BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 060001-EI

Prepared Direct Testimony and Exhibit of

H. R. Ball

Date of Filing: September 1, 2006

GULF POWER
A SOUTHERN COMPANY

GULF POWER COMPANY

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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. My employment with the Southern Company began in 1978 at Mississippi Power's (MPC) Plant Daniel as a Plant Chemist. In 1982, I transferred to MPC's Fuel Department as a Fuel Business Analyst. I was promoted in 1987 to Supervisor of Chemistry and Regulatory Compliance at Plant Daniel. In 1988, I assumed the role of Supervisor of Coal Logistics with Southern Company Fuel Services in Birmingham, Alabama. My responsibilities included administering coal supply and transportation agreements and managing the coal inventory program for the Southern

Electric System. I transferred to my current position as Fuel Manager for Gulf Power Company in 2003.

Q. What are your duties as Fuel Manager for Gulf Power Company?
A. My responsibilities include the management of 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. I also have responsibility for the administration of Gulf's Intercompany Interchange Contract (IIC).

Q. What is the purpose of your testimony in this docket?
A. The purpose of my testimony is to support Gulf Power Company's projection of fuel expenses, net power transaction expense, and purchased power capacity costs for the period January 1, 2007 through December 31, 2007. It is also my intent to be available to answer questions that may arise among the parties to this docket concerning Gulf Power Company's fuel and net power transaction expenses and purchased power capacity costs.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?
A. Yes, I have prepared an exhibit that compares actual and projected fuel cost of net generation for the past ten years. The purpose of this exhibit is to indicate the accuracy of Gulf's short term fuel expense projections.

Counsel: We ask that Mr. Ball's Exhibit, consisting of one schedule, be marked as Exhibit No. _____ (HRB-1).

Q. Has Gulf Power Company made any significant changes to its methods for projecting fuel expenses, net power transaction expense, and purchased power capacity costs for this period?

A. No. Gulf has been consistent in how it projects annual fuel expenses, net power transactions, and capacity costs.

Q. What is Gulf's projected recoverable total fuel and net power transactions cost for the January, 2007 – December, 2007 recovery period?

A. Gulf's projected total fuel and net power transaction cost for the period is $422,437,201. This projected amount is captured in the exhibit to Witness Martin's testimony, Schedule E-1, Line 21.

Q. How does the total projected fuel and net power transactions cost for the 2007 period compare to the projected fuel cost for the same period in 2006?

A. The total updated cost of fuel and net power transactions for 2006, reflected on revised Schedule E-1B of Witness Martin's testimony, is projected to be $372,802,084. The cost for 2007 is an increase of $49,635,117 or 13.31% over 2006. On a fuel cost per KWH basis, the 2006 projected cost is 2.9909 cents per KWH and the 2007 projected fuel cost is 3.3241 cents per KWH. This represents an increase of 0.3332 cents per KWH or 11.14%.

Q. What is Gulf's projected recoverable fuel cost of net generation for the 2007 period?

A. The projected total cost of fuel to meet system net generation needs in 2007 is $584,363,414. The projection of fuel cost of system net generation for 2007 is captured in the exhibit to Witness Martin's testimony, Schedule E-1, Line 1.

Q. How does the total projected fuel cost of net generation for the 2007 period compare to the projected fuel cost for the same period in 2006?

A. The total updated cost of fuel to meet 2006 system net generation needs, reflected on revised Schedule E-1B of Witness Martin's testimony, is projected to be $485,972,965. The projected total cost of fuel to meet system net generation needs in 2007 represents an increase of $98,390,449 or 20.25%. Total system net generation in 2007 is projected to be 17,529,530 MWH which is 1,169,257 MWH or 7.15% higher than is currently projected for 2006. On a fuel cost per KWH basis, the 2006 projected cost is 2.9704 cents per KWH and the 2007 projected fuel cost is 3.3336 cents per KWH. This is an increase of 0.3632 cents per KWH or 12.23%. This higher projected total fuel expense and average per unit fuel cost reflects a continued trend of increases in the forecasted price of coal and natural gas to fuel Gulf's generating units.

Q. Does the 2007 projection of fuel cost of net generation reflect any major changes in Gulf's fuel procurement program for this period?

