

Art P. Beattie
Executive Vice President,
Chief Financial Officer
and Treasurer

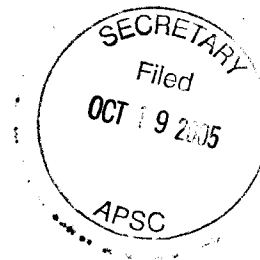
600 North 18th Street
Post Office Box 2641
Birmingham, Alabama 35291
Tel 205.257.2505

October 19, 2005



Alabama Public Service Commission
RSA Union Building
100 North Union Street
Post Office Box 304260
Montgomery, Alabama 36130

Re: Revised Rate ECR Factor
APSC Docket No. 18148



Dear Commissioners:

In accordance with the provisions of Rate ECR (Energy Cost Recovery Rate), Alabama Power Company is enclosing for filing an original and ten (10) copies of a revised ECR Factor. The new ECR Factor of \$0.02650 per kWh will be effective for customer billings for a 12-month period beginning December 3, 2005 and thereafter will be established in accordance with the terms of the rate. For residential customers using 1,000 kWh in a month, this rate change represents a bill impact of approximately \$8.60 per month.

In support of this filing, the Company is enclosing the testimony of Mr. Larry R. White, who is the Director of Forecast and Resource Planning. Mr. White's testimony provides an overview of Rate ECR, explains the fuel and other cost increases necessitating the filing, and develops a factor in accordance with the formula specifically set forth in the rate. In this regard, it bears noting that Rate ECR only recovers the Company's actual cost of fuel, and reflects no mark-up or profit component. Moreover, the revised ECR Factor of \$0.02650 per kWh proposed by the Company is considerably lower than that to which it would otherwise be entitled under the terms of Rate ECR (which would be \$0.03531 per kWh). This interim measure is being offered in the interest of rate stability and reflects the Company's willingness to set a fuel cost factor based on a 12-month period, rather than the three-month period specified in the rate. This benefits retail customers because (among other things), it provides for the recoupment of accumulated under-recovery of previously-incurred costs over a much longer period of time. Consistent with past practice, the Company and the Commission staff can then assess whether or to what extent another such interim factor can be placed in effect.

If the Commission or its Staff has any questions concerning this filing, please contact the undersigned or Mr. Zeke W. Smith at (205) 257-2167.

Very truly yours,



Enclosures

cc: Commissioner Jim Sullivan
Commissioner Jan Cook
Commissioner George Wallace, Jr.

Secretary of the Alabama Public Service Commission
Mr. Walter L. Thomas, Jr. (12)

Chief Administrative Law Judge
Mr. John A. Garner

Director, Advisory Staff
Ms. Judy G. McLean

Director, Energy Division
Ms. Janice M. Hamilton (4)

Office of the Attorney General
Ms. Olivia W. Martin

Mr. James H. McLemore

ALABAMA POWER COMPANY

RATE ECR

Energy Cost Recovery Factor

For billings beginning December 3, 2005 through November, 2006

ECRF = 26.50 mills/kWh (2.650 cents/kWh)

For billing months of December, 2006 and thereafter until changed in accordance with Rate ECR and the Rules and Regulations made a part thereof

ECRF = 35.31 mills/kWh (3.531 cents/kWh)

1
2
3
4
5
6
7
8
9
10
11
12
13

BEFORE THE
ALABAMA PUBLIC SERVICE COMMISSION

Alabama Power Company

Docket No. 18148

DIRECT TESTIMONY OF
LARRY R. WHITE

ON BEHALF OF
ALABAMA POWER COMPANY

14 Q. STATE YOUR NAME AND YOUR BUSINESS ADDRESS.

15 A. Larry R. White, 600 North 18th Street, Birmingham, Alabama 35203.

16
17 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

18 A. I am employed by Alabama Power Company (“Alabama Power” or the “Company”) as
19 the Director of Forecast and Resource Planning.

20
21 Q. BRIEFLY SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND
22 PROFESSIONAL EXPERIENCE.

23 A. I graduated from Auburn University in 1972 with a Bachelor of Electrical Engineering
24 degree and in 1973 with a Master of Science in Electrical Engineering degree. I was first
25 employed within the Southern Company in 1974 as an engineer evaluating transmission
26 equipment applications with Southern Company Services, Inc. (“SCS”). From 1976 to
27 1980, I held various analyst and managerial positions at SCS in the area of load
28 forecasting.

