

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 110001-EI

**Prepared Direct Testimony and
Exhibits of**

H. R. Ball

Date of Filing: September 1, 2011



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

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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

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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, 2012 through
16 December 31, 2012. 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, 2011 and assigned Document
6 Number DN 05777-11 (redacted) and 05772-11 (confidential information).
7 The purpose of this second exhibit is to comply with Order No. PSC-08-
8 0316-PAA-EI and details Gulf Power's natural gas hedging transactions
9 for January through July 2011. The third exhibit (HRB-4) I am sponsoring
10 is Gulf Power Company's "Risk Management Plan for Fuel Procurement"
11 filed with the Commission Clerk pursuant to a separate request for
12 confidential classification on August 1, 2011 and assigned Document
13 Number DN 05355-11 (redacted) and 05354-11 (confidential information).
14 The risk management plan sets forth Gulf Power's fuel procurement
15 strategy and related hedging plan for the upcoming calendar year.
16 Through its petition in this docket, Gulf Power is seeking the
17 Commission's approval of the Company's "Risk Management Plan for
18 Fuel Procurement" as part of this proceeding.

19 Counsel: We ask that Mr. Ball's three exhibits as just described
20 be marked for identification as Exhibit Nos. _____ (HRB-2),
21 _____ (HRB-3), and _____ (HRB-4) respectively.
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1 Q. Has Gulf Power Company made any significant changes to its methods for
2 projecting fuel expenses, net power transaction expense, and purchased
3 power capacity costs for this period?

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

6
7 Q. What is Gulf's projected recoverable total fuel and net power transactions
8 cost for the January 2012 through December 2012 recovery period?

9 A. Gulf's projected total fuel and net power transaction cost for the period is
10 \$587,773,168. This projected amount is captured in the exhibit to Witness
11 Dodd's testimony, Schedule E-1, line 19.

12
13 Q. How does the total projected fuel and net power transactions cost for the
14 2012 period compare to the updated projection of fuel cost for the same
15 period in 2011?

16 A. The total updated cost of fuel and net power transactions for 2011,
17 reflected on Schedule E-1B-1 line 21 of Witness Dodd's testimony filed in
18 this docket on August 1, 2011, is projected to be \$597,743,941. The
19 projected total cost of fuel and net power transactions for the 2012 period
20 reflects a decrease of \$9,970,773 or 1.67% less than the same period in
21 2011. On a fuel cost per kWh basis, the 2011 projected cost is 4.7620
22 cents per kWh and the 2012 projected fuel cost is 4.5524 cents per kWh,
23 a decrease of 0.2096 cents per kWh or 4.40%.

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25

1 Q. What is Gulf's projected recoverable total fuel cost of generated power for
2 the period?

3 A. The projected total cost of fuel to meet system generated power needs in
4 2012 is \$546,783,168. The projection of fuel cost of system generated
5 power for 2012 is captured in the exhibit to Witness Dodd's testimony,
6 Schedule E-1, line 5.

7
8 Q. How does the total projected total fuel cost of generated power for the
9 2012 period compare to the updated projection of fuel cost for the same
10 period in 2011?

11 A. The total updated cost of fuel to meet 2011 system generated power
12 needs, reflected on Schedule E-1B-1, line 6 of Witness Dodd's testimony
13 filed in this docket on August 1, 2011, is projected to be \$550,128,748.
14 The projected total cost of fuel to meet system net generation needs for
15 the 2012 period reflects a decrease of \$3,345,580 or 0.61% over the same
16 period in 2011. Total system net generation in 2012 is projected to be
17 11,923,813,000 kWh, which is 718,298,000 kWh or 6.41% higher than is
18 currently projected for 2011. On a fuel cost per kWh basis, the 2011
19 projected cost is 4.9094 cents per kWh and the 2012 projected fuel cost is
20 4.5856 cents per kWh, a decrease of 0.3238 cents per kWh or 6.60%.
21 This lower projected total fuel expense and average per unit fuel cost is
22 the result of a lower cost of coal for the period. Weighted average coal
23 price including boiler lighter fuel for 2011 as reflected on Schedule E-3,
24 line 32 of Witness Dodd's testimony filed in this docket on August 1, 2011,
25 is projected to be 4.94 \$/MMBtu. Weighted average coal price including

