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ORIGINAL



August 3, 2007

Ms. Ann Cole, Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee FL 32399-0850

RECEIVED-FPSC  
07 AUG -6 AM 11:00  
COMMISSION  
CLERK

Dear Ms. Cole:

Re: Fuel and Purchased Power Cost Recovery Clause  
with Generating Performance Incentive Factor

Enclosed for official filing in Docket No. 070001-EI are an original and fifteen  
copies of the following:

1. Prepared direct testimony of H. R. Ball.
2. Prepared direct testimony and exhibit of Rhonda J. Martin.

Sincerely,

*Susan D. Ritenour*

CMP \_\_\_\_\_  
 COM 511  
 CTR original  
 EOP \_\_\_\_\_  
 GOL 2  
 OPC \_\_\_\_\_  
 RCA 1  
 SCR \_\_\_\_\_  
 SGA \_\_\_\_\_  
 SEC \_\_\_\_\_  
 OTH \_\_\_\_\_

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Enclosures

cc w/encl: Beggs & Lane  
Jeffrey A. Stone, Esq.

*Rhonda J. Martin*  
DOCUMENT NUMBER-DATE  
06742 AUG-6 6  
FPSC-COMMISSION CLERK

*H. R. Ball*  
DOCUMENT NUMBER-DATE  
06739 AUG-6 6  
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.: **070001-EI**

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true copy of the foregoing was furnished by U. S. mail this 3RD day of August, 2007, on the following:

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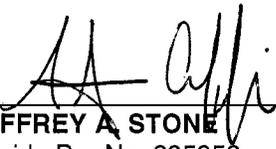
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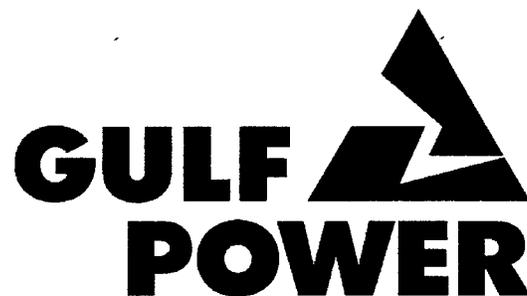
ORIGINAL

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

**Docket No. 070001-EI**

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

**Date of Filing: August 6, 2007**



**A SOUTHERN COMPANY**

DOCUMENT NUMBER-DATE

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GULF POWER COMPANY

Before the Florida Public Service Commission

Prepared Direct Testimony of

H. R. Ball

Docket No. 070001-EI

Date of Filing: August 6, 2007

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. I was promoted to Supervisor of Coal Logistics with Southern Company Fuel Services in Birmingham, Alabama in 1998. My responsibilities included administering coal supply and transportation agreements and managing the coal inventory program for the Southern

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

3  
4 Q. What are your duties as Fuel Manager for Gulf Power Company?

5 A. I manage the Company's fuel procurement, inventory, transportation,  
6 budgeting, contract administration, and quality assurance programs to  
7 ensure that the generating plants operated by Gulf Power are supplied  
8 with an adequate quantity of fuel in a timely manner and at the lowest  
9 practical cost. I also have responsibility for the administration of Gulf's  
10 Intercompany Interchange Contract (IIC).

11  
12 Q. What is the purpose of your testimony in this docket?

13 A. The purpose of my testimony is to compare Gulf Power Company's  
14 original projected fuel and net power transaction expense and purchased  
15 power capacity costs with current estimated/actual costs for the period  
16 January, 2007 through December, 2007 and to summarize any  
17 noteworthy developments at Gulf in these areas. The current  
18 estimated/actual costs consist of actual expenses for the period January,  
19 2007 through June, 2007 and newly projected fuel and net power  
20 transaction costs for July, 2007 through December, 2007. Projected  
21 capacity costs for July through December remain as originally filed. It is  
22 also my intent to be available to answer questions that may arise among  
23 the parties to this docket concerning Gulf Power Company's fuel and net  
24 power transaction expenses and purchased power capacity costs.

