BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 080001-EI

In the Matter of

FUEL AND PURCHASED POWER COST RECOVERY CLAUSE WITH GENERATING PERFORMANCE INCENTIVE FACTOR.
_____________________________________/

VOLUME 2

Pages 111 through 279

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PROCEEDINGS:	HEARING
BEFORE:	CHAIRMAN MATTHEW M. CARTER, II COMMISSIONER LISA POLAK EDGAR COMMISSIONER KATRINA J. McMURRIAN COMMISSIONER NANCY ARGENZIANO COMMISSIONER NATHAN A. SKOP
DATE:	Tuesday, November 4, 2008
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	LINDA BOLES, CRR, RPR Official FPSC Reporter (850) 413-6734
APPEARANCES:	(As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

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P R O C E E D I N G S

* * * * *

(Transcript follows in sequence from Volume 1.)

BY MR. McWHIRTER:

Q Well, let's look at gas. You pay, you pay a price for that product, gas.

A Correct.

Q And you anticipate that in 2005 you're going to pay $9.75 per MCF of delivered gas. Is that $9.75, is that the Henry Hub price for the cost of gas at that delivery point?

A I'm not actually the --

MR. BURNETT: Objection. Assumes facts not in evidence and lacks foundation.

CHAIRMAN CARTER: Sustained. Rephrase, Mr. McWhirter.

MR. McWHIRTER: I think $9.75 is in evidence and I asked --

CHAIRMAN CARTER: You have to lay the foundation. The objection was foundation. You did not lay the foundation, so --

MR. McWHIRTER: Right.

CHAIRMAN CARTER: You can do it.

MR. McWHIRTER: I assumed because there was not evidence -- and what I'm trying to say is that the only thing that I've asked about is $9.75 and whether that is the same as the Henry Hub price. And $9.75 is in evidence. The Henry Hub price is not. I just asked if that was the same. And I don't know how that's assuming something that's not in evidence.

CHAIRMAN CARTER: Rephrase and proceed.

MR. McWHIRTER: All right.

BY MR. McWHIRTER:

Q Do you know what the Henry Hub price is, not the amount but that phrase, Henry Hub price?

A Yes.

Q What is that?

A That is the price that would be at the, at the Henry Hub on, I think that's quoted on the NYMEX. But I have to, I have to qualify that because I am not the witness to discuss prices of gas.

Q I understand. If I ask you something you don't know, just say you don't know.

A Okay.

Q But the Henry Hub price, that has to do with the commodity of gas itself; is that a fair statement?

A That's my understanding.

Q And is the $9.75 in your testimony, is that the price at Henry Hub as far as you know?

A Again, I think we need to defer this question to probably the, our gas, our natural gas witness.

Q Okay. Are you familiar with the phrase "fixed costs"?

A I am familiar with the phrase "fixed costs," yes.

Q And do you have fixed costs included in the fuel charge that you make to customers?

A I think that depends on how you define fixed costs. So if you were to define fixed costs as costs that do not fluctuate with the volumes of fuel used, then we do have costs that do not fluctuate with the volumes of fuel used.

Q And would that be the reason you stated that if consumption goes down, you still have to pay those fixed costs because they're unassociated with the price of fuel?

A That's, that's a true statement.

Q Do you in any of your reports to the Commission delineate the fixed costs that are included in the fuel price that you are seeking?

A In the exhibit that we filed, certain fixed costs are listed separately and not embedded within the normal total fuel costs.

Q And where would I find that in MO-3?

A Yeah. You could find that on Part 2, Page 2 of 36. And those would be on Lines, Lines 3 and 4.

Q So the, the spent nuclear fuel cost on Line 2 and coal car investment of $422,000 on Line 3, those are the fixed costs?

A No. The fixed costs would be on Line 3 and 4, Line

3 being the coal car investment and Line 4 being the adjustment to fuel costs.

Q I see. Now what is the adjustment to fuel cost, what is that?

A The adjustment to fuel cost is our return on our coal inventory in transit that was approved in our last rate case settlement.

Q Return, is that the same thing as profit?

A Yes.

Q So if someone said we have no profit in the fuel cost, that wouldn't necessarily be a truthful statement, would it?

A Correct. From time to time we do have certain things that have been approved by the Commission that are allowed to be recovered through the fuel clause that would actually entail earning a profit.

MR. McWHIRTER: That's all the questions I have.

CHAIRMAN CARTER: Thank you.

Mr. Brew.

MR. BREW: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. BREW:

Q Good afternoon.

A Good afternoon.

Q This will be real brief. In your testimony you proposed levelized fuel and capacity factors for recovery in rates in January; is that right?

A Yes.

Q And on Issue 29A in the prehearing statement, do you have it?

A I have it. Let me get to it.

Q Sure.

A Do you happen to know what page that's on?

Q It was --

CHAIRMAN CARTER: Page 42.

MR. BREW: Thank you.

CHAIRMAN CARTER: Just trying to help.

THE WITNESS: Okay.

BY MR. BREW:

Q And the statement by staff contains a number for nuclear cost recovery of $418,311,136. Do you see that?

A Yes.

Q As far as you know is that number accurate?

A Yes.

Q Okay. And in developing your proposed capacity factors for recovery, did you employ that number?

A Yes, we did.

Q Okay. Is there a true-up of that number?

A Yes. There will be a true-up of that number based on what the actual costs are that come through in 2009.

Q So in 2009 you'd look at what you actually spent in the categories site selection, preconstruction and carrying costs?

A Yes.

Q Okay. If in 2010 Progress were to sell half of its interest in the Levy Units, let me pick on somebody who's not here, say the City of Tallahassee, would the $418 million include dollars charged to PEF customers that are in part properly allocated to another utility's customers?

A I'm sorry. I didn't understand the question.

Q Let me back up a little bit. The $418 million for nuclear cost recovery reflects all of the qualified costs associated with the Levy project and the Crystal River uprate; is that right?

A That's correct.

Q Okay. And just sticking to the Levy portion because that's roughly $394 million of the $418; is that right?

A Yes.

Q Okay. If, if Progress were to sell a portion of its, of its interest in that project, and let's make it easy and make it 50/50, would some portion of that $418 million be allocated, be properly allocated to the portion that Progress no longer owns?

MR. BURNETT: Objection. Calls for speculation.

CHAIRMAN CARTER: He, he laid the foundation and it calls for an opinion. She could say based upon her opinion -- I think it's, I think he's laid a proper foundation. Let's see if she can answer it or not.

THE WITNESS: It's my understanding that when we, if, if we're successful in finding joint owners and we're able to sell off a portion of that plant, that we will go back and adjust fairly the costs to the retail customers, that we would propose something at that time to, to, to adjust these costs.

BY MR. BREW:

Q And would that be reflected in a revised capacity cost factor, do you know?

A Yes, it would. At the time that we, that we are able to successfully negotiate with joint owners, then we would go back and file a proposed adjustment to the capacity factors at that time.

Q With the intent of fully reimbursing Progress customers for the, so they're only paying their pro rata share?

A That is my understanding. Yes.

MR. BREW: Thank you. That's all I have.

CHAIRMAN CARTER: Thank you.

Mr. Twomey.

MR. TWOMEY: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. TWOMEY:

Q Good afternoon, Ms. Olivier.

A Good afternoon.

Q Were you in the room a few minutes ago when I made my opening statement?

A Yes, I was.

Q And I, and I discussed with the Commission my view that the cost recovery clauses don't preclude companies from recovering all of their reasonable and prudently incurred costs.

A Yes.

Q And to the extent that I said that if there were underrecoveries, that the company could get the money the next year with interest, is that a correct understanding?

A That's my understanding.

Q Okay. And conversely isn't it, would it be your understanding that if, if you had an overrecovery, that you would pay the customers back the next year along with interest; is that correct?

A Correct. At the commercial paper rate.

Q Okay. Now in your exchange, in your, in your summary of your testimony and your exchange with Mr. McWhirter, I think I heard you say that because of a revised forecast or a forecast on or about September 22nd of this year the company saw that natural gas and oil prices were declining and consequently you filed a revised, your revised testimony exhibits on October 13th; correct?

A That's correct.

Q And was I correct in hearing that, that those declining costs for the 2009 portion reduced the total to be requested in 2009 by $206 million? Or if not, what was the amount that the reduced fuel prices led to reduction for in 2009?

A You're correct. Just for the 2009 portion we reduced the fuel prices or the fuel, fuel costs to the customers by $206,263,465.

Q Okay. Now what, if you know, what percentage of your, your total fuel adjustment request, requested recovery for 2009 was the 206?

A What I can tell you, since I don't have a calculator here, is that our total request for recovery in 2009 is approximately $2.7 billion. And, and the percentage of that, that $206 million is -- we'd have to do the math.

Q Okay. But, but you didn't -- the company didn't view that it was compelled, did it, to make the October 13th revision in its filing?

MR. BURNETT: Objection. Calls for a legal conclusion.

MR. TWOMEY: Mr. Chairman, I don't think it does. The --

CHAIRMAN CARTER: One second. Hang on a second. Hang on a second.

Ms. Helton.

MS. HELTON: I think that she has testified that she's the supervisor of the regulatory section. It seems to me that she should have an answer to or we should find out if she has an answer to whether she believed that she was required to file that October 13th filing.

CHAIRMAN CARTER: Overruled. You may proceed.

BY MR. TWOMEY:

Q Did you understand the question?

A Yes. Was I obligated to file the October 13th filing, is that the question?

Q Yes.

A Based on our fuel prices coming down, we made the determination that it was in the best interest of the customers to make that filing. It is -- I believe when you add the totals up, they did not necessarily equal the 10 percent, but we felt like it was in the best interest of the customers to reduce that price.

Q And, and was it the company's view that it was in the best interest of the customers because that revision would result in the customers having a lower charge beginning January, necessarily have a lower charge beginning January 1st of 2009 and, consequently, customers for a given level of consumption would have smaller bills by some percentage?

A That's correct.

Q Now I think you also responded to Mr. McWhirter that since the, the September 22nd forecast that resulted in the October 13th revision in your filing you have observed further declines in the cost for the prices for natural gas and oil. Did I hear that correctly?

A That's correct.

Q Okay. When was the last such time that you made such a forecast or an observation?

A At this point due to the short time frame we're just watching the market and seeing what prices are doing. As I mentioned, we are also in the process of developing our November fuel and operations forecast. And when that's complete, and I believe that will be complete here in the, shortly, in the first or second week of November, then we will again review the, the costs and determine whether, how much they have actually declined and whether we need to go in and notify the Commission that we have reached that 10 percent threshold. But we're in the process of working through that forecast now.

Q I see. Thank you. Now to the extent that you can tell me and if you recall, the most recent observations you've made just following the markets, how much has oil and gas declined either in a dollar amount or per unit or percentages, if you know?

A I can't tell you. I'm not the, the appropriate expert on actual prices, fuel prices.

Q Okay. But within that limitation did they strike you as significant or not?

A I'm not sure.

Q Okay. So -- but there's somebody here we can ask that.

A Yeah. Mr. McCallister is our, our fuel expert, our hedging and our gas -- Director of Gas and Oil Trading.

Q Okay. If this is within the scope of your responsibilities at Progress, would it make sense to you if your goal of the October 13th revised filing was to protect your customers by having lower rates reflecting reductions in actual prices, wouldn't it make sense if you had additional information before January 1st and if it was technically possible to reduce those charges even more if it would reflect actual reductions, to go ahead and do that and protect your customers more?

A I think that we, we would do that. I think that that's -- it's good for customers. We are here to, you know, we're not here to just overcharge customers. We care about our customers. And, and the thing that we have to think about is, you know, what's going to happen in the market in 2009. And I think it's very difficult to predict what will happen in the market in the future.

But to the extent that we're seeing those prices coming down and they're continuing to come down to the, to that threshold level, then we would notify the Commission.

Q Okay. And but conversely wouldn't it be true that just hypothetically if, if the Commission decided to require of Progress and the other companies revised projections in the face of these, what appear to be declining costs at least for natural gas and oil, if they required that and you made a further reduction and they made a reduction in what they approved for the charges for January 1st, and then it turned out that for whatever reasons, markets flip, consumption increased throughout the, our economy and the world and prices came up, you'd be protected, would you not, because you'd be required, if the increase exceeded 10 percent, to come in and announce it to the Commission under a midcourse correction protocol; right?

A That's correct.

Q And if it -- isn't it also true that if it was, prices were to go up because of changes in the economy to, say, 5 or 6 percent, then you couldn't change rates midcourse, but the following year if you had an underrecovery, you would recover that as well as interest at the commercial paper rate?

A Could -- I'm sorry. Could you repeat that last comment?

Q Yes, I can. I'll try. I think, I think you just agreed with me that if there was a, hypothetically there was another reduction in your charge approved by the Commission as a result of a forecast hypothetically which would show even further declines in oil and natural gas prices, and then things turned around in 2009 such that you saw that your underrecovery for 2009 was going to be 10 percent or more, you would be protected, I thought you agreed with me, because you'd be required by Commission policy to come in and say our underrecovery is going to be 10 percent or more, we should probably make a correction now.

A Correct.

Q Do you agree?

A Yes.

Q And then my second point was that if the economy turned around under that same hypothetical in 2009 and that cost for natural gas and oil went up but only -- so they were like 6 percent, okay?

A Uh-huh.

Q So you didn't meet the 10 percent threshold.

A Okay.

Q You wouldn't have a midcourse correction in 2009. But whatever underrecovery you incurred in 2009, you'd recover it in 2010 with interest.

A That's correct.

Q So you wouldn't be out any money.

A Correct.

Q Okay. The -- if you can tell me, and if it's appropriate for another witness, that's fine, but the, the reductions you saw in your natural gas prices from your original filing to the October 13th and the oil reductions, what percentages were they and where were they the greatest? Do you recall? Were they, were they greater percentages in natural gas or oil or similar or what?

A I'm trying to remember if that's, that's -- we could look in the testimony, I think I filed in the testimony that that, that the reductions had come down. I don't know the exact percentages. So do you want me to see?

Q If you know where it is easily.

A Okay. Actually maybe I don't have it exactly, specifically worded in the testimony here as I have it, so I'm not sure. I'd have to, I'd have to do the, I'd have to do the calculations to see what those exact decreases were.

Q That's okay. We can get it later.

A Okay.

Q Thank you very much.

A Okay.

CHAIRMAN CARTER: Thank you. Commissioners, I'm going to go to staff and then come back to the bench.

Staff, you're recognized.

MR. YOUNG: Thank you, sir.

CROSS EXAMINATION

BY MR. YOUNG:

Q Good afternoon.

A Good afternoon.

Q All right. You filed, you prefiled testimony in this docket and had an attachment, your Exhibit MO-4; correct?

A Correct.

Q All right. Can you please turn to Page 1 of that exhibit?

A Okay. I'm there.

Q Lines 36 and 37 on the far left-hand corner.

A Yes.

Q And look to the far right-hand corner is the totals; correct?

A Correct.

Q And that, Line 36 is Levy 1 and 2 nuclear preconstruction and AFUDC; correct?

A Correct.

Q And that number is $394,644,671; correct?

A 617.

Q Sorry. 617. And for the CR3 uprate AFUDC it was $23,666,522; correct?

A I have 519.

Q You have 519?

A Hold on. Oh, well, I'm looking at the -- there was a revision to that page that was filed on October 16th.

Q Okay. Okay. And that number, if we add both those two numbers together, we get $418,311,137. I'm an attorney. I'm sorry. Numbers are not my thing.

A Okay. 136.

Q 136. Right?

A Correct.

Q Okay. Does Progress Energy Florida apply a jurisdictional separation factor to that amount?

A The jurisdictional factor, yes. But that was applied in the 09 docket and we've just brought forward that amount into the capacity clause.

Q Can you please explain why Progress Energy Florida did not apply a jurisdictional separation factor through the, to that amount?

A We didn't apply a factor because it had already been applied and approved in the 09 docket.

Q Okay. And is that number, the $418,311,136 the Commission determined as appropriate for recovery for, from the retail customers through the capacity, through the capacity cost recovery clause in Docket Number 080009-EI?

A Yes.

MR. YOUNG: Okay. No further questions.

CHAIRMAN CARTER: Thank you. Commissioners? Mr. Burnett.

MR. BURNETT: No redirect, sir. And we would move into evidence the witness's Exhibits MO-1, 2, 3 and 4 as Exhibits 40 through 43.

CHAIRMAN CARTER: Any objections? Without objection, show it done.

(Exhibits 40, 41, 42 and 43 admitted into the record.)

MR. BURNETT: Sir, may Ms. Olivier be excused from the proceeding?

CHAIRMAN CARTER: Do we, any of the parties need Ms. Olivier for any -- Ms. Olivier, is that right? Did I get it correct?

THE WITNESS: Yes. That's correct.

CHAIRMAN CARTER: Ms. Olivier for anything further? Thank you. You may be excused.

MR. BREW: Excuse me, Mr. Chairman.

CHAIRMAN CARTER: Oh, Mr. Brew.

MR. BREW: Just one, one question regarding staff's questions. Were all of the amounts --

CHAIRMAN CARTER: This is -- I'm going to allow this this time, Mr. Brew, but --

MR. BREW: This is just something that --

CHAIRMAN CARTER: But you know procedurally; right? I'm going to allow you some leeway this time, but let's not let that happen again.

MR. BREW: Thank you. Thank you, Mr. Chairman.

FURTHER CROSS EXAMINATION

BY MR. BREW:

Q Were all of the dollars in 080009 adjusted by a jurisdictional factor?

A It's my understanding that those dollars had already been adjusted in the 080009 docket, yes.

Q Including carrying charges?

A Yes.

MR. BREW: Okay. Thank you.

CHAIRMAN CARTER: Mr. Burnett, anything further?

MR. BURNETT: No, sir.

CHAIRMAN CARTER: Thank you. Thank you to the witnesses. Thank you. So we've entered into evidence the exhibits without objection. We've completed testimony with this witness. She may be excused.

Commissioners, I think this is a good time for a break for, for lunch for staff, and I know that there's some, staff wanted to review some information that we'd ask for during the proceedings, so we'll come back at 2:30. We're on recess.

(Recess taken.)

We are back on the record. And when we last left, we had completed the direct and the cross on, on Witness Olivier and we entered into the record the exhibits as well as the testimony.

Mr. Burnett, you're recognized.

MR. BURNETT: Thank you, sir. At this point Mr. Oliver has already been released from, from the proceeding, so that would leave Mr. McCallister and Mr. Garrett. And, sir, as we discussed earlier, those witnesses, all the topics that they would cover are covered by the stipulation. So unless the Commission has questions, they would be subject to dismissal.

CHAIRMAN CARTER: Commissioners, any question for those witnesses that were covered under the purview of the stipulation?

Okay. Now does that complete your witness list?

MR. BURNETT: Yes, sir, it would. And to the extent we haven't done it already, I would move all that testimony and exhibits into the record and that would complete our case.