1 In 1980, I transferred to Alabama Power in the System Planning Department.
2 From 1980 to 1993, I served in various management positions with responsibilities for
3 generation planning, transmission planning, bulk power contracting, and load forecasting.
4 From 1993 to 1996, I held retail marketing management positions with responsibilities
5 for market planning, market reporting systems, power quality, and power contracts.

6 I transferred to Southern Energy, Inc. in 1996 in the position of Director,
7 Logistics, where I was responsible for scheduling operations, transportation evaluations
8 and reservations, and transportation modeling. I came to Georgia Power Company in late
9 1997 as the Director, Resource Policy and Planning. In that capacity, I was responsible
10 for developing and managing Georgia Power's integrated resource plan, procuring and
11 certifying resources to meet the needs identified in the plan, and negotiating and
12 managing generation-related contracts. I served in that position until January, 2005,
13 when I returned to Alabama Power as the Director of Forecast and Resource Planning.

14

15 Q. WHAT ARE THE DUTIES AND RESPONSIBILITIES ASSOCIATED WITH YOUR
16 CURRENT POSITION?

17 A. As Director of Forecast and Resource Planning, I am generally responsible for managing
18 all aspects of the energy, demand, and revenue forecasts. This includes overseeing the
19 development of Alabama Power's integrated resource plan, monitoring the
20 implementation and ongoing operation of power purchase agreements, reviewing and
21 monitoring operations related to the Southern system power pool, and coordinating the
22 annual energy budgeting and fuel planning processes.

23

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

2 A. My testimony in this proceeding is offered in support of a new energy cost recovery
3 factor (ECR Factor) submitted under Rate ECR (Energy Cost Recovery Rate), which will
4 take effect for billings beginning December 3, 2005. Rate ECR is the rate rider
5 established by the Commission in 1981 that provides for the recovery of certain defined
6 energy costs incurred by the Company in connection with the provision of electric service
7 to retail customers.

8

9 Q. HOW IS YOUR TESTIMONY ORGANIZED?

10 A. My testimony begins with a brief overview of Rate ECR, including its procedural history,
11 the mechanics related to its underlying calculations, and the consent orders whereby
12 factors have generally been established since its adoption. I will then describe the
13 reasons why a new factor is necessary and appropriate for the Company at this time and
14 will present the result of the calculations under the terms of the rate. Finally, I will
15 explain why Alabama Power is proposing an interim ECR Factor lower than that
16 resulting from the calculations specified under Rate ECR and will provide the basis for
17 that proposed factor.

18

19 Q. BRIEFLY SUMMARIZE THE HISTORY OF RATE ECR.

20 A. In 1981, the Commission initiated an investigation of Rate FT (Energy Cost and Tax
21 Adjustment). As the name suggests, Rate FT was the mechanism whereby the Company
22 recovered (among other things) a portion of its energy-related costs, with the other
23 portion of such costs being incorporated in the base-rate schedules. Following a hearing,

1 the Commission concluded that Alabama Power's energy costs should be addressed
2 through a new recovery mechanism. By Order dated May 29, 1981, the Commission
3 directed Alabama Power to develop and file such a revised recovery mechanism, which
4 the Company did pursuant to a series of filings in June, 1981. By Order dated June 22,
5 1981, the Commission (among other things) approved Rate ECR and the initial ECR
6 Factor of 17.88 mills per kWh (\$0.01788 per kWh) established thereunder.

7
8 Q. DESCRIBE THE METHODOLOGY WHEREBY FACTORS UNDER RATE ECR ARE
9 ESTABLISHED.

10 A. Rate ECR provides for the recovery by the Company of defined energy costs pursuant to
11 an ECR Factor derived thereunder and applied to all of the Company's retail rate
12 schedules. In general terms, the ECR Factor is calculated by adding together certain
13 estimated energy-related costs (such as those related to fossil fuel, nuclear fuel, and
14 purchased power), and dividing those costs by estimated energy sales by the Company
15 for the same projected period. A correction factor is then added to address the under or
16 over-recovery of such costs from prior periods. The combined result of these two
17 calculations is the new ECR Factor.

