DIRECT TESTIMONY OF

**SARAH P. ADAMS AND ADAM D. HOUSTON**

**ON BEHALF OF GEORGIA POWER COMPANY**

**GPSC DOCKET NO. 44902**

**I. INTRODUCTION**

**Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

A. Sarah P. Adams. I am the Vice President and Comptroller for Georgia Power Company (“Georgia Power” or the “Company”). My business address is 241 Ralph McGill Boulevard N.E., Atlanta, Georgia 30308.

A. Adam D. Houston. I am the Assistant Comptroller for Georgia Power. My business address is 241 Ralph McGill Boulevard, Atlanta, Georgia 30308.

**Q. Ms. Adams, please summarize your education and professional experience.**

A. I graduated from the University of Georgia in 1993 with a Bachelor of Science in Middle School Education and in 1998 with a Master of Accountancy degree. I began my professional accounting career with Arthur Andersen, LLP in Atlanta as an auditor primarily serving Southern Company. From 2002 to 2003, I served as senior financial analyst at Mirant Corporation. In 2003, I joined Southern Company and held several leadership positions in the Southern Company Generation and Southern Power Company organizations. In 2011, I joined Georgia Power as the manager of fuel and bulk power accounting and led several departments, including internal controls and compliance, corporate secretary support, and accounting and finance operations before being elected to Assistant Comptroller in 2017. In 2020, I was promoted to Vice President and Comptroller where I am responsible for the financial and regulatory functions of Georgia Power and manage and oversee accounting research, preparation of financial statements, and regulatory accounting filings with the Securities and Exchange Commission (“SEC”), Federal Energy Regulatory Commission (“FERC”), and the Georgia Public Service Commission (“Commission”). I am a Certified Public Accountant licensed in Georgia.

**Q. Ms. Adams, have you previously testified before the Commission?**

A. Yes, I testified before this Commission regarding Georgia Power’s 2019 and 2022 Rate Cases Docket Nos. 42516 and 44280. I also testified in the Company’s Fuel Cost Recovery proceeding in Docket No. 43011 and the Plant Vogtle Unit 3 and Common Rate Adjustment proceeding.

**Q. MR. HOUSTON, PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.**

A. I graduated from Victoria University of Wellington, New Zealand in 1995 with a Bachelor of Commerce and Administration in Economics and Finance. I began my professional accounting career with Arthur Andersen, LLP in Wellington as an Associate performing audits for multinational and local clients. From 2002, I worked for PricewaterhouseCoopers, LLP in Los Angeles and Chicago specializing in Power and Utility audits across the United States, including Exelon utility subsidiaries, PHI Holdings, and AGL Resources Inc. In 2017, I joined Southern Power Company (“Southern Power”) as the Assistant Comptroller responsible for accounting research, accounts payable, and internal controls and compliance. While at Southern Power, I was also given responsibility for financial accounting and reporting, and property accounting. In 2021, I joined Georgia Power as the Assistant Comptroller responsible for financial accounting and reporting, regulatory accounting (including fuel), and accounting research. I am a Chartered Accountant member of the Chartered Accountants Australia and New Zealand.

**Q. MR. HOUSTON, HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

A. Yes. I testified before the Commission in Georgia Power’s 2022 Rate Case in Docket No. 44280.

**II. OVERVIEW OF THE FILING**

**Q. PLEASE EXPLAIN WHY THE COMPANY IS SEEKING AN ADJUSTMENT TO ITS FUEL COST RECOVERY RATES AT THIS TIME.**

1. The Commission’s June 1, 2020 Order Adopting Stipulation in Docket No. 43011 requires Georgia Power to file new Fuel Cost Recovery (“FCR”) rates on or before February 28, 2023. In compliance with the Commission’s June 1, 2020 Order, the Company is proposing to adjust its current FCR-25 fuel rates with the rates set forth in the FCR-26 tariffs.

**Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY’S FILING.**

A. Georgia Power utilizes a diverse fleet of generation resources to economically and reliably meet the energy needs of its customers. The Company recovers the cost of the fuel that it uses to generate electricity, as well as the cost to purchase energy from various resources – including natural gas and renewable resources, through the Company’s fuel rates. The Company does *not* earn a return on these fuel costs; rather, they are directly passed through to customers.

With this filing, the Company is proposing to adjust its current fuel rates to accomplish two things:

1. Set fuel rates at an appropriate level to recover the Company’s *future* fuel costs, as projected in the two-year FCR-26 test period; and
2. Recover, over a 36-month period, the FCR-25 under-recovered fuel balance that accumulated over the past two and a half years. As of December 31, 2022, this under-recovered fuel balance was $2.1 billion, and is projected to be $2.6 billion by May 31, 2023.

Based on average annual fuel rates, the proposed FCR-26 rate changes are projected to increase the monthly bill of a typical residential customer using an average of 1,000 kWh per month between approximately $17 and $23. This range of projected bill impacts is based on natural gas price projections from two periods: February 2023 and September 2022, respectively. Due to the timing and extensive nature of the Minimum Filing Requirements, the Company utilized the September 2022 data when preparing this filing. Consistent with prior FCR proceedings, and to ensure customers benefit from the recent downward trend in natural gas prices in a timely manner, the Company will provide revised FCR-26 rates that reflect updated natural gas prices in our rebuttal testimony in April 2023.

Additionally, as a part of this filing, the Company recommends modifying the Interim Fuel Recovery Mechanism (“IFR”) to better enable the IFR to respond to the type of sudden and extreme fuel price volatility that impacted global fuel markets during the FCR-25 period. This modification will benefit customers by allowing FCR rates to more timely reflect the Company’s fuel costs, which will help mitigate the accumulation of large over/under-recovered fuel cost balances and, ultimately, lower the overall cost to customers through reduced carrying costs on under-recovered fuel balances.

Finally, the Company proposes to increase the amount of the Income Qualified Senior Citizen Fuel Discount from $6 to $8 per month. This discount has not been increased since first being introduced in FCR-18 in 2006.

The new fuel rates, which will be implemented through the FCR-26, TOU-FCR-26, and TOU-FCR-TP-4 tariffs, will apply to all customers and take effect for bills rendered beginning June 1, 2023.

**Q**. **WHAT IS DRIVING THE NEED TO ADJUST THE COMPANY’S FUEL RATES?**

A. This requested adjustment is driven by two items.

First, a significant amount – nearly two thirds – of this adjustment is driven by the impact of increased fuel costs between June 2020 and today, and Georgia Power’s need to recover the difference between the costs billed to customers and the higher costs incurred by the Company. Beginning in 2021, the cost of fuel used for power generation began to increase dramatically. Numerous variables drove the increase, including geopolitical unrest, global supply chain constraints, which included slower-than-expected gas production coming out of the COVID-19 pandemic, higher than expected domestic demand for natural gas, and an increased demand for LNG-exports. These variables not only drove the cost of natural gas to levels not seen since 2008, but also increased the cost of coal, as its supply did not keep pace with increased demand.

These increased fuel prices impacted all sectors of the economy. For electric utilities, like Georgia Power, the impact of elevated fuel prices – particularly the price of natural gas, which more than tripled between 2020 and 2022 – was especially acute, given their reliance on natural gas as a critical fuel resource to generate electricity. In addition to natural gas, commodity prices for coal – another critical fuel resource for electric utilities – reached unprecedented levels, increasing nearly five-fold from 2020 to 2022. These elevated prices were, in part, driven by transportation constraints, which limited the nation’s coal supply and in turn, increased price.

Weather volatility exacerbated these cost pressures. Higher temperatures in the summer, coupled with lower temperatures in the winter, increased demand for electricity, requiring Georgia Power to rely more on generation economically dispatched from gas-fired units despite the elevated price of natural gas.

