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March 31, 2004

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. 040001-EI are an original and ten copies of the following:

- ✓ 04148-04 1. Prepared direct testimony and exhibit of H. R. Ball.
- 04149-04 2. Prepared direct testimony of H. H. Bell, III.
- 04150-04 3. Prepared direct testimony and exhibits of L. S. Noack.
- 04151-04 4. Prepared direct testimony and exhibit of T. A. Davis.

Sincerely,

Susan D. Ritenour

lw

Enclosures

cc: Beggs and Lane
Jeffrey A. Stone, Esquire

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DOCUMENT NUMBER-DATE

04148 APR -1 04

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. 040001-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 31st day of March 2004 on the following:

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GULF POWER COMPANY

**Before the Florida Public Service
Commission**

**Prepared Direct Testimony & Exhibit of
H. R. Ball**

Docket No. 040001-EI

Date of Filing: April 1, 2004



DOCUMENT NUMBER-DATE

04148 APR-13

FPSC-COMMISSION CLERK

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission

3 Prepared Direct Testimony and Exhibit of

4 H. R. Ball

Docket No. 040001-EI

Date of Filing: April 1, 2004

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

6 A. My name is H. R. Ball. My business address is One Energy Place,
7 Pensacola, Florida 32520-0780. I am the Fuel Manager for Gulf Power
8 Company.

9
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's
17 (MPC) Plant Daniel as a Plant Chemist. In 1982, I transferred to MPC's
18 Fuel Department as a Fuel Business Analyst. I was promoted in 1987 to
19 Supervisor of Chemistry and Regulatory Compliance at Plant Daniel. In
20 1998, I was promoted to Supervisor of Coal Logistics with Southern
21 Company Fuel Services in Birmingham, Alabama. My responsibilities
22 included administering coal supply and transportation agreements and
23 managing the coal inventory program for the Southern Electric System. In
24 March, 2003, I transferred to my current position as Fuel Manager for
25 Gulf Power Company.

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

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

7

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

9 A. The purpose of my testimony is to summarize Gulf Power Company's fuel
10 expenses and to certify that these expenses were properly incurred during
11 the period January, 2003 through December, 2003. Also, it is my intent to
12 be available to answer questions that may arise among the parties to this
13 docket concerning Gulf Power Company's fuel expenses.

14

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

17 A. Yes, I have.

18 Counsel: We ask that Mr. Ball's Exhibit consisting of two schedules be
19 marked as Exhibit No. _____(HRB-1).

20

21 Q. During the period January, 2003 through December, 2003 how did Gulf
22 Power Company's recoverable fuel expenses compare with the projected
23 expenses?

24 A. Gulf's recoverable fuel cost of net generation was \$316,735,243 or 1.27%
25 above the projected amount of \$312,764,596. Actual generation was

1 14,987,878 MWH compared to the projected generation of 15,926,090 or
2 5.89% below projections. The resulting actual average fuel cost was
3 2.1133 cents per KWH or 7.6% above the projected amount of 1.9639
4 cents per KWH. The higher total fuel expense is attributed to the higher
5 market fuel prices on all fuel types for the period. Fuel costs for coal on a
6 \$/ton basis were 3.65% higher than forecasted. Fuel cost for gas on a
7 \$/MCF basis was 47.53% higher than forecasted. The higher average per
8 KWH fuel cost is attributed to a much higher cost of generation from
9 natural gas fired units than projected. This information is from Schedule
10 A-3 of the Monthly Fuel Filing for the month of December, 2003.
11

12 Q. How much spot coal did Gulf Power Company purchase during the
13 period?

14 A. Excluding Plant Scherer Unit 3, Gulf purchased 1,704,849 tons of coal or
15 34% of its total coal purchased on the spot market. Schedule 1 of my
16 exhibit consists of a list of contract and spot coal purchases for the period.
17

18 Q. How did the total projected cost of coal purchased compare with the
19 actual cost?

20 A. The total actual cost of coal purchased was \$222,283,781 (sum of lines
21 17 & 30 period to date on Schedule A5) compared to the projected cost of
22 \$204,343,933 or 8.78% greater than projected. The higher cost was
23 primarily due to greater than expected spot coal prices in 2003.
24
25

1 Q How did the total projected cost of coal burned compared to the actual
2 cost?

3 A. The total cost of coal burned was \$218,539,794 which is the sum of lines
4 2 and 2A on Schedule A-3. This is 2.79% higher than our projection of
5 \$212,603,342. On a fuel cost per MMBTU basis, the actual cost of coal
6 plus boiler lighter. fuel was \$1.65 per MMBTU which is 4.43% greater than
7 the projected cost of \$1.58 per MMBTU. The higher per unit cost of coal
8 is attributed to higher than anticipated coal prices for spot coal purchases.
9

10 Q. How did the total projected cost of natural gas burned compare to the
11 actual cost?

12 A. The total cost of natural gas burned for generation was \$95,419,659
13 which is from line 47 on Schedule A-5. This is 4.27% lower than our
14 projection of \$99,672,719. The decrease can be attributed to lower than
15 forecasted generation on gas fired units as a direct result of higher prices
16 for natural gas. On a natural gas cost per unit basis, the actual burn cost
17 was \$6.88 per MMBTU which is 41.56% higher than the projected cost of
18 \$4.86 per MMBTU.
19

20 Q. For the period in question, what volume of natural gas was actual hedged
21 using a fixed price contract or instrument?

