

DOCKET NO. 030001-EI: Fuel and purchased power cost recovery clause and generating performance incentive factor.

WITNESS: **Direct Testimony Of Michael E. Buckley**, Appearing On Behalf Of Staff

DATE FILED: October 9, 2003

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DIRECT TESTIMONY OF MICHAEL E. BUCKLEY

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2 | Q. Please state your name and business address.

3 | A. My name is Michael E. Buckley and my business address is 2540 Shumard
4 | Oak Blvd., Tallahassee, Florida, 32399.

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

6 | A. I am employed by the Florida Public Service Commission as a Professional
7 | Accountant Specialist in the Division of Auditing and Safety.

8 | Q. How long have you been employed by the Commission?

9 | A. I have been employed by the Florida Public Service Commission since
10 | July, 1989.

11 | Q. Briefly review your educational and professional background.

12 | A. I have a Bachelor of Business Administration with a major in accounting
13 | from Oklahoma University. I was hired as a Regulatory Analyst I by the
14 | Florida Public Service Commission on July 10, 1989 and was promoted to a
15 | Professional Accountant Specialist on June 1, 2000.

16 | Q. Please describe your current responsibilities.

17 | A. Currently, I am a Professional Accountant Specialist with the
18 | responsibilities of planning and directing the most complex investigative
19 | audits, including audits of cross-subsidization issues, anti-competitive
20 | behavior, and predatory pricing. I also am responsible for creating audit
21 | work programs to meet a specific audit purpose and integrating EDP
22 | applications into these programs. In addition, I serve as the acting
23 | supervisor in the absence of the district office supervisor.

24 | Q. Have you presented expert testimony before this Commission or any other
25 | regulatory agency?

1 A. Yes. I have testified in the United Water Florida Inc. rate case,
2 Docket No. 960451-WS.

3 Q. What is the purpose of your testimony today?

4 A. The purpose of my testimony is to sponsor two staff audit reports:

5 ● Gulf Power Company: Base Year costs for hedging; Docket Number 030001-
6 EI; Audit Control Number 02-340-1-1. A copy of the audit report is filed with
7 my testimony and is identified as MEB-1.

8 ● Gulf Power Company: Fuel Adjustment Audit; Docket No. 030001-EI; Audit
9 Control Number 03-034-1-1. A copy of the audit report is filed with my
10 testimony and is identified as MEB-2.

11 Q. Let's begin by discussing the first audit report, the Base Year audit.
12 Did you prepare this audit report?

13 A. Yes, I was the audit manager in charge of the audit.

14 Q. Could you summarize the work you performed in this audit?

15 A. Yes. I obtained organization charts of Southern Company Services, Inc.
16 to show what departments are involved in the physical and financial hedging
17 process for the time period 1999 to 2003. I also obtained an employee count
18 and charges and percentage allocations for these departments from 1999 to 2003
19 and compared actual costs for FERC Account #501 (Fuel Handling Expense) and
20 FERC Account #547 (Other Fuel Handling Expense) to the estimated costs for the
21 year 2002. I further compared the actual costs for FERC Account #501 (Fuel
22 Handling Expense) and FERC Account #547 (Other Fuel Handling Expense) to the
23 estimated costs for the first three months of 2003.

24 Q. Could you summarize your findings in this audit?

25 A. Yes, this report has one audit disclosure that summarizes our work and

1 findings regarding the hedging costs at Gulf Power Company. Southern Company
2 Services, Inc. (SCS), a subsidiary of Southern Company, charges its Fuel
3 Services and Risk Management groups for financial hedging and other gas
4 related activities. The Gas Procurement section in the SCS Fuel Services
5 Organization procures physical gas, gas transportation, and gas storage,
6 develops gas financial hedging strategy and executes financial hedging deals
7 with counter parties. The Fuel Accounting group in the SCS Fuel Services
8 Organization provides accounting services for gas procurement and gas
9 financial hedging deals. The SCS Risk Management group confirms financial
10 hedging deals with the counter parties, performs credit analysis on counter
11 parties, performs overall risk analysis on financial hedging deals, and
12 produces daily gas financial hedging reports. These charges are then
13 allocated to affiliates. In 1999, 2000, 2001, and 2002, the methodology for
14 allocations were determined by each affiliates' percent ownership of total
15 installed fossil fuel fired capacity. For 2003, the methodology for
16 allocations were determined by each affiliates' percent ownership of gas fired
17 capacity for charges related to gas supply activities and each affiliates'
18 percent ownership of coal fired capacity for charges related to coal supply
19 activities. The estimated monthly administrative financial hedging charge for
20 2003 is \$6,600. Gulf Power Company did not include any administrative
21 financial hedging costs for the projected test year ended May 31, 2003, as
22 filed in Docket No. 010949-EI.