18 From a timing standpoint, the Company may submit a new ECR Factor to the
19 Commission at any time. The projected components of the factor are based on an
20 estimate of the Company's energy costs and sales for an upcoming three-month period.
21 The correction factor reflects the accumulated under or over-recovery of previously
22 incurred costs, which is then divided by estimated retail energy sales over the same
23 projected three-month period. Not less than twenty (20) days after any such filing, the

1 Commission is to conduct a public hearing on the information so submitted for the
2 purpose of determining its accuracy, and that hearing must be completed within thirty-
3 five (35) days from the date of the filing. Absent a Commission order to the contrary, the
4 proposed ECR Factor becomes effective after forty-five (45) days.
5

6 Q. WAS THIS PROCESS USED TO ESTABLISH THE INITIAL ECR FACTOR?

7 A. Yes. Alabama Power filed an ECR Factor applying this methodology and, as noted
8 above, the Commission approved a factor of \$0.01788 per kWh by order dated June 22,
9 1981.
10

11 Q. HAS THIS SAME PROCESS BEEN FOLLOWED IN CONNECTION WITH OTHER
12 FACTORS CHARGED UNDER RATE ECR?

13 A. No. Approximately one year after the initial ECR Factor was established, the
14 Commission perceived the possibility for customers to realize some temporary fuel
15 savings and sought to take advantage of that opportunity without the delay associated
16 with the procedures set forth in Rate ECR. To this end, the Commission staff consulted
17 with the Company to explore the possibility of a consent procedure whereby the factor
18 would be temporarily lowered for a specified period of time, after which the initial ECR
19 Factor of 17.88 mills per kWh would be reinstated. The Company was amenable to this
20 process and no objection was raised by any interested party. A consent order was
21 therefore entered by the Commission on November 29, 1982, under which a reduced
22 factor -- with the agreement and consent of the Company -- was put in place.
23

1 Q. HAVE SIMILAR CONSENT ORDERS SUBSEQUENTLY BEEN ISSUED BY THE
2 COMMISSION?

3 A. Yes. This same consent order process has generally been followed for specified periods
4 of time (usually six-month intervals) since 1982, with the resulting consent factors
5 typically being less (but not more) than the initial ECR Factor established by the
6 Commission. The last such consent factor expired in April, 2005 at which time the ECR
7 Factor again reverted to 17.88 mills per kWh (\$0.01788 per kWh).

8

9 Q. WHY IS IT NECESSARY FOR THE COMPANY TO FILE A CHANGE IN THE ECR
10 FACTOR THAT IS CURRENTLY IN EFFECT?

11 A. As shown in the monthly fuel reports filed with the Commission, the current ECR Factor
12 (which as established in 1981) is simply inadequate to recoup the costs that it is intended
13 to recover. Indeed, this has been true for a significant period of time, as evidenced by the
14 accumulated cost under-recovery that is approximately \$182 million (as of September 30,
15 2005). On my Exhibit ___ (LRW-1), I have included a chart that depicts these
16 cumulative monthly balances from January, 2004 to date. This chart clearly reveals the
17 worsening under-recovery situation despite the expiration of the last consent factor and
18 the application of the initial ECR Factor. It was hoped that the cost pressures giving
19 rise to this growing under-recovery would subside and thereby enable the Company to
20 maintain the existing factor; however, it is clear that this is not going to happen in the
21 foreseeable future.

22

1 Q. WHAT ARE THE PRINCIPAL COST DRIVERS UNDERLYING THE NEED FOR AN
2 INCREASE IN THE ECR FACTOR?

3 A. The need for a new ECR Factor is directly attributable to increases in Alabama Power's
4 fuel costs, and in particular the cost of natural gas. Coal prices are also trending upward,
5 but to date the effects have been less dramatic than those attributable to natural gas.
6

7 Q. WHAT IS THE CURRENT STATE OF THE NATURAL GAS MARKET?

8 A. The natural gas market in the United States continues to be influenced by a tight
9 supply/demand dynamic. Despite additional drilling activity, supply has not materially
10 increased in relation to demand. Indeed, the supply situation has recently worsened due
11 to abnormally warm summer weather across much of country and the impacts of recent
12 hurricanes on natural gas production along the Gulf Coast. As a result of these and other
13 conditions, natural gas prices have reached all-time highs. To demonstrate this fact, I
14 have prepared a chart, included as Exhibit __ (LRW-2), depicting the daily weighted
15 average natural gas price on the New York Mercantile Exchange ("NYMEX") from 1999
16 through 2005.