A. Yes. Gulf was contracted to receive 1.9 million tons of coal under an existing coal supply agreement with a particular coal vendor. Gulf also had an associated agreement for the supply of 0.6 million tons of coal under a market price based purchase order. The vendor is claiming *force majeure* and is no longer shipping the contracted amount of coal. Gulf contends that the vendor is in default of its obligations and is pursuing a claim for damages through the courts on behalf of the ratepayers. Gulf does not expect any coal shipments under these agreements in 2007. In order to replace this coal supply, Gulf has purchased 1.5 million tons of coal under an agreement with Interocean Coal Sales, LDC, 0.8 million tons of coal under an agreement with Glencore, LTD, and 1.0 million tons of coal under an agreement with American Coal Co. for delivery in 2007 to Plants Crist and Smith at market price. These replacement coal purchases are at higher prices than the base contract price for the 1.9 million ton shipment obligation of the vendor Gulf contends is in default. As in the past, Gulf's remaining coal requirements, if any, will be purchased in the market through the Request for Proposal (RFP) process that has been used for many years by Southern Company Services - Fuel Services as agent for Gulf. Coal will be delivered under existing coal transportation contracts. Natural gas requirements will be purchased from various suppliers using firm quantity agreements with market pricing for base needs and on the daily spot market when necessary. Natural gas transportation will be secured using a combination of firm and spot transportation agreements.

Q. What fuel price hedging programs will be utilized by Gulf to protect the customer from fuel price spikes?

A. Natural gas prices will be hedged financially using instruments that conform to Gulf's established guidelines for hedging activity. Coal supply and transportation prices will be hedged physically using term agreements with either fixed pricing or term pricing with escalation terms tied to various published market price indexes.

Q. Has Gulf adequately mitigated the price risk of natural gas and purchased power for 2005 through 2007?

A. Gulf had adequate gas hedges in place for 2005 to mitigate price risk and the net result was a reduction in recoverable fuel cost of $22,528,337 (Schedule A1, December 2005 Period to Date, lines 2 & 3). Gulf currently has gas and purchased power hedges in place for 2006 and 2007 and continues to look for opportunities to enter into financial hedges that we believe will be of benefit to the customer.

Q. Should recent changes in the market price for natural gas impact the percentage of Gulf's natural gas requirements that Gulf plans to hedge?

A. Gulf has a disciplined process in place to evaluate the benefits of gas hedging transactions prior to entering into financial hedges that considers both market price and anticipated burn. The focus of this process is to mitigate the price volatility and risk of natural gas purchases for the customer and not to attempt to speculate in the natural gas market. Gulf's current strategy is to have gas hedges in place that do not exceed the anticipated gas burn at its Smith Unit 3 combined cycle plant. Gas burn requirements change as the market price of natural gas changes due to the economic dispatch process utilized by the Southern System generation pool in accordance with the Intercompany Interchange Contract. Typically, as gas prices increase, anticipated gas burn decreases and the percentage of gas requirements that are currently hedged financially increases. Gulf will continue to evaluate the performance of this hedging strategy and will make adjustments within the guidelines of the currently approved hedging program when needed.

Q. What actions does Gulf take to procure natural gas and natural gas transportation for its units at competitive prices for both long term and short term deliveries?

A. Gulf procures natural gas using both long and short term agreements for supply at market based prices. Gulf secures gas transportation for non-peaking units using long term agreements for firm transportation capacity and for peaking units using interruptible transportation, released seasonal firm transportation, or delivered natural gas agreements. Details of Gulf's natural gas procurement strategy are included in the "Risk Management Plan for Fuel Procurement" on file in this docket.

Q. What is Gulf's projected recoverable fuel cost of power sold for the 2007 period?

A. Gulf's projected recoverable fuel cost of power sold is ($197,895,521). This projected amount is captured in the exhibit to Witness Martin's testimony, Schedule E-1, Line 19.

Q. How does the total projected recoverable fuel cost of power sold for the 2007 period compare to the projected recoverable fuel cost of power sold for the same period in 2006?

A. The total projected recoverable fuel cost of power sold, reflected on revised Schedule E-1B of Witness Martin's testimony, is projected to be ($158,431,673). The projected recoverable fuel cost of power sold in 2007 represents an increased credit of ($39,463,848) or 24.91%. Total power sales in 2007 are projected to be 5,509,506 MWH. This is 498,993 MWH or 9.96% higher than is currently projected for 2006. On a fuel cost per KWH basis, the 2006 projected cost is 3.1620 cents per KWH and the 2007 projected fuel cost is 3.5919 cents per KWH. This is an increase of 0.4299 cents per KWH or 13.60%. This higher total credit to fuel expense from power sales is attributed to higher replacement fuel costs as a result of the forecasted higher market prices for coal and natural gas increasing the fuel reimbursement rate ($/MWH) for power sales.