25

1 Q. During the period January, 2007 through December, 2007 how will Gulf  
2 Power Company's recoverable total fuel and net power transactions cost  
3 compare with the original cost projection?

4 A. Gulf's currently projected recoverable total fuel and net power transactions  
5 cost for the period is \$425,399,828 which is \$3,061,029 or 0.72% above the  
6 original projected amount of \$422,338,799. The resulting average fuel cost  
7 is projected to be 3.3937 cents per KWH or 2.12% above the original  
8 projection of 3.3233 cents per KWH. The higher total fuel expense and  
9 average per unit fuel cost is attributed to a combination of lower than  
10 projected fuel prices for the period which are reflected in both the fuel cost  
11 of generation and the fuel cost of purchased power offset by lower fuel  
12 revenue from power sales for the period. This current projection of fuel and  
13 net purchased power transaction cost is captured in the exhibit to Witness  
14 Martin's testimony, Schedule E-1 B-1, Line 20.

15  
16 Q. During the period January, 2007 through December, 2007 how will Gulf  
17 Power Company's recoverable fuel cost of system net generation compare  
18 with the original projection of fuel cost?

19 A. Gulf's currently projected recoverable fuel cost of system net generation for  
20 the period is \$577,586,046 which is \$6,777,368 or 1.16% below the original  
21 projected amount of \$584,363,414. Total net system generation is  
22 expected to be 17,514,719 MWH compared to the original projected  
23 generation of 17,529,530 MWH or 0.08% below projections. The resulting  
24 average fuel cost is expected to be 3.2977 cents per KWH or 1.08% below  
25 the original projected amount of 3.3336 cents per KWH. This current

1 projection of fuel cost of system net generation is captured in the exhibit to  
2 Witness Martin's testimony, Schedule E-1 B-1, Line 1.

3  
4 Q. What are the reasons for the difference between Gulf's original projection of  
5 the fuel cost of system net generation and the current projection?

6 A. The lower total fuel expense is due to lower than projected average per unit  
7 fuel costs. Delivered coal and natural gas prices per MMBTU are projected  
8 to remain below original projections for the remainder of the period.

9  
10 Q How did the total projected fuel cost of system net generation compare to  
11 the actual cost for the first six months of 2007?

12 A. The total fuel cost of system net generation was \$267,607,934 which is  
13 \$13,425,894 or 4.78% lower than the projection of \$281,033,828. On a fuel  
14 cost per KWH basis, the actual cost was 3.2606 cents per KWH, which is  
15 1.06% lower than the projection of 3.2956 cents per KWH. This lower cost  
16 of system generation on a cents per KWH basis is due to a combination of  
17 fuel cost in \$/MMBTU being 1.51% lower than projected and heat rate  
18 (BTU/KWH) of the generating units operating being 0.50% higher than  
19 projected. This information is found on Schedule A-1, Period to Date and  
20 Schedule A-3 of the June, 2007 Monthly Fuel Filing.

21  
22 Q. How did the total projected cost of coal burned compare to the actual cost  
23 for the first six months of 2007?

24 A. The total cost of coal burned (including boiler lighter) was \$190,374,001  
25 which is \$26,584,151 or 12.25% lower than our projection of \$216,958,152.

1 On a fuel cost per KWH basis, the actual cost was 2.717 cents per KWH  
2 which is 2.93% lower than the projected cost of 2.799 cents per KWH. The  
3 lower than projected cost of coal burned and cost of coal fired generation is  
4 due to coal prices being 5.13% lower than projected on a \$/MMBTU basis.  
5 This information is found on Schedule A-3 of the June, 2007 Monthly Fuel  
6 Filing.  
7

8 Q. How did the total projected cost of natural gas burned compare to the actual  
9 cost during the first six months of 2007?

10 A. The total cost of natural gas burned for generation was \$77,206,561 which  
11 is \$13,130,885 or 20.49% higher than Gulf's projection of \$64,075,676.  
12 The total cost of natural gas burned for generation is higher than projected  
13 due to net generation from gas fired units being 54.73% greater than  
14 projected. On a cost per unit basis, the actual cost of gas fired generation  
15 was 6.43 cents per KWH which is 22.15% lower than the projected cost of  
16 8.26 cents per KWH. The cost per KWH for gas fired generation is lower  
17 than projected due to lower natural gas prices. Natural gas prices were  
18 24.09% lower than projected on a \$/MMBTU basis. This information is  
19 found on Schedule A-3 of the June, 2007 Monthly Fuel Filing.  
20

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

23 A. Gulf Power hedged 2,250,000 MMBTU of natural gas for the period  
24 January, 2007 through June, 2007 using fixed price financial swaps.  
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 (2,250,000 MMBTU) of gas  
7 hedged was hedged using these financial instruments.

8  
9 Q. What was the actual total cost (e.g., fees, commission, option premiums,  
10 futures gains and losses, swap settlements) associated with each type of  
11 hedging instrument?

12 A. No fees, commission, or option premiums were paid. Gulf's gas hedging  
13 program has resulted in a net financial loss of \$3,650,094 for the period  
14 January through June, 2007.

15  
16 Q. During the period January, 2007 through December, 2007 how will Gulf  
17 Power Company's recoverable fuel cost of power sold compare with the  
18 original cost projection?

19 A. Gulf's currently projected recoverable fuel cost of power sold for the period  
20 is \$182,601,235 or 7.73% below the original projected amount of  
21 \$197,895,521. Total megawatt hours of power sales is expected to be  
22 5,650,384,198 KWH compared to the original projection of 5,509,506,000  
23 KWH or 2.56% above projections. The resulting average fuel cost of power  
24 sold is expected to be 3.2317 cents per KWH or 10.03% below the original  
25 projected amount of 3.5919 cents per KWH. This current projection of fuel

1 cost of power sold is captured in the exhibit to Witness Martin's testimony,  
2 Schedule E-1 B-1, Line 18.

3

4 Q. What are the reasons for the difference between Gulf's original projection of  
5 the fuel cost of power sold and the current projection?

6 A. The lower total credit to fuel expense from power sales is attributed to lower  
7 replacement fuel costs than originally projected. Lower market prices for  
8 natural gas during the period have reduced the fuel reimbursement rate  
9 (cents/KWH) for power sales.

10

11 Q. How did the total projected fuel cost of power sold compare to the actual  
12 cost for the first six months of 2007?

13 A. The total fuel cost of power sold was \$74,507,234 which is \$20,985,766 or  
14 21.98% less than our projection of \$95,493,000. On a fuel cost per KWH  
15 basis, the actual cost was 2.7282 cents per KWH which is 21.24% below  
16 the projected cost of 3.4640 cents per KWH. This information is found on  
17 Schedule A-1, Period to Date of the June, 2007 Monthly Fuel Filing.

18

19 Q. During the period January, 2007 through December, 2007 how will Gulf  
20 Power Company's recoverable fuel cost of purchased power compare with  
21 the original cost projection?

22 A. Gulf's currently projected recoverable fuel cost of purchased power for the  
23 period is \$24,429,398 or 22.60% below the original projected amount of  
24 \$31,564,000. The total amount of purchased power is expected to be  
25 611,594,786 KWH compared to the original projection of 575,829,000 KWH

1 or 6.21% above projections. The resulting average fuel cost of purchased  
2 power is expected to be 3.9944 cents per KWH or 27.13% below the  
3 original projected amount of 5.4815 cents per KWH. This current projection  
4 of fuel cost of purchased power is captured in the exhibit to Witness  
5 Martin's testimony, Schedule E-1 B-1, Line 12.

6  
7 Q. What are the reasons for the difference between Gulf's original projection of  
8 the fuel cost of purchased power and the current projection?

9 A. The lower total fuel cost of purchased power is attributed to a combination  
10 of Gulf purchasing a greater amount of energy to supplement its own  
11 generation to meet load demands but at a much lower price per KWH  
12 than originally projected. Replacement fuel costs for purchased power  
13 are lower as a result of forecasted natural gas market prices being lower  
14 than projected for the period.

15  
16 Q. How did the total projected fuel cost of purchased power compare to the  
17 actual cost for the first six months of 2007?

18 A. The total fuel cost of purchased power was \$8,242,397 which is \$7,595,603  
19 or 47.96% lower than our projection of \$15,838,000. The lower than  
20 anticipated purchased power expense is due to the actual price per KWH  
21 for purchases being well below the projected price during the first six  
22 months of the year. On a fuel cost per KWH basis, the actual cost was  
23 1.9322 cents per KWH which is 62.32% lower than the projected cost of  
24 5.1276 cents per KWH. This information is found on Schedule A-1, Period  
25 to Date of the June, 2007 Monthly Fuel Filing.

1

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

4 A. No.

5

6 Q. Were Gulf Power's actions through June 30, 2007 to mitigate fuel and  
7 purchased power price volatility through implementation of its financial  
8 and/or physical hedging programs prudent?

9 A. Yes, Gulf's physical and financial fuel hedging programs have resulted in  
10 more stable fuel prices. Over the long term, Gulf anticipates less volatile  
11 future fuel costs than would have otherwise occurred if these programs  
12 had not been utilized.

13

14 Q. Should Gulf's fuel and net power transactions cost for the period be  
15 accepted as reasonable and prudent?

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

1 qualified vendors using an open bid process to assure competitive pricing  
2 and reliable supply. Gulf makes sales of power when available and gets  
3 reimbursed at the marginal cost of replacement fuel. This fuel  
4 reimbursement is credited back to the fuel cost recovery account so that  
5 lower cost fuel purchases made on behalf of Gulf's customers remain to  
6 the benefit of those customers. Gulf purchases power when necessary to  
7 meet customer load requirements and when the cost of purchased power  
8 is expected to be less than the cost of system generation. The fuel cost  
9 of purchased power is the lowest cost available in the market at the time  
10 of purchase to meet Gulf's load requirements.

11  
12 Q. During the period January 2007 through December 2007, what is Gulf's  
13 projection of actual / estimated net purchased power capacity transactions  
14 and how does it compare with the company's original projection of net  
15 capacity transactions?

16 A. As shown on Line 3 of Schedule CCE-1b in the exhibit to Witness  
17 Martin's testimony, Gulf's total current net capacity payment projection for  
18 the January 2007 through December 2007 recovery period is  
19 \$30,554,825. Gulf's original projection for the period was \$32,623,193  
20 and is shown on Line 3 of Schedule CCE-1 filed in September, 2006. The  
21 difference between these projections is \$2,068,368 or 6.34% lower than  
22 the original projection of net capacity payments and represents the  
23 difference between actual capacity payments year to date June 2007 and  
24 the original projection for this period.

25

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

2 A. Yes.

AFFIDAVIT

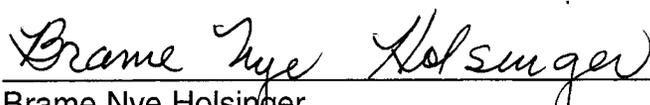
STATE OF FLORIDA     )  
                                  )  
COUNTY OF ESCAMBIA )

Docket No. 070001-EI

Before me the undersigned authority, personally appeared Herbert R. Ball, who being first duly sworn, deposes, and says that he is the Fuel Manager of Gulf Power Company, a Florida 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 3rd day of August, 2007

  
\_\_\_\_\_  
Brame Nye Holsinger  
Notary Public, State of Florida at Large

(SEAL)

