

Robert L. McGee, Jr.
Regulatory & Pricing Manager

One Energy Place
Pensacola, Florida 32520-0780

Tel 850 444 6530
Fax 850.444.6026
RLMCGEE@southernco.com

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October 9, 2015

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

RE: Docket No. 150001-EI

Dear Ms. Stauffer:

Attached for electronic filing in the above-referenced docket is the prepared rebuttal testimony of H. R. Ball. Pursuant to the Order Establishing Procedure for this docket, a copy of this testimony prepared using Microsoft Word is being provided to Commission staff and all parties.

Sincerely,

A handwritten signature in blue ink that reads "Robert L. McGee, Jr." The signature is written in a cursive, flowing style.

Robert L. McGee, Jr.
Regulatory and Pricing Manager

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Attachments

cc: Florida Public Service Commission
Suzanne Brownless, Office of the General Counsel (5 copies)
Beggs and Lane
Jeffrey A. Stone, Esq.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**FUEL AND PURCHASED POWER COST
RECOVERY CLAUSE**

Docket No. 150001-EI

**PREPARED REBUTTAL TESTIMONY
AND EXHIBIT OF**

H. R. Ball

Date of Filing: October 9, 2015



1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Prepared Rebuttal Testimony and Exhibit of
4 H. R. Ball
5 Docket No. 150001-EI
6 Date of Filing: October 9, 2015

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 Q. Are you the same H. R. Ball who filed direct testimony in this docket?

12 A. Yes.

13
14 Q. What is the purpose of your testimony in this docket?

15 A. The purpose of my testimony is to rebut the direct testimony of the Office of
16 Public Counsel's Witnesses Tarik Noriega and Daniel J. Lawton.

17
18 Q. Are you sponsoring any exhibits that contain information to which you will
19 refer in your testimony?

20 A. Yes, I have one exhibit I am sponsoring as part of this testimony. Exhibit
21 (HRB-6) consists of an excerpt from Order No. PSC-02-1484-FOF-EI as well
22 as Gulf's response to the Office of Public Counsel's First Set of
23 Interrogatories Item No. 4.

24 Counsel: We ask that Mr. Ball's exhibit as just described be
25 marked for identification as Exhibit No. _____ (HRB-6).

1 Q. Has Gulf Power Company properly reported the recoverable natural gas
2 hedging support and settlement costs for the period 2002 through 2014?

3 A. Yes. Gulf properly reported hedging costs, including allowable support costs
4 for this period. Witness Noriega erroneously omitted Gulf's allowable support
5 costs in Table 1, found on page 15 of his direct testimony. The amount of
6 hedging support costs that Gulf was allowed to recover during the period
7 2003 through 2006, per Commission Order No. PSC-02-1484-FOF-EI as
8 shown in Exhibit HRB-6, page 1 was \$185,315. These hedging support costs
9 were provided to the Office of Public Counsel during discovery in response to
10 its first set of interrogatories, Item No. 4b as shown in Exhibit HRB-6, page 2.
11

12 Q. Is Mr. Noriega's focus on past hedging results a proper basis for reviewing
13 the utility's natural gas financial hedging plans?

14 A. No. Although Witness Noriega recognizes that the "basic intent [of the
15 Commission is] that utility hedging programs are designed to reduce fuel price
16 volatility," he does not provide any factual evidence regarding fuel price
17 volatility. Instead, Mr. Noriega's primary focus is establishing that a hedging
18 loss occurred in the hedging program during the period. The fact that losses
19 occurred in the hedging program is clearly recognized as a potential outcome
20 of a utilities hedging program as stated in Order No. PSC-08-0667-PAA-EI
21 issued on October 8, 2008 ("Hedging Order"). The fourth guiding principle is:

22 d. The Commission acknowledges that hedging can result in
23 significant lost opportunities for savings in the fuel costs to
24 be paid by customers, if fuel prices actually settle at lower
25 levels than at the time that hedges were placed. The

1 Commission recognizes this as a reasonable trade-off for
2 reducing customers' exposure to fuel cost increases that
3 would result if fuel prices actually settle at higher levels
4 than when the hedges were placed. The Commission
5 does not expect an IOU to predict or speculate on whether
6 markets will ultimately rise or fall and actually settle higher
7 or lower than the price levels that existed at the time
8 hedges were put into place.
9

10 Q. Does Gulf agree with Witness Lawton's conclusions regarding the
11 continuation of Gulf's natural gas financial hedging programs?

