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August 11, 2003

Ms. Blanca S. Bayo, Director
Division of the Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

Dear Ms. Bayo:

Enclosed for official filing in Docket No. 030001-EI are an original and ten copies of the following:

1. Prepared direct testimony of H. R. Ball.
2. Prepared direct testimony of H. H. Bell, III.
3. Prepared direct testimony and exhibit of T. A. Davis.

Sincerely,

Susan D. Ritenour (lw)

Susan D. Ritenour
Assistant Secretary and Assistant Treasurer

lw

Enclosures

cc: Beggs and Lane
Jeffrey A. Stone, Esquire

DOCUMENT NUMBER - DATE
07366 AUG 12 8
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. 030001-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 August 2003 on the following:

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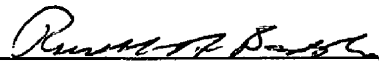
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GULF POWER COMPANY

**Before the Florida Public Service
Commission**

Prepared Direct Testimony

H. R. Ball

Docket No. 030001-EI

Date of Filing: August 12, 2003



DOCUMENT NUMBER - DATE

07366 AUG 12 8

FPSC-COMMISSION CLERK

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission

3 Prepared Direct Testimony of

4 H. R. Ball

Docket No. 030001-EI

5 Date of Filing: August 12, 2003

6 Q. Please state your name and business address.

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

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

12 A. I graduated from the University of Southern Mississippi in Hattiesburg,
13 Mississippi in 1978 with a Bachelor of Science Degree in Chemistry and
14 graduated from the University of Southern Mississippi in Long Beach,
15 Mississippi in 1988 with a Masters of Business Administration. In 1978, I
16 began my employment with the Southern Company at Mississippi Power
17 Company (MPC) as a Plant Chemist at Plant Daniel. In 1982, I
18 transferred to MPC's Fuel Services Department as a Fuel Business
19 Analyst. In 1987, I was promoted to Supervisor of Chemistry and
20 Regulatory Compliance at Plant Daniel. In 1998, I was promoted to
21 Supervisor of Coal Logistics with Southern Company Services Fuel
22 Services Department located in Birmingham, Alabama. My
23 responsibilities in this position included administering coal supply and
24 transportation agreements and managing the coal inventory program for
25 the Southern Electric System. In March, 2003, I was promoted to my

1 current position as Fuel Manager for Gulf Power Company.

2

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

4 A. I manage the Company's fuel procurement, inventory, transportation,
5 budgeting, contract administration, and quality assurance programs to
6 ensure that the generating plants operated by Gulf Power are supplied
7 with an adequate quantity of fuel in a timely manner and at the lowest
8 practical cost.

9

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

11 A. The purpose of my testimony is to compare Gulf Power Company's
12 projected fuel expenses with estimated/actual costs for the period
13 January, 2003 through December, 2003 and to summarize any
14 noteworthy developments in Gulf's fuel program. Also, it is my intent to be
15 available to answer questions that may arise among the parties to this
16 docket concerning Gulf Power Company's fuel expenses.

17

18 Q. During the period January, 2003 through December, 2003 how will Gulf
19 Power Company's recoverable fuel expenses compare with the original
20 projection of expenses?

21 A. Gulf's projected recoverable fuel expense for the period is currently
22 \$317,899,005 or 1.62% above the original projected amount of
23 \$312,843,836. Total net system generation is expected to be 15,509,942
24 MWH compared to the original projected generation of 15,926,090 MWH or
25 2.61% below projections. The resulting average fuel cost is expected to be

1 2.05 cents per KWH or 4.59% above the original projected amount of 1.96
2 cents per KWH. The higher total fuel expense and average per unit fuel
3 cost is attributed to higher than projected coal and natural gas prices for the
4 period.

5
6 Q. How did the total projected cost of coal burned compare to the actual cost
7 for the first seven months of 2003?

8 A. The total cost of coal burned was \$120,468,390 which is 2.46% greater
9 than our projection of \$117,573,324. On a fuel cost per KWH basis, the
10 actual cost was 1.68 cents per KWH which is 2.44% greater than the
11 projected cost of 1.64 cents per KWH.

12
13 Q. How did the total projected cost of natural gas burned compare to the actual
14 cost during the first seven months of 2003?

15 A. The total cost of natural gas burned for generation was \$53,639,623 which
16 is 12.68% lower than our projection of \$61,426,211. On a natural gas cost
17 per unit basis, the actual cost was 5.32 cents per KWH which is 53.76%
18 greater than the projected cost of 3.46 cents per KWH. Gas fired
19 generation and associated total cost is lower than projected due to higher
20 than projected natural gas prices making these units less economical to
21 operate than alternative sources of generation on the system,

22
23 Q. For the period in question, what volume of natural gas was actually hedged
24 using a fixed price contract or instrument?