CHAIRMAN CARTER: Okay. The testimony of witnesses will be entered into the record as though read. The exhibits, any, any objections from the parties? Without objection, show it done.

Okay. Ms. Bennett. Wait one second. Commissioners, anything further? We're on -- Progress is completed.

MR. BURNETT: And, sir, I'm sorry, may I excuse, may those witnesses be excused?

CHAIRMAN CARTER: Oh, yes. Sure.

MR. BURNETT: Thank you, sir.

CHAIRMAN CARTER: Thank you, Mr. Burnett. The witnesses may be excused.

PROGRESS ENERGY FLORIDA

DOCKET NO. 080001-EI

Fuel and Capacity Cost Recovery
Final True-Up for the Period
January through December, 2007

DIRECT TESTIMONY OF
Will Garrett

March 3, 2008

Q. Please state your name and business address.

A. My name is Will A. Garrett. My business address is 299 First Avenue North, St. Petersburg, Florida 33701.

Q. By whom are you employed and in what capacity?

A. I am employed by Progress Energy Service Company, LLC as Controller of Progress Energy Florida.

Q. Have your duties and responsibilities remained the same since your testimony was last filed in this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe PEF's Fuel Adjustment Clause final true-up amount for the period of January through December 2007, and PEF's Capacity Cost Recovery Clause final true-up amount for the same period.

Q. Have you prepared exhibits to your testimony?

A. Yes, I have prepared and attached to my true-up testimony as Exhibit No. __ (WG-1T), a Fuel Adjustment Clause true-up calculation and related schedules; Exhibit No. __ (WG-2T), a Capacity Cost Recovery Clause true-up calculation and related schedules; and Exhibit No. __(WG-3T), Schedules A1 through A3, A6, and A12 for December 2007, year-to-date. I have extracted schedules on which there was no sponsored testimony. Schedules A1 through A9, and A12 for the year ended December 31, 2007, were previously filed with the Commission on January 19, 2008.

Q. What is the source of the data that you will present by way of testimony or exhibits in this proceeding?

A. Unless otherwise indicated, the actual data is taken from the books and records of the Company. The books and records are kept in the regular course of business in accordance with generally accepted accounting principles and practices, and provisions of the Uniform System of Accounts as prescribed by this Commission.

Q. Would you please summarize your testimony?

A. Per Order No. PSC-08-0030-FOF-EI, the projected 2007 fuel adjustment true-up amount was an over-recovery of $169,376,547. The actual over-recovery for 2007 was $152,569,518 resulting in a final fuel adjustment true-up under-recovery amount of $16,807,029 (Exhibit No. __ (WG-1T)).

The projected 2007 capacity cost recovery true-up amount was an under-recovery of $14,799,865. The actual amount for 2007 was an under-recovery of $12,618,636 resulting in a final capacity true-up over-recovery amount of $2,181,229 (Exhibit No. __ (WG-2T)).

FUEL COST RECOVERY

Q. What is PEF's jurisdictional ending balance as of December 31, 2007 for fuel cost recovery?

A. The actual ending balance as of December 31, 2007 for true-up purposes is an over-recovery of $152,569,518.

Q. How does this amount compare to PEF's estimated 2007 ending balance included in the Company's estimated/actual true-up filing?

A. The actual true-up attributable to the January - December 2007 period is an over-recovery of $152,569,518 which is $16,807,029 lower than the re-projected year end over-recovery balance of $169,376,547.

Q. How was the final true-up ending balance determined?

A. The amount was determined in the manner set forth on Schedule A2 of the Commission's standard forms previously submitted by the Company on a monthly basis.

Q. What factors contributed to the period-ending jurisdictional over-recovery of $152,569,518 shown on your Exhibit No. __ (WG-1T)?

A. The factors contributing to the over-recovery are summarized on Exhibit No. __ (WG-1T), sheet 1 of 5. Net jurisdictional fuel revenues fell below the forecast by $102.0 million, while jurisdictional fuel and purchased power expense decreased $219.2 million, resulting in a difference in jurisdictional fuel revenue and expense of $117.2 million. This $219.2 million favorable variance in jurisdictional fuel and purchase power expense is primarily attributable to a favorable system variance from projected fuel and net purchased power of $212.4 M as more fully described below. Also, there was a higher allocation of fuel and purchase power to the wholesale jurisdiction due to higher than projected wholesale sales. The $152.6 million over-recovery also includes the deferral of $28.9 million of 2006 over-recovery approved in Order No. PSC-06-1057-FOF-EI. The net result of the difference in jurisdictional fuel revenues and expenses of $117.2 million, plus the 2006 deferral of $28.9 million and the 2007 interest provision calculated on the deferred balance throughout the year of $6.5 million is an over-recovery of $152.6 million as of December 31, 2007.

Q. Please explain the components shown on Exhibit No. __ (WG-1T), sheet 4 of 5 which helps to explain the $212.4 million favorable system

variance from the projected cost of fuel and net purchased power transactions.

A. Sheet 4 of 5 is an analysis of the system dollar variance for each energy source in terms of three interrelated components; (1) changes in the amount (MWH's) of energy required; (2) changes in the heat rate of generated energy (BTU's per KWH); and (3) changes in the unit price of either fuel consumed for generation ($ per million BTU) or energy purchases and sales (cents per KWH).

Q. What effect did these components have on the system fuel and net power variance for the true-up period?

A. As shown on sheet 4 of 5, the dollar variance due to MWHs generated and purchased (column B) produced a cost decrease of $107.8 million. The primary reasons for this favorable variance were lower system requirements coupled with an increase in supplemental sales. The favorable variance in supplemental sales was created from certain contracts using more energy than anticipated. The unfavorable heat rate variance (column C) of $25.0 million is due to changes in the generation mix to meet the energy requirements. The favorable price variance of $129.6 million (column D) was caused mainly by lower than projected natural gas, heavy and light oil prices, partially offset by lower power sale prices. Heavy oil averaged $7.99 per MMBtu, $0.62 per MMBtu (7.1%) lower than projected per the previously submitted A3, Page 3 of 4, Line 47.

Light Oil averaged $14.24 per MMBtu, $2.97 per MMBtu (17.2%) lower than projected (A3, Page 3 of 4, Line 48). Natural gas averaged $8.51 per MMBtu, $1.28 per MMBtu (13.1%) lower than projected (A3, Page 3 of 4, Line 50).

The variance related to Other Fuel is driven by the coal car investment (see Order No. 95-1089-FOF-EI.) This favorable $2.0 million Other Fuel price variance is more than offset by an unfavorable price variance in Other Jurisdictional Adjustments. The leading components of this $6.4M unfavorable price variance are listed below.

Q. Does this period ending true-up balance include any noteworthy adjustments to fuel expense?

A. Yes. Noteworthy adjustments are shown on Exhibit No. __ (WG-3T) in the footnote to line 6b on page 1 of 2, Schedule A2. Included in the footnote to line 6b on page 1 of 2, Schedule A2, are the "2007 full revenue requirements of the installed cost of Hines Unit 2, excluding the unit's non-fuel Operations and Maintenance (O&M) expenses" of $35.0 million in accordance with Order No. PSC-07-0900-PAA-EI. These adjustments also include the remaining balance of the 2004 Storm Cost Recovery of $9.2 million per Order No. PSC-05-0748-FOF-EI; gains received on the sale of railcars of $1.6 million, the return on coal inventory in transit of $4.2 million, and the adjustment of $1.6 million to reflect the Hines 2 settlement found in Docket No. 070290-EI.

Q. Please explain the return on coal inventory in transit and rail car sale adjustments.

A: The $4.2 million and $1.6 million adjustments represent the return on coal inventory in transit and railcar sale gains for the year, respectively, in accordance with the approved Settlement and Stipulation in Docket No. 050078-EI, as discussed further in the *Other Matters* portion of this filing.

Q: Please explain the 2004 Storm Cost Recovery adjustment.

A: As a result of Order No. PSC-05-0748-FOF-EI, approving the Settlement and Stipulation issued in Docket No. 041272-EI, any over- or under-recovery remaining at the end of the period (July of 2007) shall be refunded or recovered through the fuel adjustment clause. See Exhibit No. __ (WG-1T), sheet 5 of 5 for the calculation of this balance.

Q. Did PEF exceed the economy sales threshold in 2007?

A. No. PEF did not exceed the gain on economy sales threshold of $3.0 M in 2007. As reported on Schedule A1, Line 15a, the gain for the year-to-date period through December 2007 was $2.6 million; which fell below the threshold. This entire amount was returned to customers through a reduction of total fuel and net power expense recovered through the fuel clause.

Q. Has the three-year rolling average gain on economy sales included in the Company's filing for the November, 2007 hearings been updated to incorporate actual data for all of year 2007?

A. Yes. PEF has calculated its three-year rolling average gain on economy sales, based entirely on actual data for calendar years 2005 through 2007, as follows:

Year	Actual Gain
2005	1,703,378
2006	1,990,442
2007	2,556,198
Three-Year Average	$ 2,083,339

CAPACITY COST RECOVERY

Q. What is the Company's jurisdictional ending balance as of December 31, 2007 for capacity cost recovery?

A. The actual ending balance as of December 31, 2007 for true-up purposes is an under-recovery of $12,618,636.

Q. How does this amount compare to the estimated 2007 ending balance included in the Company's estimated/actual true-up filing?

A. When the estimated 2007 under-recovery of $14,799,865 is compared to the $12,618,636 actual under-recovery, the final capacity true-up for the twelve month period ended December 2007 is an over-recovery of $2,181,229.

Q. Is this true-up calculation consistent with the true-up methodology used for the other cost recovery clauses?

A. Yes. The calculation of the final net true-up amount follows the procedures established by the Commission in Order No. PSC-96-1172-FOF-EI. The true-up amount was determined in the manner set forth on the Commission's standard forms previously submitted by the Company on a monthly basis.

Q. What factors contributed to the actual period-end capacity under-recovery of $12.6 million?

A. Exhibit No. __ (WG-2T, sheet 1 of 3) compares actual results to the original projection for the period. The $12.6 million under-recovery is due primarily to lower actual jurisdictional revenues of $15.2 million compared to projected revenues, due to lower than projected retail sales. The noted variance was partially offset by lower than expected expenses of $6.9 million. The $12.6 million under-recovery also includes the 2006 under-recovery of $3.4 million approved in Order No. PSC-08-0030-FOF-EI.

Q. Were there any items of note included in the current true-up period?

A. Yes. In Order No. PSC-02-1761-FOF-EI, issued in Docket No. 020001-EI, the Commission addressed the recovery of specific incremental security costs through the capacity cost recovery clause. In accordance with the Commission order, Exhibit No. __ (WG-2T, sheet 2 of 3, line 20) includes incremental security costs of $2,620,362 before jurisdictional allocation to retail customers.

OTHER MATTERS

Q. Were the coal procurement and transportation functions transferred from Progress Fuels Corporation to PEF in 2006 accounted for correctly in 2007?

A. Yes. As part of a consolidation of PEF's coal procurement and transportation functions, ownership of railcars used to transport coal to Crystal River and coal inventory in transit were transferred from Progress Fuels Corporation to PEF on January 1, 2006. In accordance with Order No. PSC-05-0945-S-EI, which approved the Stipulation and Settlement in Docket No. 050078-EI, PEF recovered its carrying costs of coal inventory in transit and its coal procurement O&M costs through the fuel recovery clause. Furthermore, consistent with established Commission policy, PEF recovered depreciation expense, repair and maintenance expenses, property taxes and a return on average investment associated with railcars used to transport coal to Crystal River. In accordance with the approved Settlement and Stipulation in Docket No. 050078-EI, PEF used 11.75% as its authorized return on inventory in transit and coal car investment.

Q: Was the OPC Refund, plus interest, included in the deferred fuel liability of $152,569,518 as of December 31, 2007?

A: No. The OPC Refund was recorded, however as a separate regulatory liability of $12,425,492, with interest of $1,400,715, for a total of $13,826,207. This amount began accumulating additional interest as of July 1, 2007, and will continue to accrue interest through the completion of the refund in 2008 per Order No. PSC-07-0816-FOF-EI issued in Docket No. 060658-EI. The balance is to be amortized monthly through the 2008 calendar year, as a reduction to recoverable fuel expense.

Q: Have you provided Schedule A12 showing the actual monthly capacity payments by contract consistent with the Staff Workshop in 2005?

A: Yes. Schedule A12 is included in Exhibit No. __ (WG-3T)).

Q. Does this conclude your direct true-up testimony?

A. Yes

PROGRESS ENERGY FLORIDA

DOCKET NO. 080001-EI

Fuel and Capacity Cost Recovery
Final True-Up for the Period
January through December 2007

DIRECT TESTIMONY OF JOSEPH MCCALLISTER

April 3, 2008

Q. Please state your name and business address.

A. My name is Joseph McCallister. My business address is 410 South Wilmington Street, Raleigh, North Carolina 27601.

Q. By whom are you employed and in what capacity?

A. I am employed by Progress Energy Carolinas in the capacity of Director, Gas & Oil Trading.

Q. Have your duties and responsibilities remained the same since you last testified in this proceeding?

A. Yes, my responsibilities for the procurement and trading of natural gas and oil on behalf of Progress Energy Florida (PEF or the Company) have remained the same.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to summarize the results of PEF's hedging activity for 2007 and to provide the information required by Order No. PSC-02-1484-FOF-EI which approved the resolution of the hedging related issues pending before the Commission in Docket No. 011605-EI.

Q. Have you prepared exhibits to your testimony?

A. Yes. I have attached exhibit JM-1T which summarizes hedging information for 2007.

Q. What are the primary objectives of PEF's hedging strategy?

A. The objectives of PEF's hedging strategy are to mitigate fuel price risk and volatility and provide a greater degree of price certainty to PEF's customers.

Q. What hedging activities did PEF undertake during 2007 for fuel and wholesale power and what were the results?

A. PEF continued to perform the activities outlined in its Risk Management Plan and executed physical and financial transactions in accordance with established company risk management guidelines. With respect to hedging activities that were executed over time for 2007 to reduce the price risk and volatility associated with a portion of PEF's natural gas, heavy oil and light oil burns, PEF executed fixed price physical contracts for natural gas and financial instruments for natural gas, heavy oil and light oil that resulted in net fuel costs of approximately $15.1 million. For the period 2002 through 2007, PEF's natural gas and fuel oil hedges have provided net fuel savings of approximately $361 million. Although PEF's hedging activity has achieved significant fuel savings to date, the objectives are to reduce price risk and volatility and provide a greater degree of price certainty for its customers. As a result, there will be periods when realized hedge losses occur. In addition, during 2007, PEF made economic energy purchases and wholesale power sales to third parties that resulted in additional savings of approximately $24.3 million and $2.6 million, respectively.

Q. Does this conclude your testimony?

A. Yes

PROGRESS ENERGY FLORIDA

DOCKET NO. 080001-EI

Fuel and Capacity Cost Recovery
January through December 2009

DIRECT TESTIMONY OF JOSEPH MCCALLISTER

August 29, 2008

Q. Please state your name and business address.

A. My name is Joseph McCallister. My business address is 410 South Wilmington Street, Raleigh, North Carolina 27601.

Q. By whom are you employed and in what capacity?

A. I am employed by Progress Energy Carolinas in the capacity of Director, Gas & Oil Trading.

Q. Have you previously filed testimony before this Commission?

A. Yes I have.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide PEF's Risk Management Plan for 2009, outline PEF's hedging objectives and activities for projected burns for 2009, outline PEF's actual hedging results for natural gas and fuel oil for January 2008 through July 2008 and hedging results since the inception of PEF's hedging program, and to summarize PEF's economy purchase and sales savings for January 2008 through July 2008.

Q. Are your sponsoring any exhibits to your testimony?

A. Yes, I am sponsoring the following exhibits:

- Exhibit No. ___ (JM-1P) – 2009 Risk Management Plan.
- Exhibit No. ___ (JM-2P) – Unrealized Hedge Values for 2009.

Q. Has PEF developed its Risk Management Plan for fuel procurement in 2009 in accordance with the Resolution of Issues proposed by Staff and approved by the Commission in Order No. PSC-02-1484-FOF-EI, Docket No. 011605-EI?

A. Yes. PEF's Risk Management Plan was prepared in accordance with the Resolution of Issues approved by the Commission and is attached to my prepared testimony as Exhibit No. ___ (JM-1P). Certain confidential information in the exhibit has been redacted, consistent with the Company's request for confidential classification of this information.

Q. What are the objectives of PEF's hedging activities?

A. The objectives of PEF's hedging activities are to reduce overall fuel price risk and volatility.

Q. Describe PEF's hedging activities for 2009.

A. PEF continues to execute its long-term hedging strategy for projected natural gas and fuel oil annual burns. PEF executes its hedging strategy by entering into fixed price physical and financial transactions over time for a portion of its projected annual natural gas, heavy oil and light oil burns for future periods. Given the on-going volatility in natural gas and fuel oil prices, executing fixed price physical and financial transactions over time is an effective method to reduce the fuel portfolio's overall exposure to price risk and volatility and the potential impacts on customers. PEF targets hedging between [redacted] of its 2009 forecasted annual natural gas and heavy oil burns over time. Included in the natural gas burn projections are estimates of usage at gas tolling purchased power facilities where PEF has the responsibility for purchasing the natural gas. With respect to light oil, PEF will hedge at least [redacted] of its forecasted annual light oil burns over time for 2009. Light oil has lower annual hedging targets than natural gas and heavy oil because light oil fuel burns can experience greater deviations from forecasts. The volumes that are hedged over time are based on periodic forecasts and actual hedge percentages will vary from forecasted hedge percentages based on the variations between forecasted burns and actual burns. PEF's hedging activities for 2009 are consistent with hedging activities executed in prior years. The hedging program is well managed and independently monitored and does not involve price speculation or trying to out guess the market. Hedging activities may not result in actual fuel costs savings; however, hedging does achieve the objective of reducing the impacts of fuel price risk and volatility experienced by customers. As of August 22, 2008, PEF has hedged approximately [redacted] of its current 2009 forecasted annual natural gas burns, [redacted] of its forecasted annual heavy oil burns and [redacted] of its forecasted annual light oil burns. PEF will continue to layer in additional hedges for 2009 throughout the remainder of 2008 and during 2009 consistent with its on-going strategy.

Q. Based on the hedges that PEF has entered for the projected natural gas, and heavy and light fuel oil burns for 2009, what is the current estimated value of these transactions?

A. Based on closing market prices as of August 22, 2008, the estimated unrealized mark-to-market value of the hedges that PEF has executed to date for 2009 is approximately [redacted]. This is summarized and attached to my prepared testimony as Exhibit No. ___ (JM-2P). The unrealized mark-to-market value for 2009 will fluctuate over time based on changes in natural gas and fuel oil market prices and as additional hedges are entered into. As a result, actual realized hedging results for 2009 will result in either net gains or net losses and will be determined based on prevailing prices at the time the hedge transactions settle.