1 boiler lighter fuel for 2012, as reflected on Schedule E-3, line 32 of the
2 exhibit to Witness Dodd's testimony, is projected to be 4.51 \$/MMBTU.
3 This reflects a cost decrease of 0.43 \$/MMBtu or 8.70%. Several of Gulf's
4 coal supply agreements will expire at the end of 2011 and these are being
5 replaced with lower priced coal supply agreements that have two year
6 terms expiring at the end of 2012. Gulf's coal supply agreements have
7 firm price and quantity commitments with the contract coal suppliers and
8 these agreements will cover the majority of Gulf's 2012 projected coal
9 burn needs. The remaining coal supply needs will be purchased on the
10 spot market. Weighted average natural gas price for 2011, as reflected on
11 Schedule E-3, line 33 of the exhibit to Witness Dodd's testimony filed in
12 this docket on August 1, 2011, is projected to be 5.28 \$/MMBtu. Weighted
13 average natural gas price for 2012, as reflected on Schedule E-3, line 33
14 of the exhibit to Witness Dodd's testimony, is projected to be 5.41
15 \$/MMBtu. This is an increase in price of 0.13 \$/MMBtu or 2.46% and
16 reflects forecasted higher market prices for natural gas in 2012. The
17 projected cost of landfill gas to supply the Perdido Landfill Gas to Energy
18 Facility in the 2011 projection period is \$680,971 and the rate as reflected
19 on Schedule E-3, line 42 of the exhibit to Witness Dodd's testimony filed in
20 this docket on August 1, 2011, is projected to be 2.61 cents per kWh. The
21 total projected cost for landfill gas in 2012 is \$685,856 and the total facility
22 generation is projected to be 26,440,000 kWh. The average rate, as
23 reflected on Schedule E-3, line 42 of the exhibit to Witness Dodd's
24 testimony, is projected to be 2.59 cents per kWh.

25

1 Q. Does the 2012 projection of fuel cost of net generation reflect any major
2 changes in Gulf's fuel procurement program for this period?

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

14
15 Q. What actions does Gulf take to procure natural gas and natural gas
16 transportation for its units at competitive prices for both long-term and
17 short-term deliveries?

18 A. Gulf procures natural gas using both long and short-term agreements for
19 gas supply at market-based prices. Gulf secures gas transportation for
20 non-peaking units using long-term agreements for firm transportation
21 capacity and for peaking units using interruptible transportation, released
22 seasonal firm transportation, or delivered natural gas agreements.

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

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

12

13 Q. What are the results of Gulf's fuel price hedging program for the period
14 January 2011 through July 2011?

15 A. Gulf's coal price hedging program has successfully managed the price it
16 pays for coal under its coal supply agreements for this period. Gulf has
17 also had financial hedges in place during the period to hedge the price of
18 natural gas. These financial hedges have been effective in fixing the price
19 of a percentage of Gulf's gas burn during the period. Pursuant to Order
20 No. PSC-08-0316-PAA-EI, Gulf filed a "Hedging Information Report" with
21 the Commission on August 15, 2011 detailing its natural gas hedging
22 transactions for January 2011 through July 2011. As noted earlier, I am
23 sponsoring this report as exhibit _____ (HRB-3) to my testimony in this
24 docket.

25

1 Q. Has Gulf adequately mitigated the price risk of natural gas and purchased
2 power for 2011 through 2012?

3 A. Gulf has adequate natural gas financial hedges in place for 2011 to
4 mitigate price risk. Gulf currently has natural gas hedges in place for 2012
5 and continues to look for opportunities to enter into financial hedges that
6 we believe will provide price stability to the customer and protect against
7 unanticipated dramatic price increases in the natural gas market.

8

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

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

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

3 A. Gulf's projected recoverable fuel cost of power sold is \$34,092,000. This
4 projected amount is captured in the exhibit to Witness Dodd's testimony,
5 Schedule E-1, line 17.
6

7 Q. How does the total projected recoverable fuel cost of power sold for the
8 2012 period compare to the projected recoverable fuel cost of power sold
9 for the same period in 2011?

10 A. The total projected recoverable fuel cost of power sold in 2011, reflected
11 on Schedule E-1B-1, line 18 of Witness Dodd's testimony filed in this
12 docket on August 1, 2011, is projected to be \$41,062,801. The projected
13 recoverable fuel cost of power sold in 2012 represents a decreased credit
14 of \$6,970,801 or 16.98%. Total quantity of power sales in 2012 is
15 projected to be 806,174,000 kWh, which is 885,138,815 kWh or 52.33%
16 less than currently projected for 2011. On a fuel cost per kWh basis, the
17 2011 projected cost is 2.4279 cents per kWh and the 2012 projected fuel
18 cost is 4.2289 cents per kWh, which is an increase of 1.8010 cents per
19 kWh or 74.18%. The lower total credit to fuel expense from power sales is
20 attributed to a reduced quantity of energy sales for the period offset
21 somewhat by a higher fuel reimbursement rate (cents per kWh) for power
22 sales as a result of higher marginal fuel prices. Higher marginal fuel costs
23 to operate Gulf's generating fleet are passed on to the purchasers of
24 power and are reflected in the higher rate (\$/kWh) for the fuel cost and
25 gains on power sales.

