ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

# DOCKET NO. 990001-EI

# FUEL COST AND PURCHASED POWER COST RECOVERY CLAUSE

## PREPARED DIRECT TESTIMONY AND EXHIBIT

## OF

## M. W. HOWELL

FUEL COST RECOVERY
JANUARY 2000 – DECEMBER 2000

CAPACITY COST RECOVERY
JANUARY 2000 – DECEMBER 2000

OCTOBER 1 ,1999

GULF POWER

A SOUTHERN COMPANY

# GULF POWER COMPANY

Before the Florida Public Service Commission
Direct Testimony of
M. W. Howell
Docket No. 990001-EI
Date of Filing: October 1, 1999

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

A. My name is M. W. Howell, and my business address is One Energy Place, Pensacola, Florida 32520. I am Transmission and System Control Manager for Gulf Power Company.

Q. Have you previously testified before this Commission?

A. Yes. I have testified in various rate case, cogeneration, territorial dispute, planning hearing, need determination, fuel clause adjustment, and purchased power capacity cost recovery dockets.

Q. Please summarize your educational and professional background.

A. I graduated from the University of Florida in 1966 with a Bachelor of Science Degree in Electrical Engineering. I received my Masters Degree in Electrical Engineering from the University of Florida in 1967, and then joined Gulf Power Company as a Distribution Engineer. I have since served as Relay Engineer, Manager of Transmission, Manager of System Planning, Manager of Fuel and System Planning, and Transmission and System Control Manager. My experience with the Company has included all areas of distribution operation, maintenance, and construction; transmission operation, maintenance, and construction; relaying and protection of the generation, transmission, and distribution systems; planning the generation, transmission, and distribution systems; bulk power interchange administration; overall management of fuel planning and procurement; and operation of the system dispatch center.

I am a member of the Engineering Committees and the Operating Committees of the Southeastern Electric Reliability Council and the Florida Reliability Coordinating Council, and have served as chairman of the Generation Subcommittee of the Edison Electric Institute System Planning Committee. I have served as chairman or member of many technical committees and task forces within the Southern electric system, the Florida Electric Power Coordinating Group, and the North American Electric Reliability Council. These have dealt with a variety of technical issues including bulk power security, system operations, bulk power contracts, generation expansion, transmission expansion, transmission interconnection requirements, central dispatch, transmission system operation, transient stability, underfrequency operation, generator underfrequency protection, and system production costing.

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

A. The purpose of my testimony is to support Gulf Power Company's (Gulf) projection of purchased power recoverable costs for energy purchases and sales for the period January 2000 - December 2000 and Gulf's projection of purchased power capacity costs for the January 2000 - December 2000 recovery period. Also, I will support Gulf's revised capacity cost projection for the January 1999 - December 1999 recovery period that has occurred since the Commission issued Order No.PSC-99-1606-PCO-EI in this docket. Finally, I will address the issues raised by the Commission Staff concerning the regulatory treatment for revenues from non-separated wholesale sales and the elimination of the 20 percent shareholder incentive for certain non-separated wholesale sales.

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

A. Yes. I have one exhibit to which I will refer. This exhibit was prepared under my supervision and direction.

Counsel: We ask that Mr. Howell's Exhibit MWH-1 be marked for identification as Exhibit_____(MWH-1).

Q. What is Gulf's projected purchased power recoverable cost for energy purchases for the January 2000 - December 2000 recovery period?

A. Gulf's projected recoverable cost for energy purchases, shown on line 12 of Schedule E-1 of the fuel filing, is $31,622,732. These purchases result from Gulf's participation in the coordinated operation of the Southern electric system (SES) power pool, as well as the Solutia and market power purchases. This amount is used by Ms. Davis as an input in the calculation of the fuel and purchased power cost adjustment factor.

Q. What is Gulf's projected purchased power fuel cost for energy sales for the January 2000 - December 2000 recovery period?