Q. What were the results of PEF's hedging activities for January through July 2008?

A. The Company's natural gas and fuel oil hedging activities for January through July 2008 have resulted in hedge gains of approximately $239.5 million. The details of these transactions and the results were provided per PSC Order 08-0316 on August 15, 2008. For the period January 2002 through July 2008, PEF's natural gas and fuel oil hedging activities have provided net gains of approximately $600.7 million. Although PEF's hedging activity has achieved significant net savings to date, the primary objective is to reduce price risk and volatility and there will be periods where hedging will not produce fuel savings.

Q. What has been the savings generated through economy purchase and sales activity for January 2008 through July 2008?

A. During the period January 2008 through July 2008, PEF has made economic energy purchases and wholesale power sales to third parties that resulted in additional savings of approximately [redacted] and [redacted], respectively.

Q. Does this conclude your testimony?

A. Yes.

PROGRESS ENERGY FLORIDA

DOCKET NO. 080001-EI

GPIF Reward/Penalty Amount for January through December 2007

DIRECT TESTIMONY OF ROBERT M. OLIVER

Q. Please state your name and business address.

A. My name is Robert M. Oliver. My business address is 410 South Wilmington Street, Raleigh, North Carolina, 27601.

Q. By whom are you employed and in what capacity?

A. I am employed by Progress Energy Carolinas as Manager of Portfolio Management.

Q. Describe your responsibilities as Manager of Portfolio Management.

A. As Manager of Portfolio Management, I am responsible for managing the development and application of the model, analysis and data used for the short term generation planning. As relates to this process, my duties include responsibility for the preparation of the information and material required by the Commission's GPIF True-Up and Targets mechanisms.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the calculation of PEF's GPIF reward/penalty amount for the period of January through December 2007. This calculation was based on a comparison of the actual performance of PEF's ten GPIF generating units for this period against the approved targets set for these units prior to the actual performance period.

Q. Do you have an exhibit to your testimony in this proceeding?

A. Yes, I am sponsoring Exhibit No. ______ (RMO-1T), which consists of the schedules required by the GPIF Implementation Manual to support the development of the incentive amount. This 30-page exhibit is attached to my prepared testimony and includes as its first page an index to the contents of the exhibit.

Q. What GPIF incentive amount has been calculated for this period?

A. PEF's calculated GPIF incentive amount is a reward of $2,167,933 . This amount was developed in a manner consistent with the GPIF Implementation Manual. Page 2 of my exhibit shows the system GPIF points and the corresponding reward. The summary of weighted incentive points earned by each individual unit can be found on page 4 of my exhibit.

Q. How were the incentive points for equivalent availability and heat rate calculated for the individual GPIF units?

A. The calculation of incentive points was made by comparing the adjusted actual performance data for equivalent availability and heat rate to the target performance indicators for each unit. This comparison is shown on each unit's Generating Performance Incentive Points Table found on pages 9 through 18 of my exhibit.

Q. Why is it necessary to make adjustments to the actual performance data for comparison with the targets?

A. Adjustments to the actual equivalent availability and heat rate data are necessary to allow their comparison with the "target" Point Tables exactly as approved by the Commission prior to the period. These adjustments are described in the Implementation Manual and are further explained by a Staff memorandum, dated October 23, 1981, directed to the GPIF utilities. The adjustments to actual equivalent availability concern primarily the differences between target and actual planned outage hours, and are shown on page 7 of my exhibit. The heat rate adjustments concern the differences between the target and actual Net Output Factor (NOF), and are shown on page 8. The methodology for both the equivalent availability and heat rate adjustments are explained in the Staff memorandum.

Q. Have you provided the as-worked planned outage schedules for PEF's GPIF units to support your adjustments to actual equivalent availability?

A. Yes. Page 29 of my exhibit summarizes the planned outages experienced by PEF's GPIF units during the period. Page 30 presents an as-worked schedule for each individual planned outage.

Q. Does this conclude your testimony?

A. Yes.

PROGRESS ENERGY FLORIDA

DOCKET NO. 080001-EI

GPIF Targets and Ranges for January through December 2009

DIRECT TESTIMONY OF ROBERT M. OLIVER

Q. Please state your name and business address.

A. My name is Robert M. Oliver. My business address is P.O. Box 1551, Raleigh, North Carolina 27602.

Q. By whom are you employed and in what capacity?

A. I am employed by Progress Energy Carolinas Inc. as Manager of Portfolio Management for Fuels and Power Optimization.

Q. What are your duties and responsibilities in that capacity?

A. As Manager of Portfolio Management for Fuels and Power Optimization, I oversee the management of energy portfolios for Progress Energy Florida, Inc. ("Progress Energy" or "Company"), as well as Progress Energy Carolinas, Inc. My responsibilities include oversight of planning and coordination associated with economic system operations, including unit commitment and dispatch, fuel burns, and power marketing and trading functions.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide a recap of actual reward / penalty for the period of January through December 2007 and also to present the development of the Company's GPIF targets and ranges for the period of January through December 2009. These GPIF targets and ranges have been developed from individual unit equivalent availability and average net operating heat rate targets and improvement/degradation ranges for each of the Company's GPIF generating units, in accordance with the Commission's GPIF Implementation Manual.

Q. What GPIF incentive amount was calculated for the period January through December 2007?

A. PEF's calculated GPIF incentive amount for this period was a reward of $2,167,933. Please refer to my testimony filed April 1, 2008 for the details of how this incentive amount was calculated.

Q. Do you have an exhibit to your testimony in this proceeding?

A. Yes, I am sponsoring Exhibit No. ____ (RMO-1) which consists of the GPIF standard form schedules prescribed in the GPIF Implementation Manual and supporting data, including unplanned outage rates, net operating heat rates, and computer analyses and graphs for each of the individual GPIF units. This 113-page exhibit is attached to my prepared testimony and includes as its first page an index to the contents of the exhibit.

Q. Which of the Company's generating units have you included in the GPIF program for the upcoming projection period?

A. For the 2009 projection period, the GPIF program includes the same units that are in the current period, with the addition of Hines Unit 3. The following units are included in the 2008 GPIF program: Anclote Units 1 and 2, Crystal River Units 1 through 5, Hines Units 1 through 3, and Tiger Bay. Combined, these units account for 76% of the estimated total system net generation for the period. The Company's Hines Unit 4 was not included for the upcoming projection period since there is not sufficient performance history to use in setting targets and ranges for this unit. Hines Unit 4 is forecasted to account for 8% of the estimated total system generation for the period. The Company's future Bartow combined cycle unit was also not included for the upcoming projection period because there is not any history to use for setting targets and ranges for this unit. The future Bartow combined cycle is forecasted to account for 10% of the estimated total system generation for the period.

Q. Have you determined the equivalent availability targets and improvement/degradation ranges for the Company's GPIF units?

A. Yes. This information is included in the GPIF Target and Range Summary on page 4 of my exhibit.

Q. How were the equivalent availability targets developed?

A. The equivalent availability targets were developed using the methodology established for the Company's GPIF units, as set forth in Section 4 of the GPIF Implementation Manual. This includes the formulation of graphs based on each unit's historic performance data for the four individual unplanned outage rates (i.e., forced, partial forced, maintenance and partial maintenance outage rates), which in combination constitute the unit's equivalent unplanned outage rate (EUOR). From operational data and these graphs, the individual target rates are determined through a review of three years of monthly data points during the three year period. The unit's four target rates are then used to calculate its unplanned outage hours for the projection period. When the unit's projected planned outage hours are taken into account, the hours calculated from these individual unplanned outage <u>rates</u> can then be converted into an overall equivalent unplanned outage <u>factor</u> (EUOF). Because factors are additive (unlike rates), the unplanned and planned outage factors (EUOF and POF) when added to the equivalent availability factor (EAF) will always equal 100%. For example, an EUOF of 15% and POF of 10% results in an EAF of 75%.

The supporting tables and graphs for the target and range rates are contained in pages 57-113 of my exhibit in the section entitled "Unplanned Outage Rate Tables and Graphs."

Q. Were adjustments made to historical unplanned outage hours to exclude the impact of performance anomalies?

A. Yes. Historical unplanned outage hours for Crystal River Units 1, 2, and 3 were adjusted to exclude the impact of certain performance anomalies.

Q. Please describe the performance anomalies at Crystal River Units 1 and 2.

A. Crystal River Units 1 and 2 experienced unplanned derations due to point of discharge (POD) during June, July, and August of 2005. In May 2006, Progress Energy installed temporary cooling towers to minimize future POD related derations. Based on the satisfactory experience with the temporary cooling towers to date, it is anticipated that this equipment will be retained for service in 2009. Thus, the historical outage hours for these events were excluded when setting the EAF targets for Crystal River Units 1 and 2.

Q. Please describe the performance anomalies at Crystal River Unit 3.

A. Crystal River Unit 3 experienced unplanned derations and outages due to a main transformer replacement during December 2005 and January 2006. As a result of replacing the main transformer, Crystal River Unit 3 is not expected to have main transformer related events in 2009, thus the historical outage hours for this event were excluded when setting the EAF target for Crystal River Unit 3.

Q. Please describe the overall impact of the adjustments on Crystal River Units 1, 2, and 3 equivalent availability targets.

A. The adjustments raise the equivalent availability targets for Crystal River Units 1, 2, and 3 making the target higher than using the unadjusted historical average.

Q. Please describe the methodology utilized to develop the improvement/degradation ranges for each GPIF unit's availability targets?

A. The methodology described in the GPIF Implementation Manual was used. Ranges were first established for each of the four unplanned outage rates associated with each unit. From an analysis of the unplanned outage graphs, units with small historical variations in outage rates were assigned narrow ranges and units with large variations were assigned wider ranges. These individual ranges, expressed in term of rates, were then converted into a single unit availability range, expressed in terms of a factor, using the same procedure described above for converting the availability targets from rates to factors.

Q. Have you determined the net operating heat rate targets and ranges for the Company's GPIF units?

A. Yes. This information is included in the Target and Range Summary on page 4 of my exhibit.

Q. How were these heat rate targets and ranges developed?

A. The development of the heat rate targets and ranges for the upcoming period utilized historical data from the past three years, as described in the GPIF Implementation Manual. A "least squares" procedure was used to curve-fit the heat rate data within ranges having a 90% confidence level of including all data. The analyses and data plots used to develop the heat rate targets and ranges for each of the GPIF units are contained in pages 34-56 of my exhibit in the section entitled "Average Net Operating Heat Rate Curves."

Q. How were the GPIF incentive points developed for the unit availability and heat rate ranges?

A. GPIF incentive points for availability and heat rate were developed by evenly spreading the positive and negative point values from the target to the maximum and minimum values in case of availability, and from the neutral band to the maximum and minimum values in the case of heat rate. The fuel savings (loss) dollars were evenly spread over the range in the same manner as described for incentive points. The maximum savings (loss) dollars are the same as those used in the calculation of the weighting factors.

Q. How were the GPIF weighting factors determined?

A. To determine the weighting factors for availability, a series of simulations were made using a production costing model in which each unit's maximum equivalent availability was substituted for the target value to obtain a new system fuel cost. The differences in fuel costs between these cases and the target case determine the contribution of each unit's availability to fuel savings. The heat rate contribution of each unit to fuel savings was determined by multiplying the BTU savings between the minimum and target heat rates (at constant generation) by the average cost per BTU for that unit. Weighting factors were then calculated by dividing each individual unit's fuel savings by total system fuel savings.

Q. What was the basis for determining the estimated maximum incentive amount?

A. The determination of the maximum reward or penalty was based upon monthly common equity projections obtained from a detailed financial simulation performed by the Company's Corporate Model.

Q. What is the Company's estimated maximum incentive amount for 2008?

A. The estimated maximum incentive for the Company is $15,472,071. The calculation of the estimated maximum incentive is shown on page 3 of my exhibit.

Q. Does this conclude your testimony?

A. Yes, it does.

CHAIRMAN CARTER: Ms. Bennett where are we now? What's --

MS. BENNETT: I believe our next party would be Florida Public Utilities.

CHAIRMAN CARTER: Let me ask this before we, before we go to FPUC. Let me ask, make sure that the Intervenors -- anything further on the Progress case?

MR. BURGESS: None here.

CHAIRMAN CARTER: Okay. Hearing none, now we'll, let's move to FPUC. One second.

MS. BENNETT: And before we do, Mr. Chairman, I just want to confirm --

CHAIRMAN CARTER: Did we enter everything in?

MS. BENNETT: We got WG -- or hearing ID 32 through 39 and also 53 into the record, I believe.

CHAIRMAN CARTER: Was that, Mr. Burnett, the one that you offered?

MR. BURNETT: Yes, sir. That's exactly right.

CHAIRMAN CARTER: Any objection? Without objection, show it done. Okay.

(Exhibits 32 through 39 and 53 admitted into the record.)

MS. BENNETT: So then the next witnesses would be for FPUC Cheryl Martin, Curtis Young and the panel of Curtis Young and Mark Cutshaw.

COMMISSIONER EDGAR: Mr. Horton.

MR. HORTON: Yes. Thank you.

COMMISSIONER EDGAR: There you are. There's so much paper.

MR. HORTON: Yes. Actually I moved some of it.

Ms. Martin was unable to attend today, but Mr. Young will adopt her testimony. And Mr. Cutshaw, the only portion of the testimony that he addressed is subject to the stipulation, so I don't know if you want Mr. Cutshaw to appear or not.

COMMISSIONER EDGAR: Let me start here. To staff, are there questions for Mr. Cutshaw at this point?

MS. BENNETT: Staff has no questions for Mr. Cutshaw.

COMMISSIONER EDGAR: Okay. And Commissioners? No. Commissioners? No. Any objection? No.

MR. HORTON: Then I would call Mr. Young.

COMMISSIONER EDGAR: Then we will ask Mr. Young to come to the stand, please.

MR. HORTON: And he has not been sworn.

COMMISSIONER EDGAR: Okay. Then we will do that. Come on down.

CURTIS D. YOUNG

was called as a witness on behalf of Florida Public Utilities Company and, having been duly sworn, testified as follows:

COMMISSIONER EDGAR: Mr. Horton.

DIRECT EXAMINATION

BY MR. HORTON:

Q Would you state your name and address for the record, please, sir?

A My name is Curtis Young, and I, the address, the business address is 401 South Dixie Highway, West Palm Beach, Florida 33401.

Q And you are employed by Florida Public Utilities Company?

A Yes. Yes.

Q Mr. Young, did you cause to be prepared and prefiled testimony dated September 8th, 1908? 1908. I'm sorry.

A No.

(Laughter.)

Q I'm showing my age. 2008.

A Yes.

Q Consisting of four pages, September 11th, 2008, consisting of two pages and September 15th, 2008, consisting of five pages.

A Yes.

Q Do you have any corrections to make to that testimony?

A No, I don't.

Q And, Mr. Young, are you today adopting the testimony filed by Ms. Cheryl Martin February 28th, 2008, consisting of two pages?

A Yes, I am.

Q And do you have any changes or corrections to make to that testimony?

A No, I don't.

Q If I were to ask you the questions in that testimony today, would your answers be the same?

A Yes.

MR. HORTON: Mr. Chairman, I would like to request the testimony I just referenced be inserted into the record as though read.

COMMISSIONER EDGAR: The prefiled testimony of Witness Martin and Witness Young will be entered into the record as though read.

MR. HORTON: Thank you.

BY MR. HORTON:

Q Mr. Young, did you also cause to be prepared exhibits that have been identified as Exhibits 19, 20, 21 and 22 in this proceeding?

A Yes.

Q And do you have any changes or corrections to make to those exhibits?

A No.

MR. HORTON: Subject to cross, we would move those exhibits at this time.

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 080001-EI
CONTINUING SURVEILLANCE AND REVIEW OF
FUEL COST RECOVERY CLAUSES OF ELECTRIC UTILITIES

Direct Testimony of
Curtis D. Young
On Behalf of
Florida Public Utilities Company

Q. Please state your name and business address.

A. Curtis D. Young, 401 South Dixie Highway, West Palm Beach, FL 33401.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities.

Q. Have you previously testified in this Docket?

A. No.

Q. What is the purpose of your testimony at this time?

A. I will briefly describe the basis for our computations that were made in preparations of the various schedules that we have submitted to support our calculation of the levelized fuel adjustment factor for January 2009 - December 2009.

Q. Were the schedules filed by your Company completed under your direction?

A. Yes

Q. Which of the Staff's set of schedules has your company completed and filed?

A. We have filed Schedules E1-A, E1-B, and E1-B1 for Marianna and E1-A, E1-B, and E1-B1 for Fernandina Beach. They are included in Composite Prehearing Identification Number CDY-2. Schedule E1-B shows the Calculation of Purchased Power Costs and Calculation of True-Up and Interest Provision for the period January 2008 - December 2008 based on 6 Months Actual and 6 Months Estimated data.

Q. Please address the calculations of the total true-up amount to be

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collected or refunded during January 2009 - December 2009.

A. We have determined that at the end of December 2008 based on six months actual and six months estimated, we will under-recover $187,657 in purchased power costs in our Marianna division. In Fernandina Beach we will have under-recovered $455,865 in purchased power costs.

Q. What are the final remaining true-up amounts for the period January 2007 - December 2007 for both divisions?

A. In Marianna, the final remaining true-up amount was an over-recovery of $442,219. The final remaining true-up amount for Fernandina Beach was an over-recovery of $949,245.

Q. What are the estimated true-up amounts for the period January 2008 - December 2008?

A. In Marianna, there is an estimated under-recovery of $629,876. Fernandina Beach has an estimated under-recovery of $1,405,110.

Q. Does this conclude your testimony?

A. Yes.

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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 080001-EI
CONTINUING SURVEILLANCE AND REVIEW OF
FUEL COST RECOVERY CLAUSES OF ELECTRIC UTILITIES

Direct Testimony of
Curtis Young
On Behalf of
Florida Public Utilities Company

Q. Please state your name and business address.

A. Curtis Young, 401 South Dixie Highway, West Palm Beach, FL 33401.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities Company.

Q. Have you previously testified in this Docket?

A. Yes.

Q. What is the purpose of your testimony at this time?

A. I will briefly describe the basis for the computations that were made in the preparation of the various Schedules that we have submitted in support of the January 2009 - December 2009 fuel cost recovery adjustments for our two electric divisions. In addition, I will advise the Commission of the projected differences between the revenues collected under the levelized fuel adjustment and the purchased power costs allowed in developing the levelized fuel adjustment for the period January 2008 – December 2008 and to establish a "true-up" amount to be collected or refunded during January 2009 - December 2009.

Q. Were the schedules filed by your Company completed under your direction?

A. Yes.

Q. Which of the Staff's set of schedules has your company completed and filed?

A. We have filed Schedules E1, E1A, E2, E7, and E10 for Marianna (Northwest division) and E1, E1A, E2, E7, E8, and E10 for

Fernandina Beach (Northeast division). They are included in Composite Prehearing Identification Number CDY-3.