17 The dramatic upward shift in natural gas prices can also be seen through an
18 examination of recent changes in the average annual price of natural gas. For example,
19 the weighted average NYMEX natural gas price for 2004 was \$6.18 per MMBtu, while
20 the weighted average NYMEX natural price for 2005 (as of October 11, 2005) was \$7.96
21 per MMBtu -- an increase of approximately 30 percent over a period of less than two
22 years.
23

1 Q. WHAT OTHER FACTORS ARE INFLUENCING THESE HIGH NATURAL GAS
2 PRICES?

3 A. In addition to weather-related issues in the form of increased hurricane activity and
4 warmer-than-normal summer temperatures, natural gas prices have been adversely
5 influenced by significantly higher petroleum prices. In 2004, the weighted average
6 NYMEX crude oil price was \$41.47 per barrel, as opposed to \$55.87 per barrel for 2005
7 (as of October 11, 2005). This represents a 35 percent increase in oil prices. These
8 increases in crude oil prices, in turn, are tracked in the heating oil (distillate) markets.
9 For example, the weighted average NYMEX heating oil price for 2004 was \$1.12 per
10 gallon, while the weighted average price for 2005 (as of October 11, 2005) is \$1.60 --
11 representing a 43 percent increase. These price levels are important because heating oil
12 tends to be the fuel switching alternative for many industrial plants and for some
13 electrical generating plants that burn natural gas as a primary fuel source. On an
14 equivalent \$/MMBtu basis, heating oil has been trading at levels above \$11.00/MMBtu.
15 This means that natural gas must reach these same relative prices before fuel switching
16 will occur and suggests that natural competitive forces will tend to push natural gas prices
17 to those levels.

18
19 Q. ARE HIGHER NATURAL GAS PRICES EXPECTED TO CONTINUE FOR THE
20 FORESEEABLE FUTURE?

21 A. Yes. The tight supply/demand dynamic in the natural gas market is expected to continue
22 for the foreseeable future, which will prolong the market uncertainty and continued
23 higher prices. This expectation is confirmed by NYMEX futures prices for natural gas

1 for 2006 and 2007, which (as of October 11, 2005) are \$11.41 per MMBtu and \$9.40 per
2 MMBtu, respectively. These futures prices confirm the collective judgment of
3 participants in the natural gas market that significant improvement is not anticipated in
4 the near term.

5
6 Q. WHAT IS CREATING UPWARD COST PRESSURE IN THE COAL MARKETS?

7 A. The current state of the coal market reflects elevated pricing due to increases in demand
8 and a shortage in availability of supply. Current industry projections indicate that
9 elevated pricing associated with this supply/demand imbalance will continue through
10 2007. My Exhibit __ (LRW-3) is a chart that shows a historical perspective of coal
11 prices since January 1996, and in particular the recent increases experienced in coal
12 prices. Simply put, these upward cost trends are attributable to an increased world-wide
13 demand for coal that has not been met with a corresponding increase in supply.

14
15 Q. WHAT ARE SOME OF THE REASONS FOR THESE DEMAND AND SUPPLY
16 ISSUES?

17 A. There are several factors that have contributed to an increased demand for coal. Without
18 attempting to provide an exhaustive list, these include the following:

19 • The enormous demand for raw materials (including, but not limited to
20 coal) associated with the industrialization and economic growth of China.

21 • The renewed demand for metallurgical coal for steelmaking and other
22 industrial uses, thereby causing a shift of domestic metallurgical coal from the
23 steam markets (where it had served as a source of supply that put downward
24 pressure on steam coal prices) back into the metallurgical markets.

25 • Elevated natural gas prices that are projected to remain high, which
26 enables coal prices to rise significantly before end users will economically
27 substitute with natural gas.

1 • Intense competition among coal producers leading to many departures
2 (voluntary and involuntary) from the industry, which in turn has resulted in fewer
3 producers available to meet the increased demand with additional supply

4 Again, this is not intended to be a detailed discussion of the factors underlying the current
5 and projected increases in coal prices. Rather, my purpose is to convey to the
6 Commission a sense of these economic drivers, which are neither transient nor easily
7 solved. While current industry projections indicate that the supply/demand balance will
8 ultimately become more stable, this is not expected to occur for several years.