Q. What is Gulf's projected purchased power recoverable cost for energy purchased for the 2007 period?

A. Gulf's projected recoverable cost for energy purchases is $31,564,000. This projected amount is captured in the exhibit to Witness Martin's testimony, Schedule E-1, Line 13.

Q. How does the total projected purchased power cost for the 2007 period compare to the projected purchased power cost for the same period in 2006?

A. The total updated cost of purchased power to meet 2006 system needs, reflected on revised Schedule E-1B1 of Witness Martin's testimony, is projected to be $32,910,297. The projected cost of purchased power to meet system needs in 2007 represents a decrease of $1,346,297 or 4.09%. Total purchased power in 2007 is projected to be 575,829 MWH which is 468,206 MWH or 44.85% lower than is currently projected for 2006. On a fuel cost per KWH basis, the 2006 projected cost is 3.1522 cents per KWH and the 2007 projected fuel cost is 5.4815 cents per KWH. This is an increase of 2.3293 cents per KWH or 73.89%. This higher projected purchased power average per unit cost reflects a continued trend of increases in replacement fuel costs as a result of the forecasted increases in the market price of coal and natural gas.

Q. What is Gulf's projected recoverable capacity cost for the 2007 period?

A. The total recoverable capacity cost for the period is $32,623,193. This amount is captured in Witness Martin's testimony on Line 3 of Schedule CCE-1. Schedule CCE-4 of Witness Martin's testimony lists the long term power contracts that are included for capacity cost recovery, their associated capacity amount in megawatts, and the resulting capacity dollar amounts. Also included on Schedule CCE-4 is a total of the revenues produced by several market based service agreements between the Southern Electric System operating companies and entities outside the system that are included in Gulf's 2007 projection. The total capacity cost shown on Schedule CCE-4 is included on Line 1 of Schedule CCE-1.

Q. What are the other projected revenues that Gulf has included in its capacity cost recovery clause for the period?

A. Gulf has included an estimate of transmission revenues in the amount of $275,000 in its capacity cost recovery projection. This amount is captured in Witness Martin's testimony on Line 2 of Schedule CCE-1.

Q. How does the total projected net capacity cost for the 2007 period compare to the projected net capacity cost for the same period in 2006?

A. Gulf's 2007 Projected Jurisdictional Capacity Payments (Schedule CCE-1, line 5) are projected to be $31,529,897 or 9.51% higher than the current estimate of $28,790,826 for 2006 captured in Witness Martin's testimony on Line 5 of Schedule CCE-1b. This increase is a result of Gulf's increased need for capacity reserves under the provisions of the Intercompany Interchange Contract. Gulf projects an increase in customer load responsibility for the 2007 period over the prior year while its owned capacity remains relatively unchanged. Therefore, this will require the purchase of more system capacity reserves in order to provide the level of reserve margin needed to reliably serve Gulf's customer load requirements.

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

A. Yes, it does.

GULF POWER COMPANY
PROJECTED VS. ACTUAL FUEL COST OF SYSTEM NET GENERATION

Cents / KWH Fuel Cost

Period Ending	Projected	Actual[1]	% Difference
March 1997	1.9282	2.0332	5.45
September 1997	1.9434	1.9431	(0.02)
March 1998	1.8734	1.8647	(0.46)
September 1998	1.5916	1.6361	2.80
December 1999	1.5291	1.5696	2.65
December 2000	1.6048	1.6460	2.57
December 2001	1.5782	1.7218	9.10
December 2002	2.0241	2.0505	1.30
December 2003	1.9639	2.1133	7.61
December 2004	2.0936	2.3270	11.15
December 2005	2.6566	2.8817	8.47
December 2006	2.9368[2]		
December 2007	3.3336[2]		

(1) Line No. 1 from FPSC Schedule A-1, Period To Date
(2) Line No. 1 from FPSC Schedule E-1

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 060001-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 FloridaMaine 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

H. R. Ball
Fuel Manager

Sworn to and subscribed before me this 31st day of August, 2006

Theresa Tucker

Notary Public, State of Florida at Large

Commission Number:

Commission Expires:

THERESA TUCKER
MY COMMISSION # DD 303630
EXPIRES: March 25, 2008
Bonded Thru Notary Public Underwriters