

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**DOCKET NO. 040001-EI**

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

**PREPARED DIRECT TESTIMONY AND EXHIBIT**

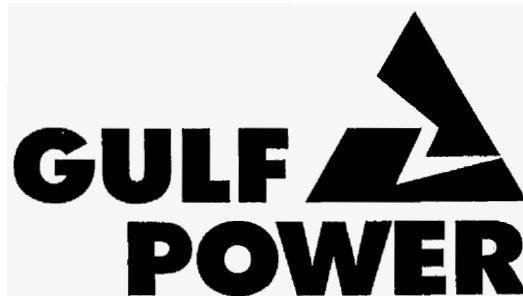
**OF**

**H. HOMER BELL**

**FUEL COST RECOVERY  
JANUARY 2005 – DECEMBER 2005**

**CAPACITY COST RECOVERY  
JANUARY 2005 – DECEMBER 2005**

**SEPTEMBER 9, 2004**



**A SOUTHERN COMPANY**

DOCUMENT NUMBER - DATE

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GULF POWER COMPANY

2 Before the Florida Public Service Commission  
3 Direct Testimony of  
4 H. Homer Bell  
5 Docket No. 040001-EI  
6 Date of Filing: September 9, 2004

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

8 A. My name is H. Homer Bell, and my business address is One Energy  
9 Place, Pensacola, Florida 32520. I am a Senior Engineer in the  
10 Generation Services Department of Gulf Power Company.

11 Q. Have you previously filed testimony with this Commission?

12 A. Yes. I have filed testimony in support of Gulf Power Company's projection  
13 and true-up of capacity and energy costs in this docket.

14 Q. Please summarize your educational and professional background.

15 A. I received my Bachelor of Science Degree in Electrical Engineering from  
16 Mississippi State University in 1980 and I received my Master of Business  
17 Administration Degree from the University of Southern Mississippi in  
18 1982. That year I joined Gulf Power Company (Gulf) as an associate  
19 engineer in Gulf's Pensacola District Engineering Department, and have  
20 since held engineering positions in the Rates and Regulatory Matters  
21 Department and the Transmission and System Control Department. I was  
22 promoted to my current position as Senior Engineer in the Generation  
23 Services Department in 2002. I am primarily responsible for the  
24 administration of Gulf's Intercompany Interchange Contract (IIC) and  
25

1 coordination of Gulf's generation planning activities.

2 During my years of service with the company, I have gained  
3 experience in the areas of distribution operation, maintenance, and  
4 construction; retail and wholesale electric service tariff administration;  
5 wholesale transmission service tariff administration; IIC and bulk power  
6 sales contract administration; and transmission and control center  
7 operations.

8

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

10 A. The purpose of my testimony is to support Gulf Power Company's (Gulf)  
11 projection of purchased power recoverable costs for energy purchases  
12 and sales for the period January 2005 - December 2005. I will also  
13 support Gulf's projection of purchased power capacity costs for the  
14 January 2005 - December 2005 recovery period.

15

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

18 A. Yes. I have one exhibit to which I will refer.

19

20 Counsel: We ask that Mr. Bell's Exhibit HHB-1 be  
21 marked for identification as  
22 Exhibit\_\_\_\_\_(HHB-1).

23

24

25

1 Q. What is Gulf's projected purchased power recoverable cost for energy  
2 purchases for the January 2005 - December 2005 recovery period?

3 A. Gulf's projected recoverable cost for energy purchases, shown on line 13  
4 of Schedule E-1 of the projection filing, is \$18,804,000. The purchases  
5 associated with this amount result from Gulf's participation in the  
6 coordinated operation of the Southern electric system (SES) power pool.  
7 This projected amount is used by Gulf's witness Ms. Davis as an input in  
8 the calculation of the fuel and purchased power cost adjustment factor.

9

10 Q. What is Gulf's projected purchased power fuel cost for energy sales for  
11 the January 2005 - December 2005 recovery period?

12 A. The projected fuel cost for energy sales, shown on line 19 of Schedule  
13 E-1, is \$121,543,000. The sales associated with this amount result from  
14 Gulf's participation in the coordinated operation of the SES power pool.  
15 This projected amount is used by Gulf's witness Ms. Davis as an input in  
16 the calculation of the fuel and purchased power cost adjustment factor.

17

18 Q. Please compare Gulf's projected purchased power recoverable costs for  
19 energy purchases and sales for the January 2005 - December 2005  
20 recovery period to the company's most recent projected costs for January  
21 2004 - December 2004 recovery period and explain the reasons for the  
22 differences.