Q. In derivation of the projected cost factor for the January 2009 - December 2009 period, did you follow the same procedures that were used in the prior period filings?

A. Yes.

Q Why has the GSLD1 rate class for Fernandina Beach (Northeast division) been excluded from these computations?

A. Demand and other purchased power costs are assigned to the GSLD1 rate class directly based on their actual CP KW and their actual KWH consumption. That procedure for the GSLD1 class has been in use for several years and has not been changed herein. Costs to be recovered from all other classes are determined after deducting from total purchased power costs those costs directly assigned to GSLD1.

Q. How will the demand cost recovery factors for the other rate classes be used?

A. The demand cost recovery factors for each of the RS, GS, GSD, GSLD, GSLD1 and OL-SL rate classes will become one element of the total cost recovery factor for those classes. All other costs of purchased power will be recovered by the use of the levelized factor that is the same for all those rate classes. Thus the total factor for each class will be the sum of the respective demand cost factor and the levelized factor for all other costs.

Q. Please address the calculation of the total true-up amount to be collected or refunded during the January 2009 - December 2009.

A. We have determined that at the end of December 2008 based on six months actual and six months estimated, we will have under-recovered $187,657 in purchased power costs in our Marianna

(Northwest division). Based on estimated sales for the period January 2009 - December 2009, it will be necessary to add .05877¢ per KWH to collect this under-recovery.

In Fernandina Beach (Northeast division) we will have under-recovered $455,865 in purchased power costs. This amount will be collected at .13591¢ per KWH during the January 2009 - December 2009 period (excludes *GSLD1 customers*). Page 3 and 10 of Composite Prehearing Identification Number CDY-3 provides a detail of the calculation of the true-up amounts.

Q. What are the final remaining true-up amounts for the period January 2007 - December 2007 for both divisions?

A. In Marianna (Northwest division) the final remaining true-up amount was an over-recovery of $442,219. The final remaining true-up amount for Fernandina Beach (Northeast division) was an over-recovery of $949,245.

Q. What are the estimated true-up amounts for the period of January 2008 - December 2008?

A. In Marianna (Northwest division), there is an estimated under-recovery of $629,876. Fernandina Beach (Northeast division) has an estimated under-recovery of $1,405,110.

Q. What will the total fuel adjustment factor, excluding demand cost recovery, be for both divisions for the period?

A. In Marianna (Northwest division) the total fuel adjustment factor as shown on Line 33, Schedule E1, is 6.557¢ per KWH. In Fernandina Beach (Northwest division) the total fuel adjustment factor for "other classes", as shown on Line 43, Schedule E1, amounts to 6.280¢ per KWH.

Q. Please advise what a residential *customer* using 1,000 KWH will pay for the period January 2009 - December 2009 including base rates, conservation cost recovery factors, and fuel adjustment factor and after application of a line loss multiplier.

A. In Marianna (Northwest division) a residential customer using 1,000 KWH will pay $138.09, an increase of $14.64 from the previous period. In Fernandina Beach (Northeast division) a customer will pay $120.85, an increase of $4.41 from the previous period.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 080001-EI
Fuel and Purchased Power Cost Recovery Clause

Direct Testimony of
Cheryl M. Martin
on behalf of
Florida Public Utilities Company

Q. Please state your name and business address.

A. Cheryl M. Martin, 401 South Dixie Highway, West Palm Beach, Florida 33401.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities Company.

Q. Could you give a brief description of your background and business experience?

A. I graduated from Florida State University in 1984 with a BS degree in Accounting and I am a Certified Public Accountant in the state of Florida. I have been employed by FPU since 1985 and performed numerous accounting functions until I was promoted to Corporate Accounting Manager in 1995 with responsibilities for managing the Corporate Accounting Department including regulatory accounting (Fuel, PGA, conservation, rate cases, Surveillance reports, reporting), tax accounting, external reports and special projects. In January 2002 I was promoted to my current position of Controller where my responsibilities are the same as above with additional responsibilities in the purchasing and general accounting areas and Security and Exchange Commission (SEC) filings.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the calculation of the final remaining true-up amounts for the period Jan. 2007 through Dec. 2007.

Q. Have you prepared any exhibits to support your testimony?

A. Yes. Exhibit_______ (CMM-1) consists of Schedules M1 , F1 and E1-B for the Marianna and Fernandina Beach Divisions. These schedules were prepared from the records of the company.

Q. What has FPUC calculated as the final remaining true-up amounts for the period Jan. - Dec. 2007?

A. For Marianna the final remaining true-up amount is an over recovery of $442,219. For Fernandina Beach the calculation is an over recovery of $949,245.

Q. How were these amounts calculated?

A. They are the sum of the actual end of period true-up amounts for the Jan. - Dec. 2007 period and the total true-up amounts to be collected or refunded during the Jan. - Dec. 2008 period.

Q. What was the actual end of period true-up amount for Jan. - Dec. 2007?

A. For Marianna it was $438,363 over recovery and for Fernandina Beach it was $944,205 over recovery.

Q. What have you calculated to be the total true-up amount to be collected or refunded during the Jan. - Dec. 2008 period?

A. Using six months actual and six months estimated amounts, we calculated an under recovery for Marianna of $3,856 and an under recovery of $5,040 for Fernandina Beach.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BY MR. HORTON:

Q And I would ask, Mr. Young, if you have a summary of your testimony.

A Good afternoon, Commissioners. I was responsible for the developing of the true-up and projected fuel recovery factors for this proceeding. For the Northwest Division, Marianna, the amount to be recovered is $20,468,423 for 2009, and the amount for our Northeast Division in Fernandina Beach is 20 million -- sorry -- $21,531,537. That ends my summary.

MR. HORTON: Mr. Young is available.

MR. McWHIRTER: No questions, Mr. Chairman.

CHAIRMAN CARTER: Mr. McWhirter?

MR. McWHIRTER: No questions.

MR. TWOMEY: No questions.

MS. WHITE: No questions.

CHAIRMAN CARTER: Commissioners, I'm going to go to staff first and then come back to the bench.

Staff?

MS. BENNETT: No questions.

CHAIRMAN CARTER: Any questions from the bench?

COMMISSIONER McMURRIAN: No questions.

CHAIRMAN CARTER: Wow, is that a trifecta?

Mr. Horton.

MR. HORTON: I would move the Exhibits 19 -- I shouldn't have turned the page -- 19, 20, 21 and 22.

CHAIRMAN CARTER: Any objections? Without objection, show it done.

(Exhibits 19 through 22 admitted into the record.)

MR. HORTON: And may Mr. Young and Mr. Cutshaw be excused, please?

CHAIRMAN CARTER: Now those were the ones that are included within my directions on how we're dealing with those that have been stipulated to?

MR. HORTON: Well, Mr. Cutshaw had the stipulated part. Mr. Young is available.

CHAIRMAN CARTER: Oh, that's a yes? Okay. Thank you.

MR. HORTON: Oh, okay. Thank you.

MS. BENNETT: And, Mr. Chairman --

CHAIRMAN CARTER: Yes, ma'am.

MS. BENNETT: -- did we move the testimony of all of the witnesses, Young and Cutshaw, Martin and Young into the testimony, into the record?

CHAIRMAN CARTER: The prefiled testimony of the witnesses will be entered into the record as though read. Okay. You're good to go. Thank you.

MR. HORTON: And they may be excused. Thank you.

CHAIRMAN CARTER: Call your next witness.

MR. HORTON: That's it.

CHAIRMAN CARTER: Okay. Then the, not only is the prefiled testimony entered into the record as though read, we've adopted that pursuant to our agreement on the stipulation. Okay. Thank you.

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 080001-EI
CONTINUING SURVEILLANCE AND REVIEW OF
FUEL COST RECOVERY CLAUSES OF ELECTRIC UTILITIES

Direct Testimony of
Curtis Young and Mark Cutshaw
On Behalf of
Florida Public Utilities Company

Q. Please state your name and business address.

A. Curtis Young, 401 South Dixie Highway, West Palm Beach, FL 33401.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities Company.

Q. Have you previously testified in this Docket?

A. Yes.

Q. Please state your name and business address.

A. Mark Cutshaw, 401 South Dixie Highway, West Palm Beach, FL 33401.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities Company.

Q. Have you previously testified in this Docket?

A. Yes.

Q. What is the purpose of your testimony at this time?

A. I will briefly describe the basis for the computations that were made in the preparation of the various Schedules that we have submitted in support of the January 2009 - December 2009 fuel cost recovery adjustments for our two electric divisions. In addition, I will advise the Commission of the projected differences between the revenues collected under the levelized fuel adjustment and the purchased power costs allowed in developing the levelized fuel adjustment for the period January 2008 - December 2008 and to establish a "true-up" amount to be collected or refunded during January 2009 - December 2009.

Q. Were the schedules filed by your Company completed under your direction?

A. Yes.

Q. Which of the Staff's set of schedules has your company completed and filed?

A. We have filed Schedules E1, E1A, E2, E7, and E10 for Marianna (Northwest division) and E1, E1A, E2, E7, E8, and E10 for Fernandina Beach (Northeast division). They are included in Composite Prehearing Identification Number CDY-4.

Q. In derivation of the projected cost factor for the January 2009 - December 2009 period, did you follow the same procedures that were used in the prior period filings?

A. Yes.

Q Why has the *GSLD1* rate class for Fernandina Beach (Northeast division) been excluded from these computations?

A. Demand and other purchased power costs are assigned to the GSLD1 rate class directly based on their actual CP KW and their actual KWH consumption. That procedure for the GSLD1 class has been in use for several years and has not been changed herein. Costs to be recovered from all other classes are determined after deducting from total purchased power costs those costs directly assigned to GSLD1.

Q. How will the demand cost recovery factors for the other rate classes be used?

A. The demand cost recovery factors for each of the *RS, GS, GSD, GSLD,* GSLD1 and *OL-SL rate classes will* become one element of the total *cost recovery* factor for those classes. All other costs of purchased power will be recovered by the use of the levelized factor that is the same for all those rate classes. Thus the total factor for each class will be the sum of the respective demand cost factor and the levelized factor for all other costs.

Q. Is there any additional calculation of cost that is included in these costs recovery factors?

A. Yes. We have introduced an allocation of a portion of the transmission cost to the NE FL customers.

Q. Why is it appropriate to allocate a portion of the transmission costs to the NE Florida customers?

A. The distribution charge (associated with distribution substations in NW FL) within the fuel charge should be allocated to both divisions in order to offset the disparity in substation related plant cost in the two divisions. This will allow all customers to contribute to the distribution charge within fuel just as all customers contribute to the substation plant related cost included in the base rates. Our NW division pays for a portion of distribution substations via a distribution charge through the fuel clause, where similar costs in our NE division are paid through base rates since FPUC owns the related plant and it is included in rate base. In the NW Division, Gulf Power Company owns the distribution substation with the exception of the distribution feeder bus. To allow for fair recovery of these costs the fuel portion should be allocated between the two electric divisions, similar to the rate base portion included for recovery in base rates. This allows for equitable cost distribution and recovery between all of our customers.

Q. What is the appropriate total cost allocated to the NE Florida customers for the 2009 calendar year?

A. The appropriate total cost allocated to the NE Florida customers for the 2009 calendar year is $466,452.

Q. What was the basis of the allocation used to allocate a portion of the transmission costs to NE Florida

Customers?

A. One half of the distribution charge will be included within the NE FL fuel determination just as the substation plant cost was equally allocated to all customer within base rates.

Q. Please address the calculation of the total true-up amount to be collected or refunded during the January 2009 - December 2009?

A. We have determined that at the end of December 2008 based on six months actual and six months estimated, we will have under-recovered $187,657 in purchased power costs in our Marianna (Northwest division). Based on estimated sales for the period January 2009 - December 2009, it will be necessary to add .05877¢ per KWH to collect this under-recovery.

In Fernandina Beach (Northeast division) we will have under-recovered $455,865 in purchased power costs. This amount will be collected at .13591¢ per KWH during the January 2009 - December 2009 period (excludes GSLD1 customers). Page 3 and 10 of Composite Prehearing Identification Number CDY-4 provides a detail of the calculation of the true-up amounts.

Q. What are the final remaining true-up amounts for the period January 2007 - December 2007 for both divisions?

A. In Marianna (Northwest division) the final remaining true-up amount was an over-recovery of $442,219. The final remaining true-up amount for Fernandina Beach (Northeast division) was an over recovery of $949,245.

Q. What are the estimated true-up amounts for the period of January 2008 - December 2008?

A. In Marianna (Northwest division), there is an estimated under-recovery of $629,876. Fernandina Beach (Northeast division) has an estimated under-recovery of $1,405,110.

Q. What will the total fuel adjustment factor, excluding demand cost recovery, be for both divisions for the period?

A. In Marianna (Northwest division) the total fuel adjustment factor as shown on Line 33, Schedule E1, is 6.411¢ per KWH. In Fernandina Beach (Northwest division) the total fuel adjustment factor for "other classes", as shown on Line 43, Schedule E1, amounts to 6.419¢ per KWH.

Q. Please advise what a residential customer using 1,000 KWH will pay for the period January 2009 - December 2009 including base rates, conservation cost recovery factors, and fuel adjustment factor and after application of a line loss multiplier.

A. In Marianna (Northwest division) a residential customer using 1,000 KWH will pay $136.59, an increase of $13.14 from the previous period. In Fernandina Beach (Northeast division) a customer will pay $122.28, an increase of $5.84 from the previous period.

Q. Does this conclude your testimony?

A. Yes.

CHAIRMAN CARTER: Next we'll have Gulf.

MR. BADDERS: Yes.

CHAIRMAN CARTER: Wait. Wait. Wait. Is there any concluding matters before we go to Gulf?

MS. BENNETT: We're ready for Gulf.

CHAIRMAN CARTER: Let's proceed to Gulf, Gulf Power.

MR. BADDERS: We're ready. We actually have two witnesses. If you'd like, we could go ahead and swear both of them at the same time.

CHAIRMAN CARTER: Oh, absolutely.

(Witnesses collectively sworn.)

Mr. Badders.

MR. BADDERS: Yes, Chairman. We're going to waive our opening. We do not have any company-specific issues that have been raised, so we'll waive our opening.

CHAIRMAN CARTER: Okay. Now were these witnesses, were they within the confines of the stipulation?

MR. BADDERS: I believe they were not.

CHAIRMAN CARTER: They were not?

MR. BADDERS: It's my understanding that staff actually has questions for at least one of these witnesses.

MS. BENNETT: That's correct.

CHAIRMAN CARTER: Okay. Well, how about -- which one?

MS. BENNETT: We actually have questions for both.

MR. YOUNG: Both. Both.

CHAIRMAN CARTER: Okay. Come on down.

MR. BADDERS: Witness Ball is our first witness.

CHAIRMAN CARTER: You're recognized.

HERBERT RUSSELL BALL

was called as a witness on behalf of Gulf Power Company and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BADDERS:

Q Yes. Please state your name and your business address for the record.

A Herbert Russell Ball, One Energy Place, Pensacola, Florida 32520.

Q And by whom are you employed and in what capacity?

A I'm employed by Southern Company Services as Fuel Manager for Gulf Power Company.

Q Are you the same H. R. Ball who prefiled direct testimony and exhibits in this matter?

A Yes.

Q Do you have any changes or corrections to any of the testimony or those exhibits?

A No.

Q If I were to ask you the same questions today, would your answers be the same?

A Yes.

MR. BADDERS: Chairman, we would request that the prefiled testimony be entered into the record as though read.

CHAIRMAN CARTER: The prefiled testimony of the witness will be entered into the record as though read.

MR. BADDERS: I will note that his exhibits have already been identified as Exhibits 23 through 26.

CHAIRMAN CARTER: Thank you.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
H. R. Ball
Docket No. 080001-EI
Date of Filing: March 3, 2008

Q. Please state your name, business address and occupation.

A. My name is H. R. Ball. My business address is One Energy Place, Pensacola, Florida 32520-0780. 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. In 1988, I assumed the role of Supervisor of Coal Logistics with Southern Company Fuel Services in Birmingham, Alabama. 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. My responsibilities include the management of 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 participation in the Intercompany Interchange Contract (IIC) between Gulf and the other operating companies in the Southern electric system (SES).

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

A. The purpose of my testimony is to summarize Gulf Power Company's fuel expenses, net power transaction expense, and purchased power capacity costs, and to certify that these expenses were properly incurred during the period January 1, 2007 through December 31, 2007. Also, it is my intent to be available to answer questions that may arise among the parties to this docket concerning Gulf Power Company's fuel expenses.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes, I have.

Counsel: We ask that Mr. Ball's exhibit consisting of five schedules be marked as Exhibit No. _____(HRB-1).

Q. During the period January 2007 through December 2007, how did Gulf Power Company's recoverable total fuel and net power transaction expenses compare with the projected expenses?

A. Gulf's recoverable total fuel cost and net power transaction expense was $446,071,109, which is $24,347,813 or 5.77% above the projected amount of $421,723,296. The higher total fuel and net power transaction expense is attributed to less fuel revenue than projected from power sales due to both a lower quantity and price for power sales than projected for the period. The actual total cost of generated power was ($35,233,688) or 5.94% below projections. The total net cost of purchased power and power sales was $59,581,501 or 34.73% above projections. Actual net energy was 12,659,741,092 KWH compared to the projected net energy of 12,711,594,000 KWH or 0.41% below projections. The resulting actual average cost of 3.52 cents per KWH was 6.21% above the projected cost of 3.32 cents per KWH. This information is from Schedule A-1, period-to-date, for the month of December 2007 included in Appendix 1 of Witness Martin's exhibit.

Q. During the period January 2007 through December 2007, how did Gulf Power Company's recoverable fuel cost of net generation compare with the projected expenses?

A. Gulf's recoverable fuel cost of net generation was $549,011,270 or 7.46% below the projected amount of $593,285,296. Actual generation was 16,657,267,000 KWH compared to the projected generation of 17,893,810,000 KWH, or 6.91% below projections. The resulting actual average fuel cost of 3.30 cents per KWH was 0.59% below the projected cost of 3.32 cents per KWH. The lower total fuel expense is attributed to lower natural gas costs than projected for the period. The weighted average fuel cost for gas was $8.70 per MMBTU, which is 12.91% below the projected cost of $9.99 per MMBTU. The weighted average fuel cost for coal, plus lighter fuel, was $2.64 per MMBTU, which matches the projected cost. The percentage of energy generated from higher-cost natural gas fired resources was 14.26%, which was 6.98% higher than the estimate of 13.33%. The higher percentage of generation from natural gas fired resources offset a portion of the fuel cost savings realized from lower gas prices for the period. This information is from Schedule A-3, period-to-date, for the month of December 2007 included in Appendix 1 of Witness Martin's exhibit.

