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GULF POWER
A SOUTHERN COMPANY

July 30, 2010

Ms. Ann Cole, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

Dear Ms. Cole:

Enclosed for official filing in Docket No. 100001-EI are an original and fifteen copies of the following:

1. Prepared direct testimony and exhibit of H. R. Ball. (06260-10)
2. Prepared direct testimony and exhibit of R. W. Dodd. (06261-10)
3. Risk Management Plan for Fuel Procurement. (06262-10)

Sincerely,

Susan D. Ritenour

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ECR 6
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Enclosures
cc: Beggs and Lane
Jeffrey A. Stone, Esquire

DOCUMENT NUMBER-DATE
06260 AUG-2 10
FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No.: **100001-EI**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing was furnished by U.S. Mail this 30th day of July, 2010, on the following:

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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 100001-EI

Prepared Direct Testimony of
H. R. Ball

Date of Filing: August 2, 2010

GULF POWER

A SOUTHERN COMPANY

GULF POWER COMPANY

Before the Florida Public Service Commission

Prepared Direct Testimony of

H. R. Ball

Docket No. 100001-EI

Date of Filing: August 2, 2010

Q. Please state your name and business address.

A. My name is H. R. Ball. My business address is One Energy Place, Pensacola, Florida 32520-0335. I am the Fuel Manager for Gulf Power Company.

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

A. I graduated from the University of Southern Mississippi in Hattiesburg, Mississippi in 1978 with a Bachelor of Science Degree in Chemistry and graduated from the University of Southern Mississippi in Long Beach, Mississippi in 1988 with a Masters of Business Administration. My employment with the Southern Company began in 1978 at Mississippi Power's (MPC) Plant Daniel as a Plant Chemist. In 1982, I transferred to MPC's Fuel Department as a Fuel Business Analyst. I was promoted in 1987 to Supervisor of Chemistry and Regulatory Compliance at Plant Daniel. I was promoted to Supervisor of Coal Logistics with Southern Company Fuel Services in Birmingham, Alabama in 1998. My responsibilities included administering coal supply and transportation

agreements and managing the coal inventory program for the Southern Electric System. I transferred to my current position as Fuel Manager for Gulf Power Company in 2003.

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

A. I manage the Company's fuel procurement, inventory, transportation, budgeting, contract administration, and quality assurance programs to ensure that the generating plants operated by Gulf Power are supplied with an adequate quantity of fuel in a timely manner and at the lowest practical cost. I also have responsibility for the administration of Gulf's Intercompany Interchange Contract (IIC).

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

A. The purpose of my testimony is to compare Gulf Power Company's original projected fuel and net power transaction expense and purchased power capacity costs with current estimated/actual costs for the period January 2010 through December 2010 and to summarize any noteworthy developments at Gulf in these areas. The current estimated/actual costs consist of actual expenses for the period January 2010 through June 2010 and projected fuel and net power transaction costs for July 2010 through December 2010. Projected capacity costs for July 2010 through December 2010 were reduced slightly to account for changes in capacity payments under Gulf's purchase power agreements. It is also my intent to be available to answer questions that may arise among the parties to this

docket concerning Gulf Power Company's fuel and net power transaction expenses, and purchased power capacity costs.

Q. During the period January 2010 through December 2010 how will Gulf Power Company's recoverable total fuel and net power transactions cost compare with the original cost projection?

A. Gulf's currently projected recoverable total fuel and net power transactions cost for the period is $627,549,920 which is $19,705,831 or 3.24% above the original projected amount of $607,884,089. The resulting average fuel cost is projected to be 5.0998 cents per KWH or 3.78% above the original projection of 4.9141 cents per KWH. The higher total fuel expense and average per unit fuel cost is attributed to a combination of higher than projected fuel costs for the period which are reflected in both the fuel cost of generated power and the fuel cost of purchased power and a lower amount of net energy (KWH) transactions. This current projection of fuel and net purchased power transaction cost is captured in the exhibit to Witness Dodd's testimony, Schedule E-1 B-1, Line 22.

