

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

**Docket No. 080001-EI**

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

**Date of Filing: September 2, 2008**



**A SOUTHERN COMPANY**

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1 **GULF POWER COMPANY**

2 **Before the Florida Public Service Commission**

3 **Prepared Direct Testimony and Exhibit of**

4 **H. R. Ball**

5 **Docket No. 080001-EI**

6 **Date of Filing: September 2, 2008**

7 **Q. Please state your name and business address.**

8 **A. My name is H. R. Ball. My business address is One Energy Place,**  
9 **Pensacola, Florida 32520-0335. I am the Fuel Manager for Gulf Power**  
10 **Company.**

11  
12 **Q. Please briefly describe your educational background and business**  
13 **experience.**

14 **A. I graduated from the University of Southern Mississippi in Hattiesburg,**  
15 **Mississippi in 1978 with a Bachelor of Science Degree in Chemistry and**  
16 **graduated from the University of Southern Mississippi in Long Beach,**  
17 **Mississippi in 1988 with a Masters of Business Administration. My**  
18 **employment with the Southern Company began in 1978 at Mississippi**  
19 **Power's (MPC) Plant Daniel as a Plant Chemist. In 1982, I transferred to**  
20 **MPC's Fuel Department as a Fuel Business Analyst. I was promoted in**  
21 **1987 to Supervisor of Chemistry and Regulatory Compliance at Plant**  
22 **Daniel. In 1988, I assumed the role of Supervisor of Coal Logistics with**  
23 **Southern Company Fuel Services in Birmingham, Alabama. My**  
24 **responsibilities included administering coal supply and transportation**  
25 **agreements and managing the coal inventory program for the Southern**

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

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

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

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

13 A. The purpose of my testimony is to support Gulf Power Company's  
14 projection of fuel expenses, net power transaction expense, and  
15 purchased power capacity costs for the period January 1, 2009 through  
16 December 31, 2009. It is also my intent to be available to answer  
17 questions that may arise among the parties to this docket concerning Gulf  
18 Power Company's fuel and net power transaction expenses and  
19 purchased power capacity costs.

20  
21 Q. Have you prepared any exhibits that contain information to which you will  
22 refer in your testimony?

23 A. Yes, I have three separate exhibits I am sponsoring as part of this  
24 testimony. My first exhibit (HRB-2) consists of a schedule filed as an  
25 attachment to my pre-filed testimony that compares actual and projected

1 fuel cost of net generation for the past ten years. The purpose of this  
2 exhibit is to indicate the accuracy of Gulf's short-term fuel expense  
3 projections. The second exhibit (HRB-3) I am sponsoring as part of this  
4 testimony is Gulf Power Company's Hedging Information Report filed with  
5 the Commission Clerk on August 15, 2008 and assigned Document  
6 Number 07346-08. The purpose of this second exhibit is to comply with  
7 Order No. PSC-08-0316-PAA-EI and details Gulf Power's natural gas  
8 hedging transactions for January through July 2008. The third exhibit  
9 (HRB-4) I am sponsoring is Gulf Power Company's "Risk Management  
10 Plan for Fuel Procurement" filed with the Commission Clerk pursuant to a  
11 separate request for confidential classification on September 2, 2008.  
12 The Risk Management Plan sets forth Gulf Power's fuel procurement  
13 strategy and related hedging plan for the upcoming calendar year.  
14 Through its petition in this docket, Gulf Power is seeking the  
15 Commission's approval of the Company's "Risk Management Plan for  
16 Fuel Procurement" as part of this proceeding.

17  
18 Counsel: We ask that Mr. Ball's three exhibits as just described be  
19 marked for identification as Exhibit Nos. \_\_\_\_\_ (HRB-2),  
20 \_\_\_\_\_ (HRB-3) and \_\_\_\_\_ (HRB-4), respectively.