Together, these factors caused the *actual* fuel costs to exceed the *projected* fuel costs upon which the Company’s FCR-25 rates were based, leading to an under-recovery of the Company’s fuel costs. As of December 31, 2022, the Company’s FCR-25 under-recovered fuel balance was approximately $2.1 billion, and with pricing and market information as of September 2022, the Company projects the balance will be approximately $2.6 billion as of May 31, 2023.

Second, the FCR-26 adjustment addresses the Company’s projected cost of fuel for the June 2023 through May 2025 period (the FCR-26 test period). Although fuel prices began trending downward in January 2023, the current fuel rates are projected to remain insufficient to recover the Company’s projected cost of fuel for the FCR-26 test period.

Therefore, with this filing, the Company seeks to adjust its fuel rates to recover the FCR-25 under-recovered fuel balance as well as its projected fuel costs for the FCR-26 test period.

**III. THE PROPOSED FCR-26 RATES**

**Q. PLEASE DESCRIBE THE PROPOSED FCR-26 RATES AND THEIR IMPACT TO CUSTOMERS.**

A. Theseasonal, stratified rates proposed for FCR-26 (*see* SPA\_ADH Exhibit 2, pages 4 and 5) are set forth below in **Table 1**:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Average Rate** | **Transmission** | **Primary** | **Secondary** |
| **Winter**  **(Oct-May)** | 4.8565 | 4.7720 | 4.8055 | 4.8931 |
| **Summer**  **(June-Sept)** | 5.3843 | 5.2906 | 5.3278 | 5.4249 |

**Table 1   
(cents per kWh)**

The average winter FCR-26 rate represents an increase of 2.0466 cents per kWh, to the current average winter FCR rate of 2.8099. The average summer FCR-26 rate represents an increase of 2.5118 to the current average summer FCR-25 rate of 2.8725.

Overall, using market data from September 2022 and considering a projected FCR-25 under-recovered fuel balance of approximately $2.6 billion, the requested changes set forth in our testimony and throughout this FCR-26 filing result in an average increase in fuel rates of approximately 78%, with nearly two-thirds of that increase associated with the projected FCR-25 under-recovered fuel balance. This fuel rate change would equate to an increase of approximately $23 on the bill of the typical residential customer using an average of 1,000 kWh per month. If more recent actual and forward-looking natural gas pricing levels continue, Georgia Power does not anticipate an increase in fuel rates of this magnitude. Using the preliminary FCR-25 under-recovered fuel balance as of January 31, 2023, and an updated forecast that reflects decreasing natural gas prices as of early February 2023, the rate impact for the typical residential customer drops by nearly $6 per month – from approximately $23 to $17. As stated above, nearly two-thirds of this rate impact is associated with the projected FCR-25 under-recovered fuel balance. The calculation of the reduction in projected FCR-26 fuel expense based on the updated forecast of natural gas prices is provided in SPA\_ADH Exhibit 3. As previously discussed, consistent with past practice, the Company will file updated forecasts in our forthcoming rebuttal testimony.

**Q.** **WHY DON’T THE PROPOSED FCR-26 RATES CURRENTLY REFLECT THE RECENT DOWNWARD TREND IN NATURAL GAS PRICES?**

A. Because of the timing of this proceeding, the proposed FCR-26 rates, as well as the supporting Minimum Filing Requirements (“MFRs”) and tariffs filed in this case, reflect the Company’s 2023 Fuel and Energy budget. The 2023 Fuel and Energy budget was completed in the fourth quarter of 2022 and included natural gas prices as of September 2022, which preceded the recent sharp decline in natural gas prices.

To ensure capture of any customer benefits resulting from the recent downward trend in natural gas prices, the Company will file revised FCR-26 rates in our rebuttal testimony, which will be based on a natural gas price forecast that includes more recent data. This approach of updating projected fuel costs by using a more current natural gas price forecast is consistent with prior Company submissions, including FCR-25, IFR filings and the June Semi-Annual Fuel Cost Recovery Reports. The Company will monitor forecasted natural gas prices during the FCR-26 proceeding and, in its rebuttal testimony, adjust the projected cost of gas-fired generation and gas-fired PPAs based on more current natural gas price forecast information to establish the FCR rates that will take effect June 1, 2023. The Company will also reflect as many months of actual fuel cost recovery results as practical, to provide a revised FCR-25 projected fuel cost under-recovered fuel balance as of May 31, 2023.