9
10 Q. ARE THERE OTHER ELEMENTS OF COST PUTTING UPWARD PRESSURE ON
11 RATE ECR?

12 A. Yes. While the principal cost consideration relates directly to natural gas (and, to a lesser
13 extent, coal), there are a number of other factors that are also impacting this
14 determination. One of these is the cost of purchased power, which is established through
15 competitive wholesale markets and for that reason may fluctuate significantly in response
16 to various conditions. Indeed, the extremely high natural gas prices are also having the
17 effect of putting upward pressure on the price of purchased power because the marginal
18 cost of electricity in the market is often set by gas-fired generating facilities. Purchased
19 power costs have also been adversely impacted by the disruptive effects of the recent
20 hurricanes as well as other weather patterns. Additional elements of cost reflected in the
21 determinations under Rate ECR include nuclear fuel, emission allowances, and other
22 activities related to fuel components (such as transportation and storage). I would again
23 emphasize, however, that these other cost considerations (while certainly not immaterial)
24 are currently overshadowed by the dramatic increases in fossil fuel costs (and particularly
25 natural gas) currently being experienced across the country.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

Q. HOW DOES ALABAMA POWER MANAGE THESE AND OTHER SUCH COST PRESSURES THAT CAN IMPACT RATE ECR?

A. Through the implementation of fuel procurement strategies, Alabama Power seeks to secure reliable supplies of coal, natural gas and other fuels in a cost-effective manner. With respect to coal, the Company attempts to mitigate major risks related to volume, price, diversity of supply, reliability of supply and environmental requirements. In order to ensure appropriate fuel inventory levels, Alabama Power relies upon a flexible portfolio of longer-term contracts and spot agreements. The program also seeks to be in the market each year to procure a portion of the projected needs for future years, thereby minimizing exposure to market conditions for large blocks of coal in any one year. The reliability of a supply source is considered in each purchase and performance language is incorporated, to the extent practicable, in all supply agreements.

Acting through the fuel services department at SCS, the Company implements its coal procurement strategy through a competitive bidding process. Requests for proposals (“RFPs”) are issued on the Southern Company webpage stating the specifics of the given solicitation. There are over 150 producers, brokers and traders registered on the Internet bid system that are available to submit an offer in response to such an RFP. Diversity of supply, quality and transportation mode are all important variables that are used to promote competition, which in turn yields favorable pricing and contract terms and conditions. An economic evaluation is performed on the coal offers and the results are communicated to Alabama Power management, which makes the final decision with respect to all purchases.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

Q. IS A COMPARABLE APPROACH FOLLOWED WITH RESPECT TO THE PROCUREMENT OF NATURAL GAS?

A. Yes. The fundamental goal of the Company's gas procurement strategy is to have a reliable and cost-effective supply of gas available to its plants as necessary to generate electricity. This is accomplished through the fuel services function at SCS, which acts on behalf of the Company for the procurement of natural gas supply, transportation and storage, and hedging with financial instruments to dampen price volatility. The amount of natural gas supply is based on a combination of historical use, projected plant utilization, and current contractual commitments. SCS also oversees the gas operations on a daily basis to manage all of these assets and activities in a manner that will minimize costs to customers.

Q. CAN YOU CITE SOME SPECIFIC EXAMPLES WHERE THESE FUEL MANAGEMENT ACTIVITIES HAVE PRODUCED IDENTIFIABLE SAVINGS FOR CUSTOMERS?

A. Yes. One specific example that immediately comes to mind relates to the natural gas hedging program. Working with the Commission staff, the Company developed a hedging strategy that was approved by the Commission in November, 2001. The goal of the program is to dampen gas price volatility through various financial hedges and thereby promote better rate stability for retail customers. Through the application of this hedging program, Alabama Power's customers realized savings of approximately \$88.5 million through the end of 2004. The Company's 2005 settled positions and current

1 “mark-to-market” value of its open positions (as of October 11, 2005) for the balance of
2 the year represent additional customer savings of approximately \$60.9 million. In other
3 words, the natural gas hedging program has produced total savings for retail customers of
4 approximately \$150 million since its inception.

