BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of: DOCKET NO. 090001-EI

FUEL AND PURCHASED POWER COST RECOVERY CLAUSE WITH GENERATING PERFORMANCE INCENTIVE FACTOR.
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VOLUME 3

Pages 423 through 607

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PROCEEDINGS:	HEARING
COMMISSIONERS PARTICIPATING:	CHAIRMAN MATTHEW M. CARTER, II COMMISSIONER LISA POLAK EDGAR COMMISSIONER NANCY ARGENZIANO COMMISSIONER NATHAN A. SKOP COMMISSIONER DAVID E. KLEMENT
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
TIME:	Commenced at 9:30 a.m. Concluded at 5:08 p.m.
DATE:	Monday, November 2, 2009
REPORTED BY:	JANE FAUROT, RPR Official FPSC Reporter (850) 413-6732
APPEARANCES:	(As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

NUMBER:		ID.	ADMTD.
78-87			438
97-103			554
88-99			598
134	Fuel Cost Data, FIPUG Composite Cross-Examination Exhibit	598	598

P R O C E E D I N G S

(Transcript follows in sequence from Volume 2.)

CHAIRMAN CARTER: We are back on the record. And when we last left, Staff, you were in cross-examination. We'll take a second, and then we will recognize Ms. Bennett for cross-examination.

Ms. Bennett, you're recognized.

MS. BENNETT: Thank you.

CONTINUED CROSS EXAMINATION

BY MS. BENNETT:

Q. Mr. Cutshaw and Mr. Young, when we were last talking we were talking about Issue 3B and your rate mitigation proposal. In your testimony, Mr. Cutshaw, you said that you considered other options, but recommended the storm hardening use of funds.

What other options did you consider?

A. (By Witness Cutshaw) The storm hardening option was really our only legitimate option that we found that could provide some revenues to offset the underrecovery. So there were really no other significant options that we looked at other than not collecting. So the -- and I'd have to look at my testimony, maybe I did say that we looked at other options. We looked at options, and that was -- the storm hardening option was the only one that we identified as a realistic possibility to offset some of the underrecovery.

Q. Have you explored deferring collection of the revenues, all or a portion of the 2009 underrecovery into 2011?

A. I think to some degree that's what this will mean is that we will be deferring the underrecovery. We will be using the storm hardening to offset this year's amortization payment, I guess you might say, for 2010. In 2011, you know, at that point in time we will have to look at the underrecovery and see if we want to possibly defer it again or include it in our projections at that time.

Q. I guess I am a little confused then, because I thought you were using the storm recovery to eliminate the 2009 underrecovery. Is that not the case?

A. I'll let Mr. Young clarify that issue.

A. (By Witness Young) Yes, that is the case. The storm hardening, the 295,000 that we were going to apply is strictly from the storm hardening course derived in -- that we projected for 2010 for northwest. The rates in our alternative, in MC-5, those rates are calculated without the underrecovery from 2009. They are based only on costs through 2010. And that's because we wanted to set aside that underrecovery and resolve it in another way by applying the storm hardening costs, the revenue from the storm hardening costs.

Q. So the 1.7 million underrecovery for 2009 would be reduced completely by the storm hardening for the Marianna division?

A. Well, for now we only propose it for one year, which would be just the 295,000. That would be the reduction for the 2010 year. And, in essence, if it is approved of and we go forward with it, then we would apply it accordingly in the following years. But what we proposed just for now was just a one-year reduction of it, based by the 295,000.

Q. So you would be deferring all of the 1.7 million, but it would be reduced by 295,000 in 2010, and then there would be 1.4 million left over in 2010 that the Commission would have to address somehow or another?

A. Exactly. Exactly.

Q. If FPU were not to reduce the storm hardening, but were to just defer the underrecovery to 2011, or half of the underrecovery to 2011 and not apply the revenue, would you agree with me, subject to check, that the level fuel factor for 2009 would be 7.925 cents per kilowatt hour?

A. I would estimate it there. It would be somewhere between the 8.197 and the 6. -- the difference. I don't know the exact amount, but I would estimate you are pretty close to where it would be.

Q. And would you agree with me that that would be approximately $2.72 less for a residential bill?

A. Approximately, yes.

Q. And I think you have told us that FPUC did not consider deferring half of the underrecovery or some part of the underrecovery and not offsetting it by storm costs, is that correct?

A. I'm sorry, repeat that, please.

Q. I confused myself.

I think you testified earlier that you did not consider any option other than the storm hardening being used to offset some of the 2009 underrecovery, is that correct?

A. When you said not -- well, I'm not sure what point -- are you talking about the alternative as far as how we apply it, or what use, what options we are going to use to otherwise reduce underrecovery.

Q. I think what I'm asking is what effect would it have on FPU to not use the storm hardening to offset the 2009 underrecovery, but just to defer half of that underrecovery until 2011. What financial effect would it have, has the company considered that?

A. Not to my knowledge, we haven't considered that. That hasn't been calculated.

Q. Would FPU be financially capable of making such a deferral?

A. I think so, yes. It's just a matter of we would also have to throw in the effect on the customers whatever the result would be after-the-fact.

Q. And one of those effects on the customers, wouldn't it be true, would be that there would be an increase in 2011 for the deferred amount?

A. Yes, it wouldn't be quite the reduction that we would have now if we only applied half.

Q. A vote to approve your rate mitigation proposal today would be actually a vote to approve amending your storm hardening plan, wouldn't that be correct?

A. (By Witness Cutshaw) That would be correct.

Q. And have you actually filed an amendment to your plan yet with the Commission?

A. No, we have not.

Q. Do you propose to do so if this is approved?

A. Yes, we will provide an amended plan based on the results from today.

MS. BENNETT: I have no further questions of these witnesses.

CHAIRMAN CARTER: Thank you.

From the bench, Commissioner Skop, you're recognized.

COMMISSIONER SKOP: Thank you, Mr. Chairman.

Go back to Mr. Cutshaw. I guess the prior question I had and actually found it, it was Number 17 in the FPUC response to Staff's Third Set of Interrogatories, and I think that addressed my prior line of questioning in terms of what the company did to address some of my concerns I previously raised. What I want to go back to briefly is the FPU Response to Staff's First Set of Interrogatories 1C, and I'll give you a second to get to that. Do you see that?

WITNESS CUTSHAW: Yes.

COMMISSIONER SKOP: In that response, they discuss a fuel rate decrease scheduled for October 1, 2009, and also discussed that that number is just an estimate by JEA, but has not yet been approved by the JEA board. I just have two questions on that. With respect to the fuel rate decrease, is that just the fuel component, i.e., coal, or are we talking about the demand and energy charges and fuel built in all in one?

WITNESS CUTSHAW: That was just the fuel component.

COMMISSIONER SKOP: On this particular response?

WITNESS CUTSHAW: Correct.

COMMISSIONER SKOP: And then, I guess, secondly, you know, I could see, given the contractual arrangement that FPUC has with JEA, doesn't lend itself well to aligning with annual proceedings that the Commission has, and whenever JEA decides to implement some sort of rate increase or change, it forces FPUC to react and also to seek recovery of costs or pass-through costs to its customer base.

What efforts, if any, has FPUC made to try and have a better open communication dialogue with JEA to better understand and quantify what, you know, any proposed pass-through costs and the related impact on your customers such that, you know, we don't find ourselves in, you know, a midcourse surprise? Because, again, I could see this happening. It has happened once or twice. So, again, is FPUC taking steps to try and have a more open dialogue with JEA to address some of these on-going issues?

WITNESS CUTSHAW: When the contract was started in January of 2007, only the first year of cost was identified within the contract, everything else was identified as based on the tariff or based on fuel costs at that time. So there was nothing in the contract to give us any guidance as to what the costs would be as we move through the contract.

One of the, I guess, good things that came out of this was that, you know, we looked at the cost of service study and at this point we know going forward what the capacity costs will be, we know what the energy costs will be, and we know what the environmental charges will be. Those are outlined within the contract for the term of the contract at this point. So we know now on a yearly basis what those numbers are and we can include those in our one-docket filing.

The only possible issue is that the fuel component of the contract is based on the retail fuel cost for the JEA customers. Within JEA, all customers pay the same fuel costs. Typically, what they have mentioned to us that they are going to attempt to do is set that cost each June for implementation in October, which that fits in relatively well to our filing. We will know prior to September what those numbers will be. The only downside would be if they decided midcourse to change some numbers or the October, November, and December time period for the projection period, they may not know those for certain. But overall the components are known. So I think we will be doing a much better job in making the projections going forward because we know what those costs are going to be.

COMMISSIONER SKOP: Okay. So those costs have been, as you have progressed in the contract, further definitized such that your customers won't see wild swings in variations in their rates hopefully on a going-forward basis?

WITNESS CUTSHAW: That is correct.

COMMISSIONER SKOP: Great. And then just one final question I think that you answered in response to a question posed by Ms. Bennett, but I'm trying to understand if the storm deferral option or suggestion is not granted, or if that was not used to mitigate the proposed rate increase, what would be the total magnitude of the increase itself as it would affect the average customer?

WITNESS CUTSHAW: I think the question was what is the difference between the two?

COMMISSIONER SKOP: Yes.

WITNESS YOUNG: Like I said, the cost for a typical residential customer would be approximately $155.52 without this appliance of the storm hardening whereas opposed, if we do, we are granted permission to apply it, we are looking at a typical bill of $149.95.

COMMISSIONER SKOP: Okay. And that's with doing the proposed --

WITNESS YOUNG: Right, at least for the year for 2010.

COMMISSIONER SKOP: Thank you.

CHAIRMAN CARTER: Thank you, Commissioner.

Commissioners, anything further from the bench?

Mr. Horton, redirect.

MR. HORTON: I think just one.

REDIRECT EXAMINATION

BY MR. HORTON:

Q. Mr. Cutshaw, is the mitigation proposal that we have been talking about here, is that the primary recommendation or position for FPUC in this?

A. No, that is strictly an alternative position. I think our original position is the -- it did not include removing the storm hardening.

MR. HORTON: Okay. Thank you. That's all.

CHAIRMAN CARTER: You have done outstanding, Mr. Horton, in the words of Master Po, you have mastered the rice paper. Nice let's try the pebble in my hand.

Commissioner Edgar, you're recognized.

COMMISSIONER EDGAR: I'm sorry, I just want to make sure I --

CHAIRMAN CARTER: Do you want to go for the pebble? Nevermind.

COMMISSIONER EDGAR: I never claimed to be that fast, Mr. Chairman.

Just to clarify, a follow-up to Mr. Horton's question. So for Marianna the primary position, I think to use your words, for the company request would have for the Marianna portion of the company the bill be $155.54?

WITNESS YOUNG: Yes, .52, that's our primary position.

COMMISSIONER EDGAR: Okay. I know you just did this, but could you tell me the number again; if the storm hardening proposal were to be adopted, what that number would come down to?

WITNESS YOUNG: It would be 149.95.

COMMISSIONER EDGAR: Thank you.

CHAIRMAN CARTER: Thank you, Commissioner. Commissioners, anything further from the bench?

Commissioner Skop, you're recognized.

COMMISSIONER SKOP: Thank you, Mr. Chairman.

I guess just a question to staff. Typically, you know, during the fuel docket we do do some bench votes when the issues are pretty clear cut. Does staff envision making on this particular issue an oral modification, or would a written recommendation that the Commission would act upon be more appropriate in light of the technical nature of the options?

MS. BENNETT: We will be prepared to offer an oral recommendation, but if the Commission would prefer us to develop some more detailed studies, we can do that.

COMMISSIONER SKOP: Thank you.

COMMISSIONER EDGAR: Mr. Chairman.

CHAIRMAN CARTER: Commissioner Edgar.

COMMISSIONER EDGAR: I'd like to reserve that option as a possibility, depending, you know, kind of where we are when the questioning and testimony and all of that wraps up. I'm not prepared yet to say I absolutely need it. On the other hand, I'm not prepared to say I absolutely don't, so I would like to just keep that as a possibility.

CHAIRMAN CARTER: Better to need it and not have it than to have it and not need it, or something like that. Or to not need it -- or to have it and not need it. Anyway, let's go. (Laughter.)

Let's do this. Staff, where are we? Just kind of bring us back around on this matter.

MR. HORTON: Mr. Chair.

CHAIRMAN CARTER: Mr. Horton, I'm sorry.

MR. HORTON: I would like to move Exhibits 78 through 87, if we're --

CHAIRMAN CARTER: Are there any objections? Without objection, show it done.

(Exhibit Numbers 78 through 87 admitted into the record.)

CHAIRMAN CARTER: Do we need anything further from these two witnesses, staff?

MS. BENNETT: Not unless Mr. Horton needs anything further.

MR. HORTON: No, I'm finished.

CHAIRMAN CARTER: Commissioners, anything further for these two witnesses? You may be excused.

Ms. Bennett.

MS. BENNETT: I believe that brings us to Gulf's witnesses.

CHAIRMAN CARTER: Okay. Mr. Badders.

MR. BADDERS: We're ready to proceed. We call Mr. Ball to the stand.

CHAIRMAN CARTER: Okay. Mr. Ball.

MR. BADDERS: And Mr. Ball was present this morning when the witnesses were sworn.

CHAIRMAN CARTER: Okay. Hang on a second. I need to check with staff on something.

(Pause.)

CHAIRMAN CARTER: Mr. Badders, you're ready?

MR. BADDERS: We are ready.

CHAIRMAN CARTER: You may proceed.

MR. BADDERS: Thank you.

RUSSELL HERBERT BALL

was called as a witness on behalf of Gulf Power Company, and having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BADDERS:

Q. Please state your name and job title for the record?

A. My name is Herbert Russell Ball. I'm employed by Gulf Power Company as Fuel Manager.

Q. Are you the same H. R. Ball who prefiled Final True-up Testimony on March 9, 2009, and Estimated/Actual True-up Testimony on August 4, 2009?

A. Yes.

Q. Did you also file projection testimony on September 1st, 2009, which was subsequently revised this past Friday, October 30, 2009?

A. Yes.

Q. Do you have any changes or corrections to any of that testimony?

A. No.

Q. If I were to ask you the same questions today, would your answers be the same?

A. Yes.

MR. BADDERS: We would ask that the prefiled testimony with the revised projection testimony dated October 30th be inserted into the record as though read.

CHAIRMAN CARTER: The prefiled testimony of the witness will be inserted into the record as though read.

MR. BADDERS: Thank you. And I'll note that we passed out the revised testimony this morning, so each of the Commissioners and all of the parties should have that.

CHAIRMAN CARTER: Got it.

BY MR. BADDERS:

Q. Mr. Ball, do you also have four exhibits attached to your testimony?

A. I'm sorry, repeat that.

Q. Do you also have four exhibits attached to your testimony?

A. Yes.

Q. Do you have any changes or corrections to those exhibits?

A. No.

MR. BADDERS: We'd ask that these -- actually, these exhibits have already been identified. They are

Exhibits 97 through 103.

CHAIRMAN CARTER: Okay.

MR. BADDERS: And you'll note that 104 was reserved for an exhibit that has been withdrawn as a result of 4C, so 104 will not be used.

CHAIRMAN CARTER: Okay. So when we finish with this witness, as we introduce the exhibits into evidence, just bring that back to our attention and we will take care of that at that point in time.

MR. BADDERS: I will do so, thank you.

At this time the witness is tendered for cross-examination.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
H. R. Ball
Docket No. 090001-EI
Date of Filing: March 9, 2009

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

A. My name is H. R. Ball. My business address is One Energy Place, Pensacola, Florida 32520-0780. 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 participation in the Intercompany Interchange Contract (IIC) between Gulf and the other operating companies in the Southern electric system (SES).

Q. What is the purpose of your testimony in this docket?
A. The purpose of my testimony is to summarize Gulf Power Company's fuel expenses, net power transaction expense, and purchased power capacity costs, and to certify that these expenses were properly incurred during the period January 1, 2008 through December 31, 2008. 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. Have you prepared an exhibit that contains information to which you will refer in your testimony?
A. Yes, I have.
Counsel: We ask that Mr. Ball's exhibit consisting of five schedules be marked as Exhibit No. _____(HRB-1).

Q. During the period January 2008 through December 2008, how did Gulf Power Company's recoverable total fuel and net power transaction expenses compare with the projected expenses?

A. Gulf's recoverable total fuel cost and net power transaction expense was $559,188,790, which is $107,185,526 or 23.71% above the projected amount of $452,003,264. The higher total fuel and net power transaction expense is attributed to less fuel revenue than projected from power sales due to both a lower quantity and price for power sales than projected for the period. The actual total cost of generated power was below projections by $39,526,094, or 5.99%. The total net cost of purchased power and power sales was above projections due to a $37,320,695, or 124.19% increase in purchased power costs and a $98,474,595, or 42.97% decrease in power sales revenues. Actual net energy was 12,606,079,782 KWH compared to the projected net energy of 12,898,894,000 KWH or 2.27% below projections. The resulting actual average cost of 4.4359 cents per KWH was 26.59% above the projected cost of 3.5042 cents per KWH. This information is from Schedule A-1, period-to-date, for the month of December 2008 included in Appendix 1 of Witness Dodd's exhibit.

Q. During the period January 2008 through December 2008, how did Gulf Power Company's recoverable fuel cost of net generation compare with the projected expenses?

A. Gulf's recoverable fuel cost of net generation was $620,647,170 or 5.99% below the projected amount of $660,209,264. Actual generation was

14,761,691,000 KWH compared to the projected generation of 17,574,010,000 KWH, or 16.00% below projections. The resulting actual average fuel cost of 4.20 cents per KWH was 11.70% above the projected fuel cost of 3.76 cents per KWH. The lower total fuel expense is attributed to a lower quantity of fuel burned than projected for the period. The actual quantity of fuel consumed was 147,326,957 MMBTU which was 13.97% below the projected quantity of 171,254,303 MMBTU. The percentage of energy generated from higher-cost natural gas fired resources was 16.44%, which was 6.13% higher than the projected amount of 15.49%. The weighted average fuel cost for gas was $10.78 per MMBTU, which is 6.02% below the projected cost of $11.47 per MMBTU. The weighted average fuel cost for coal, plus lighter fuel, was $3.32 per MMBTU, which is 15.68% higher than projected cost of $2.87 per MMBTU. The fuel cost of generation (cents/KWH) is higher than projected for the period due to the higher percentage of generation from natural gas fired resources combined with the higher weighted average cost for coal. This information is found on Schedule A-3, period-to-date, for the month of December 2008 included in Appendix 1 of Witness Dodd's exhibit.

Q. How did the total projected cost of coal purchased compare with the actual cost?

A. The total actual cost of coal purchased (excluding Plant Scherer) was $429,284,280 (line 17 of Schedule A-5, period-to-date, for December 2008) compared to the projected cost of $399,438,634 or 7.47% above the projected amount. The higher coal cost was due to a higher weighted average coal price for the period. The actual weighted average price of coal purchased was $80.06 per ton which is 17.74% above the projected amount of $68.00 per ton. The higher weighted average price of coal for the period was due to higher than expected prices for spot coal purchases during the period. The total cost of coal purchased at Plant Scherer was $28,642,289 (line 30 of Schedule A-5, period-to-date, for December 2008). This is 5.13% lower than the projection of $30,190,299. The lower coal cost was due to lower quantity of coal purchased and a lower weighted average coal price for the period. The actual weighted average price of coal purchased was $2.12 per MMBTU which is 2.30% below the projected amount of $2.17 per MMBTU. The lower weighted average coal purchase price at Plant Scherer was due to lower prices for spot Powder River Basin (PRB) coal purchased during the period.

Q How did the total projected cost of coal bumed compared to the actual cost?

A. The total cost of coal bumed (excluding Plant Scherer) was $401,161,376 (line 21 of Schedule A-5, period-to-date, for December 2008). This is 1.38% lower than the projection of $406,795,252. The lower total coal cost was due to a smaller quantity of coal bumed (13.90% below projections). This was offset by a higher weighted average coal bum cost (14.53% above projections) for the period. The total cost of coal burned at Plant Scherer was $27,112,639 (line 34 of Schedule A-5, period-to-date, for December 2008). This is 5.66% lower than our projection of

$28,738,552. The lower coal burn cost at Scherer was due to a smaller quantity of coal burned (4.43% below projections) and a lower price per MMBTU of coal burn (1.42% below projections).

Q. How did the total projected cost of natural gas burned compare to the actual cost?

A. The total actual cost of natural gas burned for generation was $188,423,601 (line 47 of Schedule A-5, period-to-date, for December 2008). This is 14.24% below the projection of $219,706,300. The decrease can be attributed to lower than forecasted market prices for natural gas on a weighted average basis. The actual weighted average gas burn cost was $10.77 per MMBTU, which is 6.02% lower than the projected burn cost of $11.46 per MMBTU.