A. The projected fuel cost for energy sales, shown on line

18 of Schedule E-1, is $ 43,892,000. These sales also result from Gulf's participation in the coordinated operation of the SES power pool. This amount is used by Ms. Davis as an input in the calculation of the fuel and purchased power cost adjustment factor. As shown on Schedule E-1 of Ms. Davis' testimony, the overall fuel and purchased power cost adjustment factor is 1.950 ¢/KWH. This represents a 17.3% increase over the 1999 recovery period fuel cost adjustment factor.

Q. What impact have Gulf's net energy purchases had on the purchased power cost adjustment factor for the January-December 2000 recovery period?

A. The higher cost of Gulf's net energy purchases account for a significant amount of the increase in the projected factor. The net energy cost for the current recovery period has risen primarily due to the substantial increase in the energy cost of market power purchases experienced by Gulf and all utilities buying from the market since the summer of 1999. The actual cost of these market purchases during the January 1999-December 1999 recovery period has caused Gulf's true-up cost for the current recovery period to increase. In addition, the overall adjustment factor has risen due to Gulf's increased market power purchase cost projection for the January-December 2000 recovery period.

Q. What information is contained in your exhibit?

A. My exhibit lists the long-term power contracts that are included for capacity cost recovery, their associated megawatt amounts, the resulting capacity dollar amounts, and the cost of market capacity purchases.

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

A. Two power contracts that produce recoverable capacity transactions through Gulf's purchased power capacity adjustment factor are the SES Intercompany Interchange Contract (IIC) and Gulf's cogeneration capacity purchase contract with Solutia, Inc. (Solutia). The Commission has authorized the Company to include capacity transactions under the IIC for recovery through the purchased power capacity cost adjustment factor. Gulf will continue to have IIC capacity transactions during the January 2000 - December 2000 recovery period. The energy transactions under this contract for this recovery period are handled for cost recovery purposes through the fuel cost adjustment factor.

The Gulf Power/Solutia cogeneration capacity contract enables Gulf to purchase 19 megawatts of firm capacity until June 1, 2005. Gulf has included these costs for recovery during the January 2000 - December 2000 recovery period. The energy transactions under this contract have also been approved by the Commission for recovery, and these costs are handled for cost recovery purposes through the fuel cost adjustment factor.

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

A. Yes. Gulf and other SES operating companies have purchased market capacity for 2000, and these purchases will continue through May 2002. Gulf will have monthly costs associated with these market purchases for the January 2000 - December 2000 recovery period. Again, the energy transactions related to these purchases are handled for cost recovery purposes through the fuel cost adjustment factor.

Q. Has the SES made any changes to the IIC that were used in the most recent recovery factor adjustment proceedings?

A. Yes. On November 2, 1998 the SES filed IIC Amendment

No. 10. The purpose of this amendment is to improve the methodology for determining generating unit capability ratings as defined in the IIC's Periodic Rate Computation Manual. Because the effective date for implementation of this amendment is January 1, 1999, the SES November 1, 1998 IIC informational filing with the FERC has been updated in 1999 to reflect 1999 capacity resource amounts used for the IIC capacity equalization calculation to determine the capacity transactions and costs for each operating company. These updates are reflected in the projection of IIC capacity transactions among the SES operating companies for the January 2000 - December 2000 recovery period.

Q. What are Gulf's IIC capacity transactions that are projected for the January 2000 - December 2000 recovery period?

A. As shown on my Exhibit MWH-1, capacity transactions under the IIC vary during each month of the recovery period. IIC capacity purchases in the amount of $1,450,690 are projected for the period. IIC capacity sales during the same period are projected to be $2,492,130. Therefore, the Company's net capacity transactions under the IIC for the period are net sales amounting to $1,041,440.

Q. What is the cost of Gulf's capacity purchase from Solutia that is projected for the January 2000 - December 2000 recovery period?