5 Another specific example of proactive management in this area relates to the
6 handling of emission allowance costs. In the late 1990's, Alabama Power management
7 implemented a dual compliance strategy designed to comply with requirements under the
8 Clean Air Act Amendments of 1990 associated with emissions of sulfur dioxide (SO₂).
9 The Company initially "banked" allowances during the 1995 to 1999 timeframe through
10 the use of low sulfur coal, and then, in the late 1990's, began entering into "forward
11 settling" SO₂ emission contracts. These contracts did not require the payment of any up-
12 front cash, but rather specified a settlement date in the future involving a fixed price and
13 quantity of allowances. Under these forward agreements, the Company has purchased
14 310,000 SO₂ allowances between years 2000 and 2005 at prices ranging from \$163.54 in
15 2000 to \$199.51 in 2005. These prices clearly compare favorably to today's current spot
16 price for SO₂ allowances, which has risen to \$935 per allowance. In 2005 alone, retail
17 customers have realized savings of approximately \$53 million associated with the 72,000
18 SO₂ allowances purchased by the Company at \$199.51 (versus the current market price of
19 \$935).

20 I would emphasize that these anecdotal examples are only representative of the
21 comprehensive fuel procurement practices and strategies employed by the Company.
22 Indeed, many of the benefits and efficiencies derived in this area are by their nature
23 difficult if not impossible to quantify. Notwithstanding these efforts, the costs under Rate

1 ECR, which are necessary for the provision of reliable electric service, are increasing for
2 reasons beyond the reasonable control of the Company.

3
4 Q. ARE OTHER UTILITIES EXPERIENCING THE SAME TYPES OF COST
5 PRESSURES THAT YOU HAVE BEEN DESCRIBING?

6 A. Absolutely. These upward pressures are by no means unique to Alabama Power. Indeed,
7 trade press and media reports are replete with stories regarding the impact of these same
8 underlying cost drivers. Virtually every utility in the country is experiencing cost
9 increases of this relative magnitude (or greater), thus prompting a host of filings to
10 increase their fuel cost recovery factors. Indeed, the new ECR Factor proposed to take
11 effect on December 3 is expected to remain among the lowest in the industry.

12
13 Q. HAVE YOU CALCULATED A NEW ECR FACTOR PURSUANT TO THE TERMS
14 OF RATE ECR?

15 A. Yes. Using the formula set forth in Rate ECR, I have calculated an ECR Factor based
16 upon the three-month period of December, 2005 through February, 2006. I began by
17 dividing a total estimated energy cost of \$323,238,416 by total estimated energy sales of
18 16,979,942 MWh, and then adding a correction factor of \$0.016275 per kWh. This
19 calculation yields an ECR Factor of \$0.03531 per kWh.

20
21 Q. HAVE YOU PREPARED AN EXHIBIT SETTING FORTH THIS CALCULATION
22 AND THE UNDERLYING DETAILS?

1 A. Yes. My Exhibit _____ (LRW-4) sets forth this calculation, along with additional
2 supporting details. As shown on page one of that exhibit, the formula used to compute
3 the ECR Factor consists of two parts. The first part of the formula utilizes the estimated
4 energy costs and estimated energy sales for the specified three-month period. Examining
5 each component of this portion of the formula, “ETEC” is the summation for the
6 specified three-month period of: (1) estimated fossil fuel and emission allowance costs to
7 be issued out of Accounts 151 and 158 of the Uniform System of Accounts prescribed by
8 this Commission; (2) the estimated cost of nuclear fuel to be recorded in Account 518;
9 (3) estimated purchased energy costs to be recorded in Account 555, net of the estimated
10 fuel cost recovered through intersystem sales; (4) estimated gains, losses and costs
11 associated with energy and fuel cost hedging activities; and (5) estimated gains, losses
12 and costs recorded in Account 456 associated with natural gas sales attributable to
13 operating considerations involving the Company’s generating facilities. The “ETS”
14 component of the formula is the estimated total energy sales for the specified three-month
15 period. ETEC divided by ETS results in a factor that is intended to recover the estimated
16 energy cost per kWh over the indicated period. Supporting details related to the
17 estimated energy sales and estimated energy costs are included on pages three and four of
18 the exhibit.