22 A. Gulf Power's hedged 7,400,000 MMBTU of natural gas in 2003 using
23 fixed price financial swaps.
24
25

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

4 A. Natural gas was hedged using financial swaps that fixed the price of gas
5 to a certain price. These swaps settled against either a NYMEX Last Day
6 price or Gas Daily price. The entire amount (7,400,000 MMBTU) of gas
7 hedged was hedged using these financial instruments as reflected on
8 Schedule 2 of my exhibit.

9
10 Q. What was the actual total cost (e.g., fees, commissions, option premiums,
11 futures gains and losses, swap settlements) associated with each type of
12 hedging instrument?

13 A. Schedule 2 of my exhibit consists of a table of all natural gas hedge
14 transactions and associated costs. No fees, commissions, or option
15 premiums were paid. Gulf's 2003 hedging program resulted in a net
16 financial gain of \$4,847,268 (settlement gains less support costs from
17 lines 2 and 3 of Schedule A-1 period-to-date).

18
19 Q. Did fuel procurement activity during the period in question follow Gulf
20 Power's Risk Management Plan for Fuel Procurement filed with the
21 Florida Public Service Commission on September 20, 2002?

22 A. Yes, Gulf Power's fuel strategy in 2003 complied with the Risk
23 Management Plan and the actual results achieved compared favorably
24 with the projected results in the plan. Supply of all fuel types and
25 associated transportation to Gulf's generating plants are secured through

1 a combination of long term contracts and spot purchase orders as
2 specified in the plan. The result was that Gulf's generating plants had an
3 adequate supply of fuel available at all times to meet the electric
4 generation demands of its customers. Fuel cost volatility was mitigated by
5 compliance with the Risk Management Plan. In 2003 Gulf's average cost
6 of fuel consumed was \$2.16 per MMBTU which was 8% higher than the
7 original projection of \$2.00 per MMBTU. However, the actual cost of fuel
8 was reduced to \$2.12 per MMBTU once adjustments to fuel costs were
9 made to account for gas hedging and other fuel cost credits. Gulf was
10 able to hold per unit fuel costs to very reasonable levels for its customers
11 during a period of volatile market fuel prices by implementation of its Fuel
12 Risk Management Plan.

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

16 A. No.

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

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

1 index schedules and is transported using a combination of firm and
2 interruptible gas transportation agreements. Natural gas storage is
3 utilized to assure that supply is available during times when gas supply is
4 curtailed or unavailable. Gulf's fuel oil purchases were made from
5 qualified vendors using an open bid process to assure competitive pricing
6 and reliable supply.

7

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

9 A. Yes.

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**GULF POWER COMPANY
COAL SUPPLIERS
January 1, 2003 – December 31, 2003**

<u>Contract Coal Suppliers</u>	<u>Tons Purchased</u> <u>(1)</u>
Peabody Coal Sales	1,876,045
Black Mountain Resources	185,351
Arch Coal Sales - West Elk	951,312
Twenty Mile Coal Company	301,535
TOTAL Contract Coal	<u>3,314,243</u>
<u>Spot Coal Suppliers</u>	<u>Tons Purchased</u> <u>(1)</u>
Peabody Coaltrade	589,204
Mississippi Power Co.	23,906
Interocean Coal Sales	1,091,739
TOTAL Spot Coal	<u>1,704,849</u>
GRAND TOTAL COAL PURCHASES	<u>5,019,092</u>

(1) Excludes Plant Scherer: Coal purchases at Plant Scherer are reported on a MMBTU basis. Coal purchases by owner expressed in tons is not maintained.

Florida Public Service Commission
Docket No. 040001-EI
GULF POWER COMPANY
Witness: H. R. Ball
Exhibit No. _____ (HRB-1)
Schedule 2
Page 1 of 1

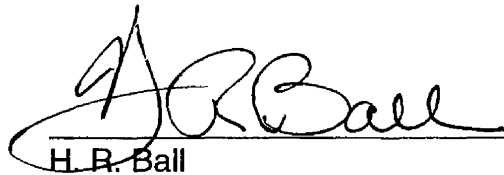
This information has been provided pursuant to the Request for Confidential
Classification filed on April 1, 2004.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

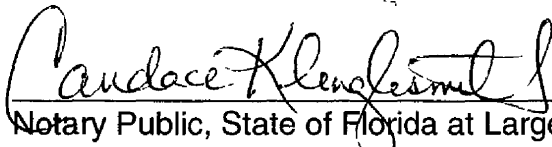
Docket No. 040001-EI

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 29th day of March, 2004



Notary Public, State of Florida at Large

Acknowledged before me this date
who is personally known to me
and who did not take an oath.

Commission Number: DD194327

Commission Expires: 5-18 07