21  
22 Q. Has Gulf Power Company made any significant changes to its methods  
23 for projecting fuel expenses, net power transaction expense, and  
24 purchased power capacity costs for this period?  
25

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

3

4 Q. What is Gulf's projected recoverable total fuel and net power transactions  
5 cost for the January 2009 through December 2009 recovery period?

6 A. Gulf's projected total fuel and net power transaction cost for the period is  
7 \$658,168,908. This projected amount is captured in the exhibit to  
8 Witness Dodd's testimony, Schedule E-1, line 20.

9

10 Q. How does the total projected fuel and net power transactions cost for the  
11 2009 period compare to the updated projection of fuel cost for the same  
12 period in 2008?

13 A. The total updated cost of fuel and net power transactions for 2008,  
14 reflected on Schedule E-1B-1 line 21 of Witness Dodd's testimony filed in  
15 this docket on August 4, 2008, is projected to be \$507,032,444. The  
16 projected total cost of fuel and net power transactions for the 2009 period  
17 reflects an increase of \$151,136,464 or 29.81% over the same period in  
18 2008. On a fuel cost per KWH basis, the 2008 projected cost is 3.9630  
19 cents per KWH and the 2009 projected fuel cost is 5.0025 cents per  
20 KWH, which is an increase of 1.0395 cents per KWH or 26.23%.

21

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

24 A. The projected total cost of fuel to meet system net generation needs in  
25 2009 is \$812,208,413. The projection of fuel cost of system net

1 generation for 2009 is captured in the exhibit to Witness Dodd's  
2 testimony, Schedule E-1, line 1.

3  
4 Q. How does the total projected fuel cost of net generation for the 2009  
5 period compare to the updated projection of fuel cost for the same period  
6 in 2008?

7 A. The total updated cost of fuel to meet 2008 system net generation needs,  
8 reflected on Schedule E-1B-1, line 1 of Witness Dodd's testimony filed in  
9 this docket on August 4, 2008, is projected to be \$668,690,917. The  
10 projected total cost of fuel to meet system net generation needs for the  
11 2009 period reflects an increase of \$143,517,496 or 21.46% over the  
12 same period in 2008. Total system net generation in 2009 is projected to  
13 be 16,213,300 MWH, which is 117,162 MWH or 0.72% lower than is  
14 currently projected for 2008. On a fuel cost per KWH basis, the 2008  
15 projected cost is 4.0947 cents per KWH and the 2009 projected fuel cost  
16 is 5.0095 cents per KWH, which is an increase of 0.9148 cents per KWH  
17 or 22.34%. This higher projected total fuel expense and average per unit  
18 fuel cost is the result of increased market prices for coal. Weighted  
19 average coal price including boiler lighter fuel for 2008 as reflected on  
20 Schedule E-3, line 31 of Witness Dodd's testimony filed in this docket on  
21 August 4, 2008, is projected to be 3.10 \$/MMBTU. Weighted average  
22 coal price including boiler lighter fuel for 2009, as reflected on Schedule  
23 E-3, line 31 of the exhibit to Witness Dodd's testimony, is projected to be  
24 4.20 \$/MMBTU. This is an increase in price of 1.10 \$/MMBTU or 35.5%.  
25 The majority of Gulf's coal supply agreements expired at the end of 2008

1 and these have been replaced with commitments for new multi-year  
2 contracts with terms beginning in 2009. Gulf's new coal supply  
3 agreements have firm price and quantity commitments with the contract  
4 coal suppliers and these agreements will cover all of Gulf's 2009 projected  
5 coal burn needs. The final terms and conditions of these contracts are in  
6 the process of being negotiated and all contracts are expected to be  
7 executed by the involved parties by the end of the 2008.

8  
9 Q. Does the 2009 projection of fuel cost of net generation reflect any major  
10 changes in Gulf's fuel procurement program for this period?