12 A. No. Gulf believes that continued compliance with the "Hedging Order"
13 provides an appropriate fuel risk management tool for utilities to utilize to limit
14 natural gas price volatility.
15

16 Q. Does Gulf agree with Witness Lawton's conclusions related to future risk of
17 natural gas price volatility?

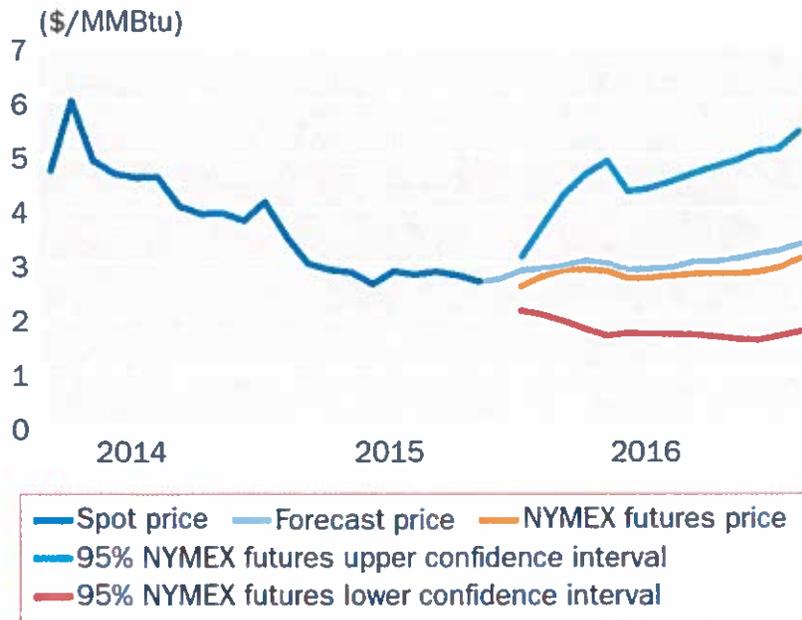
18 A. No. Notably absent from Witness Lawton's conclusion is any discussion of
19 future events that could disrupt the production of shale gas and thus the
20 future supply of natural gas in the market. These events could have a
21 substantial impact on natural gas price volatility if they were to occur.
22 Witness Lawton appears to conclude that the probability of occurrence of
23 such disruptive events in shale gas production is so low as to make their
24 impact irrelevant and unworthy of consideration. Also, he does not discuss
25 the impact of increased future demand for natural gas in the market and how

1 increased demand could impact gas price volatility. Likewise, he does not
2 discuss the impact of existing or proposed local, state, and federal
3 environmental regulations that would shift fuel use for electric generation from
4 coal to natural gas. It is logical to assume that, as demand for natural gas
5 increases, the increase in gas production that is evident in the market today
6 will become less of a protection against price volatility in the future. In short,
7 Witness Lawton's view of the future is remarkably free of any disruptive
8 events and not impacted by the interplay of the economic forces of supply
9 and demand.
10

11 Q. Does Gulf agree with Witness Lawton's conclusion that future gas price
12 volatility will be irrelevant and poses no financial risk to consumers?

13 A. No. Witness Lawton attempts to support his conclusions regarding future fuel
14 price volatility by using natural gas price forecasts and even a newspaper
15 article that discusses recent history showing a decline in price volatility.
16 However, Witness Lawton improperly relies on these sources of information in
17 reaching his conclusion that future gas price volatility and its impact on
18 customers are insignificant. First, there are other news articles, even from the
19 same newspaper that Witness Lawton cited as support, that indicate an
20 increase in future price volatility is possible. More importantly, historical data
21 is not a reliable predictor of future events and, in this case, is not reliable
22 evidence of the absence of future gas price volatility. The source of Witness
23 Lawton's fuel price forecast, EIA, recognizes this uncertainty and in its short
24 term forecast of future prices shows that actual future prices could be higher
25 than the forecast indicates as shown below.

