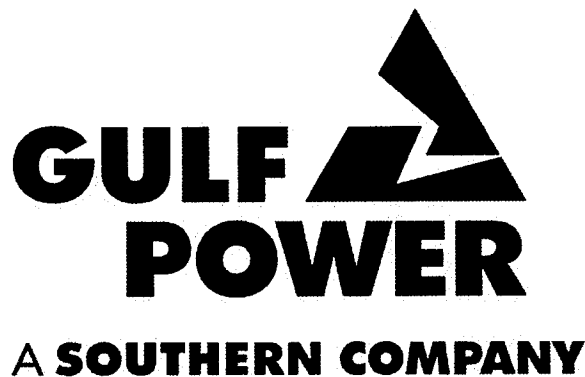


BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

**Docket No. 070001-EI**

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

**Date of Filing: September 4, 2007**



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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. 070001-EI

6 Date of Filing: September 4, 2007

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, 2008 through  
16 December 31, 2008. 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 an exhibit that contains information to which you will  
22 refer in your testimony?

23 A. Yes, I have prepared an exhibit that compares actual and projected fuel  
24 cost of net generation for the past ten years. The purpose of this exhibit  
25 is to indicate the accuracy of Gulf's short-term fuel expense projections.

1 Counsel: We ask that Mr. Ball's exhibit , consisting of one schedule,  
2 be marked as Exhibit No. \_\_\_\_\_ (HRB-2).

3  
4 Q. Has Gulf Power Company made any significant changes to its methods  
5 for projecting fuel expenses, net power transaction expense, and  
6 purchased power capacity costs for this period?

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

9  
10 Q. What is Gulf's projected recoverable total fuel and net power transactions  
11 cost for the January 2008 through December 2008 recovery period?

12 A. Gulf's projected total fuel and net power transaction cost for the period is  
13 \$433,719,593. This projected amount is captured in the exhibit to  
14 Witness Martin's testimony, Schedule E-1, line 20.

15  
16 Q. How does the total projected fuel and net power transactions cost for the  
17 2008 period compare to the projected fuel cost for the same period in  
18 2007?

19 A. The total updated cost of fuel and net power transactions for 2007,  
20 reflected on Schedule E-1B-1, line 21 of Witness Martin's testimony, is  
21 projected to be \$425,399,828. The projected total cost of fuel and net  
22 power transactions for the 2008 period reflects an increase of \$8,319,765  
23 or 1.96% over the same period in 2007. On a fuel cost per KWH basis,  
24 the 2007 projected cost is 3.3937 cents per KWH and the 2008 projected  
25 fuel cost is 3.3648 cents per KWH, which is a decrease of 0.0289 cents

1 per KWH or .85%.

2

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

5 A. The projected total cost of fuel to meet system net generation needs in  
6 2008 is \$626,630,546. The projection of fuel cost of system net  
7 generation for 2008 is captured in the exhibit to Witness Martin's  
8 testimony, Schedule E-1, line 1.

9

10 Q. How does the total projected fuel cost of net generation for the 2008  
11 period compare to the projected fuel cost for the same period in 2007?

12 A. The total updated cost of fuel to meet 2007 system net generation needs,  
13 reflected on Schedule E-1B-1, line 1 of Witness Martin's testimony, is  
14 projected to be \$577,586,046. The projected total cost of fuel to meet  
15 system net generation needs for the 2008 period reflects an increase of  
16 \$49,044,500 or 8.49% over the same period in 2007. Total system net  
17 generation in 2008 is projected to be 17,586,010 MWH, which is  
18 71,291,000 KWH or 0.41% higher than is currently projected for 2007. On  
19 a fuel cost per KWH basis, the 2007 projected cost is 3.2977 cents per  
20 KWH and the 2008 projected fuel cost is 3.5632 cents per KWH, which is  
21 an increase of 0.2655 cents per KWH or 8.05%. This higher projected  
22 total fuel expense and average per unit fuel cost is the result of increased  
23 utilization of Gulf's gas-fired generating resources thereby increasing the  
24 percentage of higher cost natural gas in the generation mix.