23 A. Gulf's projected purchased power recoverable cost for energy purchases  
24 for the 2005 recovery period is \$18,926,135 lower than the \$37,730,135  
25 cost that was included in Gulf's August 2004 estimated/actual true-up

1 filing for the 2004 recovery period. In 2005, Gulf is expected to generate  
2 more energy from its units to serve its territorial load. This will result in the  
3 company purchasing less energy from the SES power pool at a slightly  
4 lower cost per kWh than was estimated for the 2004 recovery period in  
5 Gulf's August 2004 true-up filing.

6 Gulf's projected purchased power fuel cost for energy sales in 2005  
7 is \$6,328,199 lower than the \$127,871,199 amount that was included in  
8 Gulf's August 2004 estimated/actual true-up filing for the 2004 recovery  
9 period. Although Gulf is projected to sell less energy in 2005 due to  
10 higher generation retained for its territorial customers' needs, the cost per  
11 kWh for Gulf's pool energy sales is projected to be higher due to the  
12 continuing trend of increased fuel costs for SES generating units.  
13 Because the cost related to these sales is fully paid by the purchasing  
14 utility, Gulf's customers will receive credit for the cost of the related energy  
15 generation.

16  
17 Q. What information is contained in your exhibit?

18 A. My exhibit lists the long-term power contracts that are included for  
19 capacity cost recovery, their associated megawatt amounts, and the  
20 resulting capacity dollar amounts. Also listed on my exhibit are the  
21 revenues produced by several market-based service agreements between  
22 the SES operating companies and entities outside the system that were  
23 included in Gulf's 2004 projection.

24  
25

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

3 A. Two power contracts that produce recoverable capacity transactions are  
4 the SES Intercompany Interchange Contract (IIC), under which Gulf  
5 participates in the SES reserve equalization process, and Gulf's  
6 cogeneration purchased power contract with Solutia. The Commission  
7 has authorized the Company to include capacity transactions under the  
8 IIC for recovery through the purchased power capacity cost adjustment  
9 factor. Gulf will continue to have IIC capacity transactions during the  
10 January 2005 - December 2005 recovery period. The energy transactions  
11 under this contract are recovered through the fuel cost adjustment factor.

12 The Gulf/Solutia cogeneration purchased power contract enables  
13 Gulf to purchase 19 megawatts of firm capacity until June 1, 2005. Gulf  
14 has included the contract's cost for the months of January through May  
15 2005 in this projection. The energy transactions under this contract have  
16 also been approved by the Commission for recovery, and these costs are  
17 included for cost recovery purposes through the fuel cost adjustment  
18 factor.

19

20 Q. Are there any other arrangements that produce capacity transactions that  
21 are recovered through Gulf's purchased power capacity cost adjustment  
22 factor?

23 A. Yes. Gulf, as a member of the SES, will continue to participate in several  
24 market-based service agreements with non-associated entities that were  
25 included in Gulf's capacity cost projections for the January 2004 -

1 December 2004 recovery period. During the 2005 recovery period, the  
2 fixed revenues received from the generator and load balancing services  
3 provided under these agreements will produce credits that will lower Gulf's  
4 overall 2005 projected capacity costs. Any energy transactions  
5 associated with these agreements are handled for cost recovery purposes  
6 through the fuel cost adjustment factor.  
7

8 Q. What are Gulf's IIC capacity transactions that are projected for the  
9 January 2005 - December 2005 recovery period?

10 A. As shown on my Exhibit HHB-1, IIC capacity purchases in the amount of  
11 \$23,865,725 are projected for the 2005 recovery period.  
12

13 Q. What is the cost of Gulf's capacity purchase from Solutia that is projected  
14 for the January 2005 - December 2005 recovery period?

15 A. As shown on my Exhibit HHB-1, Gulf is projected to pay \$311,010, or  
16 \$62,202 per month through May 2005, to Solutia for the firm capacity  
17 purchase made pursuant to the Commission approved contract. This  
18 monthly amount has not changed from the amount that was projected for  
19 recovery in 2004. The contract will expire June 1, 2005 and there will be  
20 no monthly payments for the months June through December of the 2005  
21 recovery period.  
22  
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1 Q. What amount of revenues associated with Gulf's market-based service  
2 agreements is projected for the January 2005 - December 2005 recovery  
3 period?

4 A. As shown on my Exhibit HHB-1, Gulf is projected to receive a total of  
5 \$66,780 for services provided under market-based agreements with non-  
6 associated entities.

7

8 Q. Are there other projected revenues that Gulf has included in its capacity  
9 cost recovery clause for the 2005 recovery period?