Henry Hub natural gas price



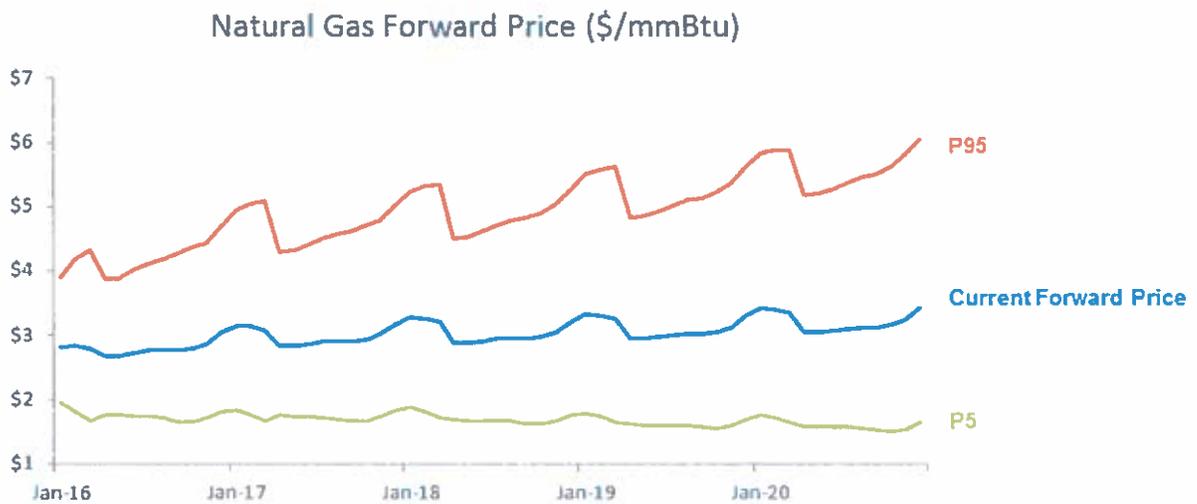
Note: Data for October 2015 and beyond are forecasts.

Source: EIA's Short-Term Energy Outlook

15 Q. Is there future financial risk to consumers due to gas price volatility?

16 A. Yes. As I have discussed previously, there is uncertainty in the U.S.
17 regarding fuel policy and the projected financial impact of regulations recently
18 enacted or proposed on both fuel production and use and how this will be
19 reflected in future natural gas prices. This uncertainty is incorporated in the
20 market's view of the distribution of likely future natural gas prices. Similar to
21 EIA's short term forecast, in the following graph of longer term gas prices, the
22 95% upper confidence level for forward prices for natural gas increases into
23 the future.

MARKET FORWARD PRICES AND VOLATILITIES



Q. Should the Commission continue its natural gas financial hedging policy as set forth in the “Hedging Order”?

A. Yes. Future market price risk and price volatility still exists for natural gas purchases. Changes in the natural gas market have occurred and will continue to occur in the future as gas producers and consumers adapt to both regulatory and market price pressures and uncertainty. Gulf believes that the “Hedging Order” provides an appropriate fuel risk management tool for use in limiting future natural gas price volatility and should be continued going forward. Gulf has demonstrated that implementation of its risk management plan has accomplished the objective of the hedging order to limit price volatility. Gulf’s Risk Management Plan for Fuel Procurement is a reasonable and prudent implementation of the Commission’s hedging order and should be approved. Finally, Gulf has accurately reported its financial hedging

1 settlement costs including allowable hedging support costs to the
2 Commission for the purpose of cost recovery.