25

1 Q. Does the 2008 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 existing coal transportation contracts.  
7 Natural gas requirements will be purchased from various suppliers using  
8 firm quantity agreements with market pricing for base needs and on the  
9 daily spot market when necessary. Natural gas transportation will be  
10 secured using a combination of firm and spot transportation agreements.

11  
12 Q. What fuel price hedging programs will be utilized by Gulf to protect the  
13 customer from fuel price spikes?

14 A. Natural gas prices will be hedged financially using instruments that  
15 conform to Gulf's established guidelines for hedging activity. Coal supply  
16 and transportation prices will be hedged physically using term agreements  
17 with either fixed pricing or term pricing with escalation terms tied to  
18 various published market price indexes.

19  
20 Q. Has Gulf adequately mitigated the price risk of natural gas and purchased  
21 power for 2007 through 2008?

22 A. Gulf has adequate natural gas financial hedges in place for 2007 to  
23 mitigate price risk. Gulf currently has gas and purchased power hedges in  
24 place for 2008 and continues to look for opportunities to enter into  
25 financial hedges that we believe will provide price stability to the customer

1 and protect against unanticipated dramatic price increases in the natural  
2 gas market.

3  
4 Q. Should recent changes in the market price for natural gas impact the  
5 percentage of Gulf's natural gas requirements that Gulf plans to hedge?

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

21  
22 Q. What actions does Gulf take to procure natural gas and natural gas  
23 transportation for its units at competitive prices for both long-term and  
24 short-term deliveries?

25 A. Gulf procures natural gas using both long and short-term agreements for

1 supply at market-based prices. Gulf secures gas transportation for non-  
2 peaking units using long-term agreements for firm transportation capacity  
3 and for peaking units using interruptible transportation, released seasonal  
4 firm transportation, or delivered natural gas agreements. Details of Gulf's  
5 natural gas procurement strategy are included in the "Risk Management  
6 Plan for Fuel Procurement" on file in this docket.

7  
8 Q. What is Gulf's projected recoverable fuel cost of power sold for the  
9 period?

10 A. Gulf's projected recoverable fuel cost of power sold is \$213,447,000. This  
11 projected amount is captured in the exhibit to Witness Martin's testimony,  
12 Schedule E-1, line 18.

13  
14 Q. How does the total projected recoverable fuel cost of power sold for the  
15 2008 period compare to the projected recoverable fuel cost of power sold  
16 for the same period in 2007?

17 A. The total projected recoverable fuel cost of power sold in 2007, reflected  
18 on Schedule E-1B-1, line 19 of Witness Martin's testimony, is projected to  
19 be \$182,601,235. The projected recoverable fuel cost of power sold in  
20 2008 represents an increased credit of \$30,845,765 or 16.89%. Total  
21 quantity of power sales in 2008 is projected to be 5,188,854,000 KWH,  
22 which is 461,530,198 KWH or 8.17% less than currently projected for  
23 2007. On a fuel cost per KWH basis, the 2007 projected cost is 3.2317  
24 cents per KWH and the 2008 projected fuel cost is 4.1136 cents per  
25 KWH, which is an increase of 0.8819 cents per KWH or 27.29%. This



1 higher total credit to fuel expense from power sales is attributed to a  
2 higher fuel reimbursement rate (cents per KWH) for power sales as a  
3 result of a greater percentage of sales being made from higher-cost gas-  
4 fired generation resources.

5  
6 Q. What is Gulf's projected purchased power recoverable cost for energy  
7 purchased for the period?

8 A. Gulf's projected recoverable cost for energy purchases is \$17,616,000.  
9 This projected amount is captured in the exhibit to Witness Martin's  
10 testimony, Schedule E-1, line 12

11  
12 Q. How does the total projected purchased power cost for the 2008 period  
13 compare to the projected purchased power cost for the same period in  
14 2007?