Q. How did the total projected cost of coal purchased compare with the actual cost?

A. The total actual cost of coal purchased (excluding Plant Scherer) was $356,344,643 (line 17 of Schedule A-5, period-to-date, for December 2007) compared to the projected cost of $392,470,917 or 9.20% below projected. The lower coal cost was due to both a smaller quantity of coal purchased (7.34% below projections) and a lower weighted average coal price (2.02% below projections) for the period. The lower weighted average price for coal for the period was achieved because Peabody CoalSales delivered unexpected quantities of lower priced contract coal from a mine that had ceased operations and suspended deliveries pursuant to a previous declaration of force majeure. The total cost of coal purchased at Plant Scherer was $35,198,866 (line 30 of Schedule A-5, period-to-date, for December 2007). This is 0.63% higher than the projection of $34,977,430. The higher weighted average coal purchase price at Plant Scherer was due to higher prices for spot Powder River Basin (PRB) coal purchased during the period.

Q How did the total projected cost of coal burned compared to the actual cost?

A. The total cost of coal burned (excluding Plant Scherer) was $359,132,800 (line 21 of Schedule A-5, period-to-date, for December 2007). This is 6.16% lower than our projection of $382,725,315. The lower coal cost was due to both a smaller quantity of coal burned (4.15% below projections) and a lower weighted average coal cost (2.10% below projections) for the period. The total cost of coal burned at Plant Scherer was $33,647,862 (line 34 of Schedule A-5, period-to-date, for December 2007). This is 7.39% lower than our projection of $36,331,649. The lower coal burn cost at Scherer was due to a smaller quantity of coal burned (7.76% below projections). On a per MMBTU basis, the total cost of coal burn including boiler lighter was $2.64 per MMBTU which is equal to the estimated cost per MMBTU for the period (line 31 of Schedule A-3, period-to-date, for December 2007).

Q. How did the total projected cost of natural gas burned compare to the actual cost?

A. The total actual cost of natural gas burned for generation was $151,374,056 (line 47 of Schedule A-5, period-to-date, for December 2007). This is 10.57% below the projection of $169,268,870. The decrease can be attributed to lower than forecasted market prices for natural gas. On a cost per unit basis, the actual gas burn cost was $8.70 per MMBTU, which is 12.83% lower than the projected burn cost of $9.98 per MMBTU.

Q. Did fuel procurement activity during the period in question follow Gulf Power's Risk Management Plan for Fuel Procurement?

A. Yes. Gulf Power's fuel strategy in 2007 complied with the Risk Management Plan filed in Docket No. 060001-EI on April 3, 2006.

Q. Did implementation of the Risk Management Plan for Fuel Procurement result in a reliable supply of coal being delivered to Gulf's coal-fired generating units during the period?

A. Yes, the supply of coal and associated transportation to Gulf's generating plants was secured through a combination of long-term contracts and spot agreements as specified in the plan. These supply and transportation agreements included a number of purchase commitments initiated prior to the beginning of the period. These early purchase commitments and the planned diversity of fuel suppliers are designed to provide a more reliable source of coal to the generating plants. The result was that Gulf's coal-fired generating units had an adequate supply of fuel available at all times at a reasonable cost to meet the electric generation demands of its customers.

Q. For coal purchases during the period, what percentage was purchased on the spot market and what percentage was purchased using longer-term contracts?

A. Excluding Plant Scherer Unit 3, total coal purchases for the period amounted to 5,684,176 tons. Gulf purchased 1,696,364 tons or 30% of this coal on the spot market. Spot purchases are classified as coal purchase agreements with terms of one year of less. Spot coal purchases are necessary to allow a portion of the purchase quantity commitments to be adjusted in response to changes in coal burn that may occur during the year. Gulf purchased 3,987,812 tons or 70% of this coal under longer-term contracts. Longer-term contracts provide a reliable base quantity of coal with firm pricing terms to Gulf's generating units. This limits price volatility and increases coal supply consistency over the term of the agreements. Schedule 1 of my exhibit consists of a list of contract and spot coal purchases for the period.

Q. Did implementation of the Risk Management Plan for Fuel Procurement result in stable coal prices for the period?

A. Yes. Coal cost volatility was mitigated through compliance with the Risk Management Plan. Gulf uses physical hedges to reduce price volatility in the coal procurement program. Gulf purchases coal and associated transportation at market price through the process of either issuing formal requests for proposals to market participants or occasionally for small quantity spot purchases through informal proposals. Once these confidential bids are received, they are evaluated against other similar proposals using standard contract terms and conditions. The least cost acceptable alternatives are selected and firm purchase agreements are negotiated with the successful bidders. Gulf purchased coal and coal transportation using a combination of firm price contracts and purchase orders that either fix the price for the period or escalate the price using a combination of government published economic indices. Schedule 2 of my exhibit provides a list of the contract and spot coal purchases for the period and the initial price of each purchase agreement in $/MMBTU. Because of the fixed price nature of these coal purchase agreements and the substantial amount of coal under firm commitments prior to the beginning of the period, there is only a small variance between the estimated price of coal purchased and the actual price of coal purchased for the period.

Q. Did implementation of the Risk Management Plan for Fuel Procurement result in a reliable supply of natural gas being delivered to Gulf's gas-fired generating units during the period?

A. Yes. The supply of natural gas and associated transportation to Gulf's generating plants was secured through a combination of long-term purchase contracts and daily gas purchases as specified in the plan. These supply and transportation agreements included a number of purchase commitments initiated prior to the beginning of the period. These natural gas purchase agreements price the supply of gas at market price as defined by published market indices. Schedule 3 of my exhibit compares the actual monthly weighted average purchase price of natural gas delivered to Gulf's generating units to a market price based on the daily Florida Gas Transmission Zone 3 published market price plus an estimated gas storage and transportation rate based on the actual cost of gas storage and transportation Gulf paid during the period. This schedule shows that Gulf paid market price for the natural gas it purchased during the period. The purpose of these early procurement commitments, the planned diversity of natural gas suppliers, and providing gas suppliers with market pricing is to provide a more reliable source of gas to Gulf's generating units. The result was that Gulf's gas-fired generating units had an adequate supply of fuel available at all times to meet the electric generation demands of its customers.

Q. Did implementation of the Risk Management Plan for Fuel Procurement result in lower volatility of natural gas prices for the period?

A. Gulf purchases physical natural gas requirements at market prices and swaps these market prices for firm prices using financial hedges. The objective of the financial hedging program is to reduce upside price risk to Gulf's customers in a volatile price market for natural gas. In 2007, Gulf's weighted average cost of natural gas burned for generation was $8.70 per MMBTU. This was 12.83% lower than the projection of $9.98 per MMBTU (line 46 of Schedule A-5, period-to-date, for December 2007). Gulf was able to hold per unit fuel costs to very reasonable levels for its customers during a period of volatile market fuel prices by following its Fuel Risk Management Plan. The volatility of Gulf's natural gas cost has been reduced by utilizing financial hedging as described in the Fuel Risk Management Plan. As shown on Schedule 4 of my exhibit, the volatility of Gulf's delivered cost of natural gas over the past three-year period as measured by standard deviation was 2.11. The volatility of Gulf's hedged delivered cost of natural gas over the same three-year period as measured by standard deviation was 1.19. Therefore, the financial hedging program is achieving the goal of reducing the volatility of natural gas cost to the customer.

Q. For the period in question, what volume of natural gas was actually hedged using a fixed price contract or instrument?

A. Gulf Power hedged 5,160,000 MMBTU of natural gas in 2007 using fixed-price financial swaps.

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. These swaps settled against either a NYMEX Last Day price or Gas Daily price. The entire amount (5,160,000 MMBTU) of gas hedged was hedged using these financial instruments as reflected on Schedule 5 of my exhibit.

Q. What was the actual total cost (e.g., fees, commissions, option premiums, futures gains and losses, swap settlements) associated with each type of hedging instrument for the period January 2007 through December 2007?

A. Schedule 5 of my exhibit consists of a table of all natural gas hedge transactions and associated costs. No fees, commissions, or option premiums were paid. Gulf's 2007 hedging program resulted in a net financial loss of $9,197,433 as shown on line 2 of Schedule A-1, period-to-date, for the month of December 2007 included in Appendix 1 of Witness Martin's exhibit.

Q. Were there any other significant developments in Gulf's fuel procurement program during the period?

A. No.

Q. During the period January 2007 through December 2007 how did Gulf Power Company's recoverable fuel cost of power sold compare with the projection?

A. Gulf's recoverable fuel cost of power sold for the period is ($142,153,994) or 30.18% below the projected amount of ($203,587,000). Total kilowatt hours of power sales were (5,145,225,509) KWH compared to estimated sales of (5,676,099,000) KWH, or 9.35% below projections. The resulting average fuel cost of power sold was 2.76 cents per KWH or 22.97% below the projected amount of 3.59 cents per KWH. This information is from

Schedule A-1, period-to-date, for the month of December 2007 included in Appendix 1 of Witness Martin's exhibit.

Q. What are the reasons for the difference between Gulf's actual fuel cost of power sold and the projection?

A. The lower total credit to fuel expense from power sales is attributed to a lower amount of KWH sold and lower replacement fuel costs than originally projected. Lower market prices for natural gas and a higher percentage of sales from lower-cost coal-fired generation during off peak periods reduced the fuel reimbursement rate (cents per KWH) paid to Gulf for power sales.

Q. During the period January 2007 through December 2007, how did Gulf Power Company's recoverable fuel cost of purchased power compare with the projection?

A. Gulf's recoverable fuel cost of purchased power for the period was $30,173,495 or 5.78% below the estimated amount of $32,025,000. Total kilowatt hours of purchased power were 1,147,699,601 KWH compared to the estimate of 493,883,000 KWH or 132.38% above projections. The resulting average fuel cost of purchased power was 2.63 cents per KWH or 59.46% below the estimated amount of 6.48 cents per KWH. This information is from Schedule A-1, period-to-date, for the month of December 2007 included in Appendix 1 of Witness Martin's exhibit.

Q. What are the reasons for the difference between Gulf's actual fuel cost of purchased power and the projection?

A. The lower total fuel cost of purchased power is attributed to Gulf purchasing a greater amount of KWH at attractive prices to supplement its own generation to meet load demands. The average fuel cost of energy purchases per KWH was lower than projected as a result of lower-cost energy being made available to Gulf for purchase during the period. In general the actual price of marginal fuel, primarily natural gas, used to generate market energy was lower than projected for the period.

Q. Should Gulf's recoverable fuel and purchased power cost for the period be accepted as reasonable and prudent?

A. Yes. 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 supply is available during times when gas supply is otherwise curtailed or unavailable. Gulf's lighter oil purchases were made from qualified vendors using an open bid process to assure competitive pricing and reliable supply. Gulf adhered to its Risk Management Plan for Fuel Procurement and accomplished the objectives established by the plan.

Through its participation in the integrated Southern Electric System, Gulf is able to purchase affordable energy from pool participants and other sellers of energy when needed to meet load and during times when the cost of purchased power is lower than energy that could be generated internally. Gulf is also able to sell energy to the pool when excess generation is available and return the benefits of these sales to the customer. These energy purchases and sales are governed by the IIC which is approved by FERC.

Q. During the period January 2007 through December 2007, how did Gulf's actual net purchased power capacity cost compare with the net projected cost?

A. The actual net capacity cost for the January 2007 through December 2007 recovery period, as shown on line 3 of Schedule CCA-2 of Witness Martin's exhibit, was $30,872,646. Gulf's projected net purchased power capacity cost for the same period was $32,623,193, as indicated on line 3 of Schedule CCE-1 of Witness Martin's exhibit filed September 1, 2006. The difference between the actual net capacity cost and the projected net capacity cost for the recovery period is $1,750,547 or 5.37% lower than originally projected. This lower actual cost is primarily due to Gulf's lower unit unavailability used in the IIC reserve sharing calculation that increased Gulf's capacity reserves and thus reduced Gulf's level of reserve purchases.

Q. Was Gulf's actual 2007 IIC capacity cost prudently incurred and properly allocated to Gulf?

A. Yes. Gulf's capacity costs were incurred in accordance with the reserve sharing provisions of the IIC, a Federal Energy Regulatory Commission (FERC) approved contract, in which Gulf has been a participant for many years. Gulf's participation in the integrated Southern Electric System (SES) that is governed by the IIC has produced and continues to produce substantial benefits for Gulf's customers and has been recognized as being prudent by the Florida Public Service Commission in previous proceedings and reviews.

Per contractual agreement in the IIC, Gulf and the other SES operating companies are obligated to provide for the continued operation of their electric facilities in the most economical manner that achieves the highest possible service reliability. The coordinated planning of future SES generation resource additions that produce adequate reserve margins for the benefit of all SES operating companies' customers facilitates this "continued operation" in the most economical manner.

The IIC provides for mechanisms to facilitate the equitable sharing of the costs associated with the operation of facilities that exist for the mutual benefit of all the operating companies. In 2007, Gulf's reserve sharing cost represents the equitable sharing of the costs that the SES operating companies incurred to ensure that adequate generation reserve levels are available to provide reliable electric service to customers. This cost has been properly allocated to Gulf pursuant to the terms of the IIC.

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

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony of
H. R. Ball
Docket No. 080001-EI
Date of Filing: August 4, 2008

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, 2008 through December, 2008 and to summarize any noteworthy developments at Gulf in these areas. The current estimated/actual costs consist of actual expenses for the period January, 2008 through June, 2008 and newly projected fuel and net power transaction costs for July, 2008 through December, 2008. Projected capacity costs for July, 2008 through December, 2008 remain as originally filed. 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, 2008 through December, 2008 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 $507,032,444 which is $73,312,851 or 16.90% above the original projected amount of $433,719,593. The resulting average fuel cost is projected to be 3.9630 cents per KWH or 17.78% above the original projection of 3.3648 cents per KWH. The higher total fuel expense and average per unit fuel cost is attributed to a combination of higher than projected fuel prices for the period which are reflected in both the fuel cost of generated power and the fuel cost of purchased power and lower fuel revenue from power sales for the period due to a reduced quantity of sales. 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, 2008 through December, 2008 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 $657,952,970 which is $28,402,377 or 4.51% above the original projected amount of $629,550,593. Total generation is expected to be 16,405,522 MWH compared to the original projected generation of 17,661,300 MWH or 7.11% below projections. The resulting average fuel cost is expected to be 4.0106 cents per KWH or 12.51% above the original projected amount of 3.5646 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 higher total fuel expense is due to higher than projected average per unit fuel costs. Delivered coal and natural gas prices per MMBTU are projected to remain above original projections for the remainder of the period. The quantity of contract coal shipments for the period is expected to be below original projections due to force majeure events that have occurred under Gulf's contract coal supply agreements. Geological problems and safety concerns at a contract coal source from a mine in southern Illinois make up the majority of these deferred shipments. These lower priced contract coal shipments have been replaced with spot purchases at higher market prices. These unanticipated spot coal purchases have increased the average purchase price and fuel expense for coal during the period. Market prices for natural gas and oil for the period are also expected to be higher than original projections. Worldwide supply and demand imbalances in the oil and gas markets have driven the price for these fossil fuel sources higher. The increased fuel cost has been reduced by projected gains from financial gas hedging settlements of $13,739,856 for the period.

Q How did the total projected fuel cost of system net generation compare to the actual cost for the first six months of 2008?

A. The total fuel cost of system net generation was $314,405,586 which is $11,495,812 or 3.80% higher than the projection of $302,909,774. On a fuel cost per KWH basis, the actual cost was 4.01 cents per KWH, which is 19.35% higher than the projected cost of 3.36 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 15.56% higher than projected and heat rate (BTU/KWH) of the generating units operating being 3.49% higher than projected. This information is found on Schedule A-3 of the June, 2008 Monthly Fuel Filing.

Q. How did the total projected cost of coal burned compare to the actual cost for the first six months of 2008?

A. The total cost of coal burned (including boiler lighter) was $215,706,933 which is $11,499,034 or 5.63% higher than our projection of $204,207,899. On a fuel cost per KWH basis, the actual cost was 3.39 cents per KWH which is 23.72% higher than the projected cost of 2.74 cents per KWH. The higher than projected cost of coal burned and cost of coal fired generation is due to actual coal prices (including boiler lighter) being 17.05% higher than projected on a $/MMBTU basis and the weighted average heat rate (BTU/KWH) of the coal fired generating units operating being 4.31% higher than projected. This information is found on Schedule A-3 of the June, 2008 Monthly Fuel Filing. Market prices for coal are higher due to increased worldwide demand for coal and other fossil fuels. While

Gulf has fixed price coal contracts in place for the period to limit price volatility, a significant amount of these contract coal shipments have been deferred to later periods due to force majeure events. These events have required Gulf to purchase more spot coal at higher market prices in the current 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 2008?

A. The total cost of natural gas burned for generation was $98,643,685 which is $58,190 or 0.06% lower than Gulf's projection of $98,701,875. The total cost of natural gas burned for generation is lower than projected due to net generation from gas fired units being 10.24% lower than projected. On a cost per unit basis, the actual cost of gas fired generation was 8.25 cents per KWH which is 11.34% higher than the projected cost of 7.41 cents per KWH. The cost per KWH for gas fired generation is higher than projected due to higher natural gas prices. Actual natural gas prices were $11.30 per MMBTU or 9.71% higher than the project cost of $10.30 per MMBTU. This information is found on Schedule A-3 of the June, 2008 Monthly Fuel Filing. Market prices for natural gas are higher due to increased demand for natural gas and other fossil fuels.

Q. For the period in question, what volume of natural gas was actually hedged using a fixed price contract or instrument?

A. Gulf Power hedged 2,500,000 MMBTU of natural gas for the period January, 2008 through June, 2008 using fixed price financial swaps.

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. These swaps settled against either a NYMEX Last Day price or Gas Daily price. The entire amount (2,500,000 MMBTU) of gas hedged was hedged using these financial instruments.

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 paid. Gulf's gas hedging program has resulted in a net financial gain of $4,646,856 for the period January through June, 2008. This information is found on Schedule A-1, Period to Date, line 2 of the June, 2008 Monthly Fuel Filing.

Q. During the period January, 2008 through December, 2008 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 is $193,883,418 or 9.17% below the original projected amount of $213,447,000. Total megawatt hours of power sales is expected to be 4,412,082,054 KWH compared to the original projection of 5,188,854,000 KWH or 14.97% below projections. The resulting average fuel cost and gains on power sales is expected to be 4.3944 cents per KWH or 6.83% above the original projected amount of 4.1136 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 19.

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 of power sales than originally projected. Higher market prices for coal and natural gas during the period have increased the fuel reimbursement rate (cents/KWH) for power sales, however, the net impact of higher fuel prices is a reduction of kilowatt hours sold as buyers find more economical sources of energy. The higher fuel reimbursement rate offsets some of the revenue lost from reduced sales.

