

GULF POWER COMPANY

**Before the Florida Public Service
Commission**

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

Docket No. 040001-EI

Date of Filing: September 9, 2004



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7

8 Q. Please state your name and business address.

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

12

13 Q. Have you previously filed testimony with this Commission in this docket?

14 A. Yes, I have.

15

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

18 A. I graduated from the University of Southern Mississippi in Hattiesburg,
19 Mississippi in 1978 with a Bachelor of Science Degree in Chemistry and
20 graduated from the University of Southern Mississippi in Long Beach,
21 Mississippi in 1988 with a Masters of Business Administration. In 1978, I
22 began my employment with the Southern Company at Mississippi Power
23 Company (MPC) as a Plant Chemist at Plant Daniel. Since that time I have
24 held positions of increasing responsibility at MPC in the Fuel Services
25 Department as a Fuel Business Analyst and as Supervisor of Chemistry

1 and Regulatory Compliance at Plant Daniel, and at Southern Company
2 Services Fuel Services as Supervisor of Coal Logistics located in
3 Birmingham, Alabama. My responsibilities at SCS Fuel Services included
4 administering coal supply and transportation agreements and managing the
5 coal logistics and inventory program for the Southern Electric System. In
6 March 2003, I was promoted to my current position, Fuel Manager for Gulf
7 Power Company.

8
9 Q. What are your duties as Fuel Manager for Gulf Power Company?

10 A. I manage the Company's fuel procurement, inventory, transportation,
11 budgeting, contract administration, and quality assurance programs to
12 ensure that the generating plants operated by Gulf Power are supplied with
13 an adequate quantity of fuel in a timely manner and at the lowest practical
14 cost.

15
16 Q. What is the purpose of your testimony in this docket?

17 A. The purpose of my testimony is to support Gulf Power Company's
18 projection of fuel expenses for the period January 1, 2005 through
19 December 31, 2005. Also, it is my intent to be available to answer
20 questions that may arise among the parties to this docket concerning Gulf
21 Power Company's fuel expense projections.

22
23 Q. Have you prepared an exhibit that contains information to which you will
24 refer in your testimony?

1 A. Yes, I have prepared an exhibit that compares actual and projected fuel
2 costs for the past ten years. The purpose of this exhibit is to indicate the
3 accuracy of Gulf's short term fuel expense projections.
4

5 Counsel: We ask that Mr. Ball's Exhibit , consisting of one schedule,
6 be marked as Exhibit No. _____ (HRB-1).
7

8 Q. Has Gulf Power Company made any changes to its methods for projecting
9 fuel expenses for this period?

10 A. No.
11

12 Q. Does the 2005 projection of fuel expenses reflect any major changes in
13 Gulf's fuel procurement program for this period?

14 A. No. Gulf will receive 1.9 million tons of coal under an existing coal supply
15 agreement with Peabody Coal Sales, 0.6 million tons of coal under an
16 existing coal supply agreement with Peabody COALTRADE, Inc., and 1.2
17 million tons of coal under an existing coal supply agreement with
18 Interocean Coal Sales, LDC. Gulf's remaining coal requirements, if any,
19 will be purchased in the market through the Request for Proposal (RFP)
20 process that has been used by Southern Company Services - Fuel
21 Services as agent for Gulf for many years. Coal will be delivered under
22 existing coal transportation contracts. Natural gas requirements will be
23 purchased from various suppliers using firm quantity agreements with
24 market pricing for base needs and on the daily spot market when

1 necessary. Natural gas transportation will be secured using a combination
2 of firm and spot transportation agreements.

3

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

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

11

12 Q. How does the total projected fuel cost for the 2005 period compare to the
13 projected fuel cost for the same period in 2004?

14 A. The total updated cost of fuel to meet 2004 system net generation needs,
15 filed in testimony under this docket on August 10, 2004, is projected to be
16 \$372,845,690. The projected total cost of fuel to meet system net
17 generation needs in 2005 is \$393,442,768. This is an increase of
18 \$20,597,078 or 5.52%. Total system net generation in 2005 is projected to
19 be 15,728,660 MWH which is 122,677 MWH or .8% higher than is currently
20 projected for 2004. On a fuel cost per KWH basis, the 2004 projected cost
21 is 2.389 cents per KWH and the 2005 projected fuel cost is 2.5014 cents
22 per KWH. This is an increase of 0.1124 cents per KWH or 4.7%. This
23 higher projected total fuel expense and average per unit fuel cost reflects a
24 continued trend of increases in the forecasted price of coal and natural gas
25 to fuel Gulf's generating units. The projection of fuel cost of system net

1 of system net generation for 2005 is captured in the exhibit to Witness
2 Davis's testimony, Line A1.

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

5 A. Yes, it does.

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

Cents / KWH Fuel Cost ⁽¹⁾

<u>Period Ending</u>	<u>Projected</u>	<u>Actual</u>	<u>% Difference</u>
March 1995	1.8874	2.0388	8.02
September 1995	2.0456	2.0344	(0.55)
March 1996	1.9795	2.0743	4.79
September 1996	2.0405	1.9639	(3.75)
March 1997	1.9282	2.0332	5.45
September 1997	1.9434	1.9431	(0.02)
March 1998	1.8734	1.8647	(0.46)
September 1998	1.5916	1.6361	2.80
December 1999	1.5291	1.5696	2.65
December 2000	1.6048	1.6460	2.57
December 2001	1.5782	1.7218	9.10
December 2002	2.0241	2.0505	1.30
December 2003	1.9639	2.1133	7.61
December 2004	2.0934		
December 2005	2.5014		

(1) Line No. 1 from FPSC Schedule A-1

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

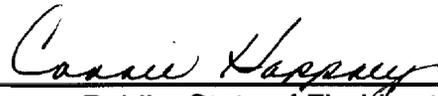
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Before me the undersigned authority, personally appeared H. R. Ball, who being first duly sworn, deposes, and says that he is the Fuel Manager at Gulf Power Company, a Maine corporation, and that the foregoing is true and correct to the best of his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



H. R. Ball
Fuel Manager

Sworn to and subscribed before me this 8th day of September, 2004



Notary Public, State of Florida at Large

Commission Number:

Commission Expires:

