

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 010001-EI

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

PREPARED DIRECT TESTIMONY AND EXHIBIT

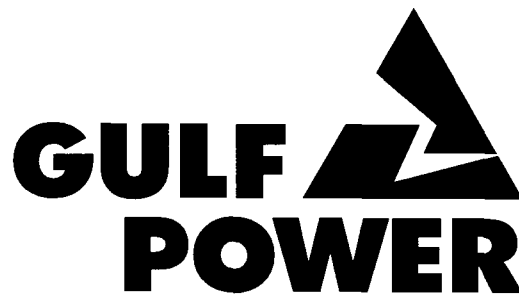
OF

M. W. HOWELL

**FUEL COST RECOVERY
JANUARY 2002 – DECEMBER 2002**

**CAPACITY COST RECOVERY
JANUARY 2002 – DECEMBER 2002**

SEPTEMBER 20, 2001



A SOUTHERN COMPANY

DOCUMENT NUMBER-DATE

11732 SEP 20 01

FPSC-COMMISSION CLERK

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Direct Testimony and Exhibit of
4 M. W. Howell
5 Docket No. 010001-EI
6 Date of Filing: September 20, 2001

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

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

11 Q. Have you previously testified before this Commission?

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

15
16 Q. Please summarize your educational and professional background.

17 A. I graduated from the University of Florida in 1966 with a Bachelor of
18 Science Degree in Electrical Engineering. I received my Masters Degree
19 in Electrical Engineering from the University of Florida in 1967, and then
20 joined Gulf Power Company as a Distribution Engineer. I have since
21 served as Relay Engineer, Manager of Transmission, Manager of System
22 Planning, Manager of Fuel and System Planning, and Transmission and
23 System Control Manager. My experience with the Company has included
24 all areas of distribution operation, maintenance, and construction;
25 transmission operation, maintenance, and construction; relaying and

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1 protection of the generation, transmission, and distribution systems;
2 planning the generation, transmission, and distribution systems; bulk
3 power interchange administration; overall management of fuel planning
4 and procurement; and operation of the system dispatch center.

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

18

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

20 A. The purpose of my testimony is to support Gulf Power Company's (Gulf)
21 projection of purchased power recoverable costs for energy purchases
22 and sales for the period January 2002 - December 2002. I will also
23 support Gulf's projection of purchased power capacity costs for the
24 January 2002 - December 2002 recovery period. I will address the issues
25 raised by the Commission Staff related to managing wholesale energy

1 transaction risks and the outage at Crist Unit 2. Finally, I will discuss a
2 recent outage at Gulf's Plant Crist that will impact Gulf's actual purchased
3 power costs for the remainder of 2001.

4

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

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

9

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

13

14 Q. What is Gulf's projected purchased power recoverable cost for energy
15 purchases for the January 2002 - December 2002 recovery period?

16 A. Gulf's projected recoverable cost for energy purchases, shown on line 12
17 of Schedule E-1 of the fuel filing, is \$21,710,832. These purchases result
18 from Gulf's participation in the coordinated operation of the Southern
19 electric system (SES) power pool, as well as the cogeneration purchased
20 power contract with Solutia, Inc. (Solutia) and market power purchases.
21 This amount is used by Gulf's witness Ms. Davis as an input in the
22 calculation of the fuel and purchased power cost adjustment factor.

23

24

25

1 Q. What is Gulf's projected purchased power fuel cost for energy sales for
2 the January 2002 - December 2002 recovery period?

3 A. The projected fuel cost for energy sales, shown on line 18 of Schedule
4 E-1, is \$105,918,000. These sales also result from Gulf's participation in
5 the coordinated operation of the SES power pool. This amount is used by
6 Gulf's witness Ms. Davis as an input in the calculation of the fuel and
7 purchased power cost adjustment factor.

8

9 Q. What information is contained in your exhibit?

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

13

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

16 A. Two power contracts that produce recoverable capacity transactions
17 through Gulf's purchased power capacity adjustment factor are the SES
18 Intercompany Interchange Contract (IIC) and Gulf's cogeneration
19 purchased power contract with Solutia. The Commission has authorized
20 the Company to include capacity transactions under the IIC for recovery
21 through the purchased power capacity cost adjustment factor. Gulf will
22 continue to have IIC capacity transactions during the January 2002 -
23 December 2002 recovery period. The energy transactions under this
24 contract are handled for cost recovery purposes through the fuel cost
25 adjustment factor.

