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March 31, 2004

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. 040001-El~~ are an original and ten copies of the following:

- 04148-04 1. Prepared direct testimony and exhibit of H. R. Ball.
- 04149-04 2. Prepared direct testimony of H. H. Bell, III.
- 04150-04 3. Prepared direct testimony and exhibits of L. S. Noack.
- 04151-04 4. Prepared direct testimony and exhibit of T. A. Davis.

Sincerely,

Susan D. Ritenour

lw

Enclosures

cc: Beggs and Lane
Jeffrey A. Stone, Esquire

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DOCUMENT NUMBER-DATE

04148 APR-1 04

FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 040001-EI

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

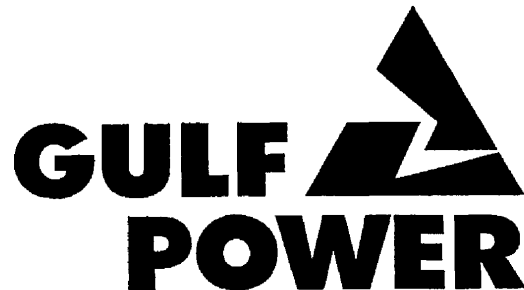
**PREPARED DIRECT TESTIMONY
OF
H. HOMER BELL**

FINAL TRUE-UP

JANUARY- DECEMBER 2003 (Fuel)

JANUARY- DECEMBER 2003 (Capacity)

APRIL 1, 2004



A SOUTHERN COMPANY

DOCUMENT NUMBER-DATE

04149 APR-13

FPSC-COMMISSION CLERK

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Direct Testimony of
4 H. Homer Bell
5 Docket No. 040001-EI
6 Date of Filing: April 1, 2004

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 previous fuel cost recovery
14 dockets.

15 Q. Please summarize your educational and professional background.

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

1 administration of Gulf's Intercompany Interchange Contract (IIC) and
2 coordination of Gulf's generation planning activities.

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

9

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

11 A. The purpose of my testimony is to summarize Gulf's purchased power
12 recoverable costs for energy purchases and sales that were incurred
13 during the January 2003 through December 2003 recovery period. I will
14 compare these actual costs to the amounts projected in Gulf's September
15 2002 fuel filing for the 2003 recovery period and discuss the reasons for
16 the differences.

17 I will also summarize the Company's purchased power capacity
18 cost that resulted during the January 2003 through December 2003
19 recovery period. I will compare this actual figure to the amount projected
20 in Gulf's October 24, 2002 amended filing and discuss the reasons for the
21 difference.

22

23

24

25

1 Q. During the period January 2003 through December 2003, what was Gulf's
2 actual purchased power recoverable cost for energy purchases and how
3 did it compare with the projected amount?

4 A. Gulf's actual total purchased power recoverable cost for energy
5 purchases, as shown on line 13 of the December 2003 Period-to-Date
6 Schedule A-1 was \$31,174,907 for 1,441,205,751 KWH as compared to
7 the projected amount of \$6,912,775 for 285,605,000 KWH filed on
8 September 20, 2002. The actual cost per KWH purchased was
9 2.1631 ¢/KWH as compared to the projected amount of 2.4204 ¢/KWH, or
10 11% under the projection.

11

12 Q. What were the events that influenced Gulf's purchase of energy?

13 A. During the January 2003 through December 2003 recovery period, milder
14 regional weather that followed January's cold conditions resulted in lower
15 than forecasted loads for the year across most of the Southern electric
16 system (SES). In addition, SES nuclear and hydro generation was higher
17 than expected. Because the SES companies that own nuclear and hydro
18 facilities retain this low cost generation to serve their loads, this additional
19 generation and the lower SES loads increased the amount of energy from
20 other SES resources that was available to meet Gulf and system load
21 requirements. At many times during the year, this newly available energy
22 was a lower cost resource than Gulf's own generation, particularly its gas-
23 fired unit. While the total SES territorial load was 4% lower than
24 projected, Gulf's territorial load was actually 5% over budget due primarily
25 to the addition of new customers. Therefore, in order to meet its higher

1 load obligations, Gulf purchased significantly more energy at a lower unit
2 cost than was forecasted for the 2003 recovery period without having to
3 generate as much energy as expected from its gas-fired unit.

4

5 Q. During the 2003 recovery period, what was the fuel cost effect of Gulf's
6 increased purchases?

7 A. Although Gulf purchased energy at a lower unit cost, the significant
8 increase in the volume of purchases that were made to serve Gulf's
9 higher actual load requirements resulted in an increased purchased power
10 cost that contributed to Gulf's higher 2003 recoverable fuel and purchased
11 power cost.

12

13 Q. During the period January 2003 through December 2003, what was Gulf's
14 actual purchased power fuel cost for energy sales and how did it compare
15 with the projected amount?