11 A. No. As in the past, Gulf's coal requirements are purchased in the market  
12 through the Request for Proposal (RFP) process that has been used for  
13 many years by Southern Company Services - Fuel Services as agent for  
14 Gulf. Coal will be delivered under existing coal transportation contracts.  
15 Natural gas requirements will be purchased from various suppliers using  
16 firm quantity agreements with market pricing for base needs and on the  
17 daily spot market when necessary. Natural gas transportation will be  
18 secured using a combination of firm and spot transportation agreements.  
19 Details of Gulf's fuel procurement strategy are included in the "Risk  
20 Management Plan for Fuel Procurement" filed as exhibit \_\_\_\_\_ (HRB-4) to  
21 this testimony.

22  
23 Q. What actions does Gulf take to procure natural gas and natural gas  
24 transportation for its units at competitive prices for both long-term and  
25 short-term deliveries?

1 A. Gulf procures natural gas using both long and short-term agreements for  
2 gas supply at market-based prices. Gulf secures gas transportation for  
3 non-peaking units using long-term agreements for firm transportation  
4 capacity and for peaking units using interruptible transportation, released  
5 seasonal firm transportation, or delivered natural gas agreements.

6  
7 Q. What fuel price hedging programs will be utilized by Gulf to protect the  
8 customer from fuel price volatility?

9 A. As detailed in Gulf's "Risk Management Plan for Fuel Procurement",  
10 natural gas prices will be hedged financially using instruments that  
11 conform to Gulf's established guidelines for hedging activity. Coal supply  
12 and transportation prices will be hedged physically using term agreements  
13 with either fixed pricing or term pricing with escalation terms tied to  
14 various published market price indexes. Gulf's "Risk Management Plan  
15 for Fuel Procurement" is a reasonable and appropriate strategy for  
16 protecting the customer from fuel price volatility while maintaining a  
17 reliable supply of fuel for the operation of its electric generating resources.

18  
19 Q. What are the results of Gulf's fuel price hedging program for the period  
20 January 2008 through July 2008?

21 A. Gulf's coal price hedging program has successfully managed the price it  
22 pays for coal under its coal supply agreements for this period. Several  
23 firm price coal contracts were negotiated with coal suppliers that have  
24 been effective in limiting exposure to recent large increases in the market  
25 price for coal. Gulf has also had financial hedges in place during the



1 period to hedge the price of natural gas. These financial hedges have  
2 been effective in fixing the price of a percentage of Gulf's gas burn during  
3 a period of significant price volatility in the gas market. Pursuant to Order  
4 No. PSC-08-0316-PAA-EI, Gulf filed a "Hedging Information Report" with  
5 the Commission on August 14, 2008 detailing its natural gas hedging  
6 transactions for January 2008 through July 2008. As noted earlier, I am  
7 sponsoring this report as exhibit \_\_\_\_\_ (HRB-3) to my testimony in this  
8 docket. Gulf is requesting that these hedging transactions be determined  
9 to be prudent for cost recovery.

10  
11 Q. Has Gulf adequately mitigated the price risk of natural gas and purchased  
12 power for 2008 through 2009?

13 A. Gulf has adequate natural gas financial hedges in place for 2008 to  
14 mitigate price risk. Gulf currently has natural gas hedges in place for  
15 2009 and continues to look for opportunities to enter into financial hedges  
16 that we believe will provide price stability to the customer and protect  
17 against unanticipated dramatic price increases in the natural gas market.

18  
19 Q. Should recent changes in the market price for natural gas impact the  
20 percentage of Gulf's natural gas requirements that Gulf plans to hedge?

21 A. Gulf has a disciplined process in place to evaluate the benefits of gas  
22 hedging transactions prior to entering into financial hedges that consider  
23 both market price and anticipated burn. The focus of this process is to  
24 mitigate the price volatility and risk of natural gas purchases for the  
25 customer and not to attempt to speculate in the natural gas market. Gulf's

1 current strategy is to have gas hedges in place that do not exceed the  
2 anticipated gas burn at its Smith Unit 3 combined cycle plant. Gas burn  
3 requirements change as the market price of natural gas changes due to  
4 the economic dispatch process utilized by the Southern System  
5 generation pool in accordance with the IIC. Typically, as gas prices  
6 increase, anticipated gas burn decreases and the percentage of gas  
7 requirements that are currently hedged financially increases. Gulf will  
8 continue to evaluate the performance of this hedging strategy and will  
9 make adjustments within the guidelines of the currently approved hedging  
10 program when needed.