Q. During the period January 2010 through December 2010 how will Gulf Power Company's recoverable fuel cost of generated power compare with the original projection of fuel cost?

A. Gulf's currently projected recoverable fuel cost of generated power for the period is $643,208,425 which is $4,129,337 or 0.64% below the original projected amount of $647,337,762. Total generation is expected to be 12,568,920,000 KWH compared to the original projected generation of

12,964,668,000 KWH or 3.05% below original projections. The resulting average fuel cost is expected to be 5.1175 cents per KWH or 2.49% above the original projected amount of 4.9931 cents per KWH. This current projection of fuel cost of system net generation is captured in the exhibit to Witness Dodd's testimony, Schedule E-1 B-1, Line 6.

Q. What are the reasons for the difference between Gulf's original projection of the fuel cost of generated power and the current projection?

A. The lower total fuel expense is due to lower than originally projected quantity of generated power (KWH) offset somewhat by higher average per unit fuel costs (cents/KWH). Delivered coal prices per MMBTU are projected to be above original projections for the period and natural gas prices per MMBTU are projected to be below original projections for the period due to changes in market fuel prices. The quantity of contract coal shipments for the period is expected to be below original projections due to a reduction in the quantity of coal burned. Coal burn is lower due to reduced economic dispatch of coal fired units. Market prices for natural gas and oil for the period are expected to be lower than original projections. Supply and demand imbalances in the oil and gas markets have driven the price for these fossil fuel sources lower and prices are expected to remain lower for the rest of the period. The quantity of natural gas burn is expected to be above original projections in response to the lower market prices for natural gas increasing economic dispatch of gas fired generation. The ability to change the mix of generating units operating to meet customer

demand to a more heavily weighted natural gas mix has allowed Gulf to take advantage of lower natural gas prices.

Q How did the total projected fuel cost of system net generation compare to the actual cost for the first six months of 2010?

A. The total fuel cost of system net generation for the first six months of 2010 was $275,186,542 which is $24,092,239 or 8.05% lower than the projection of $299,278,781. On a fuel cost per KWH basis, the actual cost was 5.05 cents per KWH, which is 4.34% higher than the projected cost of 4.84 cents per KWH. This higher cost of system generation on a cents per KWH basis is due to a combination of fuel cost in $/MMBTU being 6.32% higher than projected and heat rate (BTU/KWH) of the generating units operating being 1.68% lower than projected. This information is found on Schedule A-3 Period to Date of the June 2010 Monthly Fuel Filing.

Q. How did the total projected cost of coal burned compare to the actual cost for the first six months of 2010?

A. The total cost of coal burned (including boiler lighter) for the first six months of 2010 was $232,171,210 which is $21,172,762 or 8.36% lower than the projection of $253,343,972. On a fuel cost per KWH basis, the actual cost was 5.28 cents per KWH which is 10.69% higher than the projected cost of 4.77 cents per KWH. The lower than projected total cost of coal burned (including boiler lighter) is due to total MMBTU of coal burn being 16.05% below the estimated burn for the period. The higher per KWH cost of coal fired generation is due to actual coal prices (including boiler lighter) being

9.07% higher than projected on a $/MMBTU basis and the weighted average heat rate (BTU/KWH) of the coal fired generating units operating being 1.42% higher than projected. This information is found on Schedule A-3 Period to Date of the June 2010 Monthly Fuel Filing. Gulf has fixed price coal contracts in place for the period to limit price volatility and ensure reliability of supply. Actual average prices for coal purchased during the period are higher due to a change in the timing of contract shipments to Gulf's coal fired generating plants. A significant amount of these contract coal shipments have been deferred to later periods in response to lower coal burn. Another factor contributing to the higher cost of coal fired generation (cents/KWH) is that weighted average coal unit heat rates are higher than projected for the period. Generating unit heat rates have been impacted by the percentage of time these units operated at lower than projected loads. When generating units operate at lower loads, unit efficiency is reduced.