**Q.** **IS THE COMPANY TAKING STEPS TO MITIGATE THE IMPACT OF THE FCR-26 RATES ON CUSTOMERS?**

A. Yes. The Company has proactively requested to extend the time over which we will recover the FCR-25 under-recovered fuel balance from 24 months to 36 months. This change will reduce the amount to be recovered during the 24-month FCR-26 test period by approximately $900 million, which decreases the requested FCR-26 rates by approximately 12% and reduces the impact to the typical residential customer’s bill by approximately $7 per month.

The Company is also proposing to increase the Income-Qualified Senior Citizen Fuel Discount. As part of the settlement in the Company’s 2022 Base Rate Case, the Commission approved a 33% increase in the Income-Qualified Senior Citizen Discount, bringing the base rate discount to $24 per month. As part of the Company’s FCR-26 case, the Company is proposing to continue its Income-Qualified Senior Citizen Fuel Discount and increase the monthly discount by $2, from $6 to $8. Increasing the fuel discount will bring the total Income-Qualified Senior Citizen Discount to $32 per month for qualifying customers and should help offset the proposed fuel increase for those customers.

**Q.** **WHEN DOES THE COMPANY PROPOSE TO IMPLEMENT THE NEW FCR-26 RATES?**

A. Under the Commission’s June 1, 2020 Order Adopting Stipulation in Docket No. 43011, the Company plans to implement the FCR-26 rates effective June 1, 2023.

**Q.** **HAS THE COMPANY SUBMITTED THE MFRS REQUIRED BY THE COMMISSION IN THIS FILING?**

A. Yes. In accordance with Commission Rule 515-2-1-.04(6) and the Commission’s orders issued in Docket Nos. 20932 and 39638, the Company submitted historic and projected MFRs with this filing. For purposes of FCR-26, the Company’s historic period covers January 2020 through December 2022, and the projected MFRs incorporate a projected test period of June 2023 through May 2025 and are based on the Company’s 2023 Fuel and Energy budget.

**Q. PLEASE EXPLAIN THE SALES FORECAST USED IN THIS FILING.**

A. The proposed FCR-26 rates were calculated based on the Company’s 2023 Energy Budget, which includes the same sales forecast utilized in the Company’s Twenty Eighth Semi-Annual Vogtle Construction Monitoring Report filed on February 16, 2023, in Docket No. 29849 *(see* SPA\_ADH Exhibit 1, Page 5). Total demand for electricity is forecasted to be approximately 0.3% higher during the first twelve months of the FCR-26 test period than it was for the first twelve months in FCR-25.

**IV. FCR-25 Under-Recovered**

**Fuel Balance and Historic Fuel Costs**

**Q. PLEASE ELABORATE ON THE CHANGES THAT HAVE OCCURRED IN THE FUEL MARKETS SINCE JUNE 2020 WHEN THE COMPANY SET THE FCR-25 RATES.**

A. Beginning in 2021, fuel prices increased dramatically and remained high throughout 2022. During this time, the annual average price of natural gas increased from $1.99 per mmbtu in 2020 to $6.38 per mmbtu in 2022, with periods of sustained spot prices over $8 per mmbtu during the second half of 2022. Similarly, the price of Illinois Basin coal reached unprecedented pricing levels, exceeding $190/ton in 2022, with sustained average prices over $150/ton in the second half of 2022. By comparison, this coal is typically priced closer to $40/ton. Mine closures in 2021 and post-pandemic labor shortages for railcar engineers constricted coal supply, which ultimately required federal intervention to prevent an industry-wide railway shutdown in 2022. As coal generation capacity declined, the price elasticity of natural gas demand decreased as well. This resulted in natural gas customers across the country paying higher prices for gas due to high demand and limited availability for alternative fuel sources. At the same time, coal supply and delivery constraints forced the Company to rely more heavily on gas generation and purchased power resources to meet customer demand and ensure system reliability.