10 A. Yes. In accordance with Florida Public Service Commission Order No.  
11 PSC-99-2512-FOF-EI, issued December 22, 1999, Gulf will continue to  
12 include an estimate of transmission revenues in its capacity cost recovery  
13 clause projection. For the 2005 recovery period, Gulf expects to receive  
14 transmission revenues in the amount of \$100,000. This amount is shown  
15 on Schedule CCE-1 of Gulf's witness Ms. Davis' testimony.

16

17 Q. What are Gulf's total projected net capacity transactions for the January  
18 2005 - December 2005 recovery period?

19 A. As shown on my Exhibit HHB-1, the IIC capacity purchases, the Solutia  
20 contract purchases, and the revenues from market-based service  
21 agreements will result in a projected net capacity cost of \$24,109,955.  
22 Including the estimated transmission revenues that are shown on  
23 Schedule CCE-1, Gulf's total projected net capacity cost for the 2005  
24 recovery period is \$24,009,955. This figure is used by Gulf's witness Ms.  
25 Davis as an input into the calculation of the total capacity transactions to



1 be recovered through the purchased power capacity cost adjustment  
2 factor for this annual recovery period.

3

4 Q. Please compare Gulf's January 2005 - December 2005 total projected net  
5 capacity cost to those projected costs for January 2004 - December 2004  
6 recovery period and explain the reason for the difference.

7 A. Gulf's 2005 net capacity cost is projected to be \$4,467,048 higher than  
8 the September 2003 estimate of \$19,542,907 due primarily to Gulf's  
9 higher IIC capacity reserve sharing cost produced by Gulf's increased  
10 purchases of capacity reserves under the provisions of the IIC.

11

12 Q. What factors contribute to Gulf's increased purchases of SES capacity  
13 reserves during the January 2005 – December 2005 recovery period?

14 A. In 2005, SES capacity additions that have been planned and committed to  
15 serve system load growth will produce a higher level of temporary system  
16 capacity reserves to be shared, or equalized, by all SES operating  
17 companies. These higher system reserves insure that capacity is  
18 available to serve projected system load which increases the bulk power  
19 reliability of the grid.

20 Because Gulf's 2005 load is projected to increase, Gulf will  
21 purchase more system capacity reserves in order to provide the level of  
22 reserves needed to reliably serve its growing customer requirements.  
23 Therefore, Gulf's IIC capacity cost will be correspondingly higher during  
24 the January 2005 - December 2005 recovery period.

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1 Q. Does this conclude your testimony?

2 A. Yes.

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AFFIDAVIT

STATE OF FLORIDA     )  
                                  )  
COUNTY OF ESCAMBIA )

Docket No. 040001-EI

Before me the undersigned authority, personally appeared H. Homer Bell, who being first duly sworn, deposes, and says that he is Senior Engineer in the Generation Services Department 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.



H. Homer Bell  
Senior Engineer, Generating Services Dept.

Sworn to and subscribed before me this 8<sup>th</sup> day of September,  
2004.

  
Notary Public, State of Florida at Large



**GULF POWER COMPANY**  
**PROJECTED PURCHASED POWER CONTRACT TRANSACTIONS**  
**JANUARY 2005 - DECEMBER 2005**

Contract	MW Purchase/(Sale)	Capacity (\$) Costs/(Receipts)
<b>Southern Company</b>		
Intercompany Interchange (IIC)		
January 2005	499.4	1,429,933
February	437.5	507,409
March	617.8	683,986
April	132.4	71,941
May	222.4	256,650
June	383.0	2,419,583
July	473.6	8,243,250
August	393.7	6,754,806
September	370.2	2,981,301
October	491.5	279,189
November	154.2	85,852
December	788.3	151,825
SUBTOTAL		23,865,725
<b>Solutia</b>		
January 2005	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	0.0	0
July	0.0	0
August	0.0	0
September	0.0	0
October	0.0	0
November	0.0	0
December	0.0	0
SUBTOTAL		311,010

GULF POWER COMPANY  
PROJECTED PURCHASED POWER CONTRACT TRANSACTIONS  
**JANUARY 2005 - DECEMBER 2005**

Contract	Capacity (\$) Costs/(Receipts)
Market-Based Service Agreements	
January 2005	(5,565)
February	(5,565)
March	(5,565)
April	(5,565)
May	(5,565)
June	(5,565)
July	(5,565)
August	(5,565)
September	(5,565)
October	(5,565)
November	(5,565)
December	(5,565)
SUBTOTAL	(66,780)
<b>TOTAL</b>	<b>24,109,955</b>