A. As shown on my Exhibit MWH-1, Gulf is projected to pay $746,424, or $62,202 per month, to Solutia for the firm capacity purchase made pursuant to the Commission approved contract.

Q. What is the cost of Gulf's market capacity purchases that is projected for the January 2000 - December 2000 recovery period?

A. As shown on my Exhibit MWH-1, Gulf is projected to pay a total of $13,024,449 for the committed market capacity purchases. Capacity in varying amounts will be purchased during the months of January through December of 2000. The individual suppliers and megawatt amounts are not shown, since this is highly sensitive and confidential information. Public availability of this information would seriously undermine our competitive position and cause our customers increased cost.

Q. What are Gulf's total projected net capacity transactions for the January 2000 - December 2000 recovery period?

A. As shown on my Exhibit MWH-1, the net sales under the

IIC, the Solutia contract purchases, and the committed market capacity purchases will result in a projected net capacity cost of $12,729,433. This figure is used by Ms. Davis as an input into the calculation of the total capacity transactions to be recovered through the purchased power capacity cost adjustment factor for this annual recovery period. As shown on Schedule CCE-2 of Ms. Davis' testimony, the purchased power capacity cost adjustment factor is 0.141 ¢/KWH. This represents a 38.2% increase over the 1999 recovery period cost adjustment factor.

Q. Please explain the reasons for the increase in Gulf's purchased power capacity cost adjustment factor for the January 2000 - December 2000 recovery period.

A. The higher cost of additional short-term purchases needed to meet Gulf's growing customer load is primarily responsible for the increase in the projected capacity cost adjustment factor. Gulf must continue to purchase short-term capacity to ensure adequate reserves for its customers' needs until Gulf's planned combined cycle, Smith Unit No. 3, comes on-line in June 2002. When Gulf's Smith Unit 3 is completed in 2002, the need for short-term market capacity purchases will be eliminated based on today's forecast.

Q. Please describe Gulf's short-term capacity purchase strategy.

A. Since April 1996, Gulf's short-term capacity supply strategy, as indicated in its Ten-Year Site Plan process, has been one of acquiring capacity through market purchases. Gulf and the SES are committed to obtaining the best value for capacity purchases that the market can provide. Past efforts made by SES to obtain this type market capacity have been very beneficial to Gulf and its customers, as relatively cheap short-term capacity helped meet the extremely high demands experienced in the summers of 1998 and 1999. Once again for 2000, Gulf and the SES have pursued the same strategy and have gone to the short-term capacity market to supplement owned capacity resources in order to ensure its territorial customers will have an adequate and reliable supply of electricity.

As I stated earlier, Gulf's customers have enjoyed significant savings in past years because of our ability to buy relatively inexpensive market capacity for their needs. The market has reacted quickly to a temporary shortfall of short-term capacity by significantly raising the price of such capacity. Gulf has been able to secure a two year (June 2000-May 2002) contract for most of its unmet needs. The capacity price is in line with the market, and the associated energy price is at a significant savings over what is available elsewhere.

Q. What changes in Gulf's capacity purchases and/or sales do you presently foresee for the years beyond 2000?

A. Since the majority of our unmet capacity needs will be supplied by this new two year contract until Smith Unit No. 3 comes on-line in 2002, purchased power costs for 2001 would be expected to be in the same vicinity as those projected for 2000. By summer 2002, Gulf will have surplus capacity, and will be in a selling mode, so we would expect net capacity sales, rather than purchases, for 2002.

Q. On July 6, 1999, Gulf notified the Commission that Gulf's actual capacity costs for the recovery period ending December 31, 1999 would be at least ten percent greater than projected capacity costs. Please discuss the reasons for making this notification.