Q. Did fuel procurement activity during the period in question follow Gulf Power's Risk Management Plan for Fuel Procurement?

A. Yes. Gulf Power's fuel strategy in 2008 complied with the Risk Management Plan filed on April 5, 2007.

Q. Did implementation of the Risk Management Plan for Fuel Procurement result in a reliable supply of coal being delivered to Gulf's coal-fired generating units during the period?

A. Yes. The supply of coal and associated transportation to Gulf's generating plants was secured through a combination of long-term contracts and spot agreements as specified in the plan. These supply and transportation agreements included a number of purchase commitments initiated prior to the beginning of the period. These early purchase commitments and the planned diversity of fuel suppliers are designed to provide a more reliable source of coal to the generating plants. The result was that Gulf's coal-fired generating units had an adequate supply of fuel available at all times at a reasonable cost to meet the electric generation demands of its customers.

Q. For coal purchases during the period, what percentage was purchased on the spot market and what percentage was purchased using longer-term contracts?

A. Excluding Plant Scherer Unit 3, total coal purchases for the period amounted to 5,361,896 tons. Gulf purchased 1,604,327 tons or 30% of this coal on the spot market. Spot purchases are classified as coal purchase agreements with terms of one year of less. Spot coal purchases are necessary to allow a portion of the purchase quantity commitments to be adjusted in response to changes in coal burn that may occur during the year. Gulf purchased 3,757,569 tons or 70% of this coal under longer-term contracts. Longer-term contracts provide a reliable base quantity of coal to Gulf's generating units with firm pricing terms. This limits price volatility and increases coal supply consistency over the term of the agreements. Schedule 1 of my exhibit consists of a list of contract and spot coal purchases for the period.

Q. Did implementation of the Risk Management Plan for Fuel Procurement result in stable coal prices for the period?

A. Yes. Coal cost volatility was mitigated through compliance with the Risk Management Plan. Gulf uses physical hedges to reduce price volatility in the coal procurement program. Gulf purchases coal and associated transportation at market price through the process of either issuing formal requests for proposals to market participants or occasionally for small quantity spot purchases through informal proposals. Once these confidential bids are received, they are evaluated against other similar proposals using standard contract terms and conditions. The least cost acceptable alternatives are selected and firm purchase agreements are negotiated with the successful bidders. Gulf purchased coal and coal transportation using a combination of firm price contracts and purchase orders that either fix the price for the period or escalate the price using a combination of government published economic indices. Schedule 2 of my exhibit provides a list of the contract and spot coal purchases for the period and the weighted average price of shipments under each purchase agreement in $/MMBTU. Because of the fixed price nature of longer term contract coal purchase agreements and the substantial amount of coal under firm commitments prior to the beginning of the period, there was only a small variance between the estimated purchase price of contract coal and the actual price for the period. There was a substantial increase in the price of spot coal during the period which resulted in spot coal prices being above budget.

Q. Did implementation of the Risk Management Plan for Fuel Procurement result in a reliable supply of natural gas being delivered to Gulf's gas-fired generating units at a reasonable price during the period?

A. Yes. The supply of natural gas and associated transportation to Gulf's generating plants was secured through a combination of long-term purchase contracts and daily gas purchases as specified in the plan. These supply and transportation agreements included a number of purchase commitments initiated prior to the beginning of the period. These natural gas purchase agreements price the supply of gas at market price as defined by published market indices. Schedule 3 of my exhibit compares the actual monthly weighted average purchase price of natural gas delivered to Gulf's generating units to a market price based on the daily Florida Gas Transmission Zone 3 published market price plus an estimated gas storage and transportation rate based on the actual cost of gas storage and transportation Gulf paid during the period. The purpose of early natural gas procurement commitments, the planned diversity of natural gas suppliers, and providing gas suppliers with market pricing is to provide a more reliable source of gas to Gulf's generating units. The result was that Gulf's gas-fired generating units had an adequate supply of fuel available at all times at a reasonable price to meet the electric generation demands of its customers.

Q. Did implementation of the Risk Management Plan for Fuel Procurement result in lower volatility of natural gas prices for the period?

A. Gulf purchases physical natural gas requirements at market prices and swaps these market prices for firm prices using financial hedges. The objective of the financial hedging program is to reduce upside price risk to Gulf's customers in a volatile price market for natural gas. In 2008, Gulf's weighted average cost of natural gas purchases for generation was $10.76 per MMBTU. This was 6.11% lower than the projection of $11.46 per MMBTU (line 42 of Schedule A-5, period-to-date, for December 2008). Gulf was able to hold per unit fuel costs to very reasonable levels for its customers during a period of volatile market fuel prices by following its Fuel Risk Management Plan. The volatility of Gulf's natural gas cost has been reduced by utilizing financial hedging as described in the Fuel Risk Management Plan. As shown on Schedule 4 of my exhibit, the volatility of Gulf's delivered cost of natural gas over the past four-year period as measured by standard deviation was 2.165. The volatility of Gulf's hedged delivered cost of natural gas over the same four-year period as measured by standard deviation was 1.487. Therefore, the financial hedging program is achieving the goal of reducing the volatility of natural gas cost to the customer.

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 7,535,533 MMBTU of natural gas in 2008 using fixed-price financial hedges.

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 primarily using financial swaps that fixed the price of gas to a certain price. The total volume of gas hedged using financial swaps was 7,520,000 MMBTU. These swaps settled against either a NYMEX Last Day price or Gas Daily price. Gulf participated in one option deal during the period for a total volume of 15,533 MMBTU. Schedule 5 of my exhibit shows all natural gas hedge transactions incurred since the mid-year hedging report was filed with the Commission on August 14, 2008. The type of hedging instrument used for each transaction is shown on this exhibit.

Q. What was the actual total cost (e.g., fees, commissions, option premiums, futures gains and losses, swap settlements) associated with each type of hedging instrument for the period January 2008 through December 2008?

A. No fees, commissions, or premiums were paid by Gulf on the financial swap hedge transactions during this period. An option premium of $4,035.91 was paid for the one option transaction which resulted in a total gain of $9,283.96 or a net gain of $5,248.05. Schedule 5 of my exhibit also shows the associated costs that were incurred for each hedge transaction since the mid-year hedging report was filed with the Commission on August 14, 2008. Gulf's 2008 hedging program resulted in a net financial loss of $1,737,726 as shown on line 2 of Schedule A-1, period-to-date, for the month of December 2008 included in Appendix 1 of

Witness Dodd's exhibit.

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

A. No.

Q. During the period January 2008 through December 2008 how did Gulf Power Company's recoverable fuel cost of power sold compare with the projection?

A. Gulf's recoverable fuel cost of power sold for the period is ($130,690,405) or 42.97% below the projected amount of ($229,165,000). Total kilowatt hours of power sales were (3,932,205,166) KWH compared to estimated sales of (5,115,402,000) KWH, or 23.13% below projections. The resulting average fuel cost of power sold was 3.3236 cents per KWH or 25.81% below the projected amount of 4.4799 cents per KWH. This information is from Schedule A-1, period-to-date, for the month of December 2008 included in Appendix 1 of Witness Dodd's exhibit.

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

A. The lower total credit to fuel expense from power sales is attributed to a lower amount of KWH sold and lower replacement fuel costs than originally projected. Below budget prices for natural gas and a higher percentage of sales from lower-cost coal-fired generation during off peak periods reduced the fuel reimbursement rate (cents per KWH) paid to Gulf for power sales.

Q. During the period January 2008 through December 2008, how did Gulf Power Company's recoverable fuel cost of purchased power compare with the projection?

A. Gulf's recoverable fuel cost of purchased power for the period was $67,372,695 or 124.19% above the estimated amount of $30,052,000. Total kilowatt hours of purchased power were 1,776,593,948 KWH compared to the estimate of 440,286,000 KWH or 303.51% above projections. The resulting average fuel cost of purchased power was 3.7922 cents per KWH or 44.44% below the estimated amount of 6.8256 cents per KWH. This information is from Schedule A-1, period-to-date, for the month of December 2008 included in Appendix 1 of Witness Dodd's exhibit.

Q. What are the reasons for the difference between Gulf's actual fuel cost of purchased power and the projection?

A. The higher total fuel cost of purchased power is attributed to Gulf purchasing a greater amount of KWH at attractive prices to supplement its own generation to meet load demands. The average fuel cost of energy purchases per KWH was lower than projected as a result of lower-cost energy being made available to Gulf for purchase during the period. In general the actual price of marginal fuel, primarily natural gas, used to generate market energy was lower than projected for the period.

Q. Should Gulf's recoverable fuel and purchased power cost 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 otherwise curtailed or unavailable. Gulf's lighter oil purchases were made from qualified vendors using an open bid process to assure competitive pricing and reliable supply. Gulf adhered to its Risk Management Plan for Fuel Procurement and accomplished the objectives established by the plan. Through its participation in the integrated Southern Electric System, Gulf is able to purchase affordable energy from pool participants and other sellers of energy when needed to meet load and during times when the cost of purchased power is lower than energy that could be generated internally. Gulf is also able to sell energy to the pool when excess generation is available and return the benefits of these sales to the customer. These energy purchases and sales are governed by the IIC which is approved by the Federal Energy Regulatory Commission (FERC).

Q. During the period January 2008 through December 2008, how did Gulf's actual net purchased power capacity cost compare with the net projected cost?

A. The actual net capacity cost for the January 2008 through December 2008 recovery period, as shown on line 3 of Schedule CCA-2 of Witness Dodd's exhibit, was $29,239,357. Gulf's projected net purchased power capacity cost for the same period was $30,043,645, as indicated on line 3 of Schedule CCE-1 of Witness Martin's exhibit filed September 4, 2007. The difference between the actual net capacity cost and the projected net capacity cost for the recovery period is $804,228 or 2.68% lower than originally projected. This lower actual cost is due to Gulf's slightly lower IIC reserve sharing costs, as well as higher capacity revenues generated from Gulf's market based capacity contracts and slightly higher transmission revenues related to opportunity energy sales.

Q. Was Gulf's actual 2008 IIC capacity cost prudently incurred and properly allocated to Gulf?

A. Yes. Gulf's capacity costs were incurred in accordance with the reserve sharing provisions of the IIC in which Gulf has been a participant for many years. Gulf's participation in the integrated SES that is governed by the IIC has produced and continues to produce substantial benefits for Gulf's customers and has been recognized as being prudent by the Florida Public Service Commission in previous proceedings and reviews.

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

The IIC provides for mechanisms to facilitate the equitable sharing of the costs associated with the operation of facilities that exist for the mutual benefit of all the operating companies. In 2008, Gulf's reserve sharing cost represents the equitable sharing of the costs that the SES operating companies incurred to ensure that adequate generation reserve levels are available to provide reliable electric service to customers. This cost has been properly allocated to Gulf pursuant to the terms of the IIC.

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

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission

Prepared Direct Testimony of

H. R. Ball

Docket No. 090001-EI

Date of Filing: August 4, 2009

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 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. 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. 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 compare Gulf Power Company's original projected fuel and net power transaction expense and purchased power capacity costs with current estimated/actual costs for the period January 2009 through December 2009 and to summarize any noteworthy developments at Gulf in these areas. The current estimated/actual costs consist of actual expenses for the period January 2009 through June 2009 and projected fuel and net power transaction costs for July 2009 through December 2009. Projected capacity costs for July 2009 through December 2009 remain as originally filed. 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. During the period January 2009 through December 2009 how will Gulf Power Company's recoverable total fuel and net power transactions cost compare with the original cost projection?

A. Gulf's currently projected recoverable total fuel and net power transactions cost for the period is $563,071,299 which is $95,097,609 or 14.45% below the original projected amount of $658,168,908. The resulting average fuel cost is projected to be 4.6605 cents per KWH or 6.84% below the original projection of 5.0025 cents per KWH. The lower total fuel expense and average per unit fuel cost is attributed to a combination of lower than projected fuel prices for the period which are reflected in both the fuel cost of generated power and the fuel cost of purchased power and a lower amount of energy (KWH) supplied. This current projection of fuel and net purchased power transaction cost is captured in the exhibit to Witness Dodd's testimony, Schedule E-1 B-1, Line 21.

Q. During the period January 2009 through December 2009 how will Gulf Power Company's recoverable fuel cost of generated power compare with the original projection of fuel cost?

A. Gulf's currently projected recoverable fuel cost of generated power for the period is $601,876,572 which is $216,654,336 or 26.47% below the original projected amount of $818,530,908. Total generation is expected to be 13,845,714,100 KWH compared to the original projected generation of 16,325,840,000 KWH or 15.19% below original projections. The resulting average fuel cost is expected to be 4.3740 cents per KWH or 13.30% below the original projected amount of 5.0137 cents per KWH. This current projection of fuel cost of system net generation is captured in the exhibit to Witness Dodd's testimony, Schedule E-1 B-1, Line 6.

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

A. The lower total fuel expense is due to lower than originally projected quantity of generated power (KWH) and lower average per unit fuel costs (cents/KWH). Delivered coal and natural gas prices per MMBTU are projected to be below original projections for the period due to changes in market fuel prices and a change in the mix of generating units operating to meet load. The quantity of contract coal shipments for the period is expected to be below original projections due to a reduction in the quantity of coal burned. Coal burn is lower due to a combination of lower demand for generated power and reduced economic dispatch of coal fired units. Market prices for natural gas and oil for the period are expected to be lower than original projections. Supply and demand imbalances in the oil and gas markets have driven the price for these fossil fuel sources lower and prices are expected to remain lower for the rest of the period. The quantity of natural gas burn is expected to be above original projections in response to the lower market prices for natural gas increasing economic dispatch of gas fired generation. The ability to change the mix of generating units operating to meet customer demand to a more heavily weighted natural gas mix has allowed Gulf to take advantage of lower natural gas prices.

Q How did the total projected fuel cost of system net generation compare to the actual cost for the first six months of 2009?

A. The total fuel cost of system net generation for the first six months of 2009 was $235,971,280 which is $141,791,530 or 37.53% lower than the projection of $377,762,810. On a fuel cost per KWH basis, the actual cost was 3.85 cents per KWH, which is 14.63% lower than the projected cost of 4.51 cents per KWH. This lower cost of system generation on a cents per KWH basis is due to a combination of fuel cost in $/MMBTU being 11.60% lower than projected and heat rate (BTU/KWH) of the generating units operating being 3.35% lower than projected. This information is found on Schedule A-3 of the June 2009 Monthly Fuel Filing.

Q. How did the total projected cost of coal burned compare to the actual cost for the first six months of 2009?

A. The total cost of coal burned (including boiler lighter) for the first six months of 2009 was $167,725,292 which is $94,139,810 or 35.95% lower than our projection of $261,865,102. On a fuel cost per KWH basis, the actual cost was 3.96 cents per KWH which is 7.03% higher than the projected cost of 3.70 cents per KWH. The lower than projected total cost of coal burned (including boiler lighter) is due to total MMBTU of coal burn being 38.14% below the estimated burn for the period. The higher per KWH cost of coal fired generation is due to actual coal prices (including boiler lighter) being 3.63% higher than projected on a $/MMBTU basis and the weighted average heat rate (BTU/KWH) of the coal fired generating units operating being 3.28% higher than projected. This information is found on Schedule

A-3 of the June 2009 Monthly Fuel Filing. Gulf has fixed price coal contracts in place for the period to limit price volatility and ensure reliability of supply. Actual average prices for coal purchased during the period are higher due to a change in the timing of contract shipments to Gulf's coal fired generating plants. A significant amount of these contract coal shipments have been deferred to later periods in response to lower coal burn. Another factor contributing to the higher cost of coal fired generation (cents/KWH) is that weighted average coal unit heat rates are higher than projected for the period. Generating unit heat rates have been impacted by the percentage of time these units operated at lower than projected loads. When generating units operate at lower loads, unit efficiency is reduced.

Q. How did the total projected cost of natural gas burned compare to the actual cost during the first six months of 2009?

A. The total cost of natural gas burned for generation for the first six months of 2009 was $68,215,969 which is $47,681,739 or 41.14% lower than Gulf's projection of $115,897,708. The total cost of natural gas burned for generation is lower than projected due to the market price of natural gas being lower than projected. Market prices for natural gas are lower due to decreased demand for natural gas and other fossil fuels. On a cost per unit basis, the actual cost of gas fired generation was 3.61 cents per KWH which is 59.35% lower than the projected cost of 8.88 cents per KWH. Actual natural gas prices were $5.08 per MMBTU or 59.59% lower than the projected cost of $12.57 per MMBTU. This information is found on Schedule A-3 of the June 2009 Monthly Fuel Filing.

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

A. Gulf Power financially hedged 5,080,000 MMBTU of natural gas for the period January 2009 through June 2009 using fixed price financial swaps. This equates to 38.5% of the actual natural gas burn for the period.

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 (5,080,000 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 loss of $25,233,414 for the period January through June 2009. This information is found on Schedule A-1, Period to Date, line 2 of the June 2009 Monthly Fuel Filing.

Q. During the period January 2009 through December 2009 how will Gulf Power Company's recoverable fuel cost of power sold compare with the original cost projection?

A. Gulf's currently projected recoverable fuel cost and gains on power sales for the period is $93,156,965 or 64.06% below the original projected amount of $259,233,000. Total megawatt hours of power sales is expected to be 3,492,249,334 KWH compared to the original projection of 4,300,511,000 KWH or 18.79% below projections. The resulting average fuel cost and gains on power sales is expected to be 2.6675 cents per KWH or 55.75% below the original projected amount of 6.0280 cents per KWH. This current projection of fuel cost of power sold is captured in the exhibit to Witness Dodd's testimony, Schedule E-1 B-1, Line 19.

Q. What are the reasons for the difference between Gulf's original projection of the fuel cost and gains on power sales and the current projection?

A. The lower total credit to fuel expense from power sales is attributed to a combination of a lower quantity of power sales made than originally projected and a lower fuel reimbursement rate for these sales. Demand for energy has declined due to overall economic conditions being below the original forecast for the period. Lower market prices for coal and natural gas during the period have decreased the fuel reimbursement rate (cents/KWH) for power sales that have been made.

Q. How did the total projected fuel cost of power sold compare to the actual cost for the first six months of 2009?

A. The total fuel cost of power sold for the first six months of 2009 was $29,199,965 which is $113,411,035 or 79.52% less than our projection of $142,611,000. On a fuel cost per KWH basis, the actual cost was 1.9014 cents per KWH which is 68.18% below the projected cost of 5.9747 cents per KWH. This information is found on Schedule A-1, Period to Date, line 19 of the June 2009 Monthly Fuel Filing.

Q. During the period January 2009 through December 2009 how will Gulf Power Company's recoverable fuel cost of purchased power compare with the original cost projection?

A. Gulf's currently projected recoverable fuel cost of purchased power for the period is $54,351,693 or 45.03% below the original projected amount of $98,871,000. The total amount of purchased power is expected to be 1,728,416,302 KWH compared to the original projection of 1,131,523,000 KWH or 52.75% above projections. The resulting average fuel cost of purchased power is expected to be 3.1446 cents per KWH or 64.01% below the original projected amount of 8.7379 cents per KWH. This current projection of fuel cost of purchased power is captured in the exhibit to Witness Dodd's testimony, Schedule E-1 B-1, Line 13.

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

A. The lower total fuel cost of purchased power is attributed to a combination of Gulf purchasing a greater amount of energy to supplement its own generation to meet load demands but at a significantly lower price per

KWH than originally projected. Replacement fuel costs for purchased power are lower as a result of the estimated/actual natural gas market prices being lower than originally projected for the period. Lower demand for energy in the overall economy has greatly increased the availability of lower cost purchased power. Gulf has been able to take advantage of the availability of low cost power by increasing purchases of power in the market.

Q. How did the total projected fuel cost of purchased power compare to the actual cost for the first six months of 2009?

A. The total fuel cost of purchased power for the first six months of 2009 was $31,060,695 which is $8,270,695 or 36.29% higher than our projection of $22,790,000. The higher than anticipated purchased power expense is due to the actual quantity of purchases being 334.62% higher than projected. Purchase power quantity is higher due to the lower price of available power making it the economic choice for providing energy to the customer during certain periods of time. On a fuel cost per KWH basis, the actual cost was 2.7555 cents per KWH which is 68.64% lower than the projected cost of 8.7871 cents per KWH. This information is found on Schedule A-1, Period to Date, line 12 of the June 2009 Monthly Fuel Filing.

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

A. No.

Q. Were Gulf Power's actions through June 30 2009 to mitigate fuel and purchased power price volatility through implementation of its financial and/or physical hedging programs prudent?