1 The Gulf Power/Solutia cogeneration purchased power contract
2 enables Gulf to purchase 19 megawatts of firm capacity until June 1,
3 2005. Gulf has included the contract's annual costs for the January 2002
4 through December 2002 recovery period in this projection. The energy
5 transactions under this contract have also been approved by the
6 Commission for recovery, and these costs are handled for cost recovery
7 purposes through the fuel cost adjustment factor.
8

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

12 A. Yes. Gulf and other SES operating companies have purchased market
13 capacity for 2002, and these purchases will continue through May 2002.
14 Gulf will have monthly costs associated with these market purchases for
15 the January 2002 - December 2002 recovery period. Again, the energy
16 transactions related to these purchases are handled for cost recovery
17 purposes through the fuel cost adjustment factor.
18

19 Q. What are Gulf's IIC capacity transactions that are projected for the
20 January 2002 - December 2002 recovery period?

21 A. As shown on my Exhibit MWH-1, capacity transactions under the IIC vary
22 during each month of the recovery period. IIC capacity purchases in the
23 amount of \$2,881,897 are projected for the year. IIC capacity sales
24 during the same period are projected to be \$1,031,220. Therefore, the
25 Company's net capacity transactions under the IIC for the recovery period

1 are net purchases amounting to \$1,850,677.

2

3 Q. What is the cost of Gulf's capacity purchase from Solutia that is projected
4 for the January 2002 - December 2002 recovery period?

5 A. As shown on my Exhibit MWH-1, Gulf is projected to pay \$746,424, or
6 \$62,202 per month, to Solutia for the firm capacity purchase made
7 pursuant to the Commission approved contract.

8

9 Q. What is the cost of Gulf's market capacity purchases that is projected for
10 the January 2002 - December 2002 recovery period?

11 A. As shown on my Exhibit MWH-1, Gulf is projected to pay a total net cost
12 of \$1,065,504 for the committed market capacity purchases. Capacity will
13 be purchased during the months of January through May of 2002. Smith
14 Unit 3 is scheduled to be in service by June 1, 2002, and Gulf's market
15 capacity purchases will end at that time. The individual suppliers and
16 megawatt amounts are not shown, since this is highly sensitive and
17 confidential information. Public availability of this information would
18 seriously undermine our competitive position and cause our customers
19 increased cost.

20

21 Q. What are Gulf's total projected net capacity transactions for the January
22 2002 - December 2002 recovery period?

23 A. As shown on my Exhibit MWH-1, the net purchases under the IIC, the
24 Solutia contract purchases, and the net committed market capacity
25 purchases will result in a projected net capacity cost of \$3,662,605. This

1 figure is used by Gulf's witness Ms. Davis as an input into the calculation
2 of the total capacity transactions to be recovered through the purchased
3 power capacity cost adjustment factor for this annual recovery period. As
4 shown on Schedule CCE-2 of Ms. Davis' testimony, the purchased power
5 capacity cost adjustment factor is 0.032 ¢/KWH. This represents an 85%
6 decrease over the January 2001 – December 2001 recovery period cost
7 adjustment factor.

8
9 Q. Please explain the reason for the decrease in Gulf's purchased power
10 capacity cost adjustment factor for the January 2002 - December 2002
11 recovery period.

12 A. The decrease in the projected capacity cost adjustment factor is a result
13 of Gulf's lower 2002 IIC capacity cost and a reduction of capacity costs
14 due to the expiration of several market capacity purchase contracts. The
15 IIC cost is projected to be \$1,420,740 lower than the 2001 IIC capacity
16 cost projection due to increased owned capacity from Gulf's Smith Unit 3
17 capacity addition that is needed to meet growing customer loads.

18 The major reason for the overall decrease, however, is Gulf's
19 reduced market capacity purchase costs that are estimated to be
20 \$12,412,060 lower than the costs contained in the 2001 projection. When
21 Gulf's combined cycle unit, Smith Unit 3, comes on-line in June 2002, the
22 capacity from these market capacity contracts will no longer be needed.

