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ORIGINAL



August 18, 2000

Ms. Blanca S. Bayo, Director  
Division of Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee FL 32399-0870

Dear Ms. Bayo:

Enclosed for official filing in Docket No. 000001-EI are an original and ten copies of the following:

1. Prepared direct testimony and exhibit of M. F. Oaks. 10212-00
2. Prepared direct testimony of M. W. Howell. 10213-00
3. Prepared direct testimony and exhibit of T. A. Davis. 10214-00

Sincerely,

Susan D. Ritenour  
Assistant Secretary and Assistant Treasurer

lw

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FALLS CHURCH

APP \_\_\_\_\_ Enclosures  
CAF \_\_\_\_\_  
CMP \_\_\_\_\_  
COM 348 cc: Beggs and Lane  
CTR \_\_\_\_\_ Jeffrey A. Stone, Esquire  
ECR \_\_\_\_\_  
LEG I  
OPC \_\_\_\_\_  
PAI \_\_\_\_\_  
RGO Gandier  
SEC Bohrman  
SER \_\_\_\_\_  
OTH \_\_\_\_\_

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No. 000001-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 18<sup>th</sup> day of August 2000 on the following:

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ORIGINAL

# **GULF POWER COMPANY**

**Before the Florida Public Service Commission**

**Prepared Direct Testimony of**

**Michael F. Oaks**

**Docket No. 000001-EI**

**Date of Filing: August 21, 2000**



DOCUMENT NUMBER-DATE

10212 AUG 21 '00

FPSC-RECORDS/REPORTING

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission

3 Prepared Direct Testimony and Exhibit of

4 Michael F. Oaks

Docket No. 000001-EI

Date of Filing: August 21, 2000

5 Q. Please state your name and business address.

6 A. My name is Michael F. Oaks and my business address is One Energy  
7 Place, Pensacola, Florida 32520-0328.

8  
9 Q. What is your occupation?

10 A. I am the Fuel Manager for Gulf Power Company.

11  
12 Q. Mr. Oaks, will you please describe your education and experience?

13 A. I graduated from Belhaven College in Jackson, Mississippi, in 1977 with a  
14 Bachelor of Science Degree in Chemistry. I joined Gulf Power Company  
15 in 1977 as a Chemist. Since then, I have held various positions with the  
16 Company, including Water Chemistry Specialist, Water Quality Specialist,  
17 Environmental Affairs Specialist, Environmental Audit Administrator, and  
18 Compliance Administrator. I was promoted to my present position in May  
19 1996.

20  
21 Q. What are your duties as Fuel Manager?

22 A. I supervise and administer the Company's fuel procurement,  
23 transportation, budgeting, contract administration, and quality control to  
24 ensure the generating plants are provided a high quality fuel supply at the  
25 lowest practical cost.

1 Q. Mr. Oaks, have you previously testified before this Commission?

2 A. Yes. I have presented testimony to the Commission previously in the fuel  
3 docket.

4

5 Q. Mr. Oaks, what is the purpose of your testimony in this docket?

6 A. The purpose of my testimony is to compare projected fuel expenses with  
7 estimated/actual costs for the January through December 2000 recovery  
8 period and to summarize any noteworthy developments in Gulf Power  
9 Company's fuel program. Also, it is my intent to be available to answer  
10 questions that may arise in this docket concerning Gulf Power Company's  
11 fuel expenses.

12

13 Q. During the period January 2000 through December 2000, how will Gulf's  
14 estimated/actual recoverable fuel expenses compare with the original  
15 projection of expenses?

16 A. Gulf's expected recoverable fuel expense for the period is now  
17 \$204,243,615 or 3.71% more than the original projected amount of  
18 \$196,934,163. Total net system generation for the period is expected to  
19 be 12,397,155 MWH compared to a projection of 12,271,910 MWH or  
20 1.02% more than originally forecast. The resulting total fuel cost per KWH  
21 generated will be 1.6475¢/KWH or 2.66% higher than the projected cost  
22 of 1.6048¢/KWH. The increase can be primarily attributed to a fuel  
23 market higher than projected, as well as significantly greater demand for  
24 Gulf's gas-fired peaking generation.