3

4 Q. Mr. Ball, does this conclude your rebuttal testimony.

5 A. Yes.

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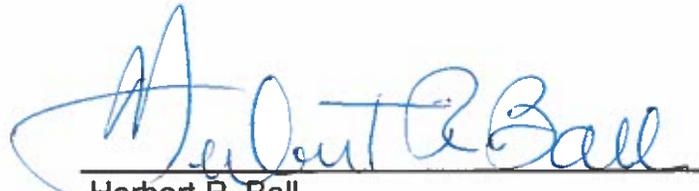
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AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

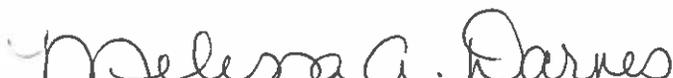
Docket No. 150001-EI

Before me, the undersigned authority, personally appeared Herbert R. Ball, who being first duly sworn, deposes and says that he is the Fuel Services 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 Services Manager

Sworn to and subscribed before me this 8th day of October, 2015.


Notary Public, State of Florida at Large



MELISSA A. DARNES
MY COMMISSION # EE 150873
EXPIRES: December 17, 2015
Bonded Thru Budget Notary Services

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of investor-owned electric utilities' risk management policies and procedures.

DOCKET NO. 011605-EI
ORDER NO. PSC-02-1484-FOF-EI
ISSUED: October 30, 2002

ORDER APPROVING PROPOSED RESOLUTION OF ISSUES

By Order No. PSC-01-1829-PCO-EI, issued September 11, 2001, issues were established for resolution at the November 20-21, 2001, hearing in Docket No. 010001-EI. On November 2, 2001, the Office of Public Counsel (OPC) filed a motion to defer consideration of several of the issues listed in that Order to allow the parties additional time to explore those issues. Those issues generally concerned risk management by investor-owned electric utilities (IOU) with respect to fuel procurement. By Order No. PSC-01-2273-PHO-EI, issued November 19, 2001, OPC's motion was granted. This docket was opened November 26, 2001, for the purpose of addressing the deferred issues, and an evidentiary, administrative hearing was scheduled in this docket for August 12-13, 2002.

Two of the issues deferred for consideration in this docket were resolved by proposed agency action which, because no request for hearing was filed, became final and effective. (Order Nos. PSC-02-0793-PAA-EI and PSC-02-0919-PAA-EI) As to all of the issues remaining for hearing, the parties engaged in settlement discussions. At the start of the administrative hearing scheduled in this docket, we were presented with a Proposed Resolution of Issues which was intended to resolve all issues that remained for hearing in this docket. The Proposed Resolution of Issues, attached hereto as Attachment A and incorporated herein by reference, was signed and supported by Florida Power Corporation, Florida Power & Light Company, Tampa Electric Company, the Florida Industrial Power Users Group, and OPC.

Based on a modification made in discussions at the start of the hearing, Gulf Power Company agreed to the Proposed Resolution of Issues. That modification amended the first sentence in paragraph 6 of the Proposed Resolution of Issues to include Gulf Power Company and amended the second sentence in paragraph 6 to read as follows: "No party to this docket shall seek approval of a

ORDER NO. PSC-02-1484-FOF-EI
DOCKET NO. 011605-EI
EXCERPT FROM PAGE 6

"Each investor-owned electric utility may recover through the fuel and purchased power cost recovery clause prudently-incurred incremental operating and maintenance expenses incurred for the purpose of initiating and/or maintaining a new or expanded non-speculative financial and/or physical hedging program designed to mitigate fuel and purchased power price volatility for its retail customers each year until December 31, 2006, or the time of the utility's next rate proceeding, whichever comes first."

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Citizens' First Set of Interrogatories
GULF POWER COMPANY
Docket No. 150001-EI
Revised July 24, 2015
Item No. 4
Page 1 of 1

In addition to the gain or loss on all of the commodities hedged from 2002 through 2014, please describe or explain:

- a. What other types of costs does the Company incur to support or operate its hedging program?
- b. How much were those annual hedging costs for the time period 2002 through 2014 (i.e., the annual hedging program costs less the cost of the hedged commodities)?
- c. Please explain whether the incremental costs needed to support or operate the Company's hedging program are recovered through the fuel adjustment clause or in base rates?