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

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

A. Yes. Gulf has followed its Risk Management Plan for Fuel Procurement in securing the fuel supply for its electric generating plants. 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 natural gas 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. Gulf makes sales of power when available and gets reimbursed at the marginal cost of replacement fuel. This fuel reimbursement is credited back to the fuel cost recovery clause so that lower cost fuel purchases made on behalf of Gulf's customers remain to the benefit of those customers. Gulf purchases power when necessary to meet customer load requirements and when the cost of purchased power is expected to be less than the cost of system generation. The fuel cost of purchased power is the lowest cost available in the market at the time of purchase to meet Gulf's load requirements.

Q. During the period January 2009 through December 2009, what is Gulf's projection of actual / estimated net purchased power capacity transactions and how does it compare with the company's original projection of net capacity transactions?

A. As shown on Line 4 of Schedule CCE-1b in the exhibit to Witness Dodd's testimony, Gulf's total current net capacity payment projection for the January 2009 through December 2009 recovery period is $33,879,164. Gulf's original projection for the period was $34,921,268 and is shown on Line 3 of Schedule CCE-1 filed September 2, 2008. The difference between these projections is $1,042,104 or 2.98% lower than the original projection of net capacity payments. Actual capacity payments during the first six months of 2009 were lower than projected for the period due to Gulf's higher level of capacity (MW) reserves that reduced its capacity purchase requirements.

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

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
H. R. Ball
Docket No. 090001-EI
Date of Filing: September 1, 2009

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, 2010 through December 31, 2010. 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 any exhibits that contain information to which you will refer in your testimony?

A. Yes, I have four separate exhibits I am sponsoring as part of this testimony. My first exhibit (HRB–2) consists of a schedule filed as an attachment to my pre-filed testimony 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. The second exhibit (HRB-3) I am sponsoring as part of this testimony is Gulf Power Company's Hedging Information Report filed with the Commission Clerk on August 14, 2009 and assigned Document Number DN 08487-09. The purpose of this second exhibit is to comply with Order No. PSC-08-0316-PAA-EI and details Gulf Power's natural gas hedging transactions for January through July 2009. The third exhibit (HRB-4) I am sponsoring is Gulf Power Company's "Risk Management Plan for Fuel Procurement" filed with the Commission Clerk pursuant to a separate request for confidential classification on August 4, 2009. The risk management plan sets forth Gulf Power's fuel procurement strategy and related hedging plan for the upcoming calendar year. Through its petition in this docket, Gulf Power is seeking the Commission's approval of the Company's "Risk Management Plan for Fuel Procurement" as part of this proceeding. The fourth exhibit (HRB-5) I am sponsoring is a project description of the Perdido Landfill Gas to Energy Facility. Through its petition in this docket Gulf Power is seeking recovery of the cost of owning and operating this facility through the fuel cost recovery clause.

Counsel: We ask that Mr. Ball's four exhibits as just described be marked for identification as Exhibit Nos. _____ (HRB-2), ______ (HRB-3), ______ (HRB-4), and ______(HRB-5) respectively.

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 2010 through December 2010 recovery period?

A. Gulf's projected total fuel and net power transaction cost for the period is $608,374,566. This projected amount is captured in the exhibit to Witness Dodd's testimony, Schedule E-1, line 22.

Q. How does the total projected fuel and net power transactions cost for the 2010 period compare to the updated projection of fuel cost for the same period in 2009?

A. The total updated cost of fuel and net power transactions for 2009, reflected on Schedule E-1B-1 line 21 of Witness Dodd's testimony filed in this docket on August 4, 2009, is projected to be $563,071,299. The projected total cost of fuel and net power transactions for the 2010 period reflects an increase of $45,303,267 or 8.05% over the same period in 2009. On a fuel cost per KWH basis, the 2009 projected cost is 4.6605 cents per KWH and the 2010 projected fuel cost is 4.9184 cents per KWH, an increase of 0.2579 cents per KWH or 5.53%.

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

A. The projected total cost of fuel to meet system net generation needs in 2010 is $670,236,689. The projection of fuel cost of system net generation for 2010 is captured in the exhibit to Witness Dodd's testimony, Schedule E-1, line 1.

Q. How does the total projected fuel cost of net generation for the 2010 period compare to the updated projection of fuel cost for the same period in 2009?

A. The total updated cost of fuel to meet 2009 system net generation needs, reflected on Schedule E-1B-1, line 1 of Witness Dodd's testimony filed in this docket on August 4, 2009, is projected to be $552,784,053. The projected total cost of fuel to meet system net generation needs for the 2010 period reflects an increase of $117,452,636 or 21.25% over the same period in 2009. Total system net generation in 2010 is projected to be 13,979,791,000 KWH, which is 214,099,400 KWH or 1.56% higher than is currently projected for 2009. On a fuel cost per KWH basis, the 2009 projected cost is 4.0157 cents per KWH and the 2010 projected fuel cost is 4.7943 cents per KWH, an increase of 0.7786 cents per KWH or 19.39%. This higher projected total fuel expense and average per unit fuel cost is the result of an increased cost of coal and natural gas for the period. Weighted average coal price including boiler lighter fuel for 2009 as reflected on Schedule E-3, line 31 of Witness Dodd's testimony filed in this docket on August 4, 2009, is projected to be 3.91 $/MMBTU.

Weighted average coal price including boiler lighter fuel for 2010, as reflected on Schedule E-3, line 34 of the exhibit to Witness Dodd's testimony, is projected to be 4.44 $/MMBTU. This reflects a cost increase of 0.53 $/MMBTU or 13.55%. The majority of Gulf's coal supply agreements expired at the end of 2008 and these were replaced with commitments for new multi-year contracts with two year terms that expire at the end of 2010. Gulf's coal supply agreements have firm price and quantity commitments with the contract coal suppliers and these agreements will cover all of Gulf's 2010 projected coal burn needs. A higher percentage of Gulf's 2010 coal supply needs are being filled with these new coal supply agreements than was the case in 2009. Weighted average natural gas price for 2009, as reflected on Schedule E-3, line 32 of the exhibit to Witness Dodd's testimony filed in this docket on August 4, 2009, is projected to be 5.18 $/MMBTU. Weighted average natural gas price for 2010, as reflected on Schedule E-3, line 35 of the exhibit to Witness Dodd's testimony, is projected to be 6.96 $/MMBTU. This is an increase in price of 1.78 $/MMBTU or 34.36% and reflects forecasted higher market prices for natural gas in 2010.

Q. Does the 2010 projection of fuel cost of net generation reflect any major changes in Gulf's fuel procurement program for this period?

A. No. As in the past, Gulf's coal requirements are 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. Details of Gulf's fuel procurement strategy are included in the "Risk Management Plan for Fuel Procurement" filed as exhibit _____ (HRB-4) to this testimony.

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 gas 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.

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

A. As detailed in Gulf's "Risk Management Plan for Fuel Procurement", 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. Gulf's "Risk Management Plan for Fuel Procurement" is a reasonable and appropriate strategy for protecting the customer from fuel price volatility while maintaining a reliable supply of fuel for the operation of its electric generating resources.

Q. What are the results of Gulf's fuel price hedging program for the period January 2009 through July 2009?

A. Gulf's coal price hedging program has successfully managed the price it pays for coal under its coal supply agreements for this period. Gulf has also had financial hedges in place during the period to hedge the price of natural gas. These financial hedges have been effective in fixing the price of a percentage of Gulf's gas burn during the period. Pursuant to Order No. PSC-08-0316-PAA-EI, Gulf filed a "Hedging Information Report" with the Commission on August 14, 2009 detailing its natural gas hedging transactions for January 2009 through July 2009. As noted earlier, I am sponsoring this report as exhibit ______ (HRB-3) to my testimony in this docket.

Q. Has Gulf adequately mitigated the price risk of natural gas and purchased power for 2009 through 2010?

A. Gulf has adequate natural gas financial hedges in place for 2009 to mitigate price risk. Gulf currently has natural gas hedges in place for 2010 and continues to look for opportunities to enter into financial hedges that we believe will provide price stability to the customer and protect against unanticipated dramatic price increases in the natural gas market.

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 consider 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 IIC. 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. Is Gulf seeking recovery of any other generation costs not previously included in this docket?

A. Yes. Gulf is requesting recovery through the Fuel Cost Recovery Clause of the cost of constructing and operating a 3.2 MW renewable energy facility identified as the Perdido Landfill Gas to Energy Facility located in Escambia County, Florida. Gulf has entered into agreements with Escambia County for the purchase of landfill gas as fuel for the facility and to lease property to locate the facility equipment on the site of the Perdido Landfill. Gulf has also entered into an agreement with LFG Technologies Development, LLC for the design, procurement, construction, operation, and maintenance of the facility. The total capital investment in the project is expected to be approximately $5 million. A more detailed description of the project and breakdown of cost is filed as Exhibit _______ (HRB-5) to this testimony.

Q. What is the projected total recoverable cost of the Perdido Landfill Gas to Energy Project that is included in the projection period?

A. The total projected revenue requirements and fuel cost for the 2010 recovery period is $1,258,514 and the total annual projected generation is 14,236,000 KWH. This equates to 8.8404 cents per KWH. This total projected cost for the Perdido Landfill Gas Facility for 2010 is captured in the exhibit to Witness Dodd's testimony, Schedule E-1, line 4. The cost breakdown by month is shown on Schedule E-2, line 1b and Schedule E-4, line 17 of the exhibits to Witness Dodd's testimony. The costs associated with this project were not recognized or anticipated in the level of costs used to establish Gulf Power's current base rates.

Q. Why is Gulf seeking recovery of the cost of owning and operating the Perdido Landfill Gas Project in this docket?

A. The Florida Legislature has declared that promoting the development of renewable energy resources and increasing fuel diversity through reliance on renewable generation in Florida is in the public interest. <u>See</u>, §§

366.91(1); 366.92(1), Florida Statutes. Gulf Power views this project as a means to further these public interests while at the same time benefiting the local community and providing a reliable and economic source of generation for Gulf's customers. Gulf Power performed an economic evaluation at the time Escambia County Florida issued its Request for Proposals to determine the price Gulf Power could offer the County for its landfill gas without exceeding the avoided cost of a 2014 combined cycle unit. This price served as the basis for Gulf's offer in response to the County's RFP. The County accepted Gulf's offer and the parties entered into agreements which will result in the development of the Perdido Landfill Gas to Energy Facility. This project will provide fuel diversity benefits in the form of reduced dependence on coal and natural gas, reduce fuel price volatility, promote renewable generation in Florida and provide a dedicated source of income for Escambia County. Additionally, Gulf Power expects that this project will provide approximately $23,544,108 in fuel savings to its customers over the life of the project. The calculation of estimated fuel savings is shown on page 7 of Exhibit _______ (HRB-5) to this testimony.

Q. Should the Commission approve recovery of the cost of owning and operating the Perdido Landfill Gas Project in this docket?

A. Yes. Gulf believes that the cost of this project is appropriate for recovery in this docket under the policy articulated by this Commission in Order No. 14546 issued on July 8, 1985 in Docket No. 850001-EI-B.

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

A. Gulf's projected recoverable fuel cost of power sold is $104,944,000. This projected amount is captured in the exhibit to Witness Dodd's testimony, Schedule E-1, line 20.

Q. How does the total projected recoverable fuel cost of power sold for the 2010 period compare to the projected recoverable fuel cost of power sold for the same period in 2009?

A. The total projected recoverable fuel cost of power sold in 2009, reflected on Schedule E-1B-1, line 19 of Witness Dodd's testimony filed in this docket on August 4, 2009, is projected to be $93,156,965. The projected recoverable fuel cost of power sold in 2010 represents an increased credit of $11,787,035 or 12.65%. Total quantity of power sales in 2010 is projected to be 2,930,560,000 KWH, which is 561,689,334 KWH or 16.08% less than currently projected for 2009. On a fuel cost per KWH basis, the 2009 projected cost is 2.6675 cents per KWH and the 2010 projected fuel cost is 3.5810 cents per KWH, which is an increase of 0.9135 cents per KWH or 34.25%. This higher total credit to fuel expense from power sales is attributed to a higher fuel reimbursement rate (cents per KWH) for power sales as a result of higher projected market prices for natural gas and coal. Higher fuel costs to operate Gulf's generating fleet are passed on to the purchasers of power and are reflected in the higher fuel cost and gains on power sales.

Q. What is Gulf's projected total cost of purchased power for the period?

A. Gulf's projected recoverable cost for energy purchases is $36,710,000. This projected amount is captured in the exhibit to Witness Dodd's testimony, Schedule E-1, line 14.

Q. How does the total projected purchased power cost for the 2010 period compare to the projected purchased power cost for the same period in 2009?

A. The total updated cost of purchased power to meet 2009 system needs, reflected on Schedule E-1B-1, line 13 of Witness Dodd's testimony filed in this docket on August 4, 2009, is projected to be $54,351,693. The projected cost of purchased power to meet system needs in 2010 is $17,641,693 or 32.46% less than is currently projected for 2009. The total quantity of purchased power in 2010 is projected to be 1,207,501,000 KWH, which is 520,915,302 KWH or 30.14% lower than is currently projected for 2009. On a fuel cost per KWH basis, the 2009 projected cost is 3.1446 cents per KWH and the 2010 projected fuel cost is 3.0402 cents per KWH, which represents a decrease of 0.1044 cents per KWH or 3.32%.

Q. What are Gulf's projected recoverable capacity payments for the period?

A. The total recoverable capacity payments for the period are $48,127,856. This amount is captured in the exhibit to Witness Dodd's testimony, Schedule CCE-1, line 10. Schedule CCE-4 of Mr. Dodd's testimony lists the long-term power contracts that are included for capacity cost recovery, their associated capacity amounts in megawatts, and the resulting capacity dollar amounts. Also included in Gulf's 2010 projection of capacity cost is revenue produced by a market-based service agreement between the Southern electric system operating companies and South Carolina PSA. This revenue of $42,000 is shown on Schedule CCE-4, line 44 in the exhibit to Witness Dodd's testimony. The total capacity cost included on Schedule CCE-4 is presented on lines 1 and 2 of Schedule CCE-1.

Q. Have there been any new purchased power agreements entered into by Gulf that impact the total recoverable capacity payments?

A. Yes, Gulf has entered into a new purchased power agreement with a term expected to begin on October 1, 2009. This firm capacity purchase agreement was approved for cost recovery in Docket No. 090169-EI under Commission Order No. PSC-09-0534-PAA-EI. The purchased power agreement is with Shell Energy North America, LP. The capacity and associated costs are included on Schedule CCE-4, line 42 in the exhibit to Witness Dodd's testimony. The capacity and associated costs of the Shell Energy PPA are expected to be offset with fuel savings derived from having this agreement in effect during the projection period. The projected fuel savings are in excess of the cost of the PPA and are shown on Schedule E-1, line 11 in the exhibit to Witness Dodd's testimony.

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 $86,000 in its capacity cost recovery projection. This amount is captured in the exhibit to Witness Dodd's testimony, Schedule CCE-1, line 3.

Q. How does the total projected net capacity cost for the 2010 period compare to the current estimated net capacity cost for the same period in 2009?

A. Gulf's 2010 Projected Jurisdictional Capacity Payments, found in the exhibit to Witness Dodd's testimony, Schedule CCE-1, line 6, is projected to be $46,985,819. This amount is $14,318,987 or 43.83% greater than the current estimate of $32,666,832 (Schedule CCE-1B, line 6) for 2009 that was filed in Mr. Dodd's estimated/actual true-up testimony in this docket on August 4, 2009. This increase is primarily a result of the recent addition of new purchased power agreements to meet projected additional capacity needs. This includes a full year of capacity payments under the Coral Power, LLC and Southern Power Company purchased power agreements that began on June 1, 2009 and the addition of the new Shell Energy North America, LP purchased power agreement which is expected to begin on October 1, 2009.

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

A. Yes, it does.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
H. R. Ball
Docket No. 090001-EI
Date of Filing: October 30, 2009

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, 2010 through December 31, 2010. 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 any exhibits that contain information to which you will refer in your testimony?

A. Yes, I have three separate exhibits I am sponsoring as part of this testimony. My first exhibit (HRB–2) consists of a schedule filed as an attachment to my pre-filed testimony 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. The second exhibit (HRB-3) I am sponsoring as part of this testimony is Gulf Power Company's Hedging Information Report filed with the Commission Clerk on August 14, 2009 and assigned Document Number DN 08487-09. The purpose of this second exhibit is to comply with Order No. PSC-08-0316-PAA-EI and details Gulf Power's natural gas hedging transactions for January through July 2009. The third exhibit (HRB-4) I am sponsoring is Gulf Power Company's "Risk Management Plan for Fuel Procurement" filed with the Commission Clerk pursuant to a separate request for confidential classification on August 4, 2009. The risk management plan sets forth Gulf Power's fuel procurement strategy and related hedging plan for the upcoming calendar year. Through its petition in this docket, Gulf Power is seeking the Commission's approval of the Company's "Risk Management Plan for Fuel Procurement" as part of this proceeding.

Counsel: We ask that Mr. Ball's three exhibits as just described be marked for identification as Exhibit Nos. _____ (HRB-2), ______ (HRB-3),and ______ (HRB-4) respectively.

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 2010 through December 2010 recovery period?

A. Gulf's projected total fuel and net power transaction cost for the period is $607,844,089. This projected amount is captured in the exhibit to Witness Dodd's testimony, Schedule E-1, line 22.

Q. How does the total projected fuel and net power transactions cost for the 2010 period compare to the updated projection of fuel cost for the same period in 2009?

A. The total updated cost of fuel and net power transactions for 2009, reflected on Schedule E-1B-1 line 21 of Witness Dodd's testimony filed in this docket on August 4, 2009, is projected to be $563,071,299. The projected total cost of fuel and net power transactions for the 2010 period reflects an increase of $44,772,790 or 7.95% over the same period in 2009. On a fuel cost per KWH basis, the 2009 projected cost is 4.6605 cents per KWH and the 2010 projected fuel cost is 4.9141 cents per KWH, an increase of 0.2536 cents per KWH or 5.44%.

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

A. The projected total cost of fuel to meet system net generation needs in 2010 is $670,236,689. The projection of fuel cost of system net generation for 2010 is captured in the exhibit to Witness Dodd's testimony, Schedule E-1, line 1.

Q. How does the total projected fuel cost of net generation for the 2010 period compare to the updated projection of fuel cost for the same period in 2009?

A. The total updated cost of fuel to meet 2009 system net generation needs, reflected on Schedule E-1B-1, line 1 of Witness Dodd's testimony filed in this docket on August 4, 2009, is projected to be $552,784,053. The projected total cost of fuel to meet system net generation needs for the 2010 period reflects an increase of $117,452,636 or 21.25% over the same period in 2009. Total system net generation in 2010 is projected to be 13,979,791,000 KWH, which is 214,099,400 KWH or 1.56% higher than is currently projected for 2009. On a fuel cost per KWH basis, the 2009 projected cost is 4.0157 cents per KWH and the 2010 projected fuel cost is 4.7943 cents per KWH, an increase of 0.7786 cents per KWH or 19.39%. This higher projected total fuel expense and average per unit fuel cost is the result of an increased cost of coal and natural gas for the period. Weighted average coal price including boiler lighter fuel for 2009 as reflected on Schedule E-3, line 31 of Witness Dodd's testimony filed in this docket on August 4, 2009, is projected to be 3.91 $/MMBTU.

Weighted average coal price including boiler lighter fuel for 2010, as reflected on Schedule E-3, line 34 of the exhibit to Witness Dodd's testimony, is projected to be 4.44 $/MMBTU. This reflects a cost increase of 0.53 $/MMBTU or 13.55%. The majority of Gulf's coal supply agreements expired at the end of 2008 and these were replaced with commitments for new multi-year contracts with two year terms that expire at the end of 2010. Gulf's coal supply agreements have firm price and quantity commitments with the contract coal suppliers and these agreements will cover all of Gulf's 2010 projected coal burn needs. A higher percentage of Gulf's 2010 coal supply needs are being filled with these new coal supply agreements than was the case in 2009. Weighted average natural gas price for 2009, as reflected on Schedule E-3, line 32 of the exhibit to Witness Dodd's testimony filed in this docket on August 4, 2009, is projected to be 5.18 $/MMBTU. Weighted average natural gas price for 2010, as reflected on Schedule E-3, line 35 of the exhibit to Witness Dodd's testimony, is projected to be 6.96 $/MMBTU. This is an increase in price of 1.78 $/MMBTU or 34.36% and reflects forecasted higher market prices for natural gas in 2010.

Q. Does the 2010 projection of fuel cost of net generation reflect any major changes in Gulf's fuel procurement program for this period?

A. No. As in the past, Gulf's coal requirements are 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. Details of Gulf's fuel procurement strategy are included in the "Risk Management Plan for Fuel Procurement" filed as exhibit _____ (HRB-4) to this testimony.