19 The second part of the formula is the “CF” component, which represents an
20 adjustment necessary to collect or refund any accumulated under-recovery or over-
21 recovery resulting from the difference between actual energy costs incurred by the
22 Company and revenues recovered pursuant to Rate ECR. As shown on page two of my
23 Exhibit _____ (LRW-4), the accumulated under-recovery of actual energy costs through

1 September, 2005 totals \$182,403,507, and the estimated under-recovery for the period
2 October-November, 2005 is \$38,362,000. This results in a total estimated accumulated
3 under-recovery of energy costs through November, 2005 of \$220,765,507. This total
4 under-recovery is then divided by the estimated sales subject to Rate ECR during the
5 specified three-month period (13,564,932 MWh) to produce the CF component of
6 \$0.016275 per kWh.

7
8 Q. THE RULES AND REGULATIONS GOVERNING RATE ECR REQUIRE THE
9 SUBMISSION OF CERTAIN INFORMATION RELATED TO EXPECTED FUEL
10 AND TRANSPORTATION VENDORS OF THE COMPANY OVER THE SPECIFIED
11 THREE-MONTH PERIOD, AS WELL AS THE DISCLOSURE OF ANY FINANCIAL
12 INTEREST OF THE COMPANY IN THOSE ENTITIES. HAVE YOU PREPARED
13 AN EXHIBIT SETTING FORTH THIS INFORMATION?

14 A. Yes. The information required under paragraph eight of those rules and regulations is
15 contained in my Exhibit _____ (LRW-5).

16
17 Q. IS ALABAMA POWER PROPOSING TO APPLY THE ECR FACTOR OF \$0.0353
18 PER KWH THAT YOU HAVE CALCULATED UNDER THE TERMS OF RATE
19 ECR?

20 A. No. Although entitled to do so under the provisions of Rate ECR, the Company is not
21 recommending that this factor be put in place immediately. Instead, it is proposing that a
22 considerably lower factor be made effective for an interim period in an effort to lessen
23 the impact of these fuel cost increases on retail customers.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

Q. WHAT ECR FACTOR DOES THE COMPANY PROPOSE TO PUT IN EFFECT?

A. In conjunction with the factor of \$0.03531 per kWh produced under Rate ECR, the Company is proposing an interim factor of \$0.0265 per kWh for a 12-month period beginning December 3, 2005.

Q. WHAT IS THE BASIS FOR THIS LOWER FACTOR?

A. The proposed interim factor was calculated in the same basic manner as prescribed under Rate ECR, specifically including its two-part formulation. The principal difference relates to the timeframe over which the components are developed and applied. As noted earlier, Rate ECR utilizes projected costs and kilowatt hours over a three-month period to develop the first component, and likewise uses kilowatt hours for that same period to address accumulated under-recoveries or over-collections. As a moderating alternative, the Company has developed these two components on a jurisdictional basis using a 12-month period ending December, 2006. This calculation and supporting details are set forth on my Exhibit __ (LRW-6).

Q. WHAT IS THE EFFECTIVE DATE FOR THIS INTERIM ECR FACTOR?

A. Consistent with the terms of Rate ECR, the ECR Factor of \$0.0265 per kWh will be made effective for billings beginning December 3, 2005, and for 12 months thereafter. The factor may then be adjusted in accordance with the filed rate. I would again emphasize that Alabama Power is immediately entitled under the terms of Rate ECR to an ECR Factor of \$0.03531 per kWh, but is submitting this interim factor in the interest of rate

1 stability and in an effort to lessen the impact of unavoidable cost increases on its
2 customers. Absent this interim factor, the higher factor derived under the specific terms
3 of Rate ECR would take effect on December 3, 2005.

4

5 Q. DOES THIS COMPLETE YOUR TESTIMONY?

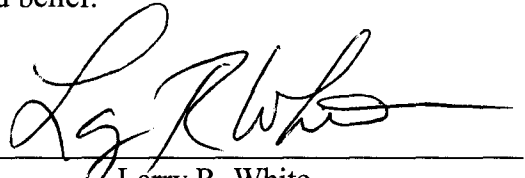
6 A. Yes.

BEFORE THE
ALABAMA PUBLIC SERVICE COMMISSION

STATE OF ALABAMA)
COUNTY OF JEFFERSON)

AFFIDAVIT

Larry R. White, being first duly sworn, deposes and says that he has read the foregoing prepared testimony of Larry R. White, and that the matters and things set forth therein are true and correct to the best of his knowledge, information and belief.



Larry R. White

Subscribed and sworn to before me
this 18 day of October, 2005.



Notary Public

MY COMMISSION EXPIRES FEBRUARY 25, 2006