11  
12 Q. What is Gulf's projected recoverable fuel cost of power sold for the  
13 period?

14 A. Gulf's projected recoverable fuel cost of power sold is \$259,233,000. This  
15 projected amount is captured in the exhibit to Witness Dodd's testimony,  
16 Schedule E-1, line 18.

17  
18 Q. How does the total projected recoverable fuel cost of power sold for the  
19 2009 period compare to the projected recoverable fuel cost of power sold  
20 for the same period in 2008?

21 A. The total projected recoverable fuel cost of power sold in 2008, reflected  
22 on Schedule E-1B-1, line 19 of Witness Dodd's testimony filed in this  
23 docket on August 4, 2008, is projected to be \$193,883,418. The  
24 projected recoverable fuel cost of power sold in 2009 represents an  
25 increased credit of \$65,349,582 or 33.71%. Total quantity of power sales

1 in 2009 is projected to be 4,300,511,000 KWH, which is 111,571,054  
2 KWH or 2.53% less than currently projected for 2008. On a fuel cost per  
3 KWH basis, the 2008 projected cost is 4.3944 cents per KWH and the  
4 2009 projected fuel cost is 6.0280 cents per KWH, which is an increase of  
5 1.6336 cents per KWH or 37.17%. This higher total credit to fuel expense  
6 from power sales is attributed to a higher fuel reimbursement rate (cents  
7 per KWH) for power sales as a result of higher projected market prices for  
8 natural gas and coal. Higher fuel costs to operate Gulf's generating fleet  
9 are passed on to the purchasers of power and are reflected in the higher  
10 fuel cost and gains on power sales.

11  
12 Q. What is Gulf's projected total cost of purchased power for the period?

13 A. Gulf's projected recoverable cost for energy purchases is \$98,871,000.  
14 This projected amount is captured in the exhibit to Witness Dodd's  
15 testimony, Schedule E-1, line 12

16  
17 Q. How does the total projected purchased power cost for the 2009 period  
18 compare to the projected purchased power cost for the same period in  
19 2008?

20 A. The total updated cost of purchased power to meet 2008 system needs,  
21 reflected on Schedule E-1B-1, line 13 of Witness Dodd's testimony filed in  
22 this docket on August 4, 2008, is projected to be \$42,962,892. The  
23 projected cost of purchased power to meet system needs in 2009 is  
24 \$55,908,108 or 130.13% greater than is currently projected for 2008. The  
25 total quantity of purchased power in 2009 is projected to be

1 1,131,523,000 KWH, which is 330,692,882 KWH or 41.29% higher than is  
2 currently projected for 2008. On a fuel cost per KWH basis, the 2008  
3 projected cost is 5.3648 cents per KWH and the 2009 projected fuel cost  
4 is 8.7379 cents per KWH, which represents an increase of 3.3731 cents  
5 per KWH or 62.87%. This higher average fuel price of purchased power  
6 is attributed to a higher fuel reimbursement rate (cents per KWH) as a  
7 result of higher projected market prices for natural gas and coal. Higher  
8 fuel costs are passed on to the purchasers of power and are reflected in  
9 the higher total cost of purchased power.

10  
11 Q. What is Gulf's projected recoverable capacity payments for the period?

12 A. The total recoverable capacity payments for the period are \$34,063,542.  
13 This amount is captured in the exhibit to Witness Dodd's testimony,  
14 Schedule CCE-1, line 9. Schedule CCE-4 of Mr. Dodd's testimony lists  
15 the long-term power contracts that are included for capacity cost recovery,  
16 their associated capacity amounts in megawatts, and the resulting  
17 capacity dollar amounts. Also included on Schedule CCE-4 is a total of  
18 the revenues produced by several market-based service agreements  
19 between the Southern Electric System operating companies and entities  
20 outside the system that are included in Gulf's 2009 projection. The total  
21 capacity cost included on Schedule CCE-4 is shown on line 1 of Schedule  
22 CCE-1.