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 gas 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.

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

A. As detailed in Gulf's "Risk Management Plan for Fuel Procurement", 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. Gulf's "Risk Management Plan for Fuel Procurement" is a reasonable and appropriate strategy for protecting the customer from fuel price volatility while maintaining a reliable supply of fuel for the operation of its electric generating resources.

Q. What are the results of Gulf's fuel price hedging program for the period January 2009 through July 2009?

A. Gulf's coal price hedging program has successfully managed the price it pays for coal under its coal supply agreements for this period. Gulf has also had financial hedges in place during the period to hedge the price of natural gas. These financial hedges have been effective in fixing the price of a percentage of Gulf's gas burn during the period. Pursuant to Order No. PSC-08-0316-PAA-EI, Gulf filed a "Hedging Information Report" with the Commission on August 14, 2009 detailing its natural gas hedging transactions for January 2009 through July 2009. As noted earlier, I am sponsoring this report as exhibit ______ (HRB-3) to my testimony in this docket.

Q. Has Gulf adequately mitigated the price risk of natural gas and purchased power for 2009 through 2010?

A. Gulf has adequate natural gas financial hedges in place for 2009 to mitigate price risk. Gulf currently has natural gas hedges in place for 2010 and continues to look for opportunities to enter into financial hedges that we believe will provide price stability to the customer and protect against unanticipated dramatic price increases in the natural gas market.

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Q. Have there been any new purchased power agreements entered into by Gulf that impact the total recoverable capacity payments?

A. Yes, Gulf has entered into a new purchased power agreement with a term expected to begin on October 1, 2009. This firm capacity purchase agreement was approved for cost recovery in Docket No. 090169-EI under Commission Order No. PSC-09-0534-PAA-EI. The purchased power agreement is with Shell Energy North America, LP. The capacity and associated costs are included on Schedule CCE-4, line 42 in the exhibit to Witness Dodd's testimony. The capacity and associated costs of the Shell Energy PPA are expected to be offset with fuel savings derived from having this agreement in effect during the projection period. The projected fuel savings are in excess of the cost of the PPA and are shown on Schedule E-1, line 11 in the exhibit to Witness Dodd's testimony.

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Q. How does the total projected net capacity cost for the 2010 period compare to the current estimated net capacity cost for the same period in 2009?

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

A. Yes, it does.

BY MR. BADDERS:

Q. Actually, please summarize your testimony.

A. Thank you. My responsibility at Gulf Power is to manage the fuel program in a manner that accomplishes the primary objectives of providing a reliable supply of fuel to Gulf's generating plants at the lowest practical cost, in the right quantity to minimize supply risk, and with the right quality to meet Gulf's operational and environmental obligations.

With regard to Gulf's power sales, purchases, and capacity transactions, I have noted Gulf's participation in the integrated Southern Electric System and Power Pool. I have described how Gulf's retail customers benefit from participation in the pool and state that power sales, purchases, and capacity sharing are governed by the Intercompany Interchange Contract which is approved by FERC.

It is my understanding that the remaining unresolved issue in Gulf's request for recovery of its fuel costs for the period and the establishment of projection period cost-recovery rates relates to sales of energy to the associated companies of the Southern Company. I have testified that Gulf's fuel and net power transactions are reasonable and prudent and still believe that today.

I have reviewed FIPUG's position statement regarding Gulf's sales of power to associated companies and have concluded that this statement has no basis in fact due to the inappropriate use of Gulf's annual average fuel cost to generation and the average power sale revenue rates. Gulf sells power to associated companies on an hourly basis, and sales were made from specific generating units with unique marginal fuel replacement costs in compliance with the Intercompany Interchange Contract.

MR. BADDERS: We tender the witness for cross-examination.

COMMISSIONER EDGAR: Thank you.

Mr. McWhirter, questions on cross for this witness.

MR. McWHIRTER: Madam Chair, I'm going to request that my beautiful assistant, Captain Jungels, pass out a composite exhibit that is an extract from Mr. Dodd's exhibits that I will use for cross-examination for simplicity purposes.

COMMISSIONER EDGAR: Okay.

CROSS EXAMINATION

BY MR. McWHIRTER:

Q. And I sent this to your counsel earlier, so I'm sure you're aware of what you have before you now.

A. Yes, I am.

COMMISSIONER EDGAR: And, again, this is all material that has already been marked.

MR. McWHIRTER: Yes. Well, it hasn't been marked because it's part of Mr. Dodd's testimony. He's the numbers guy. It is Exhibit 88, 91, and 93, I think. Something like that.

COMMISSIONER EDGAR: It has been numbered for identification purposes, but not yet entered.

MR. McWHIRTER: That's correct, 88, 91, and 92.

COMMISSIONER EDGAR: All right. Thank you.

BY MR. McWHIRTER:

Q. Now, Mr. Ball, you are formerly an employee of Alabama Power before you came to Gulf, or were you with the Southern System Company?

A. I was employed by Southern Company Services, Incorporated. Still am.

Q. And Southern Company is a public utility holding company?

A. The Southern Company is a holding company.

Q. And it's regulated by the Federal Energy Regulatory Commission and also the Securities and Exchange Commission, is that correct?

A. That's my understanding.

Q. And Gulf Power is a subsidiary of the parent corporation. Where is the headquarters of the parent corporation?

A. The headquarters of the Southern Company is in Atlanta, Georgia.

Q. And you work for Southern Services, which is located in Birmingham?

A. There are offices of Southern Company Services located in Birmingham, that's correct.

Q. Gulf Power owns power plants in Macon, Georgia, it has 219 megawatts in the Scherer 3 Power Plant, it has a one-quarter interest in the Scherer 3 operation, is that correct?

A. Gulf Power does own 25 percent of Plant Scherer Unit 3 that it sells 100 percent in unit power sales to other utilities.

Q. And you also own 50 percent of a power plant that's located in Mississippi at Plant Daniels?

A. That's correct. Gulf Power owns 50 percent of the two coal-fired units at Plant Daniel.

Q. And Scherer is a coal-fired unit, is that correct?

A. Yes, that's correct.

Q. And the rest of your power plants are located in the state of Florida?

A. The remaining power plants that are owned by Gulf Power are in the state of Florida. However, there are some purchased power agreements with generating facilities that are located outside of Florida.

Q. I see. If you would take the composite exhibit that I have laid before you and look at the page that has been given Bates-stamp Number 1, that is the December 2008 actual numbers for the Gulf operations in 2008. Do you agree with that?

A. Yes, I agree with that.

Q. And that's an exhibit that your company filed, is that correct?

A. That's correct.

Q. Now, at the beginning of 2008 you estimated that you would sell 17 million megawatt hours of electricity, or that you would generate 17.5 million megawatt hours of electricity from generators that were owned by Gulf Power Company, is that correct?

A. Yes. I assume that you are referring to Line 1 on this schedule?

Q. Yes, sir.

A. Yes, that's correct.

Q. Now, if you look at Line 19 of that schedule, you'll see that you sold power to other power companies.

You sold 3.9 million megawatt hours, is that correct?

A. Yes, that's correct.

Q. And did that 3.9 million megawatt hours come from Gulf Power's net generation on Line 1?

A. It's my understanding that some of the opportunity sales may have come from other sources of power.

Q. Well, you bought some power, and I'll get to that in a minute, is that the power you are talking about that may have come from other sources?

A. Yes. Not all opportunity sales are made out of Gulf's own units.

Q. I see. Now, are you familiar with the status of the Scherer 3 plant as it relates to the Gulf Power rate base?

A. My only understanding of the Scherer Plant is that it is not included in rate base.

Q. Okay. Are you familiar with the rate order that was entered in 1991 in which this Commission determined that Scherer would not be part of your rate base?

A. I am not intimately familiar with that order.

Q. Are you familiar with the concept that it was not in rate base? You just said it's not in rate base.

A. I understand that it's not in rate base, that's correct.

Q. And explain to us what a unit power sale is? If that 219 megawatts was sold by unit power sales, it's sold to Florida Progress and FPL primarily?

A. And Jacksonville Electric Authority, I believe, is the third.

Q. I see. And all the profits from those sales go to Gulf and they don't flow into the revenue of Gulf for regulatory purposes, is that correct?

A. I'm really not familiar with how the cash flows between those unit power sales and Gulf.

Q. Do you know whether Scherer Unit 3 is included in the estimated electricity produced on Line 1 on the exhibit you have before you, Page 1?

A. I believe it is, that's correct.

Q. And then when we get down to Line 17, that's called cost of other power sales. The cost of fuel from the Scherer Plant is taken out of your total sales?

A. I'm confused by the lines that you have referred to here. You mentioned Line 17, which is fuel cost of other power sales.

Q. Yes, I'm sorry about that. Let's look at Line 19, and those are the economy sales, the unit power sales, and other power sales all added up. And that is 3.9 million megawatt hours, is that correct?

A. That's correct. It's the sum of Lines 14, 15, 16, and 17.

Q. And then the unit power sales on Line 16, that is the Scherer Plant?

A. Those are sales to the unit power customers, that's correct.

Q. And can you explain to me why -- if the Scherer Plant is not in rate base and its profits are not in rate base, and you say you don't know about that -- why you would include Scherer's fuel cost in your report to the Commission in your fuel exhibit?

A. Well, I'm not the witness to discuss these schedules. This is not something that I prepared. Mr. Dodd prepares these. But I just will say that these schedules are completed and the schedules were -- I guess the format of the schedules were established by staff. So we're essentially responding to staff's request to prepare these schedules in a specific way.

Q. I see. So the Scherer Plant, for all intents and purposes, is outside of the Gulf system, but your fuel costs for the Scherer plant are include in your fuel costs, is that a fair statement?

A. That's correct. In Line 1 the Scherer plant costs are included, in Line 1, fuel cost of system net generation.

Q. Now, look, if you will, down at Line 27, and that is your wholesale kilowatt hour sales, and explain to me who those sales go to.

A. I'm not familiar with that.

Q. Okay. Is that 366,000 megawatt hours, is that also part of the system net generation from Line 1?

A. Is the question that you're asking were those sales -- were the kilowatt hours generated from Line 1 to supply the energy in those wholesale sales on --

Q. You asked the question a lot better than I did. Thank you. That's exactly it.

A. Well, hopefully this answer is not too undramatic. No, I don't know.

Q. That's okay. That's okay. But then the next line down is Line 28, and after you deduct line losses, you only need -- in 2008 you only needed 11-1/2 million megawatt hours to supply the requirements of your retail customers, is that correct?

A. Of the jurisdictional customers, that's correct.

Q. Can you explain to me how jurisdictional customers are different than retail customers?

A. No, I can't.

Q. Now, check my math, if you will. It looks to me like if your system is able to produce 17.5 million megawatt hours of electricity, and you buy some more, the electricity you can produce is 46 percent more than the electrical requirements of your jurisdictional, or I call retail customers, is that correct?

A. Yes. Gulf produces more electricity from its generating units that is used by the jurisdictional customers, that's correct.

Q. It can produce -- is 17.5 million megawatt hours the maximum you can produce, or is that just what you estimated you could produce for the year 2008 from your own generation?

A. That's the amount of electricity that we projected that we would produce in 2008. It does not represent the maximum that could be produced.

Q. So you could actually produce even more than the amount, the 17.5, is that correct?

A. That's entirely possible.

Q. Are any of your power plants expected to be taken out of the system or retired in the year 2010?

A. I know of no power plants that we plan on retiring in 2010.

Q. I see. Now, because Scherer 3 is a coal plant, is it fair to say that the cost of producing electricity from that coal plant is somewhat less than the cost of producing electricity from your combined cycle plant?

A. No, I would not -- I would not say that, no.

Q. You would not say that?

A. Let me just elaborate on that a little bit.

Q. Go ahead.

A. Fuel costs, of course, are volatile right now. There could be a certain circumstance where natural gas prices got low enough where it would be cheaper to run a combined cycle gas-fired plant than a coal plant, even Plant Scherer. Now, I will admit that Plant Scherer is an inexpensive plant to operate because it burns Powder River Basin coal as its primary fuel source, which is a relatively low-cost fuel.

So while there is all likelihood that the cold-fired generation out of Plant Scherer would be the lowest cost generation available, that's not certainly guaranteed, depending on what natural gas prices may do.

Q. Now, Mr. Ball, you indicated that you were not familiar with Public Service Commission Order 23573 that was rendered by this Commission on October 3rd, 1990, in Docket Number 891345-EI, but I'm reading from that order, and I hope you will agree with me, subject to check, that I'm not reading something that is false. But that order says that the Scherer Plant cannot be put in the retail rate base for the purpose of charging retail customers a return on that investment. And, in fact, in that case it knocked a bunch of money out of your requested rate base. It then went on to say that all the profits from Scherer 3 would go to Gulf, and all the capacity payments would go to Gulf, and all the costs presumably would go to Gulf and not to customers of Gulf.

But then it says, "When will Scherer be available," and this order says that Scherer will become available for Gulf Power Company's retail customers in May of 2010. Can you tell me what the current plans are with respect to returning Plant Scherer to the retail rate base for the benefit of the customers to use that low-cost fuel?

MR. BADDERS: I'm going to object. I mean, I'm not really sure what issue has been identified that this goes to. We've moved far, far afield from whether or not our sales are made below cost to generate. We are now talking about whether or not Scherer should be in rate base, or not, or when.

CHAIRMAN CARTER: Mr. McWhirter, to the objection.

MR. McWHIRTER: Well, Mr. Chairman, Mr. Ball said that they use Powder River Basin coal at the Scherer plant, and that's inexpensive coal, and he said that it costs substantially less than the average cost of fuel for Gulf's customers from their own coal plants and combined cycle plant. And in this Commission's order it said Scherer can come back into the rate base for the benefit of customers in 2010.

And so my question was does he in charge of intercompany sales, is he aware of any plans to bring Scherer back so that Florida's customers can get the benefit of the lower cost coal plant, Scherer plant, and that's where the objection stands.

CHAIRMAN CARTER: Ms. Cibula.

MS. CIBULA: I think the question should be allowed.

CHAIRMAN CARTER: You may proceed.

BY MR. McWHIRTER:

Q. Do you remember the question?

A. I think I do.

CHAIRMAN CARTER: He's about the only one here that does.

MR. McWHIRTER: I don't know that I did. Go ahead.

THE WITNESS: And the answer is I do not know.

MR. McWHIRTER: Okay.

BY MR. McWHIRTER:

Q. But you are the guy that is responsible for intercompany transactions, and I would presume if anybody knew you would be the one to know, wouldn't you assume that?

A. Well, the decision about whether to put Plant Scherer into rate base as far as I know has nothing to do with Intercompany Interchange transactions.

Q. I see. Okay, let's go to Intercompany Interchange transactions. And if you look at Page 2 of the composite exhibit I gave you and look over at the last columns, you will see that you estimated that you would purchase power, this is Schedule A-9, you would purchase power from the Southern Company interchange and you would pay $6.99 -- well, $69.90 a megawatt hour for that power. But then down here on Line 6, the actual, at the end of the year you purchased substantially more kilowatt hours from Southern Company, and you paid -- instead of $12 million, you paid Southern Company $49 million for that power, and you charged -- and they charged you $65.70 for the power you purchased. That's what the exhibit says.

Can you explain why it is that you purchased much more power from the Southern Company in 2008 than you originally estimated that you would purchase?

A. Well, the reason that Gulf participates in the Intercompany Interchange Contract, one of the benefits of that is that we get to purchase power, and we get to purchase power when it's to the benefit of Gulf's ratepayers. For instance, Gulf has a specific generating unit, and while that unit could operate to serve the needs of the ratepayer in a certain hour, there may be another unit within the Southern Company power pool that could generate that power at a lower cost. So Gulf has the option, when the economics are right, to purchase power from the pool as opposed to running its own generating resource. And, of course, that's a huge benefit whenever you are able to do that and lower your cost to the customer.

So in this case in 2008, what Gulf elected to do was even though it projected it was going to purchase 182 million kilowatt hours, it was to the benefit of the customer that we purchased more power than what was projected and run our own generating assets less because it was cheaper to do so.

Q. Well, that's what I would call a conclusionary statement. And I presume there are facts to back that statement up. Have you produced any of those facts in the docket in the record in this case to justify paying substantially more for opportunity purchases from the Southern Company, some $20 more than your average cost to produce from your own generation?

A. Well, let me just start by saying this: The conclusion that you have reached, that Mr. McWhirter has reached that Gulf paid more to purchase power from the Southern Company interchange than the cost to generate that is just simply not true. And what Mr. McWhirter is doing is he is comparing actual purchase prices to an average generation over a year. And as I explained earlier, these purchase decisions are made every hour, and purchases are not made to replace an average generating unit in Gulf's system, and it's not made to purchase an average across an entire year of the cost.

We purchase power when it's cheaper to purchase power from the pool to replace energy from a specific unit during a specific hour. So this idea that we can compare average cost over the year and make conclusions about what happens during a specific hour just really does not make any sense to us.

Q. Well, you must not have heard my question.

A. Maybe I didn't.

Q. I was asking if you had supplied any facts that would substantiate the allegation you just made that it was cheaper for you at any hour of the year to purchase electricity at the price of $65.70 and that was cheaper than your average price of $42 to supply electricity from your own generation. It seems like that's a lot more, and so there is something going on at some point in time that made your own generation very expensive. What is the most expensive -- other than combustion turbines, what is the most expensive power that you have on your system?

A. Well, it varies. I'm sorry. I think there's two questions there, so let me just try and answer the last one, which is the one I remember.

Q. Okay.

A. The price of running a generating unit changes depending on marginal fuel prices. So if the price of natural gas, as it did in 2008, goes up to, say, $12 a million Btu, certainly the cost to run a gas-fired combined cycle unit would be relatively expensive. I'm estimating on the order of eight cents a kilowatt hour.

So there could very well be times when combined cycle gas-fired generation would exceed the cost of the average purchase we've got -- we show here.

Certainly combustion turbines, peaking plants could be very expensive to operate. In addition, there could be some circumstances where even coal units, if the marginal price of coal is extremely expensive, the price of coal units can go up quite significantly. So, you know, there are all kinds of circumstances where the prices of a specific generating unit can change substantially. And certainly there are certain circumstances where the actual cost to generate electricity based on marginal costs can exceed our ability to purchase power from the pool.

Q. My question to you is, I guess if you look at the exhibit you just filed, the testimony you just filed, and go to Page 13 of Schedule E-4.

A. Well, I don't file E Schedules with my testimony, I'm sorry.

Q. Well, the thing that was just handed out by your counsel, and you had some -- the schedule is Mr. Dodd's schedule, but it relates to fuel costs, and I presume you are familiar with the evidence that he submitted; is that correct?

A. I'm sorry, I'm completely lost on this. Are we talking about the schedules that you just provided me?

Q. No, sir. I'm talking about a letter from Gulf Power dated November 2nd, 2009, that was just distributed by your lawyer. Do you have a copy of that?

A. No, I do not. Sorry.

Q. Would you give Mr. Ball a copy of the document that you just handed out?

MR. BADDERS: May we approach?

CHAIRMAN CARTER: You may approach.

BY MR. McWHIRTER:

Q. Now, if you will go to Schedule E-4, sir?

A. This is in Mr. Dodd's testimony?

Q. Yes, sir. It's Exhibit RWD-3, Page 13.

A. Okay.

Q. Now, you haven't filed -- well, I take that back, you may have. Look at the fuel cost per kilowatt hour for your various plants as set out on this schedule for the year 2010, and I notice that there is not a single power plant that you have in your system that has an average cost of -- I guess the maximum was $5.67, and at that point in time you were -- on your A-9 purchases on average for the year you paid $6.57 to the Southern Company, isn't that correct?

A. Okay. If I understand what you're doing, you're comparing what Gulf paid for power purchases in 2008 to a projection for 2010.

Q. That's correct.

A. I am at a loss to understand how you can compare actual results from 2008 to projections for 2010.

Q. Is Crist a coal plant or a gas and coal plant? Those are relatively small units, is that correct?

A. Plant Crist is a coal-fired generating plant.

Q. Scholz is a relatively small plant. Smith 1 and Smith 2, they are your basic plants in West Florida?

A. Smith 1 and Smith 2 are coal-fired plants, but they are not the largest coal-fired plants that Southern has in western Florida.

Q. All right. What is the largest one?

A. Plant Crist Unit 7.

Q. All right. Now, those show $52 and $53 projected, and you enter into long-term coal purchase agreements, do you not?

A. Yes, that's correct, we enter into long-term purchase agreements for coal.

Q. And in this case you have testified, and last year you testified that the price of coal was going up, is that correct?