Q. How did the total projected fuel cost of power sold compare to the actual cost for the first six months of 2008?

A. The total fuel cost of power sold was $82,916,418 which is $35,281,582 or 29.85% less than our projection of $118,198,000. On a fuel cost per KWH basis, the actual cost was 3.5505 cents per KWH which is 8.72% below the projected cost of 3.8898 cents per KWH. This information is found on Schedule A-1, Period to Date, line 19 of the June, 2008 Monthly Fuel Filing.

Q. During the period January, 2008 through December, 2008 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 $42,962,892 or 143.89% above the original projected amount of $17,616,000. The total amount of purchased power is expected to be 800,830,118 KWH compared to the original projection of 417,436,000 KWH or 91.85% above projections. The resulting average fuel cost of purchased power is expected to be 5.3648 cents per KWH or 27.13% above the original projected amount of 4.2200 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 a combination of Gulf purchasing a greater amount of energy to supplement its own generation to meet load demands at a higher price per KWH than originally projected. Replacement fuel costs for purchased power are higher as a result of the estimated/actual natural gas market prices being greater than originally projected for the period. Most purchases of energy Occur at peak periods when the marginal fuel utilized to generate this energy is natural gas.

Q. How did the total projected fuel cost of purchased power compare to the actual cost for the first six months of 2008?

A. The total fuel cost of purchased power was $19,966,892 which is $12,910,892 or 182.98% higher than our projection of $7,056,000. The higher than anticipated purchased power expense is due to the actual quantity of purchases being 202.91% higher than projected. On a fuel cost per KWH basis, the actual cost was 3.7097 cents per KWH which is 6.58% lower than the projected cost of 3.9710 cents per KWH. This information is found on Schedule A-1, Period to Date, line 12 of the June, 2008 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, 2008 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'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 supply 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 account 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 2008 through December 2008, 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 3 of Schedule CCE-1b in the exhibit to Witness Dodd's testimony, Gulf's total current net capacity payment projection for the January 2008 through December 2008 recovery period is $30,086,908. Gulf's original projection for the period was $30,043,645 and is shown on Line 3 of Schedule CCE-1 filed in September, 2007. The difference between these projections is $43,263 or 0.14% higher than the original projection of net capacity payments.

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

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
H. R. Ball
Docket No. 080001-EI
Date of Filing: September 2, 2008

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. In 1988, I assumed the role of Supervisor of Coal Logistics with Southern Company Fuel Services in Birmingham, Alabama. 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. My responsibilities include the management of 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 support Gulf Power Company's projection of fuel expenses, net power transaction expense, and purchased power capacity costs for the period January 1, 2009 through December 31, 2009. 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. Have you prepared any exhibits that contain information to which you will refer in your testimony?

A. Yes, I have three separate exhibits I am sponsoring as part of this testimony. My first exhibit (HRB–2) consists of a schedule filed as an attachment to my pre-filed testimony that compares actual and projected fuel cost of net generation for the past ten years. The purpose of this exhibit is to indicate the accuracy of Gulf's short-term fuel expense projections. The second exhibit (HRB-3) I am sponsoring as part of this testimony is Gulf Power Company's Hedging Information Report filed with the Commission Clerk on August 15, 2008 and assigned Document Number 07346-08. The purpose of this second exhibit is to comply with Order No. PSC-08-0316-PAA-EI and details Gulf Power's natural gas hedging transactions for January through July 2008. The third exhibit (HRB-4) I am sponsoring is Gulf Power Company's "Risk Management Plan for Fuel Procurement" filed with the Commission Clerk pursuant to a separate request for confidential classification on September 2, 2008. The Risk Management Plan sets forth Gulf Power's fuel procurement strategy and related hedging plan for the upcoming calendar year. Through its petition in this docket, Gulf Power is seeking the Commission's approval of the Company's "Risk Management Plan for Fuel Procurement" as part of this proceeding.

Counsel: We ask that Mr. Ball's three exhibits as just described be marked for identification as Exhibit Nos. _____ (HRB-2), ______ (HRB-3) and ______ (HRB-4), respectively.

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

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

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

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

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

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

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

A. The projected total cost of fuel to meet system net generation needs in 2009 is $812,208,413. The projection of fuel cost of system net generation for 2009 is captured in the exhibit to Witness Dodd's testimony, Schedule E-1, line 1.

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

A. The total updated cost of fuel to meet 2008 system net generation needs, reflected on Schedule E-1B-1, line 1 of Witness Dodd's testimony filed in this docket on August 4, 2008, is projected to be $668,690,917. The projected total cost of fuel to meet system net generation needs for the 2009 period reflects an increase of $143,517,496 or 21.46% over the same period in 2008. Total system net generation in 2009 is projected to be 16,213,300 MWH, which is 117,162 MWH or 0.72% lower than is currently projected for 2008. On a fuel cost per KWH basis, the 2008 projected cost is 4.0947 cents per KWH and the 2009 projected fuel cost is 5.0095 cents per KWH, which is an increase of 0.9148 cents per KWH or 22.34%. This higher projected total fuel expense and average per unit fuel cost is the result of increased market prices for coal. Weighted average coal price including boiler lighter fuel for 2008 as reflected on Schedule E-3, line 31 of Witness Dodd's testimony filed in this docket on August 4, 2008, is projected to be 3.10 $/MMBTU. Weighted average coal price including boiler lighter fuel for 2009, as reflected on Schedule E-3, line 31 of the exhibit to Witness Dodd's testimony, is projected to be 4.20 $/MMBTU. This is an increase in price of 1.10 $/MMBTU or 35.5%. The majority of Gulf's coal supply agreements expired at the end of 2008 and these have been replaced with commitments for new multi-year contracts with terms beginning in 2009. Gulf's new coal supply agreements have firm price and quantity commitments with the contract coal suppliers and these agreements will cover all of Gulf's 2009 projected coal burn needs. The final terms and conditions of these contracts are in the process of being negotiated and all contracts are expected to be executed by the involved parties by the end of the 2008.

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

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

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

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

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

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

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

A. Gulf's coal price hedging program has successfully managed the price it pays for coal under its coal supply agreements for this period. Several firm price coal contracts were negotiated with coal suppliers that have been effective in limiting exposure to recent large increases in the market price for coal. Gulf has also had financial hedges in place during the period to hedge the price of natural gas. These financial hedges have been effective in fixing the price of a percentage of Gulf's gas burn during a period of significant price volatility in the gas market. Pursuant to Order No. PSC-08-0316-PAA-EI, Gulf filed a "Hedging Information Report" with the Commission on August 14, 2008 detailing its natural gas hedging transactions for January 2008 through July 2008. As noted earlier, I am sponsoring this report as exhibit ______ (HRB-3) to my testimony in this docket. Gulf is requesting that these hedging transactions be determined to be prudent for cost recovery.

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

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

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

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

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

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

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

A. The total projected recoverable fuel cost of power sold in 2008, reflected on Schedule E-1B-1, line 19 of Witness Dodd's testimony filed in this docket on August 4, 2008, is projected to be $193,883,418. The projected recoverable fuel cost of power sold in 2009 represents an increased credit of $65,349,582 or 33.71%. Total quantity of power sales in 2009 is projected to be 4,300,511,000 KWH, which is 111,571,054 KWH or 2.53% less than currently projected for 2008. On a fuel cost per KWH basis, the 2008 projected cost is 4.3944 cents per KWH and the 2009 projected fuel cost is 6.0280 cents per KWH, which is an increase of 1.6336 cents per KWH or 37.17%. This higher total credit to fuel expense from power sales is attributed to a higher fuel reimbursement rate (cents per KWH) for power sales as a result of higher projected market prices for natural gas and coal. Higher fuel costs to operate Gulf's generating fleet are passed on to the purchasers of power and are reflected in the higher fuel cost and gains on power sales.

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. Mr. Ball, does this complete your testimony?
A. Yes, it does.

MR. BADDERS: And at this time he's prepared to provide a summary.

CHAIRMAN CARTER: You are recognized.

THE WITNESS: My responsibility at Gulf Power is to manage the fuel program in a manner that assures a reliable supply of fuel to Gulf's electric generating plants, the fuel meets plant operational and environmental requirements, and fuel is purchased at the lowest practical cost.

Gulf's risk management plan for fuel procurement which was filed as an exhibit to my testimony, my prefiled testimony details how these fuel procurement activities are accomplished.

Gulf's primary source of fuel for generation is, of electricity is coal. Gulf purchases coal using a combination of short- and long-term supply agreements. We provide for a certain degree of flexibility given the uncertain nature of annual coal burn. Reliability of supply is accomplished by securing firm commitments for contract coal from contract coal suppliers to meet the projected coal burn.

These mutual coal supply commitments which form the basis of final contract negotiations are the product of a procurement process in which competitive proposals are received, evaluated and awarded based on a number of factors, the primary being cost.

The delivered price is the market price for coal at the time that we issue these proposals and those proposals are accepted in writing by Gulf Power Company. Spot coal agreements have fixed prices over the term of the agreement and long-term agreements have either fixed prices or prices that are escalated according to standard industry escalation clauses.

The price certain nature of these coal supply agreements provide a physical price hedge to limit price volatility. Natural gas is currently a secondary fuel for Gulf, but it does represent a significant portion of the cost of Gulf's fuel supply. Gulf's procurement strategy for natural gas is to purchase natural gas at market prices and to -- and the objective of that is to provide price certainty and also to provide the incentive for gas producers and gas suppliers to supply gas in a reliable manner to Gulf.

We use gas storage to protect ourselves against supply disruptions, and we utilize financial hedges, primarily swaps, to fix the price of a percentage of our purchases to limit exposure to market price volatility.

In my testimony I've identified and quantified variances between fuel cost projections and between projections and actual costs and provided explanations for those variances. Over the past several years Gulf has experienced coal supply disruptions and significant volatility in prices of coal, oil, natural gas, but we've managed these within the guidelines of our risk management plan for fuel procurement. I believe that adhering to Gulf's risk management plan for fuel procurement has and will continue to allow Gulf to safely supply a reliable supply of electricity to its customers at reasonable and prudent costs. And that completes my summary.

MR. BADDERS: We tender the witness for cross-examination.

CHAIRMAN CARTER: Thank you. Mr. Burgess? Mr. Wright?

MR. WRIGHT: No questions.

CHAIRMAN CARTER: Mr. McWhirter.

MR. McWHIRTER: No questions.

CHAIRMAN CARTER: Mr. Twomey, you're recognized, sir.

MR. TWOMEY: Yes, sir, Mr. Chairman. Thank you.

CROSS EXAMINATION

BY MR. TWOMEY:

Q And good afternoon. You, I believe I heard you say that your responsibilities as a fuel manager are for the Southern Company, not just Gulf Power. Is that correct?

A No, that's not correct. My responsibility is primarily to Gulf Power Company.

Q I see. Okay. Now you said that natural gas, I believe you said natural gas is a secondary fuel source for Gulf Power but constitutes a significant percentage of the fuel price. Is that correct?

A Fuel cost. That's correct.

Q Fuel cost. Okay. What was the, what was the date of the forecast upon which the gas price projections for 2009 relied upon?

A I'm not sure of the exact date of the forecast when it was pulled, but it was in the general time frame of late July.

Q Late July?

A Correct.

Q Okay. Were you in the room when Ms. Olivier testified?

A Yes, I was.

Q Now so then you heard her say that subsequent to their initial filing they had a September 22nd forecast that showed substantial reductions in the prices for natural gas and oil and as a consequence they made a revised filing on October 13th; correct?

A I heard that. Yes.

Q Do you or do others in the Southern Company track, have you tracked the price of natural gas since the latter part of July when you forecast the prices that are included in your filing?

A Yes, we have.

Q And what has the trend been?

A The trend has been downward.

Q And can you quantify any -- what is the, what is the base cost of gas that's included in your 2009 filing?
A I believe the average cost of our gas in our filing was $9.
Q $9? And to the best of your recollection what is the most recent number you've seen as a result of this declining trend?
A Well, I mean, it just depends on which month you're talking about. Of course, there's future prices for every month for the next several years. But the daily price for today I think was right around seven bucks.
Q $7?
A $7 a million Btu. That's correct.
Q Yes, sir. Now was, was that, is that $7 comparable in terms of the $9 that's built into your, your current filing?
A No, I would say it is not.
Q Well, if you would explain why. I mean, the -- what, what would the, what would the comparable price -- I mean, is it the same kind of gas, same kind of terms, same kind of contractual obligations between the $7 and the $9?
A Well, again, our forecasts are based on our projection of what market prices will be in the future, not necessarily what the price is today. So when we prepared our gas price forecast for this filing, there was certainly a future price for gas for each month in the future months for

2009 and those change daily. So obviously the price that was in effect at the time we made our filing and the prices that are in effect today as of this morning are going to be different, and they will be different tomorrow and they'll be different the next day. That's just the nature of the market price of natural gas. Those prices are volatile and they're going to change.

Q But in fact they're down substantially now.

A That's true.

Q And if, if, if you were to take that -- let's say hypothetically that you were to not wait and do another forecast if the Commission asked you to do it as a result of this proceeding, but if you were to make a revised filing today given the projected firms (phonetic) that you will burn in all of 2009 and you base that filing on an embedded cost of $7 versus the $9 that's currently there, what range of price reduction would that result in for the year 2009?

MR. BADDERS: I'm going to object. I mean, it's calling for speculation by the witness.

MR. TWOMEY: No, sir. Mr. Chairman, it calls for math.

CHAIRMAN CARTER: Okay. Let's see here now.

MR. TWOMEY: Let me just, if I may respond.

CHAIRMAN CARTER: Please do.

MR. TWOMEY: This gentleman is the fuel manager.

He's responsible for having, I assume he's responsible for having prepared the company's filing vis-a-vis the fuel that's being sought for recovery, the fuel dollars for 2009. He presumably knows how much gas the company is projected to consume in 2009 at $9. If he knows that number, then he can do the math between $2 times the gas and give me a number. There's no, no speculation at all. If he can't do that math, he probably shouldn't be up here.

CHAIRMAN CARTER: I'm going to overrule the objection. You may proceed.

BY MR. TWOMEY:

Q Do you understand my question?

A I'll do my best.

Q Yes, sir.

A Since my job is on the line. Thank you.

(Laughter.)

The -- I didn't bring a calculator unfortunately, so I'll have to do the best with what I've got, which is not much.

As I mentioned in my opening statement, natural gas is a portion of Gulf's fuel cost. The vast majority of it is coal. So even though the price of natural gas changes, it only affects the portion of Gulf's fuel burn that is actually natural gas. In addition to that, we have hedges in place that have fixed a significant portion, I think around 50 percent, of our gas consumption, projected gas consumption for the projected year. So the price of that portion of our gas consumption is not going to change regardless of what the market does. It's locked in at a fixed price. So we're talking about a relatively small portion of our natural gas burn. So even though the market price has changed for gas, in our opinion it's not going to significantly impact the rates that we have established in the fuel cost recovery factors.

Q Yes, sir. But, but humor me, please. If, if you, if you took -- if a portion -- if your -- I just heard you to say that a half or whatever percentage of the gas that you're going to consume in 2009 will have already been contracted for. Is that what you're saying, a percentage?

A It's been financially hedged.

Q Okay. So you're obliged to pay that cost.

A That price is a fixed price.

Q A fixed price. So, and that's about 50 percent of your gas?

A Of our projected burn.

Q Yes, sir. If you took the rest of your gas and you multiplied it by, those units by $2, what number would we get roughly?

A You know, I hate to guess and I hate to have, not having a calculator in my head, but I'll give you some numbers and maybe you can do the math for me.

I think our burn projection is around seven -- about, well, about 19 BCF.

Q 19 BCF.

A Okay. And if you assume that half of that is just price hedged so it's a fixed price, then the remainder of that is subject to market price variations.

Q Okay. And, and 10 BCF times $2 per unit, what would that come out to?

A Per million Btu. I'm going to let you do the math for me.

MR. BADDERS: Commissioner or Chairman, we could get the witness a calculator, if that would be helpful.

CHAIRMAN CARTER: Why don't we do that.

MR. TWOMEY: I have no objection to that.

CHAIRMAN CARTER: Yeah. Let's give him -- okay. Give him a minute to calculate that.

Do you need Mr. Twomey to restate his question, Mr. Ball?

THE WITNESS: I think I've got it.

CHAIRMAN CARTER: Okay.

THE WITNESS: It's $2 a million Btu times 50 percent of our gas burn.

I hate to be put on the spot like this, but I'm guessing -- it appears to be around $80 million, but I may be -- let's see, ten, I guess that would be around $100 million, something like that.

BY MR. TWOMEY:

Q $100 million?

A Let me look, let me look in another place.

Q Yes, sir. Take your time.

A Since we've got time.

CHAIRMAN CARTER: Let's give the witness about five minutes to -- it looks like he's trying to get comfortable with the calculator, too. So, Commissioners, let's -- you're recognized, Commissioner Skop.

COMMISSIONER SKOP: Thank you, Mr. Chairman. Just a quick question while the witness is looking through his thing and I guess we'll take a break.

But, Mr. Twomey, is your point that you're trying to make just in a nutshell that by reforecasting expected fuel prices due to the decline of the fuel commodity and not passing the higher cost on to the consumer but the reforecasted costs would result in a savings in terms of what the ratepayers would be asked to contribute currently?

MR. TWOMEY: Yes, sir. That's precisely my point.

COMMISSIONER SKOP: Okay. Thank you.

CHAIRMAN CARTER: Okay. Let's give him five minutes so he can get that together and then we'll move on. So let's -- we're on recess for five minutes. We'll come back at five after.

(Recess taken.)

CHAIRMAN CARTER: We're back on the record. And when we last left, Mr. Twomey, you were on cross-examination with this witness.

Mr. Ball, you're recognized.

MR. TWOMEY: Yes, sir. He was calculating.

THE WITNESS: Yes, I do have the number. Thank you, Mr. Chairman, for allowing me that, that time to do that work.

The amount, I'll just kind of give you -- I did misstate the burn somewhat. It's $17 million MMBtu is the burn. The, so the cost would be $17 million. The cost differential between, the $2 cost differential times the unhedged portion of the burn will be $17 million.

Q $17 million?

A That's out of a, I think an $800 million fuel budget.

Q Okay, sir. So the difference if we were to apply that would be $17 million, however that were to shake out on your average customer's bill.

A That's correct.

MR. TWOMEY: Okay. That's all I have. Thank you very much.

THE WITNESS: Thank you.

CHAIRMAN CARTER: Thank you. Commissioners, I'm going to go to staff unless you've got a burning question. I think we've heard from all the parties; correct? You guys had no -- staff, you're recognized.

MR. YOUNG: Thank you, sir.

CROSS EXAMINATION

BY MR. YOUNG:

Q Mr. Ball, you said that you filed, you filed projected testimony in this docket; correct?

A That's correct.

Q All right. And in that testimony you talked about the projected coal costs for 2009; correct?