A. This notification, acknowledged by the Commission on August 16, 1999 in Order No.PSC-99-1606-PCO-EI, revealed that actual data for January 1999 through May 1999 and revised data for June 1999 through December 1999 had caused Gulf's estimated capacity cost for the January 1999-December 1999 recovery period to increase from

$7,007,984, as projected in Gulf's October 12, 1998 filing, to $9,369,621. The anticipated increase in cost was a result of additional market capacity purchases made by Gulf and the SES to meet load requirements for the months of June 1999 through September 1999 and revised data used in the IIC capacity cost calculation for June 1999 through December 1999 of the recovery period.

Gulf's additional market capacity purchases resulted from Gulf's need for short-term market capacity for the 1999 summer months, June through September. At the time of its October 12, 1998 projection filing, Gulf projected market capacity purchases for the summer of 1999 to be $1,593,516. With the addition of summer 1999 market capacity purchases, this projection increased to $3,948,590.

Gulf's increased IIC capacity purchase cost projection resulted from updated SES owned capacity resources, DSO capacity, load forecasts, and generating unit availability rates that were contained in the latest SES budget for 1999. At the time of the Company's October 1998 projection filing, Gulf projected its net IIC capacity costs for June 1999 through December 1999 of the recovery period were $315,406. Gulf updated this projection to show that its net IIC capacity costs for June 1999 through December 1999 of the recovery period would be $485,013.

Q. Has Gulf revised its capacity cost projections for the January 1999 - December 1999 recovery period since it notified the Commission on July 6, 1999 that Gulf's actual capacity cost for the recovery period ending December 31, 1999 would be greater than its projected capacity cost?

A. Yes. Since Gulf's July 6, 1999 filing, Gulf has obtained actual capacity cost data for June 1999 through August 1999 that has changed its estimated capacity cost for the January 1999-December 1999 recovery period from $9,369,621 projected in July to its current estimate of $6,907,824.

Q. Please explain the reasons for this decrease in the estimated capacity cost.

A. Gulf's latest January 1999-December 1999 capacity cost projection incorporates actual June 1999-August 1999 costs for both Gulf's market capacity purchases and Gulf's net IIC capacity purchases that are lower than those contained in Gulf's July 6 filing. The lower cost related to Gulf's market capacity purchases result from reduced July 1999 capacity payments by Gulf to two market capacity suppliers according to provisions contained in the related contracts. The provisions specify this reduced capacity payment when the selling parties do not deliver scheduled capacity at the specified amounts. For several days during July, both parties did not deliver capacity scheduled by the SES. Also, in August 1999, Gulf received market capacity revenue related to the Georgia Power Company and Oglethorpe Power Corporation Short-term Non-firm Sales contract due to a re-allocation of June 1999 through August 1999 revenues to all five SES operating companies. Overall, Gulf's actual June 1999-August 1999 market capacity purchase cost was $1,457,720 lower than the cost projected in Gulf's July 6, 1999 notification to the Commission.

Gulf's actual IIC net capacity purchases for June 1999 through August 1999 were lower than projected because of Gulf's higher owned capacity as compared to other SES operating companies' owned capacity. Gulf's higher owned capacity reflects the previously discussed purchase of additional summer 1999 market capacity in 1999. Overall, Gulf's actual June 1999-August 1999 IIC net capacity purchase cost was $1,004,077 lower than the cost projected in Gulf's July 6, 1999 notification to the Commission.

When the cost reductions for market capacity purchases and IIC net purchases are combined, the total net reduction in projected capacity costs for the January 1999-December 1999 recovery period is $2,461,797. These reduced costs more than offset the July 6, 1999 projected cost increase of $2,361,637. Therefore, Gulf's projected capacity cost for January 1999-December 1999 is now $6,907,824 instead of the $7,007,984 as stated in Gulf's original projection filing on October 12, 1998.

Q. What is the appropriate regulatory treatment for transmission revenue received from non-separated wholesale energy sales not made through the Energy Broker Network (EBN)?

A. None of Gulf's economy sales are made through the EBN. FERC Order 888 requires transmission revenues associated with the sale of energy to be recorded in FERC Account No. 447. FERC also requires transmission and ancillary charges to be recorded separately. Gulf credits these amounts to its customers through the fuel clause.