A. Yes. Last year when we purchased coal to supply coal for these plants, the price was substantially higher than what we had -- than it had been in previous years.

Q. Okay. So the price last year would have been substantially higher than 2008. How about 2010, is it going to be substantially lower than it was last year for your coal plants?

A. Are you talking about market prices for coal?

Q. No, I'm talking about your contract price for coal that is delivered to you.

A. The coal contracts that we signed in 2008 were, for the most part, for a two-year period. Most of those contracts were fixed price agreements. So the price of coal that we had under those contracts that were delivered in 2009 will be essentially the same on a contract-by-contract basis as they will be in 2010, since those are two-year agreements.

Q. All right. And you said that the price went up substantially in 2009 over 2008, is that correct?

A. That's correct.

Q. Well, based on that, would it be fair to assume that the price per megawatt hour for your largest coal plants would be less than $53 and -- $56 that you show on this current Schedule E-4, Page 13?

A. I'm sorry, I do not understand the question.

Q. Okay. Is the price that's shown on E-4, Page 13 for the -- is that price substantially higher than the price you paid in 2008, or is it lower?

A. Well, I would have to look at Schedule E-4 for 2008, which I don't have in front of me.

Q. But you just testified that it was higher in -- it was higher in 2009 than it was in 2008. Was that incorrect?

A. What I testified was that on a contract-by-contract basis, we signed new agreements that would start primarily in 2009, and that the price of coal under those new coal contracts was higher in 2009 than it was in 2008.

Q. And it's higher in 2010 than it was in 2008, is that correct?

A. That is correct.

Q. So when you were buying power from the Southern Company for an average price of $65, it's fair to assume that the plants in your -- the price of coal for your Florida plants was something like $12 less per megawatt hour than you paid to the Southern Company, is that correct?

A. Well, I'm confused, but I will try to answer it this way.

Q. Well, I appreciate that.

A. Gulf purchases power on an hourly basis to replace energy from a specific generating unit that would otherwise have been run to serve Gulf's ratepayers. That does not necessarily mean that the unit that would have otherwise been operated was a coal-fired plant. It could very well have been a natural gas-fired plant that was operated. So trying to tie the purchase price -- average purchase price for power in 2008 to a projection of coal price generation in 2010, I'm just struggling to try to make the connection between that comparison.

Q. When we started on this I asked you if you could give me an example of a specific plant and a specific fuel price to compare with the marginal price that you paid Southern Company on average for the entire year 2008 that had a fuel price of more than $65.70 a megawatt hour, and do you know of any? Can you give us any evidence whatsoever of that happening?

A. In 2008 -- we're talking about 2008 now, there were certainly a number of hours where the price of the combined cycle plant, Smith Unit 3, a gas-fired plant, exceeded the $6.50 per kilowatt hour purchase price.

Q. Have you supplied any evidence to support that proposition other than these exhibits?

A. Well, certainly I testified -- I testified under oath in my testimony that all our costs are reasonable and prudent. These exhibits were filed, all the information that was filed for each one of these generating units in 2008 were filed by Mr. Dodd in these exhibits. So I think that -- you know, I believe that all the information that we needed -- that Gulf needed to file in these cases was filed.

Q. Now, Issue 8 in this case says that you want the customers to pay an additional $48 million because of the fact that your fuel cost projections were too low. You don't give us any testimony to support that proposition. You don't explain why in 2008 that occurred. Can you tell us today precisely why it occurred and why $48 million more is needed?

A. Well, I not understanding the question, so let me try to restate it that will help me understand what you are asking.

Q. Okay.

A. Are you talking about the underrecovery of fuel costs for 2008?

Q. Yes, sir. And you had a $48 million underrecovery.

A. That's correct.

Q. And you gave us some numbers, but you didn't give any explanation of why that underrecovery occurred. Can you give us that explanation today?

A. Well, in my testimony I certainly did talk about the cost of generation for each type of fuel that we burned. I talked about what the actual results were. I talked about what the projected results were in testimony, and I explained why there was a variance and why those variances occurred. And in my testimony that was -- the purpose of that was to explain why what actually happened was different than what was projected to happen.

Q. I see. I have your testimony here. Can you guide me to a page in your testimony where you explained that?

A. Okay. We're talking about the testimony from March 9th, 2009?

Q. Yes, sir.

A. I will just start at Page 5 on that testimony, and I will talk about the comparison between the projected cost of coal with the actual cost, and I'll just read this testimony to you, Commissioners. The total actual coal purchased excluding Plant Scherer was 429 million.

CHAIRMAN CARTER: Hang on a second.

MR. McWHIRTER: What page are you on, sir?

THE WITNESS: I'm on Page 5 of my testimony.

CHAIRMAN CARTER: What line?

THE WITNESS: I'm sorry, starting at Line 23.

CHAIRMAN CARTER: Okay. Are you there, Mr. McWhirter?

MR. McWHIRTER: Yes, sir. But this deals with the first six months of 2009, and my question relates to 2008.

THE WITNESS: This is the true-up testimony, I believe, from March 9th where I'm talking about the period January 2008 through December 2008.

MR. McWHIRTER: Okay.

THE WITNESS: Commissioners, I don't know if you want me to read all of this testimony to you or not, but --

CHAIRMAN CARTER: Mr. McWhirter, have you got a specific question?

MR. McWHIRTER: Yes. I'd like him to read that.

CHAIRMAN CARTER: Okay.

MR. McWHIRTER: It's only a couple of paragraphs, isn't it?

CHAIRMAN CARTER: Okay. You may proceed.

THE WITNESS: Okay. The question that was asked is during the period January 2008 through December 2008, how did Gulf Power Company's recoverable fuel cost of net generation compare with the -- I'm sorry, wrong page. I apologize. Page 5 starting with Line 21. "How did the total projected cost of coal purchased compared with the actual cost?"

And the answer: "The total actual cost of coal purchased excluding Plant Scherer was $429,284,280, which comes from Line 17 of Schedule A5, period-to-date for December 2008. Compared to the projected cost of $399,438,634, or 7.47 percent above the projected amount. The higher coal cost was due to a higher weighted average coal price for the period, and the actual weighted average price of coal purchased was $80.06 per ton, which is 17.74 percent above the projected amount of $68 per ton. The higher weighted average price of coal for the period was due to higher than expected prices for spot coal purchases during the period. The total cost of coal purchased at Plant Scherer was 28,642,289 from Line 30 of Schedule A5, period-to-date for December 2008. This is 5.13 percent lower than the projection of $30,190,299. The lower coal cost was due to lower quantity of coal purchased and a lower weighted average coal price for the period. The weighted average price of coal purchased was $2.12 per million Btu, which is 2.3 percent below the projected amount of $2.17 per million Btus. The lower weighted average coal price, purchase price at Plant Scherer was due to lower prices for spot Powder River Basin coal purchased during the period."

CHAIRMAN CARTER: Hang on a second, Mr. McWhirter. Before you go any further we are going to need to take a quick break. We have got some feedback in our sound system here. You probably can't hear it, but --

MR. McWHIRTER: There's a lot of things I don't hear, Mr. Chairman. (Laughter.)

CHAIRMAN CARTER: We have got some -- I was saying we've got some feedback in our system here, and I'm going to give Chris a moment to let our tech guys kind of go scrambling around up in the roof and check and see if we are getting feedback.

(Brief recess.)

CHAIRMAN CARTER: We are back on the record, and we're going to try to see if we can get going before that sounds comes back.

Commissioners, just for the record, I did not ask DMS for overtime, so we are going to end at 5:00 today, and so we won't have that -- I didn't think it was necessary, so we will go from there.

Mr. McWhirter, you're recognized.

MR. McWHIRTER: I'm going to try to hurry up, Mr. Chairman.

CHAIRMAN CARTER: That would be great.

MR. McWHIRTER: I knew that would please you.

(Laughter.)

BY MR. McWHIRTER:

Q. You were giving us the testimony that justified the underrecovery in 2008. Would you continue from where we left off.

A. Okay. Are you asking me to read my entire testimony?

Q. No, sir, just the section that relates to the 2008 underrecovery and the justification for that.

A. Well, actually my entire testimony is designed to discuss that. I read just the section that talked about coal only. So the purpose of the testimony is to talk about what the projections were for each class of expense, not only coal, but natural gas. I also talk about purchased power sales, and this testimony compares what we have projected to spend for fuel in each one of those categories with what the actual result was and why there were variances. So there is not one section that addresses why an underrecovery occurred. Really the entire testimony has to be taken as a whole to talk about why there was a difference between what we projected as far as fuel costs and what actually were expended for fuel costs.

Q. All right. Let's go on to another topic. I know that'll please you. Look at Page 4 of the composite exhibit that I handed out, Bates number Page 4, and it has to do with the purchased power capacity cost-recovery clause. Do you see that schedule?

MR. BADDERS: Chairman Carter.

CHAIRMAN CARTER: Yes, sir.

MR. BADDERS: I have an objection related to this exhibit. I note that the capacity issues have already been voted on by this Commission. This very party took no position on the capacity issues. We are now talking about capacity schedules.

CHAIRMAN CARTER: What about it, Mr. McWhirter?

MR. McWHIRTER: Well, we're talking about 2008 fuel costs from Southern Company, and I'm not complaining about what they paid, I just want to ask this witness how capacity costs work with respect to the purchases from Southern and how they work with respect to the sales to Southern.

CHAIRMAN CARTER: Mr. McWhirter?

MR. McWHIRTER: Yes, sir.

CHAIRMAN CARTER: Tread very lightly.

MR. McWHIRTER: Certainly.

BY MR. McWHIRTER:

Q. Have you got the schedules, sir?

A. I am looking at the schedule, Mr. McWhirter.

Q. And that looks -- it says that during the year 2008, the ICC payments were $29.5 million. Is that money that you paid to Southern Company for the fuel you purchased from Southern Company?

A. No, that's not correct.

Q. What does that capacity payment represent, sir?

A. Those payments on Line 1 are payments that Gulf made to Southern Company's pool for capacity that it needed from -- its generating capacity, it has nothing to do with fuel costs in this concept.

Q. Well, I don't understand that. Why would you buy capacity unless you were buying electricity? Is that for the electricity you bought?

A. No, this does not have anything to do with energy, it's all capacity.

Q. Well, what is the purpose of making a capacity payment? Isn't it so that you will be able to buy energy from the Southern Company?

A. No, that's not true. The purpose for buying capacity is so that you have enough capacity to meet your reserve margin requirements.

Q. I see. So you had the ability to produce more than 17 million megawatt hours, and you only needed 12 million for your retail customers, and that's where your reserve requirements are set, aren't they?

A. You have certain reserve requirements to provide for reliability of service to your customers.

Q. Yes, sir.

A. So you certainly would not -- and I think for the Southern Company -- well, I'm just speculating, so I won't do that. But, anyway, there is a reserve requirement to have capacity over the maximum load that you would expect your customer demand to reach in a certain period of time. So let's say at the peak period of the year, which for Gulf is usually during the summer months, you would be required to have enough capacity to meet your customers anticipated load during that period plus a reserve margin.

Now, if Gulf does not have capacity in actual generating units that it owns, then it would be required to go out and secure additional capacity. These capacity payments are for that additional capacity that Gulf would need to meet its reserve requirements; that is, the amount of capacity over and above the maximum load during the periods.

Q. Is that determination made in advance as to what your capacity payments are going to be for the year?

A. There are projections that are made based on what we project our loads to be for the forecast year, so we have a projection of what the maximum load will be. We know what capacity we have currently on the ground at Gulf, and we would know what additional capacity would be needed to meet our reserve margin requirements over and above the capacity or the load that the customer would command. So we would then make an estimate, if indeed we had to purchase capacity from the pool to meet that reserve requirement, there would be a projection amount that would be determined that would go into the projection filing.

Q. All right, sir. And then this schedule is what you actually paid during the year, is that correct?

A. That is correct.

Q. And so that is the months in which you purchased power from Southern Company, is that correct?

A. No, this is not power, this is capacity.

Q. I understand. But you have to have capacity in order to buy power, right?

A. No.

Q. You don't?

A. No. We are not required to purchase capacity from the pool in order to participate in purchases and sales in the pool.

Q. So you only make that payment if you make --

CHAIRMAN CARTER: Are you going to move on, Mr. McWhirter?

MR. McWHIRTER: Well, sir, he's about to tell me --

BY MR. McWHIRTER:

Q. You only make a payment if you make a purchase?

A. No.

Q. What are the conditions that you make a payment?

A. As I just explained to the Commission, you purchase capacity only when you cannot meet your reserve margin requirements with the capacity that you have on the ground.

Q. So in 2008 your sales were 16 percent less than you anticipated for your retail load. I presume you're talking about the capacity you need to meet your retail reserve margin, is that correct?

A. As I understand the question, we are still confusing capacity with energy. I think the question that you asked was about energy and not capacity.

Q. I'm asking about capacity now. You talked about reserve margin, and the reliability rule of this Commission is that you have to have a 15 percent reserve margin. Is that the margin you're talking about?

A. I'm talking about capacity, yes, if we are talking about capacity reserves.

Q. So I am to presume that in the summer months you concluded that your generation that you own was insufficient to provide a 15 percent reserve margin and you had to go out and buy capacity from the Southern Company to meet that reserve margin. Is that what you are telling us?

A. That's correct.

Q. Okay. So you paid Southern Company $29 million for capacity, and in addition to that you paid Southern Company $64 million for the energy you purchased, and you purchased --

A. Hold on. Can you tell me --

Q. Go to Line 8 on Page 1. Better yet, go to A-9, which is Page 2. You paid Southern Company $49 million. The difference was the amount of money paid to other utilities.

A. That's correct.

Q. Okay.

A. Line 6 of Schedule A-9.

Q. So those were payments that you made for capacity and you made for energy in order to receive 754 -- I guess that's 754 million kilowatt hours, or 754.5 megawatt hours. Is that 754 megawatt hours? And you had to buy additional capacity in order to meet your reserve margin, yes or no?

A. And, again, I want to separate capacity from energy. Schedule A-9 is talking about energy. It is true that Gulf did purchase 754 million kilowatt hours of energy from the pool, and it also did purchase capacity from the pool in 2008.

Q. But in round numbers you paid to Southern Company the total of 49 million plus 29 million?

A. For energy and capacity, that's correct.

Q. That's correct. And what did Southern pay to Gulf Power, once again, looking at Schedule 4, for the capacity it purchased from Gulf?

A. I'm sorry, which schedule are you looking at?

Q. I'm looking at Bates number 4, your Schedule CCA-2. On there --

MR. BADDERS: I'd like to renew my objection. We are talking purely about capacity; what was paid for it, by whom, what time periods. This has nothing to do with the position taken by FIPUG on Issue 8 or the other issues which is solely related to sales.

CHAIRMAN CARTER: To the objection, Mr. McWhirter.

MR. McWHIRTER: Issue 8 has to do with underrecovery of fuel and capacity -- well, I guess it's just fuel costs, Mr. Chairman, and it is $49 million -- $48.7 million that they are collecting from customers because the amount of money that was not collected from Southern ran them into the hole. I think these are legitimate questions about payments to Southern compared to receipts from Southern.

CHAIRMAN CARTER: It sounds redundant, Mr.

McWhirter.

Ms. Cibula, you're recognized.

MS. CIBULA: I think we're going outside the scope of the issue.

CHAIRMAN CARTER: Sustained. Move on, Mr. McWhirter.

BY MR. McWHIRTER:

Q. Let's look at Schedule A-6, and that is page Bates stamp Number 3 showing power sold to the different people you sold it to. And are you at that schedule, Mr. Ball?

A. Yes, I am.

Q. All right. Look at Line 6, if you will. And that says that Southern Company paid you $54.80 for fuel costs and it paid you $57.20 total cost. Can you tell me what the difference is there between fuel cost and total cost?

A. The total cost includes some emission allowance credits.

Q. And do those emission allowance credits flow into the fuel clause in any way?

A. I'm not familiar with exactly how the costs flow.

Q. All right. But, in any event, they paid you that money. Let's go over here to -- once again, to

Page 1, and look at Line 17. And it says at the beginning of the year you anticipated you would collect $175 million from Southern Company. Other power sales are Southern Company, is that right?

A. No. Other power sales includes other items other than Southern Company interchange.

Q. Well, if you scope that out, under other power sales on Line 17 is 2.5 million, and then if you go back over to Schedule 6 we have got 1.8 million. So I guess -- I guess there is another 700,000 megawatt hours of sales to Southern that is not included in other power sales. Where are those sales included?

A. Those are not sales to Southern. Those are shown at the bottom of Schedule A-6 in Line 64. It's titled flow-through energy. That's energy -- that is an accounting adjustment that's made to this schedule to account for energy that the Southern Company pool sells as opportunity sales, and Gulf has an obligation to provide a portion of the energy for those opportunity sales back to the pool. So this is an accounting adjustment.

The other lines, Line 65, there are no costs there. Line 66 is titled SEPA, S-E-P-A, that is energy that is --

Q. Mr. Ball, you're answering a question I'm not asking you.

A. You asked me what the difference was between other power sales --

Q. No, what I asked you was on Line 6 it shows that you sold to Southern Company 1.8 million megawatt hours, is that not correct?

A. That's correct.

Q. Okay. And on other power sales you have three separate places where you bring in numbers from Schedule A-6 and they all total on Line 19 what you have at the bottom of A-6. And I was wondering if you could identify for me on Schedule A-1 the income you received from the Southern Company?

A. I do not understand the question.

Q. What line is the income from Southern Company shown on Schedule A-1?

A. It's included as a -- it is included on Line 17 with some other transactions from Schedule A-6, and those were the transactions that I was in the process of describing for the Commission that were in addition to the Southern Company interchange that's included in that line item.

Q. Okay. Look over in the columns under kilowatt hours, and under other power sales under estimated you estimated that you were going to sell 3.4 million kilowatt hours to other sales. And under actual you showed that you were going to collect or sell -- you actually sold 2.5 million megawatt hours. Well, you sold -- yes, you sold 2.5 million. And then if we go over to A-6 and look at Southern Company interchange, it shows that you were going to sell to Southern Company 3.44, and that's the same number that we have over here on Schedule A-1. And it would look like other power sales estimated is what you estimated you were going to sell to the Southern Company. Do you see what I'm talking about?

A. Yes.

Q. Look at Line 1. You expected to sell 3.4 million to the Southern Company interchange, and look at Line 17 under expected sales to others, it's the same number. Now, is that a mistake?

A. No, it's not a mistake.

Q. Okay. Well, you originally expected for others you were doing to sell 5.1 million, and Southern was supposed to be 3.4 million of that, and so it would look like Line 17 is Southern only.

A. For the actuals that is not true.

Q. Well, can you explain why the numbers -- the actuals are not -- don't translate to the estimates that are shown on A-6?

A. The actuals are the sum of Line 6 on Schedule A-6, Line 64, Line 65, Line 66, and Line 69 on A-6.

Q. The actuals on Line 19 or the actuals on Line 17?

A. The actuals on Line 17 of Schedule A-1.

Q. Can you tell me why for your estimated you used Southern only on Line 17?

A. No, I cannot.

Q. You can't because I have confused you, or you can't because you can't explain what appears to be a mistake in your exhibit?

A. Well, Commissioners, I am not the person that prepares this schedule. The person that prepares this schedule is Mr. Dodd. I'm sure that the estimates that were for Southern Company interchange are correct. That was our true estimate. Now, why there were not estimates for these other wheeled energy that were included in the total estimate for other power sales, I'm not able to answer that question.

Q. All right. Let's go over to the actual cents collected, and you collected $36 a megawatt hour for these other sales. Do you know whether those were what you collected from Southern or is that from some other source?

A. Again, on an actual basis if you will look at

Schedule A-6, Line 6, that is the actual Southern Company interchange. And on that schedule, Gulf collected $54.80 a megawatt hour for sales to Southern. But I'll just reiterate, I guess, what we started out on this discussion about power sales, and the effort to make a comparison between average sales over the course of the year to average cost of generation from all generating units over all hours of the year. This effort to compare these two and make some kind of conclusion, it just doesn't work because purchases and sales from the pool according to the interchange contract that we have are made on an hour-by-hour basis. They are made from specific generating units, not some average unit, and they are made at marginal fuel costs.

The purpose of this is that there is -- essentially everything is done at cost within the pool so that Gulf sells energy to the pool at cost and it purchases energy from the pool at cost. There are no losses or gains associated with these transactions. All interchange within the pool is done at cost according to the terms of the Intercompany Interchange agreement.