**Q. FOR THE FCR-26 HISTORIC PERIOD, HOW DID THE COMPANY’S ACTUAL FUEL COSTS DIFFER FROM THE COMPANY’S BUDGETED FUEL COSTS?**

A. As shown in MFRH-2, the Company’s actual fuel costs for operations during the historic period were 40.3% above budgeted costs. The primary factors impacting actual costs were increases in the cost of natural gas and relatedly, purchased power.

Henry Hub monthly average gas prices during the historic period of January 2020 through December 2022 averaged $4.07 per mmbtu, which was 41% higher than budgeted. As a result of these higher natural gas prices, the Company’s cost for gas generation (including PPAs and hedge settlements) was approximately $1.1 billion or $11.46/MWh above budget for the historic period. Additionally, the Company’s other purchase power costs were approximately $1.4 billion or $10.33/MWh above budget. **Chart 1** below shows how the actual monthly natural gas prices at Henry Hub compared to the prices in the FCR-25 budget as well as the forecasted Henry Hub prices as of May 5, 2020.

**Chart 1**



**Q.** **DURING THE FCR-26 HISTORIC PERIOD, HOW DID THE COMPANY’S ACTUAL GENERATION PRODUCTION AND ENERGY SALES COMPARE TO THE COMPANY’S FCR-25 BUDGET?**

A. During the FCR-26 historic period, the Company’s gas (including PPAs), coal, and nuclear generation production were below budget by approximately 2.7%, 20.7%, and 7.3%, respectively. However, hydro and solar generation production were above budget by approximately 54.7% and 2.0%, respectively.

Retail loads were slightly below budget by approximately 3.3 million MWh (1.3%) during the historic period and the Company’s total supply requirement was just slightly above budget by approximately 217,000 MWh (0.1%).

**Q.**  **DID THE VARIANCE IN ACTUAL FUEL COSTS TO BUDGET RESULT IN AN FCR-25 UNDER-RECOVERED FUEL BALANCE?**

A. Yes. As previously explained, the difference between actual and budgeted fuel costs in the FCR-26 historic period created an FCR-25 under-recovered fuel balance because the Company’s FCR-25 rates did not sufficiently recover the increasing fuel costs. The FCR-25 under-recovered fuel balance began accumulating in June 2021 as upward pressure on natural gas prices continued. As illustrated in **Chart 2** below, despite implementing the maximum allowed 15% increase in the FCR-25 rates via the IFR-4 adjustment (which took effect in January 2022), the Company’s FCR-25 under-recovered fuel balance increased dramatically in 2022.

**Chart 2**

**Millions**

**Q.** **WHAT IS THE STATUS OF THE FCR-25 UNDER-RECOVERED FUEL BALANCE?**

A. As of December 31, 2022, the Company’s FCR-25 under-recovered fuel balance was $2.056 billion. The balance is projected to increase to $2.618 billion by May 31, 2023, but if actual and forecasted natural gas prices continue at or near current (February 2023 vintage) levels, the projected May 31, 2023, FCR-25 under-recovered fuel balance will decrease over the next few months. The Company will continue to provide the Commission with actual data for January, February, and March 2023 as such data becomes available during this proceeding. As in prior FCR proceedings, the Company will continue to evaluate the most current natural gas price forecast information available and work to set FCR rates that reflect the projected level of natural gas costs for the test period June 2023 through May 2025.

**Q.** **DID THE COMPANY TAKE STEPS TO MITIGATE THE FCR-25 UNDER-RECOVERED FUEL BALANCE?**

A. Yes. In October 2021, the Company filed a Retail FCR Status and IFR Notification and Plan in Docket No. 43011, informing the Commission that the Company’s FCR-25 under-recovered fuel balance exceeded the IFR threshold as of September 30, 2021. On December 13, 2021, the Commission approved the Company’s request to implement an IFR, thus increasing fuel rates approximately 15% effective January 1, 2022. Notwithstanding this IFR, the Company’s FCR-25 under-recovered fuel balance has continued to increase due to the higher cost of fuel.