25

1 Q. How did the total projected cost of coal compare with the actual cost  
2 during the first seven months of 2000?

3 A. The total cost of coal purchased was 5.28% lower than projected,  
4 because less coal was purchased during the period (see schedule A-5).  
5 The total actual cost of coal purchased was \$108,879,960 compared to a  
6 projected cost of \$114,952,528. The total actual cost of coal burned was  
7 \$111,277,394 compared to a projected cost of \$109,040,117, or 2.05%  
8 higher than projected. An inflated world petroleum market resulted in  
9 higher transportation costs which contributed to the increase. Most of  
10 Gulf's transportation contracts are long term agreements with quarterly  
11 adjustments for variable components such as transportation fuel.

12

13 Q. How did the total projected cost of natural gas compare with the actual  
14 cost during the first seven months of 2000?

15 A. Gulf purchased 1,799,300 MCF during the period, almost four times the  
16 projected amount of 470,393 MCF. Consequently, the total cost of gas  
17 purchased was much higher than projected. For the period, the total  
18 actual cost of gas purchased was \$6,078,933 compared to a projected  
19 cost of \$1,275,483. The average price of gas purchased and burned was  
20 considerably higher than projected due to low storage levels, extremely  
21 hot weather and high gas demand nationwide. However, the effect of this  
22 adverse market was mitigated somewhat for Gulf's customers through the  
23 use of forward purchases, gas storage and the procurement of discounted  
24 transportation. The average cost of natural gas burned during the period  
25 was \$3.35/MCF. The same quantity of gas procured on the spot market

1 (weighted average of Gas Daily Index price plus normal pipeline tariff rate  
2 multiplied by the daily gas volume divided by total gas volume) would  
3 have cost the customer \$3.91/MCF. The sum of the daily savings to the  
4 customer would total \$1,014,379.

5  
6 Q. Are there other significant developments in Gulf's fuel procurement  
7 program for the 2000 recovery period?

8 A. Yes.

9 1. As discussed in previous testimony, a firm supply of higher  
10 quality coal is being sought to replace Decker Powder River  
11 Basin (PRB) coal at Plant Daniel. Because the Decker coal  
12 cannot be burned alone without significant capacity reductions  
13 and is not suitable for blending without severe operational  
14 consequences, part of the replacement strategy is to buy out of  
15 the tons remaining under the Decker contract (Gulf's portion is  
16 only 312,000 tons). The Decker coal will be replaced with a  
17 high Btu western coal and a different PRB coal that can be  
18 successfully blended and burned without a capacity reduction.  
19 Although agreement in principle has been reached with Decker  
20 on the buyout, a final contract has not been executed as of the  
21 date of this filing.

22  
23 2. Gulf seeks to procure a firm supply of natural gas for its peaking  
24 units through the use of forward contracts, spot purchases,  
25 storage, and interruptible transportation. Occasionally, the

1                   procured gas is not needed for generation as expected and  
2                   cannot or should not be placed into storage, as dictated by  
3                   prudent management practices. In such cases, it is then resold  
4                   into the market. During the period, January through July, 2000,  
5                   gains and losses on such resales resulted in a net gain to the  
6                   customer of \$154,376.

7  
8       Q.       Should Gulf's fuel purchases for the period be accepted as reasonable  
9               and prudent?

10     A.       Yes. Gulf's coal purchases were either from long term contracts or the  
11               competitive spot market. Coal vendors are selected by procedures  
12               designed to assure a deliverable quantity of high quality coal for a  
13               specific term at the lowest available delivered cost. Gulf has administered  
14               the provisions of its contracts and purchase orders appropriately. Natural  
15               gas was purchased utilizing forward physical contracts and from the spot  
16               market on an as-needed basis or purchased and placed into storage to  
17               ensure a reliable supply. All of Gulf's oil purchases were from oil vendors  
18               selected by open bids to ensure the most economical price of oil.

19  
20     Q.       Mr. Oaks, does this conclude your testimony?

21     A.       Yes.  
22  
23  
24  
25

AFFIDAVIT

STATE OF FLORIDA     )  
                                  )  
COUNTY OF ESCAMBIA )

Docket No. 000001-EI

Before me the undersigned authority, personally appeared Michael F. Oaks, who being first duly sworn, deposes, and says that he is the Fuel Manager at 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.

  
\_\_\_\_\_  
Michael F. Oaks  
Fuel Manager – Gulf Power Company

Sworn to and subscribed before me this 18th day of August, 2000.

  
\_\_\_\_\_  
Notary Public, State of Florida at Large



**LINDA C. WEBB**  
Notary Public-State of FL  
Comm. Exp: May 31, 2002  
Comm. No: CC 726989