

Gulf Power Company
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ORIGINAL
FILE COPY

Jack L. Haskins
Manager of Rates and Regulatory Matters
and Assistant Secretary

The southern electric system

November 11, 1994

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399-0870

Dear Ms. Bayo:

RE: Docket No. 940001-EI

Enclosed for official filing in Docket No. 940001-EI are an original and fifteen (15) copies of the following:

1. Prepared direct testimony and exhibit of S. D. Cranmer.
2. Prepared direct testimony and exhibit of M. L. Gilchrist.
3. Prepared direct testimony and exhibit of G. D. Fontaine.
4. Prepared direct testimony of M. W. Howell.

ACK _____
 AED _____
 APP _____
 CAF _____
 CMU _____
 CTR _____
 EAG _____
 LEG _____
 LIN _____
 OPC _____
 RCH _____
 SEC _____
 WAS _____
 WTH _____

Sincerely,

Jack L. Haskins
JLH

Enclosures

Cranmer
DOCUMENT NUMBER-DATE
11463 NOV 14 84
FPSC-RECORDS/REPORTING

Gilchrist *Fontaine*
DOCUMENT NUMBER-DATE DOCUMENT NUMBER-DATE
11464 NOV 14 84 11465 NOV 14 84
FPSC-RECORDS/REPORTING FPSC-RECORDS/REPORTING

Howell
DOCUMENT NUMBER-DATE
11466 NOV 14 84
FPSC-RECORDS/REPORTING

"Our business is customer satisfaction"

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Fuel and Purchased Power Cost)
Recovery Clause with Generating)
Performance Incentive Factor) Docket No. 940001--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 11th day of November, 1994 on the following:

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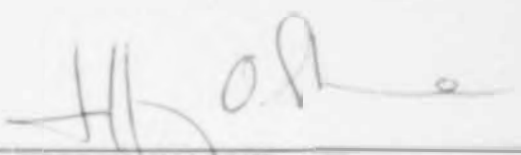
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Attorneys for Gulf Power Company

ORIGINAL
THE COPY

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 940001-EI

PREPARED DIRECT TESTIMONY
AND EXHIBIT OF
M. L. GILCHRIST

FUEL COST RECOVERY AND
PURCHASED POWER CAPACITY COST RECOVERY

FINAL TRUE-UP
NOVEMBER 14, 1994



DOCUMENT NUMBER-DATE

11464 NOV 14 8

FPSC-RECORDS/REPORTING

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GULF POWER COMPANY

Before the Florida Public Service Commission

Prepared Direct Testimony of

M. L. Gilchrist

Docket No. 940001-EI

Date of Filing: November 14, 1994

Q. Please state your name and business address.

A. My name is Malcolm Lane Gilchrist and my business address is 500 Bayfront Parkway, Post Office Box 1151, Pensacola, Florida 32520-0328.

Q. By whom are you employed and in what capacity?

A. I am the Manager of Fuel and Environmental Affairs for Gulf Power Company.

Q. Mr. Gilchrist, will you please describe your education and experience?

A. I graduated from Auburn University in 1958 with a Bachelor of Science Degree in Electrical Engineering. I joined Gulf Power Company in 1961 as a Field Engineer. Since then, I have held various positions with the Company, including Power Sales Engineer; Division Sales Supervisor; Division Engineer; Supervisor of Fuel Supply; Assistant Plant Manager, Crist Electric Generating Plant; and Manager of Interchange and Fuel Supply. I was promoted to my present position in June 1989.

1 Q. What are your duties as Manager of Fuel and Environmental Affairs?

2 A. I manage the fuel supply and environmental compliance activities of the
3 Company. My responsibilities include fuel procurement, contract
4 administration, and budgeting.
5

6 Q. Are you the same Malcolm Lane Gilchrist who has previously testified
7 before this Commission on various fuel matters?

8 A. Yes.
9

10 Q. Mr. Gilchrist, 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 April 1994 through September 1994. Also, it is my intent to be
14 available to answer any 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 prepared an exhibit consisting of one Schedule.
20

21 Counsel: We ask that Mr. Gilchrist's exhibit consisting of 1 schedule
22 be marked as Exhibit No. _____ (MLG-1).
23

24 Q. During the period April 1, 1994 through September 30, 1994, how did Gulf's
25 actual fuel expenses compare with the budget or projected expenses?

1 A. Gulf's actual fuel expense was \$106,504,730 as compared with the
2 projected amount of \$111,171,243, or under our estimate by 4.20%.
3 Gulf's total net system generation was 5,497,665 MWH compared to the
4 projected generation of 5,957,220 MWH or 7.71% less than predicted.
5 The resulting total fuel cost per KWH generated was 1.9373¢/KWH or
6 3.81% over the projected amount of 1.8662¢/KWH.

7

8 Q. How did the projected purchase cost of coal compare with the actual
9 cost?

10 A. For the period, Gulf's average unit cost of coal purchased was 2.24% less
11 than projected.

12

13 Q. Mr. Gilchrist, did Gulf Power make any significant changes in its fuel
14 purchasing program during the twelve months ending September 1994?

15 A. Yes. Gulf Power completed negotiations with Peabody CoalSales
16 concerning changes in Gulf's long term coal supply prompted by the
17 requirements under Phase I of the Clean Air Act. Those negotiations
18 resulted in termination of the old agreement with Peabody Coal Company
19 and in a new agreement for a coal supply that will allow the Company to
20 meet the requirements for Phase I. Peabody CoalSales will supply a
21 blend of Venezuelan and Illinois coal sufficiently low in sulfur content to
22 ensure compliance with Phase I of the Clean Air Act. The delivered cost
23 of this new agreement coal is less than costs under the old agreement
24 with Peabody Coal Company.