**V. FCR-26 PROJECTED FUEL COSTS**

**Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY’S PROJECTED FUEL COSTS FOR THE FCR-26 TEST PERIOD.**

A. During the 24-month FCR-26 test period, using market data as of September 2022, the Company projects natural gas prices will average $5.14 per mmbtu. Actual prices for the historic period ranged from $1.34 to $23.61 per mmbtu and averaged $4.07 per mmbtu, excluding hedge settlements. Compared to the FCR-25 test period, the dollar per megawatt hour (“$/MWh”) fuel cost for coal, natural gas (including PPAs), and nuclear generation resources are projected to increase 97%, 82%, and 17%, respectively. In addition to higher generation costs, higher fuel costs are projected to impact the cost of purchased power, which is projected to increase 28% on a $/MWh basis. Generation from renewable resources – which lowers the cost of fuel – is estimated to increase almost 1,150 gigawatt hours (“GWh”) or 41%. Combined, fuel and purchased power costs for the FCR-26 test period are projected to increase approximately $11/MWh, or about 49%, as compared to the FCR-25 test period.

For FCR-26, fuel costs are projected to be $3.3 billion for the first twelve months of the test period and $6.2 billion for the full 24-month test period, with an average cost of $260 million per month, as shown in SPA\_ADH Exhibit 1. Overall, the total projected fuel cost for the FCR-26 test period is approximately $2.1 billion more than the projected fuel cost for the FCR-25 test period. Additional information regarding the comparison of projected fuel costs between the FCR-26 test period and the FCR-25 test period is presented in **Table 2**.

**Table 2**



**Q. HOW DOES THE PROJECTED $ PER MMBTU PRICE OF NATURAL GAS INCLUDED IN THE FCR-26 BUDGET COMPARE TO THE PRICE INCLUDED IN THE FCR-25 BUDGET?**

A. In the FCR-26 test period, the projected monthly average price of natural gas is $5.14 per mmbtu; the projected monthly average price in the FCR-25 test period was $2.47 per mmbtu. As shown in **Table 2** above, although gas generation (GWh) in the FCR-26 test period is projected to be 9% lower than in the FCR-25 test period, the *cost* of gas generation is projected to be $1.1 billion – or 66% – higher.

**Q.**  **IN ADDITION TO THE COST OF NATURAL GAS FIRED GENERATION, WHAT ARE THE OTHER PRIMARY DRIVERS CONTRIBUTING TO THE INCREASE IN PROJECTED FUEL COSTS IN THE FCR-26 TEST PERIOD?**

A. As presented in **Table 2**, purchased power costs – which exclude the cost of natural gas for gas-fired PPAs – are projected to be approximately $1.1 billion higher in the FCR-26 test period as compared to the FCR-25 test period. These purchase power costs include: (i) energy purchased from the Southern Company Pool; (ii) economy energy purchased from other companies; and (iii) energy purchased from a variety of renewable resources such as solar, wind, and biomass.

**VI. PROPOSED CHANGES TO THE CURRENT FCR MECHANISM**

**Q.** **IN THIS FILING, IS THE COMPANY PROPOSING ANY CHANGES TO THE CURRENT FCR MECHANISM?**

A. Yes, the Company is proposing the following changes to the current FCR mechanism:

1. Use a two-part rate to separately account for (i) fuel costs for the FCR-26 test period (Part-A) and (ii) the FCR-25 under-recovered fuel balance (Part-B);
2. Recover the projected $2.6 billion FCR-25 under-recovered fuel balance over a 36-month period beginning June 1, 2023; and
3. Provide for the automatic expiration of the Part-B portion of the FCR-26 rates once the FCR-25 under-recovered fuel balance is fully collected.