23  
24 Q. Have there been any new purchase power agreements entered into by  
25 Gulf that impact the total recoverable capacity payments?

1 A. Yes, Gulf has entered into two new purchase power agreements with  
2 terms beginning on June 1, 2009. These firm capacity purchase  
3 agreements were approved for cost recovery in Docket No. 060811-EI  
4 under Commission Order No. PSC-07-0329-PAA-EI. These two purchase  
5 power agreements are with Coral Power, LLC and Southern Power  
6 Company a subsidiary of the Southern Company. The capacity and  
7 associated costs are included on Schedule CCE-4.

8  
9 Q. What are the other projected revenues that Gulf has included in its  
10 capacity cost recovery clause for the period?

11 A. Gulf has included an estimate of transmission revenues in the amount of  
12 \$311,000 in its capacity cost recovery projection. This amount is captured  
13 in the exhibit to Witness Dodd's testimony, Schedule CCE-1, line 2.

14  
15 Q. How does the total projected net capacity cost for the 2009 period  
16 compare to the current estimated net capacity cost for the same period in  
17 2008?

18 A. Gulf's 2009 Projected Jurisdictional Capacity Payments, found in the  
19 exhibit to Witness Dodd's testimony, Schedule CCE-1, line 5, is projected  
20 to be \$33,671,646. This amount is \$4,661,368 or 16.07% greater than  
21 the current estimate of \$29,010,278 (Schedule CCE-1B, line 5) for 2008  
22 that was filed in Mr. Dodd's estimated/actual true-up testimony in this  
23 docket on August 4, 2008. This increase is primarily a result of the  
24 addition of the two new purchase power agreements to meet projected  
25 additional capacity needs that will begin on June 1, 2009.

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

2 A. Yes, it does.

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AFFIDAVIT

STATE OF FLORIDA     )  
                                  )  
COUNTY OF ESCAMBIA )

Docket No. 080001-EI

Before me the undersigned authority, personally appeared H. R. Ball, who being first duly sworn, deposes, and says that he is the Fuel Manager at Gulf Power Company, a Florida corporation, and that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.

  
\_\_\_\_\_  
H. R. Ball  
Fuel Manager

Sworn to and subscribed before me this 2nd day of August, 2008

  
\_\_\_\_\_  
Notary Public, State of Florida at Large

Commission Number: 719129

Commission Expires: 25 January 2012



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

**Cents / KWH Fuel Cost**

<b><u>Period Ending</u></b>	<b><u>Projected<sup>(1)</sup></u></b>	<b><u>Actual<sup>(1)</sup></u></b>	<b><u>% Difference<sup>(1)</sup></u></b>
December 1999	1.5291	1.5696	2.65
December 2000	1.6048	1.6460	2.57
December 2001	1.5782	1.7218	9.10
December 2002	2.0241	2.0505	1.30
December 2003	1.9639	2.1133	7.61
December 2004	2.0936	2.3270	11.15
December 2005	2.6566	2.8817	8.47
December 2006	2.9215	3.0902	5.77
December 2007	3.3156	3.2959	(0.59)
December 2008	4.0947 <sup>(2)</sup>		
December 2009	5.0095 <sup>(3)</sup>		

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

(2) Line No. 1 from FPSC Schedule E-1B-1, 2008 Estimated/Actual True-Up

(3) Line No. 1 from FPSC Schedule E-1, 2009 Projection Filing



Exhibit No. HRB-3 Gulf Power Company's Hedging Information Report was filed with the Commission Clerk on August 15, 2008 and assigned Document Number 07346-08.

Exhibit No. HRB-4 Gulf Power Company's Risk Management Plan for Fuel Procurement is being submitted under separate cover pursuant to a request for confidential classification.