Now, one thing that may be helpful is that this very issue has come up. The Commission staff brought this issue up, and they asked for an audit to be performed of this whole process. And the question of the audit was are ratepayers negatively affected by transactions under the IIC. This audit incurred this year, early this year, and I'll just summarize two of the findings of this audit. Number one, that the procedures and policies followed by Gulf --

Q. Let me stop you just a minute.

A. -- are in compliance with the IIC.

Q. Let me stop you just a minute, sir. Is that in the record in this case? Are you putting it in the record now? You're testifying from something that's outside of the record and not part of the transcript.

CHAIRMAN CARTER: Mr. Badders.

MR. BADDERS: Chairman Carter, he asked the question and this is part of his answer. So it becomes part of the record as he testifies to it. He is not limited to testifying to only documents that are already in the record.

CHAIRMAN CARTER: To the objection, Mr. McWhirter.

MR. McWHIRTER: He has responded to my -- well, he has responded to my question and now he is adding ancillary information from an audit that's not part of the record.

CHAIRMAN CARTER: Let me do this. Although I never thought it would be possible, I am beginning to regret rescheduling having my wisdom tooth extracted. Somehow or another it might have been more fun going to my dental appointment.

Ms. Cibula, can you help us out here?

MS. CIBULA: I think he should be able to finish answering the question.

CHAIRMAN CARTER: Mr. McWhirter, you opened the door, so there it is.

You may proceed with your answer.

THE WITNESS: Thank you, Mr. Chairman.

Just to reiterate, the findings of the audit that the Commission staff prepared were essentially that the procedures and policies followed by Gulf are in compliance with the Intercompany Interchange Contract. And, secondly, that the ratepayers were not negatively affected by transactions under the Intercompany Interchange Contract.

BY MR. McWHIRTER:

Q. Is this for the year 2008?

A. That's correct.

Q. And when was that audit performed?

A. Where, the location?

Q. When.

A. It was performed in the first quarter of 2009.

Q. And it was made part of the public record in some fashion or is that information in the clouds?

A. I mean, I am assuming that the Commission staff makes its audit results part of the public record.

Q. All right, Mr. Ball. There's no way that I want to postpone the Chairman getting his tooth extracted, and so I'm not going to ask you questions about the 2009 overrecovery, but I do want to ask you about your 2010 projections. Now, this was a schedule that was prepared by someone else, I guess, but was it under your supervision and direction? It's not one of your exhibits. It's Mr. Dodd's exhibit.

A. That would have been prepared by Mr. Dodd, that's correct.

Q. And do you have any knowledge of the information that goes into this exhibit?

A. I do have some knowledge of the information that is the basis for preparing those schedules.

Q. And you project your capacity needs from the Southern Company on Page 16 here of the composite exhibit. You expect you're going to pay the interchange company $9.4 million for capacity so that you can meet your requirements under the Commission rule, is that correct?

MR. BADDERS: Chairman Carter.

CHAIRMAN CARTER: Mr. Badders.

MR. BADDERS: If I may renew my objection. We are now talking about capacity, again. We have moved far afield from sales.

CHAIRMAN CARTER: Mr. McWhirter.

MR. McWHIRTER: We are dealing with the cost -- the payments made to the Southern Company under the interchange contract, Mr. Chairman, and those payments relate to the total cost that retail customers must pick up for the operation under this interchange contract that Mr. Ball administers. And I think it's fair for people in the public hearing dealing with this have the opportunity to understand why it pays the amount of money it pays to Southern and why it receives the amount of money it receives.

CHAIRMAN CARTER: Ms. Cibula.

MS. CIBULA: I think we are moving outside the scope of the fuel clause issue.

CHAIRMAN CARTER: Okay. Mr. McWhirter, move on to another issue.

MR. McWHIRTER: All right.

CHAIRMAN CARTER: Sustained.

BY MR. McWHIRTER:

Q. Go to Page 13, if you will, please, sir. And you project what you are going to need to purchase from the Southern Company during the forthcoming year, is that correct?

A. That's correct.

Q. And you anticipate that you will need to purchase 4 million megawatt hours from the Southern Company, is that correct? This is on Page 14, Line --

A. Okay, 14. I'm sorry, I thought you said 13.

Q. I'm sorry. Well, I was on 13, that's where it starts. Go to Page 15, if you don't mind, and you anticipate you will -- no, those are power sales. I'm looking at purchase purchases. You are going to purchase -- yes. I guess I've got my pages backwards. We are on Page 13. And for the year you anticipate, once again, you will purchase 742 -- 629 -- well, 742 -- yes, 742 megawatt hours, and you are going to pay Southern Company $38.98 for a total of 28 million, is that correct?

A. Yes. That is the estimate on total for the period Line 1 from Schedule E-9, Page 2 of 2.

Q. And that's what you're going to purchase, and then E-6, which is the next two pages, you anticipate that for the year you're going to sell Southern Company interchange 1.3 million for $40.80, so you anticipate for the forthcoming year you're going to make more money per megawatt hour on your sales than you have to pay on your purchases from Southern, is that correct?

A. The total dollars received from sales is in excess of the total payments to the Southern Company interchange for purchases, that's correct, for the year.

Q. Now, for the past three years your estimates have been mistaken and you have collected less than you anticipated. Can you tell us what the change is in the forthcoming years over the preceding year?

A. Well, the change is the projection of fuel cost and loads, so there is quite a bit that goes into projecting what our sales and purchases may be, but the bottom line is it has to do with fuel cost projections. So when Gulf has units that are projected to be less expensive to run than other pool assets, Gulf will make sales to the pool.

When Gulf has the opportunity to purchase because we anticipate that the pool assets will be able to run cheaper than Gulf would incur costs from running its own generating units, again, on an hour-by-hour basis, then Gulf would make purchases. So all of this is, of course, generated by very large computer models with a lot of inputs into that and these are the projections that we have developed as part of that process.

Q. Mr. Ball, once again, if you will look at the bottom of Page 15 under the total heading, Line 1, anticipates that you will purchase -- or rather that you will sell 1.3 million megawatt hours to Southern, and then if we go over to Schedule E-1, once again, on Line 19 that line relates only to the Southern Company, is that correct?

A. Can you direct me to the schedule that you are talking about? I see Schedule A-6.

Q. I am looking at Schedule A-6 -- E-6, Page 15, Bates stamp Number 15.

A. Correct.

Q. Down near the bottom it says total, and on Line 1 it shows 1.3 million megawatt hours to Southern, and that's what you anticipate?

A. I see that.

Q. Okay. Now, come over on Page 11, Line E-1, and look at Line 19. And that same number appears there, so would it be fair to say that for the forthcoming year Line 19 headed other power sales represents only the sales to the Southern Company?

A. Yes. Those two lines do equal each other, so we are not projecting costs or not projecting how much energy will be wheeled through Gulf Power's transmission system for 2010. Now, we recognize that there is probably going to be some energy that gets wheeled through the system, but we are not projecting that at this point. This is just the Southern Company interchange piece.

Q. And I know this is something that you may object to, so I'll alert you.

This is the money that you pay for energy, you are going to pay Southern Company 9 million for capacity payments?

A. I'm sorry, what schedule are you looking at?

Q. I am looking now on Page 16, Schedule CCE-1.

A. Yes, the total of Line 9 -- I'm sorry, the total of Line 1 on Schedule CCE-1 is $9,426,000.

Q. Now, who is it you are going to pay that 33 million to on the next line. 39 million.

A. Those other capacity payments will be made primarily for purchased power agreements.

Q. That are included in A-6?

A. A-6 is energy, not capacity.

Q. You break up capacity -- and I'm not going to ask you that question.

MR. McWHIRTER: That's all the questions I have of the witness, Mr. Chairman.

CHAIRMAN CARTER: Thank you, Mr. McWhirter. I was hoping and praying that we didn't go back down that line again. But I do appreciate it.

MR. McWHIRTER: I felt you breathing down my neck. (Laughter.)

CHAIRMAN CARTER: Okay. Mr. LaVia.

MR. LaVIA: No questions.

CHAIRMAN CARTER: Thank you.

Commissioners, I'm going to go to staff unless there is anything from the bench at this time.

Commissioner Skop, you're recognized.

COMMISSIONER SKOP: Thank you, Mr. Chair. I will make this real quick. I have been trying to follow Mr. McWhirter's questions, and I guess I'm somewhat lost, but I'm going to try and distill it into what I thought I heard.

Mr. Ball, is it correct to understand that in terms of the economic dispatch to meet your customer load, whether you generate or purchase power, that you look at that on an hourly basis, is that correct?

THE WITNESS: That's correct.

COMMISSIONER SKOP: Okay. And is that decision based upon the marginal fuel cost or is it based on the spot price of electricity?

THE WITNESS: It's based on marginal fuel cost.

COMMISSIONER SKOP: Okay. So with respect to the decision to generate using one of your existing Gulf Power units or to purchase power from the Southern

Company interchange, you just look at what unit can operate from a fuel basis most effectively, is that correct generally?

THE WITNESS: That's correct. I think is a good characterization of that.

COMMISSIONER SKOP: So in a given month where you had high natural gas volatility, for instance, and gas prices had peeked where coal had remained stable, then at certain times, hypothetically, coal may be a more cost-effective generation option and, therefore, purchasing power would be more economic than dispatching one of your own combined cycle units, is that a good way to look at it?

THE WITNESS: That's correct. Yes, that's exactly it.

COMMISSIONER SKOP: Okay. All right. Thank you.

CHAIRMAN CARTER: Thank you.

Commissioners, I'm going to go to the staff unless there is anything further from the bench at this time.

Staff, you're recognized.

MS. BENNETT: I have three quick questions.

CROSS EXAMINATION

BY MS. BENNETT:

Q. Mr. Ball, if you can answer this, this may be something Mr. Dodd is more -- is in his testimony instead, but when you file your March true-up testimony, are you testifying about the components of the true-up by fuel and purchased power type, or are you really testifying about the differences between actual and estimated expenses?

A. In my testimony --

Q. Yes.

A. -- for the true-up provision.

Q. Right.

A. It's my understanding we're testifying about the variation between the -- well, I take that back. That might be a better question for Mr. Dodd to answer.

Q. Okay. I think the next one, then, means it's Mr. Dodd's question, too. Isn't it true that the 2008 true-up amount is the difference between actual fuel revenues for 2008 and actual 2008 fuel expenses?

A. That's correct.

MS. BENNETT: That's all the questions I have.

CHAIRMAN CARTER: Okay. Commissioner Skop, you're recognized.

COMMISSIONER SKOP: Just one final one for Mr. Ball. I was trying to listen to some of the questions that Mr. McWhirter was asking.

If there were an instance where for whatever reasons on a fuel basis it was more cost-effective for the ratepayers for Gulf to purchase power from the interchange versus generating on its own, and Gulf made that decision to do so, are there any resultant savings on the Gulf generation side as it pertains to variable O&M costs since the units would not be running as much and you would be buying purchased power? Or what's the proper way to look at that, or where is that picked up?

THE WITNESS: Variable O&M is a component of this decision-making process, so it's not -- and I hope I didn't mischaracterize it. It's not just a fuel decision. While fuel is by far the largest component of making these decisions about whether to purchase or generate your own, variable O&M also does play a piece in that, although a small piece. But, yes, that is true.

You would assume that if you are not running your generating unit that you would not have as large a variable O&M expense as you would otherwise. But by the same token, when you are purchasing power in addition to paying for the fuel, you also do reimburse the generator of that power for their variable O&M piece. And it's the same way with sales. When Gulf makes a sale out of one of its generating units, it not only gets back its fuel costs, but it also gets back variable O&M for that sale, as well. So everyone is made whole. The expense of running that generating unit to meet a sales obligation, the variable O&M expense is returned to offset those costs.

COMMISSIONER SKOP: Okay. So at the end of the day it boils down to it being a make/buy decision whereas you purchase power when it's economically most cost-effective to do so on a system-wide basis, is that correct?

THE WITNESS: That's correct.

COMMISSIONER SKOP: All right. Thank you.

CHAIRMAN CARTER: Thank you, Commissioner. Commissioners, anything further from the bench?

Redirect.

MR. BADDERS: No redirect, and I would like to move --

CHAIRMAN CARTER: Outstanding.

MR. BADDERS: I thought you would like that. I would like to move Exhibits 97 through 103.

CHAIRMAN CARTER: Are there any objections? Without objection, show it done.

MR. BADDERS: Thank you.

(Exhibit Numbers 97 through 103 admitted into the record.)

CHAIRMAN CARTER: Thank you.

Ms. Bennett, do we have anything further for this witness?

MS. BENNETT: Not for this witness.

CHAIRMAN CARTER: Commissioners, anything further for this witness? Okay. You may be excused.

THE WITNESS: Thank you.

CHAIRMAN CARTER: Have a nice day. Call your next witness.

MR. BADDERS: We will call Mr. Dodd to the stand.

CHAIRMAN CARTER: As we do, just everybody remember what I said about the time. So we are not going to go overtime today. We are going to stop at that time and pick it up again.

MS. BENNETT: Mr. Chairman.

CHAIRMAN CARTER: Yes, ma'am, Ms. Bennett.

MS. BENNETT: There is a matter that needs to be clarified on the FPL --

CHAIRMAN CARTER: Hang on a sec, then. Let's do that before we go with -- Mr. Badders, could you hold for a second.

Ms. Bennett.

Mr. Butler, would you come and join us?

Ms. Bennett, you're recognized.

MS. BENNETT: After we came back from lunch, staff reminded me that Issues 13 and 15, the fuel factors, change with the change in the vote for Issue 10. So we would need to have a motion for reconsideration on Issue 13 and 15, and then have the Commission direct FPL to file new fuel factors consistent with your vote on Issue 10. And I believe that you could also direct that staff administratively review and approve those as long as they are consistent with your vote on Issue 10.

CHAIRMAN CARTER: Mr. Butler.

MR. BUTLER: That seems like a reasonable procedure to us.

CHAIRMAN CARTER: Okay. Commissioners, I'm open for a motion.

Commissioner Edgar, you're recognized.

COMMISSIONER EDGAR: Mr. Chairman, I believe it was my motion, so with that in mind and the discussion that staff has just presented to us, I would move that we take up our previous vote to approve the stipulations for Issue 13 and 15 for reconsideration.

COMMISSIONER SKOP: Second.

CHAIRMAN CARTER: It has been moved and properly seconded. All in favor, let it be known by the sign of aye.

(Simultaneous aye.)

CHAIRMAN CARTER: All those opposed, like sign. Show it done.

Ms. Bennett.

COMMISSIONER EDGAR: Mr. Chairman, I think I can do it.

CHAIRMAN CARTER: You want to make the motion?

COMMISSIONER EDGAR: I will give it a try.

CHAIRMAN CARTER: Commissioner Edgar. Great.

COMMISSIONER EDGAR: In lieu of the stipulations for Issues 13 and 15, I would ask that we direct FPL to file new fuel factors consistent with the vote that we had on Issue 10 earlier today, and that we direct our staff to review them, and if they are consistent that they be administratively approved such that the factors can go into effect.

COMMISSIONER SKOP: Second.

CHAIRMAN CARTER: It have been moved and property seconded.

Ms. Bennett, does that cover everything we need to do on that?

MS. BENNETT: Yes, it does.

CHAIRMAN CARTER: Okay. All right. Commissioners, any discussion? Any debate?

Hearing none, all in favor, let it be known by the sign of aye.

(Simultaneous aye.)

CHAIRMAN CARTER: All those opposed, like sign. Show it done.

MR. BUTLER: Thank you, Mr. Chairman.

CHAIRMAN CARTER: Thank you, Mr. Butler.

Okay. Ms. Bennett, is there anything else outstanding on that? Are we done with --

MS. BENNETT: We're finished with those.

CHAIRMAN CARTER: Okay. So before I go to Mr. Badders, are there any other preliminary matters or things that kind of shook out during lunch that we need to deal with?

MS. BENNETT: No, I think we're good.

CHAIRMAN CARTER: Okay. Mr. Badders, you're recognized.

MR. BADDERS: Thank you. Mr. Dodd has taken the stand and he was present and was sworn in this morning.

RICHARD DODD

was called as a witness on behalf of Gulf Power Company, and having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BADDERS:

Q. Would you please your name and your business address for the record?

A. Richard Dodd, One Energy Place, Pensacola, Florida.

Q. And by whom are you employed and in what capacity?

A. Gulf Power; and I'm Supervisor of Rates and Regulatory Matters.

Q. Are you the same R. W. Dodd who prefiled final true-up testimony on March 9, 2009; estimated/actual true-up testimony on August 4, 2009?

A. Yes, sir.

Q. Did you also prefile projection testimony on September 1st, 2009, that was subsequently revised on October 30, 2009?

A. Yes, sir.

Q. Do you have any changes or corrections to any of that testimony?

A. No, I do not.

Q. If I were to ask you the same questions today, would your answers be the same?

A. Yes they would.

MR. BADDERS: We ask that the Prefiled Direct Testimony with the revised projection testimony which was filed on October 30th, 2009, be entered into the record as though read.

CHAIRMAN CARTER: The prefiled testimony of the witness will be inserted into the record as though read.

MR. BADDERS: Thank you.

BY MR. BADDERS:

Q. Mr. Dodd, did you also have three exhibits attached to your testimony?

A. Yes, I did.

Q. Do you have any changes or corrections to your exhibits?

A. No, I do not.

MR. BADDERS: We note that these have already been identified. They are Exhibits 88 through 94. At this time Mr. Dodd will not give a summary. We will waive that so we can proceed.

CHAIRMAN CARTER: Excellent. Mr. McWhirter, you're recognized.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
Richard W. Dodd
Docket No. 090001-EI
Date of Filing: March 9, 2009

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

A. My name is Richard Dodd. My business address is One Energy Place, Pensacola, Florida 32520-0780. I am the Supervisor of Rates and Regulatory Matters at Gulf Power Company.

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

A. I graduated from the University of West Florida in Pensacola, Florida in 1991 with a Bachelor of Arts Degree in Accounting. I also received a Bachelor of Science Degree in Finance in 1998 from the University of West Florida. I joined Gulf Power in 1987 as a Co-op Accountant and worked in various areas until I joined the Rates and Regulatory Matters area in 1990. After spending one year in the Financial Planning area, I transferred to Georgia Power Company in 1994 where I worked in the Regulatory Accounting department and in 1997 I transferred to Mississippi Power Company where I worked in the Rate and Regulation Planning department for six years followed by one year in Financial Planning. In 2004 I returned to Gulf Power Company working in the General Accounting area as Internal Controls Coordinator.

In 2007 I was promoted to Internal Controls Supervisor and in July 2008, I assumed my current position in the Rates and Regulatory Matters area.

My responsibilities include supervision of: tariff administration, cost of service activities, calculation of cost recovery factors, and the regulatory filing function of the Rates and Regulatory Matters Department.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the final true-up amounts for the period January 2008 through December 2008 for both the Fuel and Purchased Power Cost Recovery Clause and the Capacity Cost Recovery Clause. I will also present the actual benchmark level for the calendar year 2009 gains on non-separated wholesale energy sales eligible for a shareholder incentive and the amount of gains or losses from hedging settlements for the period January through December 2008.

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

A. Yes. My exhibit consists of 1 schedule that relates to the fuel and purchased power cost recovery final true-up, 4 schedules that relate to the capacity cost recovery final true-up, and 1 appendix that includes Schedules A-1 through A-9 and A-12 for the period January 2008 through December 2008, previously filed monthly with this Commission. Each of these documents was prepared under my direction, supervision, or review.

Counsel: We ask that Mr. Dodd's exhibit consisting of 5 schedules and 1 appendix be marked as Exhibit No. _____ (RWD-1).

Q. Have you verified that to the best of your knowledge and belief, the information contained in these documents is correct?

A. Yes.

Q. Which schedules of your exhibit relate to the calculation of the fuel and purchased power cost recovery true-up amount?

A. Schedule 1 of my exhibit relates to the fuel and purchased power cost recovery true-up calculation for the period January 2008 through December 2008. In addition, Fuel Cost Recovery Schedules A-1 through A-9 for January 2008 through December 2008 are incorporated herein in Appendix 1.

Q. What is the final fuel and purchased power cost true-up amount related to the period of January 2008 through December 2008 to be refunded or collected through the fuel cost recovery factors in the period January 2010 through December 2010?

A. A net amount to be collected of $48,757,977 was calculated as shown on Schedule 1 of my exhibit.

Q. How was this amount calculated?

A. The $48,757,977 was calculated by taking the difference in the estimated and actual under-recovery amounts for the period January 2008 through December 2008. The estimated under-recovery was $58,380,329 as shown on Schedule E-1A, Line 1 filed August 4, 2008 and approved in FPSC Order No. PSC-08-0824-FOF-EI issued on December 22, 2008. The actual under-recovery was $107,138,306 which is the sum of the Period-to-Date amounts on lines 7, 8, and 12 shown on the December 2008 Schedule A-2, page 2 of 3, included in Appendix 1. Additional details supporting the approved estimated true-up amount are included on Schedules E1-A and E1-B filed September 2, 2008.