23 Q. Now, in regard to the second audit report regarding the Gulf fuel
24 adjustment audit, did you prepare this audit report?

25 A. Yes, I was involved in the preparation of ths audit report.

1 Q. Could you discuss the work performed in this audit?

2 A. Yes, the audit staff and I compiled the fuel cost of system net
3 generation, and scanned and recomputed energy payments and fuel cost purchased
4 power. As part of the audit, we verified prior year accounts to determine the
5 accounting methodologies and procedures used by the company to account for
6 incremental hedging costs and determined that the hedging program is
7 consistent with the Company's risk management plan for 2002.

8 Q. Could you summarize your findings in this audit?

9 A. Audit Disclosure No. 1 discusses gains and losses on hedging
10 settlements. Gulf Power Company recorded settlement costs of \$38,750 to FERC
11 Account 547-4 for November 2002. No administrative costs were charged for
12 hedging in November or December 2002.

13 Q. Does this conclude your testimony?

14 A. Yes, it does.

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DOCKET NO. 030001-EI: Fuel and purchased power cost recovery clause and generating performance incentive factor.

WITNESS: **Direct Testimony Of Michael E. Buckley**, Appearing On Behalf Of Staff

EXHIBIT: MEB-1 - Audit of Base Year Costs For Hedging



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

Tallahassee District Office

GULF POWER COMPANY

BASE YEAR HEDGING COSTS AUDIT

PROJECTED TEST YEAR ENDED MAY 31, 2003

DOCKET NUMBER 030001-EI

AUDIT CONTROL NO. 02-340-1-1

Michael Buckley
Michael Buckley, Audit Manager

Lynn M. Deamer
Lynn M. Deamer, Audit Supervisor

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**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT**

June 10, 2003

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit base year hedging costs to be considered in the Fuel and Capacity Cost Recovery clause proceedings before this Commission.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

SUMMARY OF SIGNIFICANT FINDINGS

The audit found that Gulf Power Company did not include any administrative financial hedging costs for the projected test year ended 5/31/03 as filed in Docket No. 010949-EI. The audit also did not find any actual administrative charges for financial hedging made before November 2002.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the utility. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Scanned - The documents or accounts were read quickly looking for obvious errors.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

Obtained organization charts of Southern Company Services, Inc. to show what departments are involved in the physical and financial hedging process for the time period 1999 to 2003.

Obtained employee count for these departments from 1999 to 2003.

Obtained charges and percentage allocations for these departments from 1999 to 2003.

Verified actual FERC Account #501 (Fuel Handling Expense) and FERC Account #547 (Other Fuel Handling Expense) to estimated for the year 2002.

Verified actual account FERC Account #501 (Fuel Handling Expense) and FERC Account #547 (Other Fuel Handling Expense) to estimated for the first three months 2003.

II. DISCLOSURE

Disclosure No. 1

Subject: Hedging

Statement of Fact: Southern Company Services, Inc.(SCS), a subsidiary of Southern Company, charges its Fuel Services and Risk Management groups for financial hedging and other gas related activities. The Gas Procurement section in the SCS Fuel Services Organization procures physical gas, gas transportation, and gas storage, develops gas financial hedging strategy and executes financial hedging deals with counter parties. The Fuel Accounting group in the SCS Fuel Services Organization provides accounting services for gas procurement and gas financial hedging deals. The SCS Risk Management group confirms financial hedging deals with the counter parties, performs credit analysis on counter parties, performs overall risk analysis on financial hedging deals, and produces daily gas financial hedging reports.

These charges are then allocated to affiliates. In 1999, 2000, 2001 and 2002, the methodology for allocations were determined by each affiliates' percent ownership of total installed fossil fuel fired capacity for fossil fuel related charges. For 2003, the methodology for allocations were determined by each affiliates' percent ownership of gas fired capacity for charges related to gas supply activities and each affiliates' percent ownership of coal fired capacity for charges related to coal supply activities. Gulf Power Company experienced increasing charges each year up to 2002. For 2003, in spite of increased gas usage and additional administrative financial hedging costs, Gulf Power Company's expected allocation is lower. This is because of the new allocation method and several affiliates having new gas fired plants.

The estimated monthly administrative financial hedging charge for 2003 is \$6,600. Gulf Power Company did not include any administrative financial hedging costs for the projected test year ended 5/31/03 as filed in Docket No. 010949-EI.