ANSWER:

- a. Salary and wages, overhead, travel and training expenses, and support service expenses.

b.

Year	Annual Hedging Costs (\$)
2002	0
2003	14,809
2004	21,112
2005	43,640
2006	105,754
2007	97,591
2008	83,232
2009	84,068
2010	80,667
2011	112,033
2012	96,270
2013	114,002
2014	109,975

- b. Incremental costs needed to support and operate the Company's hedging program are currently recovered through base rates.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No.: 150001-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing was furnished by electronic mail this 9th day of October, 2015 to the following:

Florida Public Utilities Company
Florida Division of Chesapeake
Utilities Corp
Mike Cassel, Director
Regulatory and Governmental Affairs
1750 SW 14th Street, Suite 200
Fernandina Beach, FL 32034
mcassel@fpuc.com

PCS Phosphate – White Springs
c/o Stone Law Firm
James W. Brew/Owen J. Kopon
Laura A. Wynn
Eighth Floor, West Tower
1025 Thomas Jefferson St, NW
Washington, DC 20007
jbrew@smxblaw.com
oik@smxblaw.com
laura.wynn@bbrslaw.com

Duke Energy Florida
John T. Burnett
Dianne M. Triplett
299 First Avenue North
St. Petersburg, FL 33701
Dianne.triplett@duke-energy.com
John.burnett@duke-energy.com

Florida Power & Light Company
John T. Butler
700 Universe Boulevard (LAW/JB)
Juno Beach, FL 33408-0420
John.Butler@fpl.com

Florida Power & Light Company
Kenneth Hoffman
215 South Monroe Street,
Suite 810
Tallahassee, FL 32301-1858
Ken.Hoffman@fpl.com

Ausley Law Firm
James D. Beasley
J. Jeffry Wahlen
Ashley M. Daniels
Post Office Box 391
Tallahassee, FL 32302
jbeasley@ausley.com
adaniels@ausley.com
jwahlen@ausley.com

Gunster Law Firm
Beth Keating
215 South Monroe Street, Suite 601
Tallahassee, FL 32301-1839
bkeating@gunster.com

Office of Public Counsel
Patricia A. Christensen
Associate Public Counsel
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32399-1400
Christensen.patty@leg.state.fl.us

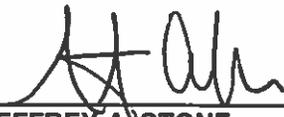
Duke Energy Florida, Inc.
Matthew R. Bernier
Cameron Cooper
106 East College Avenue,
Suite 800
Tallahassee, FL 32301-7740
Matthew.bernier@duke-energy.com
Cameron.Cooper@duke-energy.com

Florida Industrial Power Users Group
c/o Moyle Law Firm
Jon C. Moyle, Jr.
118 North Gadsden Street
Tallahassee, FL 32301
jmoyle@moylelaw.com

Tampa Electric Company
Ms. Paula K. Brown, Manager
Regulatory Coordination
P. O. Box 111
Tampa, FL 33601-0111
Regdept@tecoenergy.com

Office of the General Counsel
Suzanne Brownless
Martha Barrera
2540 Shumard Oak Blvd
Tallahassee, FL 32399-0850
sbrownle@psc.state.fl.us
mbarrera@psc.state.fl.us
tefarley@psc.state.fl.us
ASoete@psc.state.fl.us

Florida Retail Federation
Robert Scheffel Wright
John T. LaVia
c/o Gardner Law Firm
1300 Thomaswood Drive
Tallahassee, FL 32308
schef@qbwlegal.com
jlavia@qbwlegal.com



JEFFREY A. STONE
Florida Bar No. 325953
jas@beggslane.com
RUSSELL A. BADDERS
Florida Bar No. 007455
rab@beggslane.com
STEVEN R. GRIFFIN
Florida Bar No. 0627569
srg@beggslane.com
BEGGS & LANE
P. O. Box 12950
Pensacola FL 32591-2950
(850) 432-2451
Attorneys for Gulf Power