purchases of SES capacity
22 reserves during the January 2004 - December 2004 recovery period?

23 A. The primary factor is that Gulf's load is actually increasing, whereas most
24 other utilities in the SES are seeing declines in their loads. Therefore,
25 Gulf must purchase more capacity to serve its increasing load.

1 The continued slowdown in economic activity in areas of the
2 Southeastern United States has caused several SES operating
3 companies to lower their load forecasts for 2004. Also, improved SES
4 generating unit availability factors have resulted in more SES generating
5 capacity available to serve projected system load which increases the bulk
6 power reliability of the grid. This produces a higher level of system
7 capacity reserves to be shared, or equalized, by all SES operating
8 companies.

9 In conjunction with these factors that produce higher system
10 reserves, Gulf is projected to be responsible for a higher load ratio share
11 of these reserves because of Gulf's higher historical loads that are used to
12 calculate its reserve responsibility ratio. The fact that Gulf's load is
13 growing relatively faster than the other companies' loads means more
14 generation must be available to maintain reliability on the grid. Therefore,
15 Gulf will need to purchase more system capacity, and its IIC capacity cost
16 will be correspondingly higher during the January 2004 - December 2004
17 recovery period.

18
19 Q. Does this conclude your testimony?

20 A. Yes.

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24
25

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 030001-EI

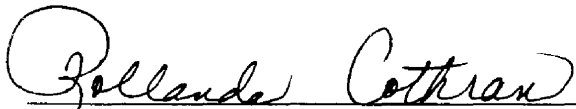
Before me the undersigned authority, personally appeared H. Homer Bell, who being first duly sworn, deposes, and says that he is Senior Engineer in the Generation Services Department of Gulf Power Company, a Maine corporation, that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.



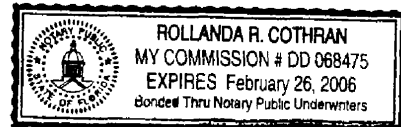
H. Homer Bell
Senior Engineer, Generating Services Dept.

Sworn to and subscribed before me this 11th day of September,

2003.



Notary Public, State of Florida at Large



GULF POWER COMPANY
PROJECTED PURCHASED POWER CONTRACT TRANSACTIONS
JANUARY 2004 - DECEMBER 2004

Contract	MW Purchase/(Sale)	Capacity (\$) Costs/(Receipts)
Southern Company		
Intercompany Interchange (IIC)		
January 2004	485.0	1,380,481
February	364.6	415,231
March	495.2	552,636
April	103.6	55,910
May	81.9	93,536
June	272.3	1,736,350
July	361.4	6,298,381
August	327.5	5,700,300
September	292.5	2,372,298
October	354.3	203,080
November	124.8	71,149
December	258.5	148,135
SUBTOTAL		19,027,487
Solutia		
January 2004	19.0	62,202
February	19.0	62,202
March	19.0	62,202
April	19.0	62,202
May	19.0	62,202
June	19.0	62,202
July	19.0	62,202
August	19.0	62,202
September	19.0	62,202
October	19.0	62,202
November	19.0	62,202
December	19.0	62,202
SUBTOTAL		746,424

GULF POWER COMPANY
PROJECTED PURCHASED POWER CONTRACT TRANSACTIONS
JANUARY 2004 - DECEMBER 2004

Contract	Capacity (\$) Costs/(Receipts)
Non-Firm Capacity Sales	
January 2004	(12,056)
February	(12,056)
March	(12,056)
April	(12,056)
May	(12,056)
June	(12,056)
July	(12,056)
August	(12,056)
September	(12,056)
October	(3,500)
November	(3,500)
December	(3,500)
SUBTOTAL	<u>(119,004)</u>
TOTAL	19,654,907