**Q.** **PLEASE EXPLAIN HOW THE COMPANY PROPOSES TO TRACK the recovery of the projected FUEL COSTS FOR THE FCR-26 TEST PERIOD AND THE FCR-25 UNDER-RECOVERED FUEL BALANCE.**

A. For ease of monitoring, and consistent with prior fuel cases, the Company proposes to use a two-part FCR rate to separately track (i) the recovery of projected fuel costs for the FCR-26 test period (referred to as “Part-A”) and (ii) the FCR-25 under-recovered fuel balance (referred to as “Part-B”). As previously noted, the Part-B portion of the FCR-26 rates is designed to recover this balance over a 36-month period (June 2023 through May 2026).

Although the Company will internally track Part-A and Part-B separately, the Company will continue to use a single FCR rate to calculate customers’ bills.

**Q.** **HOW WILL FUEL REVENUES BE ALLOCATED   
TO THE FCR-25 UNDER-RECOVERED FUEL BALANCE?**

A. To determine the portion of fuel revenues that will be allocated to the FCR-25 under-recovered fuel balance each month, the Company will apply the Part-B portion of the FCR-26 rates to actual kWh sales. The Company will continue this allocation method until the FCR-25 under-recovered fuel balance is eliminated. At that point, the Part-B portion of the FCR-26 rates will automatically expire and only the Part-A portion will remain.

As the actual FCR-25 under-recovered fuel balance approaches zero, the Company will be able to better project the month in which the balance will be fully recovered. The Company will then notify the Commission that it plans to reduce the FCR rate by eliminating the Part-B portion beginning the month after the under-recovered fuel balance is eliminated.

**Q.** **WHY IS THE COMPANY PROPOSING TO COLLECT THE FCR-25 UNDER-RECOVERED FUEL BALANCE OVER A 36-MONTH PERIOD?**

A. Although longer than the customary 24-month test period, a 36-month recovery period appropriately balances the desire to reduce near-term rate impacts on our customers with the need for timely recovery of previously incurred fuel costs. This longer recovery period reduces the amount to be recovered during the 24-month FCR-26 test period by approximately $900 million, which reduces the impact to the typical residential customer’s bill by approximately $7 per month.

**VII. NATURAL GAS HEDGING**

**Q.** **IS THE COMPANY PROPOSING ANY CHANGES TO ITS CURRENT NATURAL GAS HEDGING PROGRAM?**

A. No, the Company is not requesting any revisions to the hedging program. The current hedging program has worked as intended and continues to provide benefits for customers.

**Q.** **WHY DOES THE COMPANY ENGAGE IN NATURAL GAS HEDGING?**

A. The Company engages in natural gas hedging to help mitigate the risk of upward price volatility in the natural gas market. Natural gas fired generation is projected to be the largest energy source for Georgia Power during the FCR-26 test period, with approximately 44% of the total projected fuel costs coming from natural gas. Because the cost of natural gas is a significant portion of the Company’s fuel costs and remains subject to significant volatility, it is appropriate for the Company to mitigate its natural gas costs by capping a portion of the prices it pays for gas. This benefits customers by providing greater stability in the Company’s fuel costs and reducing the impact of increasing gas prices.

**Q.** **ARE NATURAL GAS PRICES STILL SUBJECT TO VOLATILITY?**

A. Yes. Natural gas prices remain subject to extreme volatility. As shown in **Chart 3** below, this volatility can be seen in the wide range of spot prices at Henry Hub, which ranged from $1.34 to $23.61 per mmbtu in 2021 and 2022. Even small movements in gas prices can impact the Company’s fuel balance and, ultimately, costs to customers. For a company like Georgia Power that anticipates consuming more than 200 million mmbtu of natural gas per year, a robust hedging program serves as a critical tool to mitigate upward price volatility for customers.

**Chart 3**



**Q.** **DURING THE FCR-26 HISTORIC PERIOD, DID THE HEDGING PROGRAM BENEFIT CUSTOMERS?**

A. Yes. From January 2020 through December 2022, the hedging program resulted in net benefits of approximately $289 million that reduced the cost of natural gas purchases for the benefit of customers.

