BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 110001-EI

Prepared Direct Testimony of
H. R. Ball

Date of Filing: August 1, 2011

GULF POWER

A SOUTHERN COMPANY

GULF POWER COMPANY

Before the Florida Public Service Commission

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Q. Please state your name and business address.

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

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

A. I graduated from the University of Southern Mississippi in Hattiesburg, Mississippi in 1978 with a Bachelor of Science Degree in Chemistry and graduated from the University of Southern Mississippi in Long Beach, Mississippi in 1988 with a Masters of Business Administration. My employment with the Southern Company began in 1978 at Mississippi Power's (MPC) Plant Daniel as a Plant Chemist. In 1982, I transferred to MPC's Fuel Department as a Fuel Business Analyst. I was promoted in 1987 to Supervisor of Chemistry and Regulatory Compliance at Plant Daniel. 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 2011 through December 2011 and to summarize any noteworthy developments at Gulf in these areas. The current estimated/actual costs consist of actual expenses for the period January 2011 through June 2011 and projected fuel and net power transaction costs for July 2011 through December 2011. Projected capacity costs for July 2011 through December 2011 were reduced slightly to account for changes in capacity payments under Gulf's purchase power agreements. 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 2011 through December 2011 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 $597,743,941 which is $23,340,144 or 4.06% above the original projected amount of $574,403,797. The resulting average fuel cost is projected to be 4.7620 cents per kWh or 2.07% above the original projection of 4.6655 cents per kWh. The higher total fuel expense for the period is attributed to a combination of higher than projected fuel cost of purchased power and lower fuel revenue from power sales. The higher average per unit fuel cost (cents per kWh) is attributed to a higher fuel cost of generated power for the period. 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 2011 through December 2011 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 $550,128,748 which is $74,372,049 or 11.91% below the original projected amount of $624,500,797. Total generation is expected to be 11,205,515,000 kWh compared to the original projected generation of

13,345,854,000 kWh or 16.04% below original projections. The resulting average fuel cost is expected to be 4.9094 cents per kWh or 4.92% above the original projected amount of 4.6794 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) offset somewhat by higher average per unit fuel costs (cents/kWh). Delivered coal prices per MMBtu are projected to be above original projections for the period due to a higher percentage of contract coal in the coal supply mix and natural gas prices per MMBtu are projected to be below original projections for the period due to changes in market fuel prices. The quantity of contract coal in the supply mix for the period is expected to be above original projections due to a reduction in the quantity of coal burned which has eliminated the need for market priced spot purchases for the period. Coal burn is lower due to reduced economic dispatch of coal fired units relative to other sources of generation. Market prices for natural gas for the period are expected to be lower than original projections. A higher projected supply of natural gas in the market has driven the projected price 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 2011?

A. The total fuel cost of system net generation for the first six months of 2011 was $254,583,875 which is $35,079,035 or 12.11% lower than the projection of $289,662,910. On a fuel cost per kWh basis, the actual cost was 4.86 cents per kWh, which is 0.83% higher than the projected cost of 4.82 cents per kWh. This higher cost of system generation on a cents per kWh basis is due to a combination of fuel cost in $/MMBtu being 0.79% higher than projected and heat rate (Btu/kWh) of the generating units operating being 0.04% lower than projected. This information is found on Schedule A-3 Period to Date of the June 2011 Monthly Fuel Filing.

Q. How did the total projected cost of coal burned compare to the actual cost for the first six months of 2011?

A. The total cost of coal burned (including boiler lighter) for the first six months of 2011 was $186,689,942 which is $33,848,731 or 15.35% lower than the projection of $220,538,673. On a fuel cost per kWh basis, the actual cost was 5.49 cents per kWh which is 7.23% higher than the projected cost of 5.12 cents per kWh. The lower than projected total cost of coal burned (including boiler lighter) is due to total MMBtu of coal burn being 19.27% 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 4.99% higher than projected on a $/MMBtu basis and the weighted average heat rate (Btu/kWh) of the coal fired generating units operating being 2.20% higher than projected. This information is found on Schedule A-3 Period to Date of the June 2011 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 in response to lower coal burn for the period. 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 2011?

A. The total cost of natural gas burned for generation for the first six months of 2011 was $67,484,255 which is $1,325,207 or 1.93% lower than Gulf's projection of $68,809,462. 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 increased supply of natural gas in the market. On a cost per unit basis, the actual cost of gas fired generation was 3.70 cents per kWh which is 9.31% lower than the projected cost of 4.08 cents per kWh. Actual natural gas

prices were $5.19 per MMBtu or 12.48% lower than the projected cost of $5.93 per MMBtu. This information is found on Schedule A-3 Period to Date of the June 2011 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 6,890,000 MMBtu of natural gas for the period January 2011 through June 2011 using a combination of fixed price financial swaps and options. This equates to 54.5% of the actual natural gas burn for generation during the period of 12,646,305 MMBtu.