23
24
25

1 Q. Earlier in your testimony, you stated that you would address issues
2 concerning Gulf's management of wholesale energy risks that were raised
3 by the Commission Staff. Would you please generally discuss these
4 issues.

5 A. Gulf and Southern are currently evaluating the relative merits of engaging
6 in hedging practices to effectively manage risks associated with wholesale
7 energy transactions. This is a relatively new practice in the industry, and
8 the limits of reasonable wholesale energy transaction risks clearly need to
9 be explored and agreed to by this Commission. Such factors as treatment
10 of hedging losses, appropriate levels of risk, types of allowable risks, and
11 other factors need to have general guidelines established up front. As
12 addressed in Gulf's responses to Staff's Second Set of Interrogatories,
13 Gulf's agent, Southern Company Generation and Energy Marketing
14 (SCGEM), has a documented risk management policy that SCGEM
15 energy traders must adhere to when engaging in wholesale energy
16 transactions. SCGEM's trading activities are guided by the general
17 principle of directing the lowest cost off-system wholesale market energy
18 to the territorial customers of Gulf and the other SES operating
19 companies, if such energy can reasonably be expected to result in cost
20 savings. The SCGEM risk management policy provides the guidelines for
21 effectively executing this energy trading strategy.

22

23 Q. Were Gulf's replacement fuel costs for the unplanned outage at Crist Unit
24 2, that began on August 2, 2000, reasonable?

25 A. Yes. Gulf did not buy any additional fuel to specifically compensate for

1 the unavailability of this peaking unit. In the case of this particular
2 unplanned outage, Crist Unit 2 would not have been called upon in
3 economic dispatch for the majority of the outage period had it been
4 available. If the unit had been needed to meet system load requirements,
5 Gulf would have purchased replacement power from the most economical
6 resource available.

7

8 Q. Has Plant Crist Unit 7 experienced a recent forced outage?

9 A. Yes. On August 16, 2001, the unit's main power transformer failed.

10

11 Q. How is this outage expected to influence Gulf's fuel and purchased power
12 recovery clause?

13 A. There should be no impact during 2002. A spare transformer is being
14 delivered from Georgia Power Company and it will be placed in service as
15 soon as possible in 2001. This spare transformer will remain at Plant
16 Crist until a permanent replacement is secured. During the outage, Gulf's
17 recoverable energy costs will be slightly higher since Crist Unit 7 is
18 expected to be off line a total of six to eight weeks. Therefore, this outage
19 should only impact Gulf's actual purchased energy costs for the 2001
20 recovery period.

21

22 Q. Does this conclude your testimony?

23 A. Yes.

24

25

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 010001-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

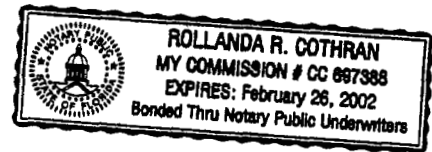
M. W. Howell
Transmission and System Control Manager

Sworn to and subscribed before me this 18th day of September,

2001.

Rollanda Cothran

Notary Public, State of Florida at Large



GULF POWER COMPANY
PROJECTED PURCHASED POWER CONTRACT TRANSACTIONS
JANUARY 2002 - DECEMBER 2002

Contract	MW Purchase/(Sale)	Capacity (\$) Costs/(Receipts)
<i>Southern Company</i>		
<i>Intercompany Interchange (IIC)</i>		
January 2002	587.8	1,588,272
February	355.1	383,784
March	390.7	422,350
April	126.0	68,070
May	214.9	232,317
June	(64.0)	(422,598)
July	(21.8)	(393,120)
August	9.8	151,478
September	(13.8)	(116,004)
October	41.5	22,412
November	(165.8)	(99,498)
December	24.4	13,214
SUBTOTAL		<u>1,850,677</u>
 <i>Solutia</i>		
January 2002	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		<u>746,424</u>

GULF POWER COMPANY
PROJECTED PURCHASED POWER CONTRACT TRANSACTIONS
JANUARY 2002 - DECEMBER 2002

Contract	Capacity (\$) Costs/(Receipts)
Market Capacity Purchases	
January 2002	361,168
February	266,668
March	172,168
April	85,500
May	180,000
June	0
July	0
August	0
September	0
October	0
November	0
December	0
SUBTOTAL	<u>1,065,504</u>
TOTAL	3,662,605