

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**FUEL COST AND PURCHASED POWER COST
RECOVERY CLAUSE**

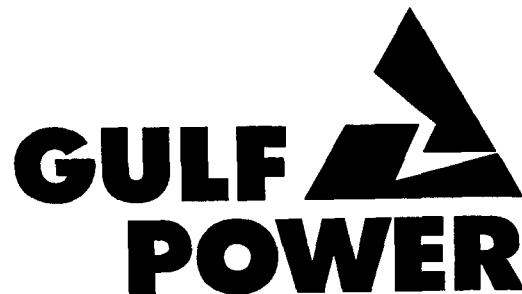
DOCKET NO. 010001-EI

**PREPARED DIRECT TESTIMONY AND
EXHIBIT OF
RICHARD J. McMILLAN**

**PROJECTION FILING
FOR THE PERIOD**

JANUARY - DECEMBER 2002

SEPTEMBER 20, 2001



A SOUTHERN COMPANY

DOCUMENT NUMBER-DATE

11734 SEP 20 01

FPSC-COMMISSION CLERK

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Prepared Direct Testimony of
4 Richard J. McMillan
5 Docket No. 010001-EI
6 Fuel and Purchased Power Cost Recovery Clause
7 Date of Filing: September 20, 2001

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

9 A. My name is Richard J. McMillan. My business address is One Energy
10 Place, Pensacola, Florida 32520. I am General Accounting Manager of
11 Gulf Power Company.

12 Q. Please describe your educational and professional background.

13 A. I graduated from Louisiana State University in 1976 with a Bachelor of
14 Science Degree in Accounting. Immediately following graduation, I was
15 employed by Gulf Power Company as an Internal Auditor. I have held
16 various accounting positions, including Staff Internal Auditor, Staff
17 Financial Analyst, Staff Accountant, Coordinator of Internal Accounting
18 Controls, Supervisor of Financial Planning; and in March 1992, I was
19 promoted to my current position as General Accounting Manager. Also,
20 during my employment, I graduated from the University of West Florida in
21 1983 with a Master of Science Degree in Business Administration.

22 Q. Briefly describe your duties and responsibilities as General Accounting
23 Manager.

24 A. My responsibilities include: all external accounting reporting and
25 administration, regulatory accounting requirements, tax accounting, fuel

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1 accounting, actual FPSC recovery clause calculations and support, cost
2 accounting, bank reconciliations, coordination and preparation of the
3 Accounting department budget and Company budgets for general
4 corporate expenses, and assistance with various other projects and
5 assignments as required.

6

7 Q. What is the purpose of your testimony?

8 A. The purpose of my testimony is to address the appropriate regulatory
9 treatment of the gains, losses and other costs or receipts related to
10 hedging of the investor-owned electric utility's fuel and energy
11 transactions. I will also address the appropriate regulatory treatment for
12 capital projects and the corrective actions that Gulf has taken regarding
13 the overstatement of Interchange Sales in 2000.

14

15 Q. What is the appropriate regulatory treatment for gains, losses and other
16 costs or receipts related to hedging of the Company's fuel and energy
17 transactions?

18 A. All gains, losses and other costs or receipts related to fuel and energy
19 transactions should be included in the determination of the recoverable
20 fuel costs. These gains, losses and other costs and receipts related to
21 fuel and energy transactions include but are not limited to the gains and
22 losses from either futures or option contracts, the premium costs and
23 other transaction costs associated with fuel related hedging activities.
24 The primary objective of an effective fuel program is to provide stable or
25 more predictable fuel prices for our customers. All costs and benefits

1 associated with fuel related hedging activities must be included in
2 recoverable fuel costs along with the cost of the fuel and energy
3 transactions in order to provide for timely matching of all costs and
4 benefits.

5

6 Q. Should utilities continue to be allowed to recover carrying costs through
7 the fuel cost recovery clause for capital projects?

8 A. Yes, if the capital project is related to the fuel program. For example, a
9 capital project incurred with the expectation and purpose of reducing long-
10 term fuel costs should be recoverable through the fuel clause because the
11 benefits of such a project will ultimately flow through to the utility's
12 customers through the fuel clause. Ms. Davis addresses the specific
13 components of the utility's carrying costs on such capital projects that
14 have been and are allowed in this and other cost recovery clauses.

15

16 Q. Please explain the Audit Disclosure pertaining to Interchange Sales and
17 the corrective actions taken by the Company.

18 A. The Company inadvertently overstated the emission allowance costs
19 related to Interchange Sales in August 2000, which understated the net
20 recoverable fuel expense by \$385,796 in 2000. The error was found,
21 documented and provided to the FPSC auditor during his audit. Gulf
22 made a correcting entry in July 2001 by reducing the emission costs for
23 July by the same amount.

24 Q. Does this conclude your testimony.

25 A. Yes.

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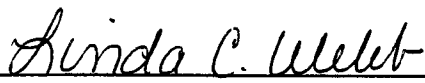
STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 010001-EI

Before me the undersigned authority, personally appeared Richard J. McMillan, who being first duly sworn, deposes, and says that he is General Accounting Manager of Gulf Power Company, a Maine corporation, that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.


Richard J. McMillan
General Accounting Manager

Sworn to and subscribed before me this 19th day of September, 2001.


Notary Public, State of Florida at Large



LINDA C. WEBB
Notary Public-State of FL
Comm. Exp: May 31, 2002
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