Q. Mr. Dodd, has the estimated benchmark level for gains on non-separated wholesale energy sales eligible for a shareholder incentive been updated for 2009?

A. Yes, the three-year rolling average gain on economy sales, based entirely on actual data for calendar years 2006 through 2008 was calculated as follows:

Year	Actual Gain
2006	3,421,965
2007	2,599,491
2008	1,228,671
Three-Year Average	$2,416,709

Q. What is the actual threshold for 2009?

A. The actual threshold for 2009 is $2,416,709.

Q. Is Gulf seeking to recover any gains or losses from hedging settlements for the period of January 2008 through December 2008?

A. Yes. On line 2 of Schedule A-1, Period-to-Date, for December 2008 included in Appendix 1, Gulf has recorded a net loss of $1,737,726 related to hedging activities in 2008. Mr. Ball addresses the details of those hedging activities in his testimony.

Q. Mr. Dodd, you stated earlier that you are responsible for the purchased power capacity cost recovery true-up calculation. Which schedules of your exhibit relate to the calculation of this amount?

A. Schedules CCA-1, CCA-2, CCA-3 and CCA-4 of my exhibit relate to the purchased power capacity cost recovery true-up calculation for the period January 2008 through December 2008. In addition, Capacity Cost Recovery Schedule A-12 for the months of January through December 2008 is included in Appendix 1.

Q. What is the final purchased power capacity cost true-up amount related to the period of January 2008 through December 2008 to be refunded or collected in the period January 2010 through December 2010?

A. An amount to be refunded of $680,158 was calculated as shown on Schedule CCA-1 of my exhibit.

Q. How was this amount calculated?

A. The $680,158 was calculated by taking the difference in the estimated January 2008 through December 2008 under-recovery of $274,796 and the actual over-recovery of $405,362, which is the sum of lines 9 and 10 under the total column of Schedule CCA-2. The estimated true-up amount for this period was approved in FPSC Order No. PSC-08-0824-FOF-EI dated December 22, 2008. Additional details supporting the approved estimated true-up amount are included on Schedules CCE-1A and CCE-1B filed September 2, 2008.

Q. Please describe Schedules CCA-2 and CCA-3 of your exhibit.

A. Schedule CCA-2 shows the calculation of the actual over-recovery of purchased power capacity costs for the period January 2008 through December 2008. Schedule CCA-3 of my exhibit is the calculation of the interest provision on the over-recovery for the period January 2008 through December 2008. This is the same method of calculating interest that is used in the Fuel and Purchased Power (Energy) Cost Recovery Clause and the Environmental Cost Recovery Clause.

Q. Please describe Schedule CCA-4 of your exhibit.

A. Schedule CCA-4 provides additional details related to Line 1 of Schedule CCA-2.

Q. Mr. Dodd, does this conclude your testimony?

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
Richard W. Dodd
Docket No. 090001-EI
Date of Filing: August 4, 2009

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

A. My name is Richard Dodd. My business address is One Energy Place, Pensacola, Florida 32520-0780. I am the Supervisor of Rates and Regulatory Matters at Gulf Power Company.

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

A. I graduated from the University of West Florida in Pensacola, Florida in 1991 with a Bachelor of Arts Degree in Accounting. I also received a Bachelor of Science Degree in Finance in 1998 from the University of West Florida. I joined Gulf Power in 1987 as a Co-op Accountant and worked in various areas until I joined the Rates and Regulatory Matters area in 1990. After spending one year in the Financial Planning area, I transferred to Georgia Power Company in 1994 where I worked in the Regulatory Accounting department and in 1997 I transferred to Mississippi Power Company where I worked in the Rate and Regulation Planning department for six years followed by one year in Financial Planning. In 2004 I returned to Gulf Power Company working in the General Accounting area as Internal Controls Coordinator. In 2007 I was promoted to Internal Controls Supervisor and in July 2008, I assumed my current position in the Rates and Regulatory Matters area.

My responsibilities include supervision of: tariff administration, cost of service activities, calculation of cost recovery factors, and the regulatory filing function of the Rates and Regulatory Matters Department.

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

A. Yes, I have.

Counsel: We ask that Mr. Dodd's Exhibit consisting of fourteen schedules be marked as Exhibit No. ____ (RWD-2).

Q. Are you familiar with the Fuel and Purchased Power (Energy) estimated true-up calculations for the period of January 2009 through December 2009 and the Purchased Power Capacity Cost estimated true-up calculations for the period of January 2009 through December 2009 set forth in your exhibit?

A. Yes, these documents were prepared under my supervision.

Q. Have you verified that to the best of your knowledge and belief, the information contained in these documents is correct?

A. Yes, I have.

Q. How were the estimated true-ups for the current period calculated for both fuel and purchased power capacity?

A. In each case, the estimated true-up calculations include six months of actual data and six months of estimated data.

Q. Mr. Dodd, what has Gulf calculated as the fuel cost recovery true-up to be applied in the period January 2010 through December 2010?

A. The fuel cost recovery true-up for this period is an increase of 0.1098¢/kwh.

As shown on Schedule E-1A, this includes an estimated over-recovery for the January through December 2009 period of $36,414,908. It also includes a final under-recovery for the January through December 2008 period of $48,757,977 (see Schedule 1 of Exhibit RWD-1 in this docket filed on March 9, 2009). The resulting total under-recovery of $12,343,069 will be included for recovery during 2010.

Q. Mr. Dodd, you stated earlier that you are responsible for the Purchased Power Capacity Cost true-up calculation. Which schedules of your exhibit relate to the calculation of these factors?

A. Schedules CCE-1A, CCE-1B and CCE-4 of my exhibit relate to the Purchased Power Capacity Cost true-up calculation to be applied in the January 2010 through December 2010 period.

Q. What has Gulf calculated as the purchased power capacity factor true-up to be applied in the period January 2010 through December 2010?

A. The true-up for this period is an increase of 0.0099¢/kwh as shown on Schedule CCE-1A. This includes an estimated under-recovery of $1,787,568 for January 2009 through December 2009. It also includes a final over-recovery of $680,158 for the period of January 2008 through December 2008 (see Schedule CCA-1 of Exhibit RWD-1 in this docket filed March 9, 2009). The resulting total under-recovery of $1,107,410 will be included for recovery during 2010.

Q. Mr. Dodd, does this conclude your testimony?

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
Richard W. Dodd
Docket No. 090001-EI
Date of Filing: September 1, 2009

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

A. My name is Richard Dodd. My business address is One Energy Place, Pensacola, Florida 32520-0780. I am the Supervisor of Rates and Regulatory Matters at Gulf Power Company.

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

A. I graduated from the University of West Florida in Pensacola, Florida in 1991 with a Bachelor of Arts Degree in Accounting. I also received a Bachelor of Science Degree in Finance in 1998 from the University of West Florida. I joined Gulf Power in 1987 as a Co-op Accountant and worked in various areas until I joined the Rates and Regulatory Matters area in 1990. After spending one year in the Financial Planning area, I transferred to Georgia Power Company in 1994 where I worked in the Regulatory Accounting department and in 1997 I transferred to Mississippi Power Company where I worked in the Rate and Regulation Planning department for six years followed by one year in Financial Planning. In 2004 I returned to Gulf Power Company working in the General Accounting area as Internal Controls Coordinator.

In 2007 I was promoted to Internal Controls Supervisor and in July 2008, I assumed my current position in the Rates and Regulatory Matters area.

My responsibilities include supervision of tariff administration, cost of service activities, calculation of cost recovery factors, and the regulatory filing function of the Rates and Regulatory Matters Department.

Q. Have you previously filed testimony before this Commission in this on-going docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss the calculation of Gulf Power's fuel cost recovery factors for the period January 2010 through December 2010. I will also discuss the calculation of the purchased power capacity cost recovery factors for the period January 2010 through December 2010.

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

A. Yes. My exhibit consists of 16 schedules, each of which was prepared under my direction, supervision, or review.

Counsel: We ask that Mr. Dodd's exhibit consisting of 16 schedules, be marked as Exhibit No. _____(RWD-3).

Q. Mr. Dodd, what is the levelized projected fuel factor for the period January 2010 through December 2010?

A. Gulf has proposed a levelized fuel factor of 5.348¢/kwh. This factor is based on projected fuel and purchased power energy expenses for January 2010 through December 2010 and projected kwh sales for the same period, and includes the true-up and GPIF amounts.

Q. How does the levelized fuel factor for the projection period compare with the levelized fuel factor for the current period?

A. The projected levelized fuel factor for 2010 is .380¢/kwh less or 6.63 percent lower than the levelized fuel factor in place January 2009 through December 2009.

Q. Please explain the calculation of the fuel and purchased power expense true-up amount included in the levelized fuel factor for the period January 2010 through December 2010.

A. As shown on Schedule E-1A of my exhibit, the true-up amount of $12,343,069 to be collected during 2010 includes an estimated over-recovery for the January through December 2009 period of $36,414,908, plus a final under-recovery for the period January through December 2008 of $48,757,977. The estimated over-recovery for the January through December 2009 period includes 6 months of actual data and 6 months of estimated data as reflected on Schedule E-1B.

Q. What has been included in this filing to reflect the GPIF reward/penalty for the period of January 2008 through December 2008?
A. The GPIF result is shown on Line 34 of Schedule E-1 as an increase of .0010¢/kwh to the levelized fuel factor, thereby rewarding Gulf $113,177.

Q. What is the appropriate revenue tax factor to be applied in calculating the levelized fuel factor?
A. A revenue tax factor of 1.00072 has been applied to all jurisdictional fuel costs as shown on Line 32 of Schedule E-1.

Q. Mr. Dodd, how were the line loss multipliers used on Schedule E-1E calculated?
A. The line loss multipliers were calculated in accordance with procedures approved in prior filings and were based on Gulf's latest mwh Load Flow Allocators.

Q. Mr. Dodd, what fuel factor does Gulf propose for its largest group of customers (Group A), those on Rate Schedules RS, GS, GSD, and OSIII?
A. Gulf proposes a standard fuel factor, adjusted for line losses, of 5.376¢/kwh for Group A. Fuel factors for Groups A, B, C, and D are shown on Schedule E-1E. These factors have all been adjusted for line losses.

Q. Mr. Dodd, how were the time-of-use fuel factors calculated?
A. The time-of-use fuel factors were calculated based on projected loads and system lambdas for the period January 2010 through December 2010. These

factors included the GPIF and true-up and were adjusted for line losses. These time-of-use fuel factors are also shown on Schedule E-1E.

Q. How does the proposed fuel factor for Rate Schedule RS compare with the factor applicable to December 2009 and how would the change affect the cost of 1,000 kwh on Gulf's residential rate RS?

A. The current fuel factor for Rate Schedule RS applicable through December 2009 is 5.758¢/kwh compared with the proposed factor of 5.376¢/kwh. For a residential customer who uses 1,000 kwh in January 2010, the fuel portion of the bill would decrease from $57.58 to $53.76.

Q. What amount of cost associated with the Perdido Landfill Gas to Energy Project is included in the projected 2010 fuel costs used to derive the proposed 2010 fuel factors?

A. As calculated on Schedule 12 of my Exhibit RWD-3, $1,258,514 has been included as recoverable cost for this project. This amount is included on Schedule E-1, line 4. The monthly amounts are presented on Schedule E-2, line 1b and Schedule E-4, line 17.

Q. Has Gulf updated its estimates of the as-available avoided energy costs to be shown on COG1 as required by Order No. 13247 issued May 1, 1984, in Docket No. 830377-EI and Order No. 19548 issued June 21, 1988, in Docket No. 880001-EI?

A. Yes. A tabulation of these costs is set forth in Schedule E-11 of my exhibit. These costs represent the estimated averages for the period from January 2010 through December 2010.

Q. What amount have you calculated to be the appropriate benchmark level for calendar year 2010 gains on non-separated wholesale energy sales eligible for a shareholder incentive?

A. In accordance with Order No. PSC-00-1744-AAA-EI, a benchmark level of $1,542,406 has been calculated for 2010 as follows:

2007 actual gains	2,599,491
2008 actual gains	1,228,671
2009 estimated gains	799,057
Three-Year Average	$1,542,406

This amount represents the minimum projected threshold for 2010 that must be achieved before shareholders may receive any incentive. As demonstrated on Schedule E-6, page 2 of 2, Gulf's projection reflects a credit to customers of 100 percent of the gains on non-separated sales for 2010 for the months of January through December.

Q. You stated earlier that you are responsible for the calculation of the purchased power capacity cost (PPCC) recovery factors. Which schedules of your exhibit relate to the calculation of these factors?

A. Schedule CCE-1, including CCE-1A and CCE-1B, Schedule CCE-2, and Schedule CCE-4 of my exhibit relate to the calculation of the PPCC recovery factors for the period January 2010 through December 2010.

Q. Please describe Schedule CCE-1 of your exhibit.

A. Schedule CCE-1 shows the calculation of the amount of capacity payments to be recovered through the PPCC Recovery Clause. Mr. Ball has provided me with Gulf's projected purchased power capacity transactions. Gulf's total projected net capacity expense, which includes a credit for transmission revenue, for the period January 2010 through December 2010 is $48,729,557. The jurisdictional amount is $46,985,819. This amount is added to the total true-up amount to determine the total purchased power capacity transactions that would be recovered in the period.

Q. What methodology was used to allocate the capacity payments by rate class?

A. As required by Commission Order No. 25773 in Docket No. 910794-EQ, the revenue requirements have been allocated using the cost of service methodology used in Gulf's last rate case and approved by the Commission in Order No. PSC-02-0787-FOF-EI issued June 10, 2002, in Docket No. 010949-EI. For purposes of the PPCC Recovery Clause, Gulf has allocated the net purchased power capacity costs by rate class with 12/13th on demand and 1/13th on energy. This allocation is consistent with the treatment accorded to production plant in the cost of service study used in Gulf's last rate case.

Q. How were the allocation factors calculated for use in the PPCC Recovery Clause?

A. The allocation factors used in the PPCC Recovery Clause have been calculated using the 2006 load data filed with the Commission in accordance with FPSC Rule 25-6.0437. The calculations of the allocation factors are shown in columns A through I on page 1 of Schedule CCE-2.

Q. Please describe the calculation of the cents/kwh factors by rate class used to recover purchased power capacity costs.

A. As shown in columns A through D on page 2 of Schedule CCE-2, 12/13th of the jurisdictional capacity cost to be recovered is allocated by rate class based on the demand allocator. The remaining 1/13th is allocated based on energy. The total revenue requirement assigned to each rate class shown in column E is then divided by that class's projected kwh sales for the twelve-month period to calculate the PPCC recovery factor. This factor would be applied to each customer's total kwh to calculate the amount to be billed each month.

Q. What is the amount related to purchased power capacity costs recovered through this factor that will be included on a residential customer's bill for 1,000 kwh?

A. The purchased power capacity costs recovered through the clause for a residential customer who uses 1,000 kwh will be $5.02.

Q. When does Gulf propose to collect these new fuel charges and purchased power capacity charges?

A. The fuel and capacity factors will be effective beginning with Cycle 1 billings in January 2010 and continuing through the last billing cycle of December 2010.

Q. Mr. Dodd, does this conclude your testimony?

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
Richard W. Dodd
Docket No. 090001-EI
Date of Filing: October 30, 2009

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

A. My name is Richard Dodd. My business address is One Energy Place, Pensacola, Florida 32520-0780. I am the Supervisor of Rates and Regulatory Matters at Gulf Power Company.

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

A. I graduated from the University of West Florida in Pensacola, Florida in 1991 with a Bachelor of Arts Degree in Accounting. I also received a Bachelor of Science Degree in Finance in 1998 from the University of West Florida. I joined Gulf Power in 1987 as a Co-op Accountant and worked in various areas until I joined the Rates and Regulatory Matters area in 1990. After spending one year in the Financial Planning area, I transferred to Georgia Power Company in 1994 where I worked in the Regulatory Accounting department and in 1997 I transferred to Mississippi Power Company where I worked in the Rate and Regulation Planning department for six years followed by one year in Financial Planning. In 2004 I returned to Gulf Power Company working in the General Accounting area as Internal Controls Coordinator.

In 2007 I was promoted to Internal Controls Supervisor and in July 2008, I assumed my current position in the Rates and Regulatory Matters area.

My responsibilities include supervision of tariff administration, cost of service activities, calculation of cost recovery factors, and the regulatory filing function of the Rates and Regulatory Matters Department.

Q. Have you previously filed testimony before this Commission in this on-going docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss the calculation of Gulf Power's fuel cost recovery factors for the period January 2010 through December 2010. I will also discuss the calculation of the purchased power capacity cost recovery factors for the period January 2010 through December 2010.

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

A. Yes. My exhibit consists of 15 schedules, each of which was prepared under my direction, supervision, or review.

Counsel: We ask that Mr. Dodd's exhibit consisting of 15 schedules, be marked as Exhibit No. _____(RWD-3).

Q. Mr. Dodd, what is the levelized projected fuel factor for the period January 2010 through December 2010?

A. Gulf has proposed a levelized fuel factor of 5.343¢/kwh. This factor is based on projected fuel and purchased power energy expenses for January 2010 through December 2010 and projected kwh sales for the same period, and includes the true-up and GPIF amounts.

Q. How does the levelized fuel factor for the projection period compare with the levelized fuel factor for the current period?

A. The projected levelized fuel factor for 2010 is .385¢/kwh less or 6.72 percent lower than the levelized fuel factor in place January 2009 through December 2009.

Q. Please explain the calculation of the fuel and purchased power expense true-up amount included in the levelized fuel factor for the period January 2010 through December 2010.

A. As shown on Schedule E-1A of my exhibit, the true-up amount of $12,343,069 to be collected during 2010 includes an estimated over-recovery for the January through December 2009 period of $36,414,908, plus a final under-recovery for the period January through December 2008 of $48,757,977. The estimated over-recovery for the January through December 2009 period includes 6 months of actual data and 6 months of estimated data as reflected on Schedule E-1B.

Q. What has been included in this filing to reflect the GPIF reward/penalty for the period of January 2008 through December 2008?

A. The GPIF result is shown on Line 34 of Schedule E-1 as an increase of .0010¢/kwh to the levelized fuel factor, thereby rewarding Gulf $113,177.

Q. What is the appropriate revenue tax factor to be applied in calculating the levelized fuel factor?

A. A revenue tax factor of 1.00072 has been applied to all jurisdictional fuel costs as shown on Line 32 of Schedule E-1.

Q. Mr. Dodd, how were the line loss multipliers used on Schedule E-1E calculated?

A. The line loss multipliers were calculated in accordance with procedures approved in prior filings and were based on Gulf's latest mwh Load Flow Allocators.

Q. Mr. Dodd, what fuel factor does Gulf propose for its largest group of customers (Group A), those on Rate Schedules RS, GS, GSD, and OSIII?

A. Gulf proposes a standard fuel factor, adjusted for line losses, of 5.371¢/kwh for Group A. Fuel factors for Groups A, B, C, and D are shown on Schedule E-1E. These factors have all been adjusted for line losses.

Q. Mr. Dodd, how were the time-of-use fuel factors calculated?

A. The time-of-use fuel factors were calculated based on projected loads and system lambdas for the period January 2010 through December 2010. These factors included the GPIF and true-up and were adjusted for line losses. These time-of-use fuel factors are also shown on Schedule E-1E.

Q. How does the proposed fuel factor for Rate Schedule RS compare with the factor applicable to December 2009 and how would the change affect the cost of 1,000 kwh on Gulf's residential rate RS?

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Q. Has Gulf updated its estimates of the as-available avoided energy costs to be shown on COG1 as required by Order No. 13247 issued May 1, 1984, in Docket No. 830377-EI and Order No. 19548 issued June 21, 1988, in Docket No. 880001-EI?

A. Yes. A tabulation of these costs is set forth in Schedule E-11 of my exhibit. These costs represent the estimated averages for the period from January 2010 through December 2010.

Q. What amount have you calculated to be the appropriate benchmark level for calendar year 2010 gains on non-separated wholesale energy sales eligible for a shareholder incentive?

A. In accordance with Order No. PSC-00-1744-AAA-EI, a benchmark level of $1,542,406 has been calculated for 2010 as follows:

2007 actual gains	2,599,491
2008 actual gains	1,228,671
2009 estimated gains	799,057
Three-Year Average	$1,542,406

This amount represents the minimum projected threshold for 2010 that must be achieved before shareholders may receive any incentive. As demonstrated on Schedule E-6, page 2 of 2, Gulf's projection reflects a credit to customers of 100 percent of the gains on non-separated sales for 2010 for the months of January through December.