**VIII. INTERIM FUEL RIDER**

**Q. SHOULD THE IFR MECHANISM BE CONTINUED?**

A. Yes. The IFR mechanism should be continued because it helps mitigate the accumulation of a substantial over-recovered or under-recovered fuel balance, thereby benefiting customers and the Company. The Commission initially approved the IFR mechanism in FCR-21, and it has served as a useful tool for customers and the Company since then.

**Q. ARE ANY CHANGES TO THE IFR MECHANISM NECESSARY AT THIS TIME?**

A. Yes. To help mitigate the risk of the accumulation of significant over-recovered or under-recovered fuel cost balances in the future, the Company is proposing to modify the amount by which FCR rates can be adjusted during an FCR cycle. Currently, the maximum amount by which fuel rates can be adjusted during an FCR cycle is 15% above (or below) the approved FCR rates. With this filing, the Company proposes to change this amount to 40%.

**Q. HOW WOULD THIS CHANGE TO THE IFR MECHANISM BE APPLIED?**

A. Today, the +/- $200 million threshold that triggers the IFR mechanism applies to the *total* over/under recovered fuel balance. Given the Company’s proposal to internally track FCR-26 revenues in two parts (Part-A and Part-B, as described above), the current IFR mechanism must be adjusted such that the +/- $200 million threshold only applies to the *current* period cumulative over/under recovered fuel balance as opposed to the *total* over/under recovered fuel balance. Until the FCR-25 under-recovered fuel balance is eliminated, fuel rates will only be adjusted if there is a projected under-recovered balance that exceeds $200 million. If the Company accumulates an *over*-recovered balance exceeding $200 million, the projected over-recovered balance at the end of the test period would be applied to reduce the FCR-25 under-recovered fuel balance. Using this approach, the FCR-25 under-recovered fuel balance could be recovered more quickly, thus expediting the elimination of the Part-B portion of the FCR-26 rates.

**VIII. CONCLUSION**

**Q. IS THE COMPANY PROPOSING A SPECIFIC DATE BY WHICH TO FILE ITS NEXT FUEL CASE?**

A. The Company is not proposing a specific date for its next fuel case. Instead, the Company proposes to continue its semi-annual reporting of projected monthly fuel revenues, fuel expenses, monthly over or under collections, and projected fuel balances through the FCR-26 test period to help ensure actual fuel costs are recovered as expected.

With the Company’s request in this case, the Company anticipates recovering the FCR-25 under-recovered fuel balance over 36 months, which extends beyond the FCR-26 projected test period by 12 months. By maintaining the flexibility to set the date for the next fuel case -- rather than setting a firm date now that aligns with the end of the FCR-26 projected test period -- the Company and the Commission will monitor the fuel balance and potentially eliminate the FCR-25 under-recovered fuel balance before the next fuel case is filed. The Company’s recommended change to the IFR mechanism will also enable the Company and the Commission to respond in a more timely and effective manner to fuel price volatility, thereby further mitigating the need to establish a fixed date for the next fuel case at this time.

For these reasons, a less prescriptive and more flexible, collaborative approach to determining the date of the next fuel filing is appropriate. Additionally, by not setting a specific date for the next filing, the Company and the Commission will avoid the need for formal deferral orders if future circumstances demonstrate that the fuel rates approved in this proceeding are sufficient beyond the FCR-26 test period.

**Q. Please summarize the company’s request in this filing.**

A. For the reasons set forth herein, the Company respectfully seeks approval of its Fuel Cost Recovery Application, which includes the following requests:

* To set fuel rates to recover fuel costs as projected in the Company’s FCR-26 test period (June 2023 through May 2025);
* To set fuel rates to recover the FCR-25 under-recovered fuel balance over a 36-month period (June 2023 through May 2026);
* To increase the Income-Qualified Senior Citizen Fuel Discount from $6 to $8, bringing the total monthly discount to $32; and
* To increase the amount by which the Company can adjust rates through the IFR mechanism, giving the Company and the Commission more flexibility to timely address fuel price volatility.

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes.