

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**DOCKET NO. 050001-EI**

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

**PREPARED DIRECT TESTIMONY**

**OF**

**H. HOMER BELL**

**FINAL TRUE-UP**

**JANUARY– DECEMBER 2004 (Fuel)**

**JANUARY– DECEMBER 2004 (Capacity)**

**MARCH 1, 2005**



**A SOUTHERN COMPANY**

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REG. COMMISSION CLERK

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission  
3 Direct Testimony of  
4 H. Homer Bell  
5 Docket No. 050001-EI  
6 Date of Filing: March 1, 2005

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 previous fuel cost recovery  
14 dockets.

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

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

1 administration of Gulf's Intercompany Interchange Contract (IIC) and  
2 coordination of Gulf's generation planning activities.

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

9

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

11 A. The purpose of my testimony is to summarize Gulf's purchased power  
12 recoverable costs for energy purchases and sales that were incurred  
13 during the January 2004 through December 2004 recovery period. I will  
14 compare these actual costs to the amounts projected in Gulf's September  
15 2003 fuel filing for the 2004 recovery period and discuss the reasons for  
16 the differences.

17 I will also summarize the Company's purchased power capacity  
18 cost that resulted during the January 2004 through December 2004  
19 recovery period. I will compare this actual figure to the amount projected  
20 in Gulf's September 2003 fuel filing for the 2004 recovery period and  
21 discuss the reasons for the difference.

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1 Q. During the period January 2004 through December 2004, what was Gulf's  
2 actual purchased power recoverable cost for energy purchases and how  
3 did it compare with the projected amount?

4 A. Gulf's actual total purchased power recoverable cost for energy  
5 purchases, as shown on line 13 of the December 2004 Period-to-Date  
6 Schedule A-1 was \$37,253,891 for 1,394,265,438 kWh as compared to  
7 the projected amount of \$12,776,000 for 477,038,000 kWh filed on  
8 September 12, 2003. The actual cost per kWh purchased was  
9 2.6719 ¢/kWh as compared to the projected amount of 2.6782 ¢/kWh, or  
10 less than 1% under the projection.

11

12 Q. What were the events that influenced Gulf's purchase of energy?

13 A. During January through December of the 2004 recovery period, the  
14 Southern electric system (SES) experienced higher fuel costs and lower  
15 hydro generation due to weather conditions. In order to reduce the  
16 commitment and utilization of higher cost generation resources that would  
17 have otherwise been dispatched to meet the system's energy needs, Gulf  
18 and the SES purchased a higher than projected amount of energy from  
19 off-system market resources when this was determined to be the most  
20 economical alternative.

21 Because these purchases served load for a limited number of  
22 hours each day, lower cost SES generation resources remained on-line to  
23 continuously serve system load. As a result, Gulf purchased a higher  
24 than projected amount of energy from these SES resources to serve its  
25 territorial load requirements in the 2004 recovery period.

1 Gulf's total actual energy purchase cost per kWh was within 1% of  
2 its originally projected amount due to Gulf's increased amount of off-  
3 system energy purchases that were made at a lower cost per kWh than  
4 was projected for the 2004 recovery period. These lower cost purchases  
5 offset Gulf's pool energy purchases which were higher than projected on a  
6 cents per kWh basis due to higher marginal SES fuel costs used in  
7 interchange pricing.  
8

9 Q. During the 2004 recovery period, what was the fuel cost effect of Gulf's  
10 increased purchases?

11 A. Although the volume of Gulf's energy purchases exceeded projections  
12 and produced a higher purchased power cost for the 2004 recovery  
13 period, these purchases were made as Gulf's least cost supply alternative  
14 in order to minimize Gulf's 2004 recoverable fuel and purchased power  
15 cost.  
16

17 Q. During the period January 2004 through December 2004, what was Gulf's  
18 actual purchased power fuel cost for energy sales and how did it compare  
19 with the projected amount?

20 A. Gulf's actual total purchased power fuel cost for energy sales, as shown  
21 on line 19 of the December 2004 Period-to-Date Schedule A-1 was  
22 \$131,085,598 for 5,090,176,351 kWh as compared to the projected  
23 amount of \$108,525,000 for 5,077,002,000 kWh. The actual fuel cost per  
24 kWh sold was 2.5753 ¢/ kWh, or 20% over the projected amount of  
25 2.1376 ¢/ kWh.

1 Q. What were the events that influenced Gulf's sale of energy?

2 A. During January through December of the 2004 recovery period, Gulf's  
3 total kWh sales were slightly higher than projected due to its higher off-  
4 system opportunity sales. On a cents per kWh basis, Gulf's energy sales  
5 exceeded their projected level due to higher than expected marginal SES  
6 fuel costs for resources that were used to determine the hourly price for  
7 interchange energy delivered to the pool.

8  
9 Q. During the 2004 recovery period, what was the fuel cost effect of Gulf's  
10 higher sales?

11 A. Gulf's slightly higher actual volume of sales that were made at higher  
12 prices resulted in higher recoverable sales revenue that is a credit, or  
13 reduction to Gulf's fuel cost of generation and purchased power costs.  
14 Therefore, the higher revenue from sales had the affect of reducing Gulf's  
15 2004 recoverable fuel and purchased power cost.

16  
17 Q. During the period January 2004 through December 2004, how did Gulf's  
18 actual net purchased power capacity cost compare with the net projected  
19 cost?

20 A. The actual net capacity cost for the January 2004 through December  
21 2004 recovery period, shown on line 5 of Schedule CCA-2, was  
22 \$18,164,095. Gulf's projected net purchased power capacity cost for the  
23 same period was \$19,542,907, as indicated on Line 4 of Schedule CCE-1  
24 that was filed September 12, 2003 in Docket No. 030001-EI. The  
25 difference between the actual net capacity cost and the projected net

1 capacity cost for the recovery period is \$1,378,812, or a decrease of 7%.

2

3 Q. Please explain the reason for the decrease in Gulf's capacity cost.

4 A. The capacity cost decrease for the January 2004 through December 2004  
5 recovery period is primarily due to Gulf's lower IIC reserve sharing cost of  
6 \$17,929,019 that is shown on Line 38 of Schedule CCA-4 in Witness  
7 Davis' testimony exhibit. Gulf's lower reserve sharing cost, which was  
8 \$1,098,468 less than the \$19,027,487 projected amount shown in my  
9 September 2003 testimony exhibit, resulted from Gulf's lower than  
10 projected unit outages in the summer months which is the time of year  
11 when capacity is valued most highly. These lower unit outages produced  
12 higher Gulf reserves in the IIC reserve sharing calculation. Therefore,  
13 Gulf was responsible for purchasing a lower amount of SES reserves  
14 during the summer months when capacity reserves are most valuable,  
15 and Gulf's IIC reserve sharing capacity cost was reduced.

16 Also, Gulf's transmission revenues associated with energy sales  
17 were \$183,313 above the September 2003 projection. These increased  
18 transmission revenues and Gulf's lower IIC reserve sharing cost were  
19 primarily responsible for producing Gulf's overall lower capacity cost for  
20 the January 2004 through December 2004 cost recovery period.

21

22 Q. Was Gulf's actual 2004 IIC capacity cost prudently incurred and properly  
23 allocated to Gulf?

24 A. Yes. Gulf's capacity costs were incurred in accordance with the reserve  
25 sharing provisions of the IIC, a Federal Energy Regulatory Commission

1 approved contract in which Gulf has been a participant for many years.  
2 Gulf's participation in the integrated SES that is governed by the IIC has  
3 produced substantial benefits for Gulf's territorial customers and has been  
4 recognized as being prudent by the Florida Public Service Commission in  
5 previous proceedings and reviews.

6 Per contractual agreement, Gulf and the other SES operating  
7 companies are obligated to provide for the continued operation of its  
8 electric facilities in the most economical manner that achieves the highest  
9 possible service reliability. The coordinated planning of future SES  
10 generation resource additions that produce adequate reserve margins for  
11 the benefit of all SES operating companies' customers facilitates this  
12 "continued operation" in the most economical manner.

13 Furthermore, the IIC provides for mechanisms to facilitate the  
14 equitable sharing of the costs associated with the operation of facilities  
15 that exist for the mutual benefit of all the operating companies. In 2004,  
16 Gulf's reserve sharing cost represents the equitable sharing of the costs  
17 that the SES operating companies incurred to ensure that adequate  
18 generation reserve levels are available to provide reliable electric service  
19 to territorial customers. This cost has been properly allocated to Gulf per  
20 the terms of the IIC.

21

22 Q. Does this conclude your testimony?

23 A. Yes.

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25

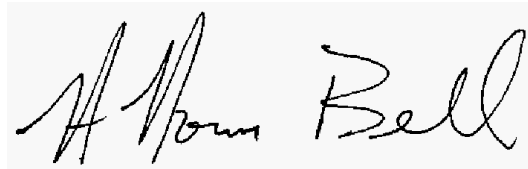


AFFIDAVIT

STATE OF FLORIDA     )  
                                  )  
COUNTY OF ESCAMBIA )

Docket No. 050001-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 28<sup>th</sup> day of February,  
2005.



Notary Public, State of Florida at Large

