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ORIGINAL

GULF POWER
A SOUTHERN COMPANY

August 9, 2004

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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:

1. Prepared direct testimony of H. R. Ball. 08663-04
2. Prepared direct testimony of H. H. Bell, III. 08664-04
3. Prepared direct testimony and exhibit of T. A. Davis. 08665-04

Sincerely,

Susan D. Ritenour

lw

Enclosures

cc: Beggs and Lane
Jeffrey A. Stone, Esquire

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08663 AUG 10 04
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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 9th day of August 2004 on the following:

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GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony
H. R. Ball
Docket No. 040001-EI
Date of Filing: August 10, 2004

GULF POWER

A SOUTHERN COMPANY

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony of
H. R. Ball
Docket No. 040001-EI
Date of Filing: August 10, 2004

Q. Please state your name and business address.

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

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

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

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

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

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

A. The purpose of my testimony is to compare Gulf Power Company's projected fuel expenses with estimated/actual costs for the period January, 2004 through December, 2004 and to summarize any noteworthy developments in Gulf's fuel program. Also, it is my intent to be available to answer questions that may arise among the parties to this docket concerning Gulf Power Company's fuel expenses.

Q. During the period January, 2004 through December, 2004 how will Gulf Power Company's recoverable fuel cost of System Net Generation compare with the original projection of fuel cost?

A. Gulf's projected recoverable fuel cost of System Net Generation for the period is currently $372,845,690 or 9.59% above the original projected amount of $340,226,335. Total net system generation is expected to be 15,605,983 MWH compared to the original projected generation of 16,251,250 MWH or 3.97% below projections. The resulting average fuel cost is expected to be $2.389 per KWH or 14.12% above the original projected amount of $2.094 per KWH. The higher total fuel expense and average per unit fuel cost is attributed to higher than projected coal and natural gas prices for the period and a higher percentage of generation from natural gas fired units than was originally projected. This current projection of fuel cost of system net generation is captured in the exhibit to Witness Davis's testimony, Line A1.

Q. How did the total projected cost of coal burned compare to the actual cost for the first six months of 2004?

A. The total cost of coal burned was $109,980,769 which is 2.77% greater than our projection of $107,013,117. On a fuel cost per KWH basis, the actual cost was 1.75 cents per KWH which is 4.79% greater than the projected cost of 1.67 cents per KWH.

Q. How did the total projected cost of natural gas burned compare to the actual cost during the first six months of 2004?

A. The total cost of natural gas burned for generation was $58,794,448 which is 9.50% higher than our projection of $53,691,768. On a natural gas cost per unit basis, the actual cost was 5.13 cents per KWH which is 2.19% greater than the projected cost of 5.02 cents per KWH. The total cost of natural gas burned for generation is higher than projected due to higher than projected natural gas prices and a greater actual amount gas fired generation than projected.

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

A. Gulf Power hedged 4,200,000 MMBTU of natural gas, for the period January through June of 2004 using fixed price financial swaps.

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

A. Natural gas was hedged using financial swaps that fixed the price of gas to a certain price. These swaps settled against either a NYMEX Last Day price or Gas Daily price. The entire amount (4,200,000 MMBTU) of gas hedged was hedged using these financial instruments.

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

A. No fees, commission, or option premiums were paid. Gulf's gas hedging program has resulted in a net financial gain of $3,539,578 for the period January through June, 2004.

Q. Were Gulf Power's actions through June 30, 2004 to mitigate fuel and purchased power price volatility through implementation of its non-speculative financial and/or physical hedging programs prudent?

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

Q. Are Gulf Power's actual and projected operation and maintenance expenses for 2004 for its non-speculative financial hedging programs to mitigate fuel and purchased power price volatility reasonable for cost recovery purposes?

A. Yes, the O&M costs associated with managing the fuel hedging programs are a small percentage of the total benefit received from these programs. As an example, the budgeted recoverable O&M cost of managing the gas hedging program for the period January through December, 2004 is $32,866 while the total financial gain credited to fuel expense from the gas hedging program through June 2004 was $3,550,710.

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

A. No.

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

A. Yes, Gulf's coal supply program is based on a mixture of long term contracts and spot purchases at market prices. Coal suppliers are selected using procedures that assure reliable coal supply, consistent quality, and competitive delivered pricing. The terms and conditions of coal supply agreements have been administered appropriately. Natural gas is purchased using agreements that tie price to published market index schedules and is transported using a combination of firm and interruptible gas transportation agreements. Natural gas storage is utilized to assure that supply is available during times when gas supply is curtailed or unavailable. Gulf's fuel oil purchases were made from qualified vendors using an open bid process to assure competitive pricing and reliable supply.

Q. Mr. Ball, does this complete your testimony?
A. Yes, it does.