25

1 Gulf Power also amended the transportation contract with the Ohio
2 River Company effective July 1, 1994, in order to achieve additional cost
3 savings to the customers.

4
5 Q. What was the effect of the suspension agreement with Peabody Coal
6 Company?

7 A. The agreement simply suspended the purchases/deliveries that would
8 otherwise have been made during the period under the Company's long-
9 term coal supply agreement with Peabody. During the suspension period,
10 Gulf procured coal on the spot market to replace the suspended Peabody
11 purchases/deliveries. Under the agreement, Gulf made a one-time
12 payment of \$16,389,423 to Peabody. Gulf calculated that this payment
13 and the suspension agreement allowed the Company to achieve net fuel
14 cost savings for its customers through the replacement of the suspended
15 coal with coal purchased on the spot market.

16
17 Q. Are you in a position to address the total net savings achieved through the
18 suspension agreement and the purchases of replacement coal?

19 A. Yes. We have now shipped and received all the replacement coal
20 tonnage for the Peabody Suspension Agreement. The total net savings
21 was \$14,479,865. At the time the decision to enter into the Suspension
22 Agreement was made, we projected savings of \$12,358,227.

23
24 Q. What coal supply changes are taking place at Plant Daniel?

25 A. The current fuel supply program is called a seasonal Powder River Basin

1 (PRB) fuel program. During the off peak season, when full plant capacity
2 is not normally needed, the plant will burn lower cost PRB coal. During
3 the peak season, when full plant capacity is required, the plant will burn
4 high Btu western coal. To date, the seasonal fuel program is working very
5 well.
6

7 Q. Do you mean that Plant Daniel will operate below its rated capacity on
8 PRB coal?

9 A. Yes. Plant Daniel is unable to reach its rated capacity while burning PRB
10 coals. However, high Btu coal is being stockpiled so that the units can be
11 changed over within 8-10 hours and achieve full capacity if needed. As
12 the plant gains experience in burning the PRB coal, we expect the plant to
13 increase its capacity. Plant Daniel has been transitioning to the seasonal
14 PRB coal supply during 1994.
15

16 Q. How much spot coal did Gulf Power Company purchase during the period
17 ending September 30, 1994?

18 A. Gulf purchased 1,307,270 tons or 53% of its supply from the spot coal
19 market. My Schedule 1 of Exhibit No. _____ (MLG-1) consists of a
20 list of contract and spot coal suppliers for the period ending
21 September 30, 1994.
22

23 Q. How are coal prices determined under Gulf's long-term contracts?

24 A. Under all of Gulf's long-term coal contracts, Gulf pays a base price per ton

1 plus cost escalations that have occurred since the coal contract began.
2 The base price with cost escalations type contract is a long term
3 agreement on quantity, quality, and escalation factors that provides the
4 buyer with an assured source of coal of known quality. The price of coal
5 supplied under this type of contract will not go up and down with current
6 market conditions.
7

8 Q. Should Gulf's fuel purchase cost for the period be accepted as reasonable
9 and prudent?

10 A. Yes. Gulf's coal purchases were primarily either from coal vendors with
11 long term contracts subject to cost escalations or from a competitively bid
12 spot purchase order. These coal vendors were selected by procedures
13 designed to provide an assured quantity of coal of a known quality for a
14 specific term at the lowest available delivered cost. Gulf has administered
15 the provisions of these contracts and purchase orders appropriately. All
16 of Gulf's oil purchases were from oil vendors selected by open bids to
17 insure the most economical price of oil.
18

19 Q. Mr. Gilchrist, does this conclude your testimony?

20 A. Yes.
21
22
23
24
25

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

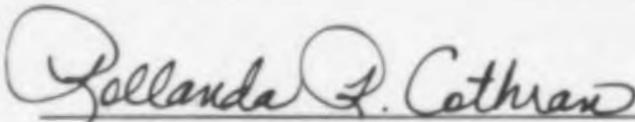
Docket No. 940001-EI

Before me the undersigned authority, personally appeared M. L. Gilchrist, who being first duly sworn, deposes, and says that he is the Manager of Fuel and Environmental Affairs of 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.



M. L. Gilchrist
Manager of Fuel and
Environmental Affairs

Sworn to and subscribed before me this 11th day of November, 1994.



Notary Public, State of Florida at Large

Commission Number:

Commission Expires:



**GULF POWER COMPANY
COAL SUPPLIERS
April 1, 1994 - September 30, 1994**

<u>Purchases</u>	<u>Tons Received</u>
<u>Contract</u>	
PEABODY COALSALES	576,000
CYPRUS	351,723 (1)
DECKER COAL	109,370 (1)
GOLDEN OAK	<u>115,799</u> (1)
Total	1,152,892
<u>Spot Purchases</u>	
COASTAL COAL SALES	9,225 (1)
CLARENDON	15,844
PHIBRO ENERGY	129,571
KERR MCGEE COAL CORP	461,220
JADER FUEL COMPANY	102,817
FRANKLIN COAL SALES	366,008
ANDALEX RESOURCES	44,691
STINNES INTERCOAL	127,335
COALSALES	34,454
AMERICAN COAL	16,104
Total	<u>1,307,269</u>
GRAND TOTAL	<u>2,460,161</u>

(1) Gulf Power Company's portion of Plant Daniel Supply.