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

2 A. Gulf's projected recoverable cost for energy purchases is \$75,082,000.

3 This projected amount is captured in the exhibit to Witness Dodd's
4 testimony, Schedule E-1, line 12.

5

6 Q. How does the total projected purchased power cost for the 2012 period
7 compare to the projected purchased power cost for the same period in
8 2011?

9 A. The total updated cost of purchased power to meet 2011 system needs,
10 reflected on Schedule E-1B-1, line 13 of Witness Dodd's testimony filed in
11 this docket on August 1, 2011, is projected to be \$88,677,993. The
12 projected cost of purchased power to meet system needs in 2012 is
13 \$13,595,993 or 15.33% less than is currently projected for 2011. The total
14 quantity of purchased power in 2012 is projected to be 1,793,621,000
15 kWh, which is 1,244,483,851 kWh or 40.96% lower than is currently
16 projected for 2011. On a fuel cost per kWh basis, the 2011 projected cost
17 is 2.9189 cents per kWh and the 2012 projected fuel cost is 4.1861 cents
18 per kWh, which represents an increase of 1.2672 cents per kWh or
19 43.41%.

20

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

22 A. The total recoverable capacity payments for the period are \$38,027,046.

23 This amount is captured in the exhibit to Witness Dodd's testimony,
24 Schedule CCE-1, line 10. Schedule CCE-4 of Mr. Dodd's testimony
25 shows the Southern Company Interchange projected capacity costs of

1 \$10,712,687 and lists the long-term power contracts that are included for
2 capacity cost recovery, their associated capacity amounts in megawatts,
3 and the resulting capacity dollar amounts. Also included in Gulf's 2012
4 projection of capacity cost is revenue produced by a market-based service
5 agreement between the Southern electric system operating companies
6 and South Carolina PSA. The total capacity cost of \$48,384,587 is shown
7 on Schedule CCE-4, line 34 in the exhibit to Witness Dodd's testimony.
8 The total capacity cost included on Schedule CCE-4 line 34 is the sum of
9 lines 1 and 2 of Schedule CCE-1.

10
11 Q. Have there been any new purchased power agreements entered into by
12 Gulf that impact the total recoverable capacity payments?

13 A. No.

14
15 Q. What are the other projected revenues that Gulf has included in its
16 capacity cost recovery clause for the period?

17 A. Gulf has included an estimate of transmission revenues in the amount of
18 \$278,000 in its capacity cost recovery projection. This amount is captured
19 in the exhibit to Witness Dodd's testimony, Schedule CCE-1, line 3.

20
21 Q. How does the total projected net jurisdictional capacity payments for the
22 2012 period compare to the current estimated net jurisdictional capacity
23 payments for the same period in 2011?

24 A. Gulf's 2012 Projected Jurisdictional Capacity Payments, found in the
25 exhibit to Witness Dodd's testimony, Schedule CCE-1, line 6, is

1 \$46,396,792. This amount is \$181,495 or 0.39% less than the current
2 estimate of \$46,578,287 (Schedule CCE-1B, line 6) for 2011 that was filed
3 in Mr. Dodd's estimated/actual true-up testimony in this docket on August
4 1, 2011. The projected capacity payment decrease is the result of a
5 decrease in Gulf's estimated IIC reserve sharing payments and a
6 projected increase in transmission revenues for the period.

7

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

9 A. Yes, it does.

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AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 110001-EI

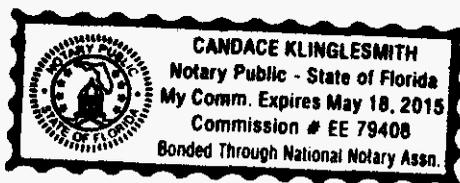
BEFORE me, the undersigned authority, personally appeared Herbert R. Ball, who being first duly sworn, deposes and says that he is the Fuel Manager for Gulf Power Company, a Florida corporation, that the foregoing is true and correct to the best of his knowledge, information and belief. He is personally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


Herbert R. Ball
Fuel Manager

Sworn to and subscribed before me this 30th day of August, 2011.


Notary Public, State of Florida at Large

(SEAL)



Schedule 1

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

Cents / KWH Fuel Cost

<u>Period Ending</u>	<u>Projected</u>⁽¹⁾	<u>Actual</u>⁽¹⁾	<u>% Difference</u>⁽¹⁾
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	3.7567	4.2044	11.92
December 2009	4.5498	4.2774	(5.99)
December 2010	4.9626	4.8818	1.66
December 2011	4.8106 ⁽²⁾		
December 2012	4.5845 ⁽³⁾		

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

(2) Line No. 1 from FPSC Schedule E-1B-1, 2011 Estimated/Actual True-Up

(3) Line No. 1 from FPSC Schedule E-1, 2012 Projection Filing