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 and options (collars) that established both a price ceiling and price floor for each deal. The swaps settled against either a NYMEX Last Day price or Gas Daily price. The options settled if the NYMEX Last Day price was outside the bounds of the collar. Only a small amount of the option deals were settled during the period. The amount of gas hedged for the period using financial swaps was 5,600,000 MMBtu and the amount of gas hedged using options was 1,290,000 MMBtu.

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 incurred. Gulf's gas hedging program generated a hedging expense related to settlements of $6,833,824 for the period January through June 2011. This information is found on Schedule A-1, Period to Date, line 2 of the June 2011 Monthly Fuel Filing.

Q. During the period January 2011 through December 2011 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 are $(41,062,801) or 51.54% below the original projected amount of $(84,732,000). Total megawatt hours of power sales is expected to be (1,691,312,815) kWh compared to the original projection of (1,963,232,000) kWh or 13.85% below projections. The resulting average fuel cost and gains on power sales is expected to be 2.4279 cents per kWh or 43.75% below the original projected amount of 4.3159 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 18.

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 lower quantity and lower price of power sales made than originally projected. Lower marginal market prices for natural gas combined with a higher percentage of natural gas fired generation in the generation fuel mix

during the period have decreased the fuel reimbursement rate (cents/kWh) for power sales.

Q. How did the total projected fuel cost of power sold compare to the actual cost for the first six months of 2011?

A. The total fuel cost of power sold for the first six months of 2011 was $26,413,801 which is $4,545,199 or 14.68% lower than our projection of $30,959,000. On a fuel cost per kWh basis, the actual cost was 1.9392 cents per kWh which is 52.05% below the projected cost of 4.0443 cents per kWh. This information is found on Schedule A-1, Period to Date, line 17 of the June 2011 Monthly Fuel Filing.

Q. During the period January 2011 through December 2011 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 $88,677,993 or 156.04% above the original projected amount of $34,635,000. The total amount of purchased power is expected to be 3,038,104,851 kWh compared to the original projection of 929,227,000 kWh or 226.95% above projections. The resulting average fuel cost of purchased power is expected to be 2.9189 cents per kWh or 21.69% below the original projected amount of 3.7273 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 higher total fuel cost of purchased power is attributed to Gulf purchasing a greater amount of energy to supplement its own generation to meet load demands. The lower projected price per kWh for purchased power is due to Gulf's ability to obtain power from a lower cost gas fired combined cycle unit under existing purchase power agreements.

Q. How did the total projected fuel cost of purchased power compare to the actual cost for the first six months of 2011?

A. The total fuel cost of purchased power for the first six months of 2011 was $52,444,994 which is $34,101,994 or 185.91% higher than our projection of $18,343,000. The higher than anticipated purchased power expense is due to the actual quantity of purchases being 285.49% higher than projected. Purchase power quantity is higher due to the lower price of available power relative to Gulf's fuel cost of generated 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 2.5579 cents per kWh which is 25.83% lower than the projected cost of 3.4487 cents per kWh. This information is found on Schedule A-1, Period to Date, line 12 of the June 2011 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, 2011 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 2011 through December 2011, 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 2011 through December 2011 recovery period is $48,294,769. Gulf's original projection for the period was $50,039,244 and is shown on Line 4 of Schedule CCE-1 filed September 1, 2010. The difference between these projections is $1,744,475 or 3.49% less than the original projection of net capacity payments.

Q. How did the total projected net capacity transactions cost compare to the actual cost for the first six months of 2011?

A. Actual net capacity payments during the first six months of 2011 were $16,976,271 which is $1,746,446 or 9.33% lower than projected for the period. The variance is due to timing differences between actual payments

and projected payments under Gulf's purchase power agreements for the period.

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

A. Yes.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 110001-EI

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

Herbert R. Ball
Fuel Manager

Sworn to and subscribed before me
this 29th day of July, 2011.

Natalie Milstead
Notary Public, State of Florida at Large

(SEAL)

NATALIE MILSTEAD
MY COMMISSION # EE091117
EXPIRES May 08, 2015
(407) 398-0153 FloridaNotaryService.com

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: **Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor**)

Docket No.: **110001-EI**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing was furnished by U.S. mail this 29th day of July, 2011, on the following:

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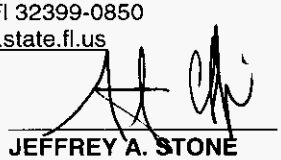

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