16 A. Gulf's actual total purchased power fuel cost for energy sales, as shown
17 on line 19 of the December 2003 Period-to-Date Schedule A-1 was
18 \$87,397,406 for 4,495,596,626 KWH as compared to the projected
19 amount of \$98,584,000 for 4,822,911,000 KWH. The actual fuel cost per
20 KWH sold was 1.9441 ¢/KWH, or 5% under the projected amount of
21 2.0441 ¢/KWH.

22

23 Q. What were the events that influenced Gulf's sale of energy?

24 A. The milder regional weather pattern that significantly reduced the
25 territorial loads experienced by other SES operating companies and the

1 increase in SES nuclear and hydro generation that served owning
2 companies' loads reduced the need for Gulf's higher cost generating
3 resources to serve SES load requirements. Therefore, during the January
4 2003 through December 2003 recovery period, Gulf sold less energy to
5 the pool at a lower than projected unit price.

6
7 Q. During the 2003 recovery period, what was the fuel cost effect of Gulf's
8 lower sales?

9 A. The lower than budgeted volume of sales that were made at lower unit
10 prices resulted in lower than anticipated recoverable sales revenue that is
11 a credit, or reduction to Gulf's fuel cost of generation and purchased
12 power costs. Therefore, the lower revenue from sales contributed to
13 Gulf's higher 2003 recoverable fuel and purchased power cost.

14
15 Q. During the period January 2003 through December 2003, how did Gulf's
16 actual net purchased power capacity cost compare with the net projected
17 cost?

18 A. The actual net capacity cost for the January 2003 through December
19 2003 recovery period, shown on line 4 of Schedule CCA-2, was
20 \$6,918,446. Gulf's projected net purchased power capacity cost for the
21 same period was \$8,210,882, as indicated on Line 4 of Schedule CCE-1
22 that was filed October 24, 2002 in Docket No. 020001-EI. The difference
23 between the actual net capacity cost and the projected net capacity cost
24 for the recovery period is \$1,292,436, or a decrease of 16%.

25

1 Q. Please explain the reason for the decrease in Gulf's capacity cost.

2 A. The capacity cost decrease for the January 2003 through December 2003
3 recovery period is primarily due to Gulf's lower IIC reserve sharing cost
4 produced by changes in SES operating companies' owned capacity
5 amounts. Gulf's owned capacity that is used in the IIC reserve sharing
6 calculation remained near the projected level, while the actual megawatts
7 of owned capacity for other SES companies were lower than projected.
8 Therefore, other SES companies were responsible for sharing a greater
9 percentage of system reserves, and Gulf's capacity reserve purchases
10 were reduced.

11 Also, Gulf's transmission revenues associated with energy sales
12 were \$275,187 above the October 2002 projection. Therefore, these
13 increased revenues and Gulf's lower IIC reserve sharing cost produced
14 the overall lower capacity cost for the January 2003 through December
15 2003 cost recovery period.

16

17 Q. Was Gulf's actual 2003 IIC capacity cost prudently incurred and properly
18 allocated to Gulf?

19 A. Yes. Gulf's capacity costs were incurred in accordance with the reserve
20 sharing provisions of the IIC, a Federal Energy Regulatory Commission
21 approved contract in which Gulf has been a participant for many years.
22 These years of Gulf's participation in the integrated SES that is governed
23 by the IIC have produced substantial benefits for Gulf's territorial
24 customers, and have been recognized as being prudent by the Florida
25 Public Service Commission in previous proceedings and reviews.

1 Per contractual agreement, Gulf and the other SES operating
2 companies are obligated to provide for the continued operation of its
3 electric facilities in the most economical manner that achieves the highest
4 possible service reliability. The coordinated planning of future SES
5 generation resource additions that produce adequate reserve margins for
6 the benefit of all SES operating companies' customers facilitates this
7 "continued operation" in the most economical manner.

8 Furthermore, the IIC provides for mechanisms to facilitate the
9 equitable sharing of the costs associated with the operation of facilities
10 that exist for the mutual benefit of all the operating companies. In 2003,
11 Gulf's reserve sharing cost represents the equitable sharing of the costs
12 that the SES operating companies incurred to ensure that adequate
13 generation reserve levels are available to provide reliable electric service
14 to territorial customers. This cost has been properly allocated to Gulf per
15 the terms of the IIC.

16
17 Q. Does this conclude your testimony?

18 A. Yes.

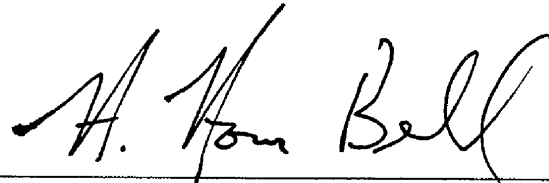
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AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 040001-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 29th day of March,
2004.

Linda C. Webb

Notary Public, State of Florida at Large



LINDA C. WEBB
Notary Public-State of FL
Comm. Exp: May 31, 2006
Comm. No: DD 110088