Q. What is the appropriate regulatory treatment for generation-related gain on non-separated wholesale energy sales not made through the EBN?

A. None of Gulf's economy energy sales are made through the

EBN. The profit on all of Gulf's economy energy sales is split 80% to the customer and 20% to the stockholder. The 80% gain is recorded as a credit in FERC Account No. 555, Recoverable Purchase Power Expense, and passed through to the customer as a reduction to expenses for purchased power in the fuel clause.

Q. Should the Commission eliminate the 20 percent shareholder incentive set forth in Order No. 12923, issued January 24, 1984, in Docket No. 830001-EU-B?

A. No. Ratepayers of a net purchasing utility benefit from a vibrant economy energy market where selling utilities have both direct and indirect incentives to satisfy the market's demand for off-system economy energy. The Commission should not take any action to remove or reduce the existing direct incentives to utilities for participating in this market. If reduced amounts of lower cost economy energy were available from sellers, the net purchasing utility would have to meet its customers' needs for energy from its own higher priced units. The purchasing utility's customers would pay a higher price for energy.

Should there be an elimination of the shared direct incentives associated with economy sales, a net selling utility may not continue to support the administrative cost and effort to actively seek out opportunities for economy energy sales. Any decrease in the amount of economy energy sales would reduce the credit to fuel cost for ratepayers that comes from sharing the direct incentives (80%/20% split of the gain from such sales) that are currently available. By establishing the existing 20% direct shareholder incentive in Order No. 12923, issued January 24, 1984, in Docket No. 830001-EU-B, the Commission recognized the need for and overall benefit to all of our customers of increased sales of economy energy.

Q. Does this conclude your testimony?

A. Yes.

GULF POWER COMPANY
PROJECTED PURCHASED POWER CONTRACT TRANSACTIONS
**JANUARY, 2000 - DECEMBER, 2000**

| Contract | | MW Purchase/(Sale) | Capacity ($) Costs/(Receipts) |
|---|---|---|---|
| Southern Company Intercompany Interchange | | | |
| | January 2000 | 331.4 | 624,443 |
| | February | 346.7 | 268,960 |
| | March | 143.4 | 117,797 |
| | April | (23.4) | (5,448) |
| | May | 391.4 | 311,532 |
| | June | (95.3) | (691,878) |
| | July | (38.0) | (752,400) |
| | August | (16.4) | (324,720) |
| | September | (68.2) | (630,168) |
| | October | 31.6 | 13,154 |
| | November | (132.6) | (87,516) |
| | December | 275.4 | 114,804 |
| | SUBTOTAL | | (1,041,440) |
| Solutia | | | |
| | January 2000 | 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, 2000 - DECEMBER, 2000**

| Contract | | Capacity ($) Costs/(Receipts) |
|---|---|---|
| Market Capacity Purchases | | |
| | January 2000 | 305,177 |
| | February | 305,177 |
| | March | 305,177 |
| | April | 312,902 |
| | May | 312,902 |
| | June | 2,108,102 |
| | July | 3,269,702 |
| | August | 3,269,702 |
| | September | 1,580,102 |
| | October | 418,502 |
| | November | 418,502 |
| | December | 418,502 |
| | SUBTOTAL | 13,024,449 |
| | **TOTAL** | **12,729,433** |

AFFIDAVIT

STATE OF FLORIDA )
)
COUNTY OF ESCAMBIA )

Docket No. 990001-EI

Before me the undersigned authority, personally appeared M. W. Howell, who being first duly sworn, deposes, and says that he is the Transmission and System Control Manager 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.

M. W. Howell

M. W. Howell
Transmission and System Control Manager

Sworn to and subscribed before me this 30th day of September, 1999.

Jackie L. Whipple

Notary Public, State of Florida at Large

Commission No.

My Commission Expires

Jackie L Whipple
My Commission CC662984
Expires August 23, 2001