25 A. Gulf Power hedged 4,000,000 MMBTU of natural gas, for the period

1 January through July of 2003 using fixed price financial swaps.

2

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

6 A. Natural gas was hedged using financial swaps that fixed the price of gas
7 to a certain price. These swaps settled against either a NYMEX Last Day
8 price or Gas Daily price. The entire amount (4,000,000 MMBTU) of gas
9 hedged was hedged using these financial instruments.

10

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

14 A. No fees, commission, or option premiums were paid. Gulf's gas hedging
15 program has resulted in a net financial gain of \$5,562,005.00 for the
16 period January through July 2003.

17

18 Q. Were Gulf Power's actions through July 31, 2003 to mitigate fuel and
19 purchased power price volatility through implementation of its non-
20 speculative financial and/or physical hedging programs prudent?

21 A. Yes, Gulf's physical and financial fuel hedging programs have resulted in
22 more stable fuel prices and lower fuel costs than would have otherwise
23 occurred if these programs had not been utilized.

24

25

1 Q. Are Gulf Power's actual and projected operation and maintenance
2 expenses for 2003 for its non-speculative financial hedging programs to
3 mitigate fuel and purchased power price volatility reasonable for cost
4 recovery purposes?

5 A. Yes, the O&M costs associated with managing the fuel hedging programs
6 are a small percentage of the total benefit received from these programs.
7 As an example, the budgeted recoverable O&M cost of managing the gas
8 hedging program for the period January through December, 2003 is
9 \$79,240 while the total financial gain credited to fuel expense from the
10 gas hedging program through July 2003 was \$5,562,005.

11
12 Q. Were there any other significant developments in Gulf's fuel procurement
13 program during the period?

14 A. No.

15
16 Q. Should Gulf's fuel purchases for the period be accepted as reasonable
17 and prudent?

18 Q. Yes, Gulf's coal supply program is based on a mixture of long term
19 contracts and spot purchases at market prices. Coal suppliers are
20 selected using procedures that assure reliable coal supply, consistent
21 quality, and competitive delivered pricing. The terms and conditions of
22 coal supply agreements have been administered appropriately. Natural
23 gas is purchased using agreements that tie price to published market
24 index schedules and is transported using a combination of firm and
25 interruptible gas transportation agreements. Natural gas storage is

1 utilized to assure that supply is available during times when gas supply is
2 curtailed or unavailable. Gulf's fuel oil purchases were made from
3 qualified vendors using an open bid process to assure competitive pricing
4 and reliable supply.

5

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

7 A. Yes, it does.

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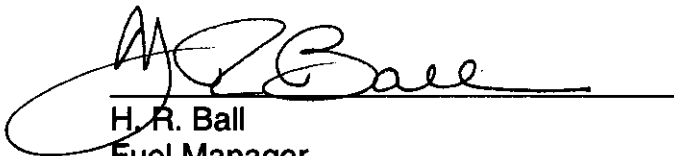
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COUNTY OF ESCAMBIA)

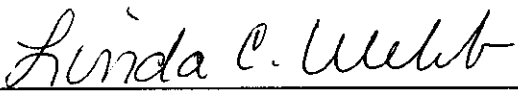
Docket No. 030001-EI

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 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.



H. R. Ball
Fuel Manager

Sworn to and subscribed before me this 12th day of August, 2003



Notary Public, State of Florida at Large

Commission Number: 110088

Commission Expires: May 31, 2006



LINDA C. WEBB
Notary Public-State of FL
Comm. Exp: May 31, 2006
Comm. No: DD 110088

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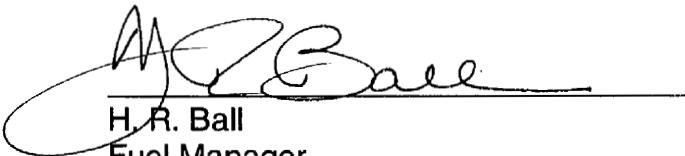
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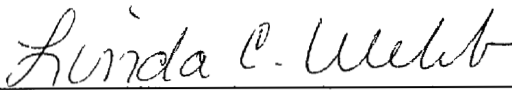
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H. R. Ball
Fuel Manager

Sworn to and subscribed before me this 12th day of August, 2003



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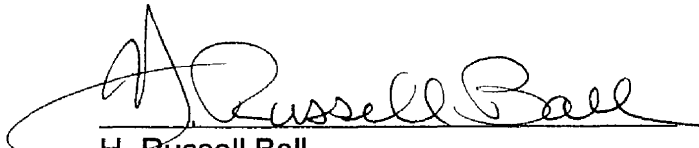
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H. Russell Ball
Fuel Manager

Sworn to and subscribed before me this 11th day of August, 2003

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