Q. How did the total projected cost of natural gas burned compare to the actual cost during the first six months of 2010?

A. The total cost of natural gas burned for generation for the first six months of 2010 was $42,924,406 which is $3,010,403 or 6.55% lower than Gulf's projection of $45,934,809. The total cost of natural gas burned for generation is lower than projected due to the market price of natural gas being lower than projected. Market prices for natural gas are lower due to increased supply of natural gas in the market. On a cost per unit basis, the actual cost of gas fired generation was 4.10 cents per KWH which is

22.20% lower than the projected cost of 5.27 cents per KWH. Actual natural gas prices were $5.61 per MMBTU or 17.50% lower than the projected cost of $6.80 per MMBTU. This information is found on Schedule A-3 Period to Date of the June 2010 Monthly Fuel Filing.

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

A. Gulf Power financially hedged 3,340,000 MMBTU of natural gas for the period January 2010 through June 2010 using fixed price financial swaps. This equates to 45.4% of the actual natural gas burn for the period.

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

A. Natural gas was hedged using financial swaps that fixed the price of gas to a certain price. These swaps settled against either a NYMEX Last Day price or Gas Daily price. The entire amount (3,340,000 MMBTU) of gas hedged was hedged using these financial instruments.

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

A. No fees, commission, or option premiums were paid. Gulf's gas hedging program has resulted in a net financial loss of $9,840,293 for the period January through June 2010. This information is found on Schedule A-1, Period to Date, line 2 of the June 2010 Monthly Fuel Filing.

Q. During the period January 2010 through December 2010 how will Gulf Power Company's recoverable fuel cost of power sold compare with the original cost projection?

A. Gulf's currently projected recoverable fuel cost and gains on power sales for the period are $105,639,729 or 74.77% above the original projected amount of $60,466,000. Total megawatt hours of power sales is expected to be 3,199,437,542 KWH compared to the original projection of 1,480,362,000 KWH or 116.13% above projections. The resulting average fuel cost and gains on power sales is expected to be 3.3018 cents per KWH or 19.14% below the original projected amount of 4.0823 cents per KWH. This current projection of fuel cost of power sold is captured in the exhibit to Witness Dodd's testimony, Schedule E-1 B-1, Line 20.

Q. What are the reasons for the difference between Gulf's original projection of the fuel cost and gains on power sales and the current projection?

A. The higher total credit to fuel expense from power sales is attributed to a higher quantity of power sales made than originally projected. Lower marginal market prices for coal and natural gas during the period have decreased the fuel reimbursement rate (cents/KWH) for power sales. Lower prices for energy sales have resulted in an increased demand for this lower cost energy generated primarily from gas fired combined cycle units.

Q. How did the total projected fuel cost of power sold compare to the actual cost for the first six months of 2010?

A. The total fuel cost of power sold for the first six months of 2010 was $47,508,728 which is $12,797,728 or 36.87% higher than our projection of $34,711,000. On a fuel cost per KWH basis, the actual cost was 2.5174 cents per KWH which is 35.64% below the projected cost of 3.9112 cents per KWH. This information is found on Schedule A-1, Period to Date, line 19 of the June 2010 Monthly Fuel Filing.

Q. During the period January 2010 through December 2010 how will Gulf Power Company's recoverable fuel cost of purchased power compare with the original cost projection?

A. Gulf's currently projected recoverable fuel cost of purchased power for the period is $89,981,224 or 329.46% above the original projected amount of $20,952,327. The total amount of purchased power is expected to be 2,935,936,503 KWH compared to the original projection of 884,977,000 KWH or 231.75% above projections. The resulting average fuel cost of purchased power is expected to be 3.0648 cents per KWH or 29.45% above the original projected amount of 2.3676 cents per KWH. This current projection of fuel cost of purchased power is captured in the exhibit to Witness Dodd's testimony, Schedule E-1 B-1, Line 14.