Q. You stated earlier that you are responsible for the calculation of the purchased power capacity cost (PPCC) recovery factors. Which schedules of your exhibit relate to the calculation of these factors?

A. Schedule CCE-1, including CCE-1A and CCE-1B, Schedule CCE-2, and Schedule CCE-4 of my exhibit relate to the calculation of the PPCC recovery factors for the period January 2010 through December 2010.

Q. Please describe Schedule CCE-1 of your exhibit.

A. Schedule CCE-1 shows the calculation of the amount of capacity payments to be recovered through the PPCC Recovery Clause. Mr. Ball has provided me with Gulf's projected purchased power capacity transactions. Gulf's total projected net capacity expense, which includes a credit for transmission revenue, for the period January 2010 through December 2010 is $48,729,557. The jurisdictional amount is $46,985,819. This amount is added to the total true-up amount to determine the total purchased power capacity transactions that would be recovered in the period.

Q. What methodology was used to allocate the capacity payments by rate class?

A. As required by Commission Order No. 25773 in Docket No. 910794-EQ, the revenue requirements have been allocated using the cost of service methodology used in Gulf's last rate case and approved by the Commission in Order No. PSC-02-0787-FOF-EI issued June 10, 2002, in Docket No. 010949-EI. For purposes of the PPCC Recovery Clause, Gulf has allocated the net purchased power capacity costs by rate class with 12/13th on demand and 1/13th on energy. This allocation is consistent with the treatment accorded to production plant in the cost of service study used in Gulf's last rate case.

Q. How were the allocation factors calculated for use in the PPCC Recovery Clause?

A. The allocation factors used in the PPCC Recovery Clause have been calculated using the 2006 load data filed with the Commission in accordance with FPSC Rule 25-6.0437. The calculations of the allocation factors are shown in columns A through I on page 1 of Schedule CCE-2.

Q. Please describe the calculation of the cents/kwh factors by rate class used to recover purchased power capacity costs.

A. As shown in columns A through D on page 2 of Schedule CCE-2, 12/13th of the jurisdictional capacity cost to be recovered is allocated by rate class based on the demand allocator. The remaining 1/13th is allocated based on energy. The total revenue requirement assigned to each rate class shown in column E is then divided by that class's projected kwh sales for the twelve-month period to calculate the PPCC recovery factor. This factor would be applied to each customer's total kwh to calculate the amount to be billed each month.

Q. What is the amount related to purchased power capacity costs recovered through this factor that will be included on a residential customer's bill for 1,000 kwh?

A. The purchased power capacity costs recovered through the clause for a residential customer who uses 1,000 kwh will be $5.02.

Q. When does Gulf propose to collect these new fuel charges and purchased power capacity charges?

A. The fuel and capacity factors will be effective beginning with Cycle 1 billings in January 2010 and continuing through the last billing cycle of December 2010.

Q. Mr. Dodd, does this conclude your testimony?

A. Yes.

CROSS EXAMINATION

BY MR. McWHIRTER:

Q. Mr. Dodd, do you have the composite cross-examination exhibit that I gave to Mr. Ball?

A. Yes, sir.

Q. Do you have it before you there?

A. Yes, sir.

Q. Can you explain the little glitch that he referred to you about on Line 17, on Page 1, the estimated numbers used for other power sales are the same as the estimated sales on A-6 to the Southern Company, but then he says that that line really relates to companies other than the Southern Company?

A. I believe I can. Let me clarify that I understand your question, and it's basically that on Page 1 of your exhibit that you passed out, which is Schedule A-1 for 2008.

Q. Yes, sir.

A. On Line 17, the projected kilowatt hour sales there are shown as 3,444,695,000.

Q. Right.

A. On Schedule A-6, period-to-date 2008, Line 1, titled Southern Company interchange, the kilowatt hour there also are shown as 3,444,695,000. And those two numbers are the same because the other items that are actually incurred on an actual basis that roll into Line 17, we do not project for those. And I think late in your questioning Mr. Ball did explain that that accounts for wheeled energy and things that we are not able to project on a projected basis when the volume of those things will occur.

Q. But Schedule A-1, isn't that actual for the year?

A. Yes, sir, Schedule A-1 is actual information for the year, and it also includes the projected information on the year which, again, does tie to A-6, there just are items included in the actual amounts of A-1 because activities occurred during the year that are not present on the projected section of A-6 because we are not able to project those. But the actual information for those activities on A-6 are, again, included, as Mr. Ball mentioned, on Row 64 through 69, those kilowatt hours, and the dollars do flow forward into Line 17 on Schedule A-1.

Q. The dollars collected on Line 17 were $84 million less than anticipated, is that correct?

A. I assume you're looking again at A-1, Line 17.

Q. That's correct.

A. The $90 million actual versus 175 million estimated.

Q. That's correct.

A. Yes, sir.

Q. And if we look at the estimated dollars from the Southern Company on Schedule A-6, you anticipated you would collect 175 million from Southern Company, is that correct?

A. Yes, sir. And, again, that's the same number that carries forward into Line 17 on A-1.

Q. From Mr. Ball's responses somehow I came to believe that Line 17 included companies other than the Southern interchange. Are you telling me now that the $90 million on Line 17 was collected from Southern Company and not other companies?

A. The $90 million on Line 17, Schedule 1, is actually made up of a few components that you can take from Schedule A-6. On Line Item 6 on an actual basis you have the Southern Company interchange, which was $102,531,824. That number rolls into the $90 million number, but also includes in Column 7 the dollars for fuel adjustment for items -- on Line Item 64 through 69.

Q. So you collected $102 million from Southern Company and that $102 million is reduced by the 12 million on Line 64 of the flow-through energy?

A. That's correct.

Q. And that's how you got the 90 million?

A. Subject to doing the math, yes, sir.

Q. All right. So Line 17 then is clearly nobody but Southern Company?

A. No, sir, that's not correct.

Q. All right. So the money received from Southern Company is reduced by flow through energy that relates to all the companies?

A. Perhaps -- would you re-ask your question. I think when you asked your question regarding dollars that may be correct; regarding energy, it's not correct, it's not all related to Southern Company for the energy that is included on that line item, which is necessarily to balance the system. But the dollars, the flow-through are transactions through Southern Company.

Q. Your testimony here today then is that in the year 2008, Southern Company paid Gulf Power for energy $102 million?

A. No, sir, that's not my testimony.

Q. All right. Look at Schedule A-6.

A. Yes, sir. A-6, which represents the Gulf Power sales.

Q. And it reflects that you sold 1.8 million megawatt hours and you collected $102 million from Southern Company?

A. That is correct.

Q. And that's your testimony today?

A. Yes, sir.

Q. And so the money you collected from Southern Company was reduced by something called energy flow-through. Can you explain what energy flow-through is?

A. At a very high level. Energy flow-through represents the transactions, the sales that are made by the Southern system to unaffiliates, and in a given hour when those sales are made the generation required to meet those sales. If a Gulf unit is operating, then Gulf generation is used to make that sale. If it is in an hour that Gulf's generation is not operating, then whatever unit is operating in the Southern system, those costs are assigned on a peak period load ratio back to Gulf Power Company, so we get the costs assigned to us and the revenues. And I have really told you about all I can about that. You quickly go beyond my level of expertise.

Q. So what you're saying is that the amount of money -- the $102 million is reduced by some kind of energy flow charge that Southern imposes on you, is that it?

A. Yes, sir, but you will also see on the purchases schedule a similar credit. I mean, it's an accounting adjustment that is reflected on both the purchases and the sales.

Q. And do you pay it on purchases or does somebody else pay it?

A. Let me look at the purchases schedule before I -- it's shown as a reduction on the purchases side.

Q. Your price is reduced or your price is increased by --

A. Our purchased costs are decreased. It is a flow through in and out so that it's a net basically zero impact to the customers.

Q. So Southern pays you that energy flow through, is that correct?

A. In the fashion that Gulf would be reimbursed by the pool is that if a sale is made, our peak period load ratio of the costs are assigned to us as well as the revenues from the sale, and I will add that the net margin, the gain on that sale flows directly through to the customers.

Q. The gain on the sale. What is the gain?

A. The gain is the difference between the cost of the generation or the amount of energy assigned to Gulf and the amount of revenues that are received from the sale. So the net impact on the customer is they just get a benefit of the gain or the markup for those opportunity type sales.

Q. All right, sir. Let's go back to hedging settlement costs on Line 2 of Bates stamp Number 1. You charged your retail customers $10 million in 2008 for hedging costs, is that correct?

A. What schedule are you on, sir?

Q. Schedule A-1 for period-to-date December 2008, Line 2 is hedging settlement costs.

MR. BADDERS: Chairman Carter, I have an objection. Now we have moved to hedging, also an issue that has already been voted on by this Commission, an issue that this very party took no position.

CHAIRMAN CARTER: What about it, Mr. McWhirter?

MR. McWHIRTER: Well, it's part of the fuel cost. I didn't object to the amount of money they paid. What I want to understand is retail customers paid hedging costs and will pay hedging costs again, is that correct?

CHAIRMAN CARTER: Whoa, whoa, whoa, whoa. You are speaking to the objection now. You are speaking to the objection.

MR. McWHIRTER: All right, sir.

CHAIRMAN CARTER: Okay. So don't talk to the witness, talk to me.

MR. McWHIRTER: I didn't complain about the hedging cost, and that is what he says. What I'm trying to understand is how hedging costs come into play between retail customers and the people that get these marginal purchases of fuel, and that relates to the fuel cost.

CHAIRMAN CARTER: Ms. Cibula.

MS. CIBULA: I think the question should be allowed.

CHAIRMAN CARTER: You may proceed, Mr. McWhirter.

BY MR. McWHIRTER:

Q. Do you remember the question?

A. If you would not mind repeating it, sir. And the amount I couldn't find on the schedule you were --

Q. All right. Look at Schedule A-1, period ending December 2008, Line 2.

A. Yes, sir.

Q. It shows that you thought you were going to receive $9 million in hedging benefit, but you actually paid $1.7 million in hedging costs, and the total cost for 2008 was 10 million that retail customers were asked to pay. Am I correct in that assumption?

A. I don't exactly agree with that. I would agree that for 2008, the costs of hedging, financial hedging transactions incurred was the 1.7 million. That compares to, as you said, an estimate of 9 million, but the costs that were actually incurred in 2008 were 1.7 million.

Q. All right, sir. If you will go over to Line 11, that is for 2010. There's no hedging settlement.

CHAIRMAN CARTER: Is your microphone on, Mr. McWhirter?

MR. McWHIRTER: I am probably mumbling, Mr. Chairman. Is that better?

CHAIRMAN CARTER: That's much better.

BY MR. McWHIRTER:

Q. Okay. Let's go to Bates Number 5.

A. Number 5?

Q. Yes. And in 5 you -- and the Commission has approved $44.8 million for hedging costs in order to stabilize your cost of fuel, is that correct?

A. Yes. The hedging cost included on Schedule E-1B-1 for the year 2009, which includes six months actual data, six months projected, is the 44,857,414.

Q. And that's charged to retail customers, is that correct?

A. That's appropriate. Yes, sir, that's correct and appropriate because the hedging activity that the company performs is only for our retail customers. We do not perform -- enter hedging transactions for wholesale activity.

Q. And when you buy spot fuel for your power plants and sell it in the wholesale market, do those customers that benefit from the lesser cost contribute in any fashion to the hedging?

A. No, sir, they do not, because they receive no benefit of that.

Q. Well, they got the lowest possible cost, didn't they, on the whole Southern system?

A. But the cost they got for those transactions had nothing to do with the financial hedging activity that was entered into for the retail ratepayers.

Q. And what is the benefit that retail ratepayers receive for having paid $44.8 million?

MR. BADDERS: Chairman Carter, again, I'd like to -- maybe not renew an objection, make a new objection. And, again, we have had no discussion how this relates to sales. This is pure and simple discussion about our hedging program, and our hedging costs have gone through to the customers, issues that have already been voted on by this Commission.

CHAIRMAN CARTER: Mr. McWhirter.

MR. McWHIRTER: I'll drop the question, Mr. Chairman, because it's approaching the witching hour. I tender the witness.

CHAIRMAN CARTER: Thank you, Mr. McWhirter. Mr. Wright.

MR. WRIGHT: No questions, Mr. Chairman. Thank you.

CHAIRMAN CARTER: Commissioners, I'm going to go to staff and then come back to the bench.

Staff, you're recognized.

CROSS EXAMINATION

BY MS. BENNETT:

Q. Mr. Dodd, I just have two questions. When you file your March true-up testimony, do you testify about the components of the true-up by fuel and purchased power type, or do you testify about the differences between actual and estimated expense dollars?

A. My testimony addresses the actual versus -- as compared to estimated dollars for the prior period.

Q. And are the estimated dollars in the March true-up filing original estimates or are they reprojected estimates?

A. Those estimates are included in the estimated/actual filing. Without the data in front of me, early August of '08 would have been when we filed our estimated/actuals for 2008.

Q. But in the March true-up, are they the original estimates, or are they reprojected estimates, or are they actuals?

A. In the March true-up filing the actuals are what the actuals are. The actual expenses are what we incurred. They are compared to the estimated expenses. I think I may be confusing expenses versus the calculation of the final true-up component which is the final over/underrecovery versus the estimated over/underrecovery which for the period which is filed in the estimated/actual filing.

MS. BENNETT: That's all the questions I have. Thank you.

CHAIRMAN CARTER: Thank you.

Commissioners, anything from the bench? We are snug up on the time frame.

Redirect?

MR. BADDERS: No redirect, and I would like to move his exhibits.

CHAIRMAN CARTER: Exhibits.

MR. BADDERS: I believe that would be Exhibit 88 through 94.

CHAIRMAN CARTER: Are there any objections? Without objection show it done.

(Exhibit 88 through 94 admitted into the record.)

CHAIRMAN CARTER: Anything further for this witness from staff?

MS. BENNETT: No, sir.

CHAIRMAN CARTER: Parties? Commissioners? You may be excused.

MR. McWHIRTER: Mr. Chairman, I'd like to move that composite exhibit.

CHAIRMAN CARTER: Hang on a second and let me get my hands on it.

Staff, our next number in the sequence? I know we did 133.

MS. BENNETT: It would be 134.

CHAIRMAN CARTER: Okay. Commissioners, this will be 134.

MR. BADDERS: Chairman Carter, I would like to point out, all that is is a recompilation of exhibits and information that is already in the record.

CHAIRMAN CARTER: Okay.

MR. McWHIRTER: That's correct.

CHAIRMAN CARTER: That's fine. Are there any objections?

MR. BADDERS: No objection.

CHAIRMAN CARTER: Without objection, show it done, 134 entered into evidence.

(Exhibit 134 marked for identification and admitted into the record.)

CHAIRMAN CARTER: You may be excused.

Ms. Bennett.

MS. BENNETT: I believe that concludes the record. We would now be in the decision phase of our docket.

CHAIRMAN CARTER: Commissioners, I think -- well, I don't want to think aloud, but I think at this point in time we probably don't want to make a bench decision unless you guys think otherwise. I think we need to see something.

Commissioners, I am sensing agreement on that, so, Ms. Bennett.

MS. BENNETT: Would you like for staff to break over the evening and then come back and give you a recommendation, or are you telling us you want to have it briefed and come back December 1st?

CHAIRMAN CARTER: Briefed.

MS. BENNETT: Okay.

CHAIRMAN CARTER: Commissioner Skop, a brief, brief question.

COMMISSIONER SKOP: Thank you, Mr. Chair.

Just in relation to FPUC and possibly on the Gulf, are there any time limitations? If we want to get a written brief, when would be the next opportunity to approve that such that whatever the Commission approves could go into effect by the appropriate time?

MS. BENNETT: Well, I believe if we bring this to you for your December 1st agenda that would be in plenty of time for all the decisions because you would then give the utilities 30 days. So my understanding is that the court reporter could have this ready for us by Friday, the transcript ready for us by Friday. We would ask that briefs be provided -- I was going to say November 9th, which is Monday, by the parties, and staff would file its recommendation on November 19th for a December 1st Agenda Conference.

CHAIRMAN CARTER: Show it done.

MS. BENNETT: And we would be asking --

CHAIRMAN CARTER: One second. Commissioner Edgar.

COMMISSIONER EDGAR: I'm just a little confused about the timing, so if I could have you explain that to me. If we vote December 1st as an item on an already scheduled agenda conference, and then how many days for the order to go out, and then for the companies to be able to put in the notice to customers, which is 30 days, where does that take us, and how does that fit in with the votes that we took earlier today for the other utilities?

MS. BENNETT: I believe that the utilities -- and they can correct me if I'm wrong, but the utilities could use the information from the recommendation to give notice to the customers and to put their fuel factors into effect for the first of next year, but you might want to confirm with them that that schedule works.

CHAIRMAN CARTER: Mr. Horton.

MR. HORTON: I was just going to ask for some clarification.

CHAIRMAN CARTER: You're recognized. You're recognized to ask questions.

MR. HORTON: You said the 9th, which is next Monday.

MS. BENNETT: For briefs?

MR. HORTON: For briefs.

MS. BENNETT: For briefs.

CHAIRMAN CARTER: Mr. Badders.

MR. BADDERS: It is my understanding that the transcript would not be available until Friday?

CHAIRMAN CARTER: Friday.

MR. BADDERS: So --

CHAIRMAN CARTER: So you've got the weekend. Hang on a second. Jane.

We can get them to you on Thursday, the

transcripts on Thursday.

MR. BADDERS: I just wanted to point out -- I mean, that is a very short period of time.

CHAIRMAN CARTER: That's true.

MR. BADDERS: But we can accommodate if we have to.

CHAIRMAN CARTER: Everybody is running on light speed, so, you know, it's going to be a push for the court reporters to get it done by then, so --

MS. BENNETT: We could make the briefs due on the 12th of November. It would shorten the staff's time to write the recommendation, but --

COMMISSIONER EDGAR: Recognize you have got a holiday in there, too.

MS. BENNETT: That is the day after the holiday. That will give them time to work over the holiday.

CHAIRMAN CARTER: Mr. Horton.

MR. HORTON: That would be better.

CHAIRMAN CARTER: Mr. Badders.

MR. BADDERS: We could accommodate that. And it's my understanding it is the Commission's pleasure to have briefs in the Gulf Power issue, also. That's my understanding.

COMMISSIONER EDGAR: That is what I think I've heard.

CHAIRMAN CARTER: Absolutely.

MR. BADDERS: Okay.

COMMISSIONER EDGAR: And so then can you help me just think through the back end of that. If we vote on December 1st and then can the company speak to the suggestion that the 30-day notice would kick in then prior to the order coming out? It's a little unusual.

MR. STONE: Commissioners, it's my understanding that it is not actually a 30-day notice in the sense that we mail out a notice, but rather that the Commission's decision when it becomes official is if it's 30 days out then our customers are deemed to have notice of your decision if it's 30 days out. So if you vote on December 1st, we would be in a position to implement factors on January 1st. There's not a separate mail notice requirement.

COMMISSIONER EDGAR: So this other or related legal issue, which is is the vote the action or is the order the action.

MR. STONE: I believe that it has been the practice that it's vote that's the decision and that the order follows as quickly thereafter as possible. And I'm stretching my memory, but my recollection is that when -- and my memory is really more from a base rate perspective, but I think it applies to fuel, as well. It is the vote not the order date that is determinative of the 30 days.

MS. BENNETT: I agree.

COMMISSIONER EDGAR: Okay. While we're all gathered together, to try to make sure we are all on the same page.

CHAIRMAN CARTER: Okay. Any further questions from the bench or from the parties?

Jane.

(Questions by Court Reporter.)

MS. BENNETT: It is only for the 01 docket, and just for complete clarity, the issues that would be briefed would be 3A and 3B for FPU; Issues 8, 9, 10, 12, 13, and 15 for FPU; and 8, 9, 10, 12, 13, and 15 for Gulf.

CHAIRMAN CARTER: Mr. Horton.

MR. HORTON: I'm sorry, could you --

CHAIRMAN CARTER: Give them again. Let's start with FPUC first.

MS. BENNETT: For FPUC it would be Issues 3A, 3B, 8, 9, 10, 12, 13, and 15.

CHAIRMAN CARTER: For Gulf.

MS. BENNETT: 8, 9, 10, 12, 13, and 15.

CHAIRMAN CARTER: Okay.

Are there any further questions? Any further questions from the parties?

Commissioners, any further questions? Staff, anything further?

MS. BENNETT: No, sir.

CHAIRMAN CARTER: We are adjourned.

(The hearing concluded at 5:08 p.m.)

STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, Hearing Reporter Services Section, FPSC Division of Commission Clerk, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS November 5, 2009, 2009.

JANE FAUROT, RPR
Official FPSC Hearings Reporter
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