15 A. The total updated cost of purchased power to meet 2007 system needs,  
16 reflected on Schedule E-1B-1, line 13 of Witness Martin's testimony, is  
17 projected to be \$24,429,398. The projected cost of purchased power to  
18 meet system needs in 2008 is \$6,813,398 or 27.89% less than is currently  
19 projected for 2007. The total quantity of purchased power in 2008 is  
20 projected to be 417,436,000 KWH, which is 194,158,786 KWH or 31.75%  
21 lower than is currently projected for 2007. On a fuel cost per KWH basis,  
22 the 2007 projected cost is 3.9944 cents per KWH and the 2008 projected  
23 fuel cost is 4.2200 cents per KWH, which represents an increase of  
24 0.2256 cents per KWH or 5.65%. This higher average fuel price of  
25 purchased power is attributed to a higher fuel reimbursement rate (cents

1 per KWH) as a result of a greater percentage of purchases from higher-  
2 cost natural gas fired generation resources.

3  
4 Q. What are Gulf's projected recoverable capacity payments for the period?

5 A. The total recoverable capacity payments for the period are \$26,894,321.

6 This amount is captured in Witness Martin's testimony on line 9 of  
7 Schedule CCE-1. Schedule CCE-4 of Ms. Martin's testimony lists the  
8 long-term power contracts that are included for capacity cost recovery,  
9 their associated capacity amounts in megawatts, and the resulting  
10 capacity dollar amounts. Also included on Schedule CCE-4 is a total of  
11 the revenues produced by several market-based service agreements  
12 between the Southern Electric System operating companies and entities  
13 outside the system that are included in Gulf's 2008 projection. The total  
14 capacity cost included on Schedule CCE-4 is shown on line 1 of Schedule  
15 CCE-1.

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

19 A. Gulf has included an estimate of transmission revenues in the amount of  
20 \$200,000 in its capacity cost recovery projection. This amount is captured  
21 in Witness Martin's testimony on line 2 of Schedule CCE-1.

22  
23 Q. How does the total projected net capacity cost for the 2008 period  
24 compare to the projected net capacity cost for the same period in 2007?

25 A. Gulf's 2008 Projected Jurisdictional Capacity Payments, found on

1 Schedule CCE-1, line 5 of Witness Martin's testimony, are projected to be  
2 \$28,968,564 or 1.90% lower than the current estimate of \$29,530,847  
3 (Schedule CCE-1B, line 5) for 2007 that was filed in Ms. Martin's  
4 estimated/actual true-up testimony in this docket on August 6, 2007. This  
5 decrease is a result of a reduction in the capacity reserve purchase rate  
6 under the provisions of the IIC. The average cost of SES operating  
7 companies' peaking power resources used to determine the reserve  
8 sharing rates is projected to be lower during the 2008 period.

9  
10 Q. Mr. Ball, does this complete your testimony?

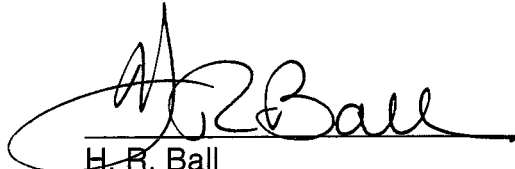
11 A. Yes, it does.  
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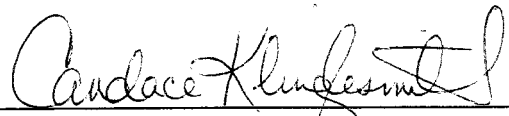
STATE OF FLORIDA )  
 )  
COUNTY OF ESCAMBIA )

Docket No. 070001-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 31st day of August, 2007

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

Notary Public, State of Florida  
My Commission Expires: May 18, 2011



Commission Number: DD 664104

Commission Expires: 5-18-2011