Q. What are the reasons for the difference between Gulf's original projection of the fuel cost of purchased power and the current projection?

A. The higher total fuel cost of purchased power is attributed to a combination of Gulf purchasing a greater amount of energy to supplement its own generation to meet load demands and a higher price per KWH for

purchased power than originally projected. Replacement fuel costs for purchased power are higher as a result of Gulf's need to purchase power during high peak demand periods when prices for energy are more expensive.

Q. How did the total projected fuel cost of purchased power compare to the actual cost for the first six months of 2010?

A. The total fuel cost of purchased power for the first six months of 2010 was $75,474,223 which is $58,206,707 or 337.09% higher than our projection of $17,267,516. The higher than anticipated purchased power expense is due to the actual quantity of purchases being 293.90% higher than projected. Purchase power quantity is higher due to the lower price of available power relative to Gulf's fuel cost of generated power making it the economic choice for providing energy to the customer during certain periods of time. On a fuel cost per KWH basis, the actual cost was 3.0683 cents per KWH which is 10.97% higher than the projected cost of 2.7651 cents per KWH. This information is found on Schedule A-1, Period to Date, line 12 of the June 2010 Monthly Fuel Filing.

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

A. No.

Q. Were Gulf Power's actions through June 30, 2010 to mitigate fuel and purchased power price volatility through implementation of its financial and/or physical hedging programs prudent?

A. Yes. Gulf's physical and financial fuel hedging programs have resulted in more stable fuel prices. Over the long term, Gulf anticipates less volatile future fuel costs than would have otherwise occurred if these programs had not been utilized.

Q. Should Gulf's fuel and net power transactions cost for the period be accepted as reasonable and prudent?

A. Yes. Gulf has followed its Risk Management Plan for Fuel Procurement in securing the fuel supply for its electric generating plants. Gulf's coal supply program is based on a mixture of long-term contracts and spot purchases at market prices. Coal suppliers are selected using procedures that assure reliable coal supply, consistent quality, and competitive delivered pricing. The terms and conditions of coal supply agreements have been administered appropriately. Natural gas is purchased using agreements that tie price to published market index schedules and is transported using a combination of firm and interruptible gas transportation agreements. Natural gas storage is utilized to assure that natural gas is available during times when gas supply is curtailed or unavailable. Gulf's fuel oil purchases were made from qualified vendors using an open bid process to assure competitive pricing and reliable supply. Gulf makes sales of power when available and gets reimbursed at the marginal cost of replacement fuel. This fuel reimbursement is credited

back to the fuel cost recovery clause so that lower cost fuel purchases made on behalf of Gulf's customers remain to the benefit of those customers. Gulf purchases power when necessary to meet customer load requirements and when the cost of purchased power is expected to be less than the cost of system generation. The fuel cost of purchased power is the lowest cost available in the market at the time of purchase to meet Gulf's load requirements.

Q. During the period January 2010 through December 2010, what is Gulf's projection of actual / estimated net purchased power capacity transactions and how does it compare with the company's original projection of net capacity transactions?

A. As shown on Line 4 of Schedule CCE-1b in the exhibit to Witness Dodd's testimony, Gulf's total current net capacity payment projection for the January 2010 through December 2010 recovery period is $47,966,055. Gulf's original projection for the period was $48,729,557 and is shown on Line 4 of Schedule CCE-1 filed October 30, 2009. The difference between these projections is $763,502 or 1.57% less than the original projection of net capacity payments. Actual capacity payments during the first six months of 2010 were $1,633,065 or 10.45% lower than projected for the period due to timing differences between actual payments and projected payments for the period.

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

A. Yes.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 100001-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 Florida 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 30th day of July, 2010

Vickie L. Marchman
Notary Public, State of Florida at Large

Commission Number: DD 866249

Commission Expires: June 26, 2013

Vickie L. Marchman
COMMISSION # DD866249
EXPIRES: JUN. 26, 2013
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