A That's right.

Q All right. Based on your projected testimony, isn't it true that Gulf's projected coal costs for 2009 are higher than what Gulf stated it would be for 2009 when it filed its midcourse correction petition?

A That's correct.

Q And isn't it true that the coal costs for 2009 used for the midcourse correction filing did not allow for results of Gulf's May 2008 RFP for coal; correct?

A That's right. We did not use the results of the RFP because that RFP had not been fully evaluated. So we used a market price for coal that we had available at that time.

Q For 2009 Gulf has a new coal supply agreement for all its coal, for all its burned coal needs; right? Correct?

A Based on our projected coal burn we do have firm commitments for coal purchases to cover that projected coal burn for 2009.

Q And for Plant Crist and Plant Smith isn't it true that Gulf does not anticipate having to buy any spot coal for 2009?

A Given the current projections of coal burn for those two plants, we do not anticipate that we will have to purchase any spot coal for 2009.

Q All right. Gulf evaluated the RFP results and got firm price commitments for these new coal supply agreements in July and August of this year; correct?

A That's correct.

Q These new coal supply agreements have a firm price commitment; correct?

A That's correct, they do have firm pricing. That's correct.

Q And for the most part these new coal supply agreements are two-year agreements; correct?

A Most of those agreements are two-year agreements. We do have one agreement that is a one-year agreement with a firm price with a market reopener after the end of the first year. If the parties cannot agree upon a price for the second year, then that contract would terminate.

Q And during September and October of this year isn't it true that the spot market price for Illinois Basin coal has decreased relative to the price earlier this year, in this year?

A Yes. Coal prices across the board have decreased since the middle to first part of this year. That's correct.

Q And during September and October of this year isn't it true that the spot price for Central Appalachian coal has decreased relative to the price earlier in this year?

A That's correct.

Q Would you agree with me, sir, that the current economic conditions in Europe and worldwide could decrease the worldwide demand for coal?

A Yes. Economic conditions could decrease the demand for coal worldwide. That's correct.

MR. YOUNG: All right. Staff has no further questions, sir.

CHAIRMAN CARTER: Commissioners? Mr. Badders?

MR. BADDERS: Yes, I have one, I do have one question on redirect.

CHAIRMAN CARTER: You're recognized.

REDIRECT EXAMINATION

BY MR. BADDERS:

Q Mr. Ball, earlier Mr. Twomey had asked you some questions about reprojecting for 2009 when you went through the calculation of the $17 million.

A Correct.

Q Did Gulf consider filing a reprojection for 2009?

A No, we did not.

Q So it was not evaluated or you chose not to file a reprojection for 2009?

A We did not -- we're always looking at fuel price forecasts, and we made a decision that, that we would not reproject those costs for 2009 because we had, we believed that the costs that we had evaluated were our best estimates of what the 2009 pricing would be and the cost.

Q Is there a true-up component in that reevaluation that has to be evaluated?

A Yes. There -- we had a significant underrecovery of costs during the latter part of this year and we had not anticipated that those underrecoveries would be carried forward into 2009. So those do offset somewhat the price, you know, the gas price reprojections going downward somewhat the next year. So those are offset somewhat by the increased underrecoveries that we've experienced the latter part of this year.

MR. BADDERS: No further questions.

CHAIRMAN CARTER: Thank you. Exhibits?

MR. BADDERS: Yes. We'd move Exhibits, I believe it's --

MS. BENNETT: They're 23 --

MR. BADDERS: -- 23 through 26.

CHAIRMAN CARTER: Without objection, show it done.

(Exhibits 23 through 26 admitted into the record.)

Anything further for this witness? Mr. Ball, you may be excused.

Call your next witness.

MR. BADDERS: Our next witness is Mr. Dodd.

MS. BENNETT: Did we move his testimony into the record?

MR. BADDERS: I believe so.

CHAIRMAN CARTER: The prefiled testimony of the witness will be entered into the record as though read. That should take care of it; right? Good. Thank you.

MR. BADDERS: While Mr. Dodd is taking the stand, we can also move the exhibits for Gulf's stipulated witness, if you'd like to do that at this point.

CHAIRMAN CARTER: Without objection, show it done.

MR. BADDERS: Thank you.

We're ready to proceed.

RICHARD DODD

was called as a witness on behalf of Gulf Power Company and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BADDERS:

Q Please state your name and your business address.

A Richard Dodd. I'm with Gulf Power company.

CHAIRMAN CARTER: Pull your microphone a little closer to you, Mr. Dodd. Thank you.

THE WITNESS: One Energy Place, Pensacola, Florida.

BY MR. BADDERS:

Q And what is your position with that company?

A Supervisor of Rates and Regulatory Matters.

Q Are you the same Richard W. Dodd who prefiled testimony in this docket?

A Yes.

Q Did you also file exhibits along with that testimony?

A Yes.

Q Are you also adopting the final true-up testimony of Rhonda J. Martin which was filed in March of 2008?

A Yes, I am.

Q Do you have any changes or corrections to any of that testimony?

A No, I do not.

Q If I were to ask you the same questions today, would your answers be the same?

A Yes, they would.

MR. BADDERS: We would ask that the prefiled testimony be entered into the record as though read.

CHAIRMAN CARTER: The prefiled testimony of the witness will be entered into the record as though read.

MR. BADDERS: I will note that the exhibits identified for this witness are 27, 28 and 29.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
Richard W. Dodd
Docket No. 080001-EI
Date of Filing: August 4, 2008

Q. Please state your name, business address and occupation.

A. My name is Richard Dodd. My business address is One Energy Place, Pensacola, Florida 32520-0780. I am the Supervisor of Rates and Regulatory Matters at Gulf Power Company.

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

A. I graduated from the University of West Florida in Pensacola, Florida in 1991 with a Bachelor of Arts Degree in Accounting. I also received a Bachelor of Science Degree in Finance in 1998 from the University of West Florida. I joined Gulf Power in 1987 as a Co-op Accountant and worked in various areas until I joined the Rates and Regulatory Matters area in 1990. After spending one year in the Financial Planning area, I transferred to Georgia Power Company in 1994 where I worked in the Regulatory Accounting department and in 1997 I transferred to Mississippi Power Company where I worked in the Rate and Regulation Planning department for six years followed by one year in Financial Planning. In 2004 I returned to Gulf Power Company working in the General Accounting area as Internal Controls Coordinator. In 2007 I was promoted to Internal Controls Supervisor and in July 2008, I assumed my current position in the Rates and Regulatory Matters area.

My responsibilities include supervision of: tariff administration, cost of service activities, calculation of cost recovery factors, and the regulatory filing function of the Rates and Regulatory Matters Department.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?
A. Yes, I have.

Counsel: We ask that Mr. Dodd's Exhibit consisting of fourteen schedules be marked as Exhibit No. ____ (RWD-2).

Q. Are you familiar with the Fuel and Purchased Power (Energy) estimated true-up calculations for the period of January 2008 through December 2008 and the Purchased Power Capacity Cost estimated true-up calculations for the period of January 2008 through December 2008 set forth in your exhibit?
A. Yes, these documents were prepared under my supervision.

Q. Have you verified that to the best of your knowledge and belief, the information contained in these documents is correct?
A. Yes, I have.

Q. How were the estimated true-ups for the current period calculated for both fuel and purchased power capacity?
A. In each case, the estimated true-up calculations include six months of actual data and six months of estimated data.

Q. Mr. Dodd, what has Gulf calculated as the fuel cost recovery true-up to be applied in the period January 2009 through December 2009?

A. The fuel cost recovery true-up for this period is an increase of 0.4019¢/kwh.

As shown on Schedule E-1A, this includes an estimated under-recovery for the January through December 2008 period of $58,380,329, less $23,707,734 additional true-up to be collected September through December 2008 as a result of the midcourse adjustment to Gulf's fuel factors approved by the Commission on July 29, 2008. It also includes a final under-recovery for the January through December 2007 period of $13,300,934 (see Schedule 1 of Exhibit RJM-1 in this docket filed on March 3, 2008). The resulting total under-recovery of $47,973,529 will be included for recovery during 2009.

Q. Mr. Dodd, you stated earlier that you are responsible for the Purchased Power Capacity Cost true-up calculation. Which schedules of your exhibit relate to the calculation of these factors?

A. Schedules CCE-1a, CCE-1b and CCE-4 of my exhibit relate to the Purchased Power Capacity Cost true-up calculation to be applied in the January 2009 through December 2009 period.

Q. What has Gulf calculated as the purchased power capacity factor true-up to be applied in the period January 2009 through December 2009?

A. The true-up for this period is an increase of .0031¢/kwh as shown on Schedule CCE-1a. This includes an estimated under-recovery of $274,796 for January 2008 through December 2008. It also includes a final under-recovery of $92,592 for the period of January 2007 through December 2007 (see Schedule CCA-1 of Exhibit RJM-1 in this docket filed March 3, 2008). The resulting total under-recovery of $367,388 will be included for recovery during 2009.

Q. Mr. Dodd, does this conclude your testimony?

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
Richard W. Dodd
Docket No. 080001-EI
Date of Filing: September 2, 2008

Q. Please state your name, business address and occupation.

A. My name is Richard Dodd. My business address is One Energy Place, Pensacola, Florida 32520-0780. I am the Supervisor of Rates and Regulatory Matters at Gulf Power Company.

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

A. I graduated from the University of West Florida in Pensacola, Florida in 1991 with a Bachelor of Arts Degree in Accounting. I also received a Bachelor of Science Degree in Finance in 1998 from the University of West Florida. I joined Gulf Power in 1987 as a Co-op Accountant and worked in various areas until I joined the Rates and Regulatory Matters area in 1990. After spending one year in the Financial Planning area, I transferred to Georgia Power Company in 1994 where I worked in the Regulatory Accounting department and in 1997 I transferred to Mississippi Power Company where I worked in the Rate and Regulation Planning department for six years followed by one year in Financial Planning. In 2004 I returned to Gulf Power Company working in the General Accounting area as Internal Controls Coordinator.

In 2007 I was promoted to Internal Controls Supervisor and in July 2008, I assumed my current position in the Rates and Regulatory Matters area.

My responsibilities include supervision of tariff administration, cost of service activities, calculation of cost recovery factors, and the regulatory filing function of the Rates and Regulatory Matters Department.

Q. Have you previously filed testimony before this Commission in this on-going docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss the calculation of Gulf Power's fuel cost recovery factors for the period January 2009 through December 2009. I will also discuss the calculation of the purchased power capacity cost recovery factors for the period January 2009 through December 2009.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes. My exhibit consists of 15 schedules, each of which was prepared under my direction, supervision, or review.

Counsel: We ask that Mr. Dodd's exhibit consisting of 15 schedules, be marked as Exhibit No. _____(RWD-3).

Q. Mr. Dodd, what is the levelized projected fuel factor for the period January 2009 through December 2009?

A. Gulf has proposed a levelized fuel factor of 5.728¢/kwh. This factor is based on projected fuel and purchased power energy expenses for January 2009 through December 2009 and projected kwh sales for the same period, and includes the true-up and GPIF amounts. This levelized fuel factor has not been adjusted for line losses.

Q. How does the levelized fuel factor for the projection period compare with the levelized fuel factor for the current period?

A. The projected levelized fuel factor for 2009 is .655¢/kwh more or 12.91 percent higher than the levelized fuel factor in place September 2008 through December 2008.

Q. Please explain the calculation of the fuel and purchased power expense true-up amount included in the levelized fuel factor for the period January 2009 through December 2009.

A. As shown on Schedule E-1A of my exhibit, the true-up amount of $47,973,529 to be collected during 2009 includes an estimated under-recovery for the January through December 2008 period of $58,380,329, less $23,707,734 additional true-up to be collected September through December 2008 in accordance with Order No. PSC-08-0541-PCO-EI. Also included is the final under-recovery for the January through December 2007 period of $13,300,934. The estimated under-recovery for the January through

December 2008 period includes 6 months of actual data and 6 months of estimated data as reflected on Schedule E-1B.

Q. What has been included in this filing to reflect the GPIF reward/penalty for the period of January 2007 through December 2007?

A. The GPIF result is shown on Line 32 of Schedule E-1 as a decrease of .0036¢/kwh, thereby penalizing Gulf $433,685.

Q. What is the appropriate revenue tax factor to be applied in calculating the levelized fuel factor?

A. A revenue tax factor of 1.00072 has been applied to all jurisdictional fuel costs as shown on Line 30 of Schedule E-1.

Q. Mr. Dodd, how were the line loss multipliers used on Schedule E-1E calculated?

A. The line loss multipliers were calculated in accordance with procedures approved in prior filings and were based on Gulf's latest mwh Load Flow Allocators.

Q. Mr. Dodd, what fuel factor does Gulf propose for its largest group of customers (Group A), those on Rate Schedules RS, GS, GSD, and OSIII?

A. Gulf proposes a standard fuel factor, adjusted for line losses, of 5.758¢/kwh for Group A. Fuel factors for Groups A, B, C, and D are shown on Schedule E-1E. These factors have all been adjusted for line losses.

Q. Mr. Dodd, how were the time-of-use fuel factors calculated?

A. The time-of-use fuel factors were calculated based on projected loads and system lambdas for the period January 2009 through December 2009. These factors included the GPIF and true-up and were adjusted for line losses. These time-of-use fuel factors are also shown on Schedule E-1E.

Q. How does the proposed fuel factor for Rate Schedule RS compare with the factor applicable to December 2008 and how would the change affect the cost of 1,000 kwh on Gulf's residential rate RS?

A. The current fuel factor for Rate Schedule RS applicable September 2008 through December 2008 is 5.100¢/kwh compared with the proposed factor of 5.758¢/kwh. For a residential customer who uses 1,000 kwh in January 2009, the fuel portion of the bill would increase from $51.00 to $57.58.

Q. Has Gulf updated its estimates of the as-available avoided energy costs to be shown on COG1 as required by Order No. 13247 issued May 1, 1984, in Docket No. 830377-EI and Order No. 19548 issued June 21, 1988, in Docket No. 880001-EI?

A. Yes. A tabulation of these costs is set forth in Schedule E-11 of my exhibit. These costs represent the estimated averages for the period from January 2009 through December 2009.

Q. What amount have you calculated to be the appropriate benchmark level for calendar year 2009 gains on non-separated wholesale energy sales eligible for a shareholder incentive?

A. In accordance with Order No. PSC-00-1744-AAA-EI, a benchmark level of $2,642,498 has been calculated for 2009. The actual gains for 2006, 2007, and the estimated gains for 2008 on all non-separated sales have been averaged to determine the minimum projected threshold for 2009 that must be achieved before shareholders may receive any incentive. As demonstrated on Schedule E-6, page 2 of 2, Gulf's projection reflects a credit to customers of 100 percent of the gains on non-separated sales for 2009 for the months of January through December.

Q. You stated earlier that you are responsible for the calculation of the purchased power capacity cost (PPCC) recovery factors. Which schedules of your exhibit relate to the calculation of these factors?

A. Schedule CCE-1, including CCE-1a and CCE-1b, Schedule CCE-2, and Schedule CCE-4 of my exhibit relate to the calculation of the PPCC recovery factors for the period January 2009 through December 2009.

Q. Please describe Schedule CCE-1 of your exhibit.

A. Schedule CCE-1 shows the calculation of the amount of capacity payments to be recovered through the PPCC Recovery Clause. Mr. Ball has provided me with Gulf's projected purchased power capacity transactions. Gulf's total projected net capacity expense, which includes a credit for transmission revenue, for the period January 2009 through December 2009 is $34,921,268. The jurisdictional amount is $33,671,646. This amount is added to the total true-up amount to determine the total purchased power capacity transactions that would be recovered in the period.

Q. Has there been any change that would affect the capacity clause estimated true-up for 2008 filed by Gulf on August 4, 2008?

A. No. There have been no changes to the estimated true-up for 2008.

Q. What methodology was used to allocate the capacity payments by rate class?

A. As required by Commission Order No. 25773 in Docket No. 910794-EQ, the revenue requirements have been allocated using the cost of service methodology used in Gulf's last rate case and approved by the Commission in Order No. PSC-02-0787-FOF-EI issued June 10, 2002, in Docket No. 010949-EI. For purposes of the PPCC Recovery Clause, Gulf has allocated the net purchased power capacity costs by rate class with 12/13th on demand and 1/13th on energy. This allocation is consistent with the treatment accorded to production plant in the cost of service study used in Gulf's last rate case.

Q. How were the allocation factors calculated for use in the PPCC Recovery Clause?

A. The allocation factors used in the PPCC Recovery Clause have been calculated using the 2006 load data filed with the Commission in accordance with FPSC Rule 25-6.0437. The calculations of the allocation factors are shown in columns A through I on page 1 of Schedule CCE-2.

Q. Please describe the calculation of the cents/kwh factors by rate class used to recover purchased power capacity costs.

A. As shown in columns A through D on page 2 of Schedule CCE-2, 12/13th of the jurisdictional capacity cost to be recovered is allocated by rate class based on the demand allocator. The remaining 1/13th is allocated based on energy. The total revenue requirement assigned to each rate class shown in column E is then divided by that class's projected kwh sales for the twelve-month period to calculate the PPCC recovery factor. This factor would be applied to each customer's total kwh to calculate the amount to be billed each month.

Q. What is the amount related to purchased power capacity costs recovered through this factor that will be included on a residential customer's bill for 1,000 kwh?

A. The purchased power capacity costs recovered through the clause for a residential customer who uses 1,000 kwh will be $3.35.

Q. When does Gulf propose to collect these new fuel charges and purchased power capacity charges?

A. The fuel and capacity factors will be effective beginning with Cycle 1 billings in January 2009 and continuing through the last billing cycle of December 2009.

Q. Mr. Dodd, does this conclude your testimony?

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
Rhonda J. Martin
Docket No. 080001-EI
Date of Filing: March 3, 2008

Q. Please state your name, business address and occupation.

A. My name is Rhonda Martin. My business address is One Energy Place, Pensacola, Florida 32520-0780. I am the Supervisor of Rates and Regulatory Matters at Gulf Power Company.

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

A. I graduated from the University of West Florida in Pensacola, Florida in 1994 with a Bachelor of Arts Degree in Accounting. I am also a licensed Certified Public Accountant and a member of the Florida Institute of Certified Public Accountants. I joined Gulf Power in 1994 as an Accountant. Prior to assuming my current position, I have held various positions of increasing responsibility with Gulf as an accountant in the Accounting Services, Financial Reporting, and Corporate Accounting Departments and as Supervisor of Financial Planning. In April 2006, I joined the Rates and Regulatory Matters area.

My responsibilities include supervision of: tariff administration, cost of service activities, calculation of cost recovery factors, and the regulatory filing function of the Rates and Regulatory Matters Department.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the final true-up amounts for the period January 2007 through December 2007 for both the Fuel and Purchased Power Cost Recovery Clause and the Capacity Cost Recovery Clause. I will also present the actual benchmark level for the calendar year 2008 gains on non-separated wholesale energy sales eligible for a shareholder incentive and the amount of gains or losses from hedging settlements for the period January through December 2007.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes. My exhibit consists of 1 schedule that relates to the fuel and purchased power cost recovery final true-up, 4 schedules that relate to the capacity cost recovery final true-up, and 1 appendix that includes Schedules A-1 through A-9 and A-12 for the period January 2007 through December 2007, which were previously filed monthly with this Commission. Each of these documents was prepared under my direction, supervision, or review.

Counsel: We ask that Ms. Martin's exhibit consisting of 5 schedules and 1 appendix be marked as Exhibit No. _____ (RJM-1).

Q. Have you verified that to the best of your knowledge and belief, the information contained in these documents is correct?

A. Yes.

Q. Which schedules of your exhibit relate to the calculation of the fuel and purchased power cost recovery true-up amount?

A. Schedule 1 of my exhibit relates to the fuel and purchased power cost recovery true-up calculation for the period January 2007 through December 2007. In addition, Fuel Cost Recovery Schedules A-1 through A-9 for January 2007 through December 2007 are incorporated herein in Appendix 1.

Q. What is the final fuel and purchased power cost true-up amount related to the period of January through December 2007 to be refunded or collected through the fuel cost recovery factors in the period January 2009 through December 2009?

A. A net amount to be collected of $13,300,934 was calculated as shown on Schedule 1 of my exhibit.

Q. How was this amount calculated?

A. The $13,300,934 was calculated by taking the difference in the estimated January 2007 through December 2007 under-recovery of $12,525,950 and the actual under-recovery of $25,826,884, which is the sum of the Period-to-Date amounts on lines 7, 8, and 12 shown on Schedule A-2, page 2, for December 2007 included in Appendix 1. The estimated true-up amount for this period was approved in FPSC Order No. PSC-08-0030-FOF-EI dated January 8, 2008. Additional details supporting the approved estimated true-up amount are included on Schedules E1-A and E1-B filed September 4, 2007.

Q. Ms. Martin, has the estimated benchmark level for gains on non-separated wholesale energy sales eligible for a shareholder incentive been updated for 2008?

A. Yes.

Q. What is the actual threshold for 2008?

A. Based on actual data for 2005, 2006, and now 2007, the threshold is calculated to be $3,340,925.

Q. Is Gulf seeking to recover any gains or losses from hedging settlements for the period of January 2007 through December 2007?

A. Yes. On line 2 of Schedule A-1, Period-to-Date, for December 2007 included in Appendix 1, Gulf has recorded a net loss of $9,197,433 related to hedging activities in 2007. Mr. Ball addresses the details of those hedging activities in his testimony.

Q. Ms. Martin, you stated earlier that you are responsible for the purchased power capacity cost recovery true-up calculation. Which schedules of your exhibit relate to the calculation of this amount?

A. Schedules CCA-1, CCA-2, CCA-3 and CCA-4 of my exhibit relate to the purchased power capacity cost recovery true-up calculation for the period January 2007 through December 2007. In addition, Capacity Cost Recovery Schedule A-12 for the months of January through December 2007 is included in Appendix 1.

Q. What is the final purchased power capacity cost true-up amount related to the period of January through December 2007 to be refunded or collected in the period January 2009 through December 2009?

A. An amount to be collected of $92,592 was calculated as shown on Schedule CCA-1 of my exhibit.

Q. How was this amount calculated?

A. The $92,592 was calculated by taking the difference in the estimated January 2007 through December 2007 over-recovery of $1,635,509 and the actual over-recovery of $1,542,917, which is the sum of lines 9, 10, and 13 under the total column of Schedule CCA-2. The estimated true-up amount for this period was approved in FPSC Order No. PSC-08-0030-FOF-EI dated January 8, 2008. Additional details supporting the approved estimated true-up amount are included on Schedules CCE-1A and CCE-1B filed September 4, 2007.

Q. Please describe Schedules CCA-2 and CCA-3 of your exhibit.

A. Schedule CCA-2 shows the calculation of the actual over-recovery of purchased power capacity costs for the period January 2007 through December 2007. Schedule CCA-3 of my exhibit is the calculation of the interest provision on the over-recovery for the period January 2007 through December 2007. This is the same method of calculating interest that is used in the Fuel and Purchased Power (Energy) Cost Recovery Clause and the Environmental Cost Recovery Clause.

Q. Please describe Schedule CCA-4 of your exhibit.

A. Schedule CCA-4 provides additional details related to Line 1 of Schedule CCA-2.

Q. Ms. Martin, does this conclude your testimony?

A. Yes.

BY MR. BADDERS:

Q At this time, Mr. Dodd, will you please summarize your testimony?

A Okay. My purpose of my testimony is to discuss the calculation of Gulf's fuel cost recovery factors and the purchased power capacity cost recovery factors for 2009. Gulf's proposed levelized fuel factor for 2009 is 5.728 cents per kilowatt hour, and this factor is based on projected cost of fuel and purchased power energy as well as the 2009 estimated kilowatt hour sales.

This does also include the GPIF component and the true-up component. The total net fuel and purchased power that we expect projected for 2009 is some $684 million. Gulf's total net purchase capacity for 2009 is projected to be $34 million, and this concludes my summary.

MR. BADDERS: We tender the witness for cross-examination.

CHAIRMAN CARTER: Thank you.

MR. BURGESS: No questions.

MR. WRIGHT: No questions, Mr. Chairman.

MR. McWHIRTER: No questions.

MR. TWOMEY: No questions.

MS. WHITE: No questions.

CHAIRMAN CARTER: Staff, you're recognized.

MR. YOUNG: Staff has two questions.

CHAIRMAN CARTER: You're recognized.

CROSS EXAMINATION

BY MR. YOUNG:

Q Mr. Dodd --

A Yes, sir.

Q -- would you agree that based on Gulf's midcourse correction petition that was filed in June of this year Gulf stated that the bill impact would be minimized for the remainder of 2008 and 2009? Is that a correct statement?

A Yes. That was our position in that filing.

Q Okay. And would you agree that Gulf's midcourse correction filing was based on the assumption that the monthly 1,000 kilowatt hour residential bill would remain relatively level for the remainder of 2008 and 2009?

A In the midcourse correction we looked at 2009, at the estimates we had at that time for cost of our fuel as well as our other recovery clauses and the position that we took on the amount of underrecovery that we proposed to be collected in 2008 and the amount that was deferred in 2009. At that, at that time the intent was and our projections were that the fuel factor component would be relatively unchanged from one year to the next.

MR. YOUNG: Staff has no questions, no further questions.

CHAIRMAN CARTER: Anything from the bench?

Mr. Badders.

MR. BADDERS: No redirect.

CHAIRMAN CARTER: Okay. Exhibits.

MR. BADDERS: I'd like to move the exhibits into the record.

CHAIRMAN CARTER: No objections? Without objection, show it done. Also this is in addition with Witness --

MS. BENNETT: With Witness Rhonda Martin, so it would be 27, 28 and 29 would be entered into the record.

CHAIRMAN CARTER: Any objections? Without objection, show it done.

(Exhibits 27 through 29 admitted into the record.)

Also the testimony of that witness entered into the record as though read, Martin. And I think that would conclude all of your witnesses.

MR. BADDERS: It does. And we would ask to have our witnesses excused, if possible.

CHAIRMAN CARTER: Absolutely. Staff, does that, do we have everything in the record that we need in this matter here as it relates to Gulf Power?

MS. BENNETT: Yes, we do.

CHAIRMAN CARTER: Thank you so kindly. You may be excused. Have a nice day.

Next up is -- let's do this, Commissioners. We're getting ready to go to TECO and then FPL. Let's give Linda a break for about -- we'll come back on the half hour. We're on recess.

(Recess taken.)

We're back on the record. And, Commissioners, before we proceed further, just out of an abundance of caution, Mr. Badders, on Exhibits 30 and 31, just out of an abundance of caution, we would move the, the, move for the introduction of Exhibits 30 and 31. That's under Witness Noack. Did I get it right?

MR. BADDERS: Right. Correct. I'll move the testimony and the Exhibits 30 and 31 for Witness Noack.

CHAIRMAN CARTER: The testimony will be entered into the record as though read. Any objection to the exhibits? Without objection, show it done.

(Exhibits 30 and 31 admitted into the record.)

And I think that should clear everything --

MR. BADDERS: That clears -- it does.

CHAIRMAN CARTER: Okay. Thank you so kindly.

GULF POWER COMPANY

Before the Florida Public Service Commission

Direct Testimony of

L. S. Noack

Docket No. 080001-EI

Date of Filing: April 3, 2008

Q. Please state your name, address, and occupation.

A. My name is Lonzelle S. Noack. My business address is One Energy Place, Pensacola, Florida 32520-0335. My current job position is Power Generation Specialist, Senior for Gulf Power Company.

Q. Please describe your educational and business background.

A. I received my Bachelor of Science degree in Environmental Engineering from the University of Florida in 1995 and received my Master of Business Administration degree from the University of West Florida in 2000. I joined Gulf Power in 1995 as an Environmental Engineer and served in that role with increasing levels of responsibility for over six years. Major responsibilities included coordination of federal and state air-related compliance testing for all Gulf Power generating units, management of the Continuous Emission Monitoring (CEM) System program at each of the Company's generating facilities, and coordination of the Company's air compliance reporting to state and federal regulatory agencies. I was also responsible for serving as Gulf's Environmental Subject Matter Expert on Company and system-wide compliance teams. As previously mentioned in my testimony, my current job position is Power Generation Specialist, Senior at Gulf

Power Company. In this position, I am responsible for preparing all Generating Performance Incentive Factor (GPIF) filings as well as other generating plant reliability and heat rate performance reporting.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present GPIF results for Gulf Power Company for the period of January 1, 2007, through December 31, 2007.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes. I have prepared an exhibit consisting of five schedules.

Counsel: We ask that Ms. Noack's Exhibit,
consisting of five schedules, be marked
for identification as Exhibit No. _(LSN-1).

Q. Is there any information that has been supplied to the Commission pertaining to this GPIF period that requires amendment?

A. Yes. Some corrections have been made to the actual unit performance data, which was submitted monthly to the Commission during this time period. These corrections are based on discoveries made during the final data review to ensure the accuracy of the information reported in this filing. The actual unit performance data tables on pages 16 through 31 of Schedule 5 of my exhibit incorporate these changes. The data contained in these tables is the data upon which the GPIF calculations were made.

Q. Were average net operating heat rate (ANOHR) targets that include the BTU/LB independent variable approved in FPSC Order No. PSC-99-2512-FOF-EI used for Plant Daniel Units 1 and 2 for this period?

A. Yes. The target heat rate equations for Plant Daniel Units 1 and 2 included the BTU/LB independent variable originally approved in FPSC Order No. PSC-99-2512-FOF-EI. The use of this BTU/LB variable has been incorporated in this filing to account for the change in fuel mix at Plant Daniel, which was previously noted in the GPIF Target Filing for 2006 that was submitted to the FPSC on September 16, 2005, as well as the GPIF Results Filing for 2005 that was submitted to the FPSC on April 3, 2006. The actual monthly BTU/LB parameters used are shown on pages 8 and 9 of Schedule 3. All results for Plant Daniel Units 1 and 2 reflect the use of this variable.

Q. Please review the Company's equivalent availability results for the period.

A. Actual equivalent availability and adjusted actual equivalent availability figures for each of the Company's GPIF units are shown on page 15 of Schedule 5. Pages 3 through 10 of Schedule 2 contain the calculations for the adjusted actual equivalent availabilities.

A calculation of GPIF availability points based on these availabilities and the targets established by FPSC Order No. PSC-06-1057-FOF-EI is on page 11 of Schedule 2. The results are: Crist 4, +10.00 points; Crist 5, +10.00 points; Crist 6, +10.00 points; Crist 7, +10.00 points; Smith 1, -10.00 points; Smith 2, +10.00 points; Daniel 1, +10.00 points; and Daniel 2, -1.05 points.

Q. What were the heat rate results for the period?

A. The detailed calculations of the actual average net operating heat rates for the Company's GPIF units are on pages 2 through 9 of Schedule 3.

As was done for the prior GPIF periods, and as indicated on pages 10 through 17 of Schedule 3, the target equations were used to adjust actual results to the target bases. These equations, submitted in September 2006, are shown on page 20 of Schedule 3. As calculated on page 21 of Schedule 3, the adjusted actual average net operating heat rates correspond to the following GPIF unit heat rate points: -10.00 for Crist 4, -3.40 for Crist 5, -10.00 for Crist 6, -8.92 for Crist 7, 0.00 for Smith 1, 0.00 for Smith 2, -3.14 for Daniel 1, and 0.00 for Daniel 2.

Q. What number of Company points was achieved during the period, and what reward or penalty is indicated by these points according to the GPIF procedure?

A. Using the unit equivalent availability and heat rate points previously mentioned, along with the appropriate weighting factors, the number of Company points achieved was -1.55, as indicated on page 2 of Schedule 4. This calculated to a penalty in the amount of $433,685.

Q. Please summarize your testimony.

A. In view of the adjusted actual equivalent availabilities, as shown on page 11 of Schedule 2, and the adjusted actual average net operating heat rates achieved, as shown on page 21 of Schedule 3, evidencing the Company's performance for the period, Gulf calculates a penalty in the amount of $433,685 as provided for by the GPIF plan.

Q. Does this conclude your testimony?
A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission

Direct Testimony of

L. S. Noack

Docket No. 080001-EI

Date of Filing: September 2, 2008

Q. Please state your name, address, and occupation.

A. My name is Lonzelle S. Noack. My business address is One Energy Place, Pensacola, Florida 32520-0335. My current job position is Power Generation Specialist, Senior for Gulf Power Company.

Q. Please describe your educational and business background.

A. I received my Bachelor of Science degree in Environmental Engineering from the University of Florida in 1995 and received my Master of Business Administration degree from the University of West Florida in 2000. I joined Gulf Power in 1995 as an Environmental Engineer and served in that role with increasing levels of responsibility for over six years. Major responsibilities included coordination of federal and state air-related compliance testing for all Gulf Power generating units, management of the Continuous Emission Monitoring (CEM) System program at each of the Company's generating facilities, and coordination of the Company's air compliance reporting to state and federal regulatory agencies. I was also responsible for serving as Gulf's Environmental Subject Matter Expert on Company and system-wide compliance teams. As previously mentioned in my testimony, my current job position is Power Generation Specialist, Senior at Gulf

Power Company. In this position, I am responsible for preparing all GPIF filings as well as other generating plant reliability and heat rate performance reporting.

Q. What is the purpose of your testimony in this proceeding?
A. The purpose of my testimony is to present GPIF targets for Gulf Power Company for the period of January 1, 2009 through December 31, 2009.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?
A. Yes. I have prepared one exhibit consisting of three schedules.

Q. Was this exhibit prepared by you or under your direction and supervision?
A. Yes, it was.

Counsel: We ask that Ms. Noack's exhibit consisting of three schedules be marked for identification as Exhibit_(LSN-2).

Q. Which units does Gulf propose to include under the GPIF for the subject period?
A. We propose that Crist Units 4, 5, 6, and 7, Smith Units 1 and 2, and Daniel Units 1 and 2, continue to be the Company's GPIF units. The projected net generation from these units, which represent all of Gulf's qualifying base load units for GPIF, is approximately 82% of Gulf's projected net generation for 2009.

Q. What are the target heat rates Gulf proposes to use in the GPIF for these units for the performance period January 1, 2009 through December 31, 2009?

A. I would like to refer you to page 45 of Schedule 1 of my exhibit where these targets are listed.

Q. How were these proposed target heat rates determined?

A. They were determined according to the GPIF Implementation Manual procedures for Gulf. For Daniel Units 1 and 2, the use of the Btu/lb independent variable that was stipulated and approved in Commission Order PSC-99-2512-FOF-EI and used in the 2006 GPIF Target Filing, Docket No. 060001-EI was evaluated. The results of the regression analyses indicated that the Btu/lb variable was statistically significant for Daniel Unit 2 and was, therefore, included in its target heat rate equation for this performance period. For Daniel Unit 1, the Btu/lb variable was not statistically significant and was, therefore, not included in its target heat rate equation.

Q. Describe how the targets were determined for Gulf's proposed GPIF units.

A. Page 2 of Schedule 1 of my exhibit shows the target average net operating heat rate equations for the proposed GPIF units, and pages 4 through 41 of Schedule 1 contain the weekly historical data used for the statistical development of these equations. Pages 42 through 44 of Schedule 1 present the calculations that provide the unit target heat rates from the target equations.

Q. Were the maximum and minimum attainable heat rates for each proposed GPIF unit, indicated on page 45 of Schedule 1 of your exhibit, calculated according to the appropriate GPIF Implementation Manual procedures?

A. Yes.

Q. What are the proposed target, maximum, and minimum equivalent availabilities for Gulf's units?

A. The target, maximum, and minimum equivalent availabilities are listed on page 4 of Schedule 2 of my exhibit.

Q. How were the target equivalent availabilities determined?

A. The target equivalent availabilities were determined according to the standard GPIF Implementation Manual procedures for Gulf and are presented on page 2 of Schedule 2 of my exhibit.

Q. How were the maximum and minimum attainable equivalent availabilities determined for each unit?

A. The maximum and minimum attainable equivalent availabilities, which are presented along with their respective target availabilities on page 4 of Schedule 2 of my exhibit, were determined per GPIF Implementation Manual procedures for Gulf.

Q. Ms. Noack, has Gulf completed the GPIF minimum filing requirements data package?

A. Yes, we have completed the minimum filing requirements data package. Schedule 3 of my exhibit contains this information.

Q. Ms. Noack, would you please summarize your testimony?

A. Yes. Gulf asks that the Commission accept:

1. Crist Units 4, 5, 6 and 7, Smith Units 1 and 2, and Daniel Units 1 and 2 for inclusion under the GPIF for the period of January 1, 2009 through December 31, 2009.

2. The target, maximum attainable, and minimum attainable average net operating heat rates, as proposed by the Company and as shown on page 45 of Schedule 1 and also on page 5 of Schedule 3 of my exhibit.

3. The target, maximum attainable, and minimum attainable equivalent availabilities, as proposed by the Company and as shown on page 4 of Schedule 2 and also on page 5 of Schedule 3 of my exhibit.

4. The weekly average net operating heat rate least squares regression equations, shown on page 2 of Schedule 1 and also on pages 20 through 35 of Schedule 3 of my exhibit, for use in adjusting the annual actual unit heat rates to target conditions.

Q. Ms. Noack, does this conclude your testimony?
A. Yes.

(Transcript continues in sequence with Volume 3.)

STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, LINDA BOLES, RPR, CRR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 7th day of November, 2008.

Linda Boles

LINDA BOLES, RPR, CRR
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