The only other hedging activity Gulf Power uses is physical, which has been used for many years. This is done through long term coal contracts. Costs are not kept separate. All physical hedging costs are included in base year costs.

DOCKET NO. 030001-EI: Fuel and purchased power cost recovery clause and generating performance incentive factor.

WITNESS: Direct Testimony Of Michael E. Buckley, Appearing On Behalf Of Staff

EXHIBIT: MEB-2 - 2002 Fuel Cost Recovery Clause Audit



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING

Tallahassee District Office


GULF POWER COMPANY


FUEL ADJUSTMENT AUDIT

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2002

DOCKET NO. 030001-EI

AUDIT CONTROL NO. 03-034-1-1


Gennaro Jackson II, Audit Manager


Michael Buckley, Audit Staff

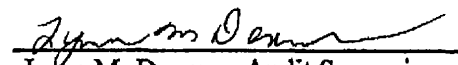

Lynn M. Deamer, Audit Supervisor

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**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT**

July 7, 2003

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying fuel adjustment schedules for the twelve month period ended December 31, 2002, for Gulf Power Company. These schedules were prepared by the utility as part of its petition filed in Docket No. 030001-EI.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Scanned - The documents or accounts were read quickly looking for obvious errors.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Reviewed - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

FUEL REVENUE: Revenue was audited in Review of Billing, Audit Control Number 02-183-1-1. No exceptions were found.

FUEL EXPENSE: Compiled the fuel cost of system net generation. Scanned and recomputed energy payments and fuel cost purchased power. Verified Other Generation (Gas). Recomputed net purchases/sales. Verified that Gains derived from non-separated, non-energy broker network, wholesale energy sales were credited to the fuel clause and separated between retail and wholesale customers based on the appropriate separation factor. Judgmentally sampled inventory Account 151 - Fuel Stock - Coal. Verified that the adjustment to coal inventory due to differences between the per book inventory quantities and the semi-annual coal inventory survey quantities were performed per Commission Order NO. PSC - 97-0359-FOF-EI. Recomputed and traced on a test basis coal and oil purchases filed in FPSC Form 423 to Company filings and the general ledger.

OTHER: Recalculated true-up and interest provision. Verified Commercial Paper rates in calculation of interest provision. Verified both the hours shown on annual GPIF filing and heat rate filed in schedule A4. Verified prior year accounts to determine the accounting methodologies and procedures used by the Company to account for incremental hedging costs, costs that are not included in base rates. Determined that the hedging program is consistent with Company's risk management plan for 2002.

DISCLOSURES

Disclosure No. 1

Subject: (Gain)/Loss on Hedging Settlements

Statement of Fact: Gulf Power Company recorded settlement costs of \$38,750 to FERC Account # 547-4 (Hedging Settlement) for November 2002. In December 2002, Gulf recorded a settlement gain for gas hedging costs of (\$277,500) to FERC Account # 547-4. November and December 2002 net to (\$238,750) which is shown on the Company filed Schedule A-2, page 1 of 3, of the Fuel filing for December 2002. No administrative cost were charged for hedging in November or December 2002.

**CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY**

FOR THE MONTH OF: **DECEMBER 2002**

	CURRENT MONTH				PERIOD - TO - DATE			
	ACTUAL	ESTIMATED	AMOUNT (\$)	DIFFERENCE %	ACTUAL	ESTIMATED	AMOUNT (\$)	DIFFERENCE %
A. Fuel Cost & Net Power Transactions								
1 Fuel Cost of System Net Generation	25,617,210.60	23,682,370	1,934,840.60	8.17	267,193,510.69	303,530,586.00	(36,337,075.11)	(11.97)
1a Other Generation	208,047.59	425	207,622.59	48,852.37	2,275,474.19	217,158.00	2,058,316.19	847.84
1b (Gain)/Loss of Hedging Settlement	(277,500.00)	0	(277,500.00)	#N/A	(238,750.00)	0.00	(238,750.00)	#N/A
2 Fuel Cost of Power Sold	(7,265,449.25)	(7,001,000)	(264,449.25)	3.78	(62,984,977.09)	(105,918,000.00)	42,933,022.91	(40.53)
3 Fuel Cost - Purchased Power	416,173.24	569,000	(152,826.76)	(26.86)	38,453,884.27	21,298,000.00	17,055,884.27	79.71
3a Demand & Non-Fuel Cost Purchased Power	0.00	0	0.00	#N/A	0.00	0.00	0.00	#N/A
3b Energy Payments to Qualifying Facilities	30,239.00	0	30,239.00	#N/A	5,019,154.46	312,832.00	4,706,322.46	1,504.42
4 Energy Cost-Economy Purchases	0.00	0	0.00	#N/A	0.00	0.00	0.00	#N/A
5 Total Fuel & Net Power Transactions	18,728,721.18	17,250,795	1,477,926.18	8.57	249,718,278.72	219,540,576	30,177,700.72	13.75
6 Adjustments To Fuel Cost	10,069.14	0	10,069.14	#N/A	(1,811,150.88)	0	(1,811,150.88)	#N/A
7 Adj. Total Fuel & Net Power Transactions	18,738,790.32	17,250,795	1,487,995.32	8.63	248,107,128.04	219,540,576	28,566,550.04	13.01
B. KWh Sales								
1 Jurisdictional Sales	787,122,522	836,488,000	(49,365,478)	(5.90)	10,771,897,002	10,265,886,000	506,011,002	4.93
2 Non-Jurisdictional Sales	31,376,354	29,309,000	2,067,354	7.05	371,528,951	356,845,000	14,683,951	4.11
3 Total Territorial Sales	818,498,876	865,797,000	(47,298,124)	(5.46)	11,143,425,953	10,622,731,000	520,694,953	4.90
4 Juris. Sales as % of Total Terr. Sales	96.1666	96.6148	(0.4482)	(0.46)	96.6659	96.6407	0.0252	0.03

Note: Line 6 - (Gain)/Loss on Sales of Natural Gas

**CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2002**

	CURRENT MONTH				PERIOD - TO - DATE			
	\$ ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%	\$ ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%
C. True-up Calculation								
1 Jurisdictional Fuel Revenue	17,598,202.00	18,212,243	(616,039.93)	(3.38)	225,612,766.16	18,889,381	216,053,386.59	1,162.70
2 Fuel Adj. Revs. Not Applicable to Period:								
2a True-Up Provision	(891,807.58)	(891,803)	(4.58)	0.00	(10,701,890.96)	(10,701,891)	0.04	0.00
2b Incentive Provision	(31,146.92)	(31,147)	0.08	0.00	(373,783.04)	(373,764)	0.96	0.00
3 Juris. Fuel Revenue Applicable to Period	<u>16,673,248.49</u>	<u>17,289,293</u>	<u>(616,044.51)</u>	<u>(8.56)</u>	<u>224,587,312.18</u>	<u>7,588,926</u>	<u>218,953,386.16</u>	<u>2,860.70</u>
4 Adjusted Total Fuel & Net Power Transactions (Line A7)	18,738,780.32	17,250,795	1,487,985.32	8.83	248,107,128.04	219,540,578	28,566,550.04	13.01
5 Juris. Sales % of Total KWH Sales (Line B4)	<u>98.1696</u>	<u>98.6148</u>	<u>(0.4482)</u>	<u>(0.46)</u>	<u>98.8659</u>	<u>98.6407</u>	<u>0.0252</u>	<u>0.03</u>
6 Juris. Total Fuel & Net Power Transactions Adj. for Line Losses (C4 *C5*1.0007)	<u>18,033,071.85</u>	<u>16,680,155</u>	<u>1,342,916.85</u>	<u>8.05</u>	<u>240,077,260.95</u>	<u>212,467,038</u>	<u>27,610,222.95</u>	<u>13.00</u>
7 True-Up Provision for the Month Over/(Under) Collection (C3-C6)	(1,359,823.36)	599,138	(1,958,961.36)	(328.86)	(15,530,042.90)	(30,579)	(15,499,463.90)	50,886.63
8 Interest Provision for the Month	(29,942.60)	(895)	(29,057.60)	3,289.84	(373,898.48)	(44,824)	(329,364.49)	738.09
9 Beginning True-Up & Interest Provision*	(27,516,320.30)	(1,585,259)	(25,951,061.30)	1,857.94	(23,069,814.80)	(10,701,891)	(12,368,123.80)	115.57
10 True-Up Collected / (Refunded)	<u>891,807.58</u>	<u>891,803</u>	<u>4.58</u>	<u>0.00</u>	<u>10,701,890.96</u>	<u>10,701,891</u>	<u>(0.04)</u>	<u>0.00</u>
11 End of Period - Total Net True-Up, Before Adjustment (C7+C8+C9+C10)	<u>(28,014,278.68)</u>	<u>(75,203)</u>	<u>(27,939,075.68)</u>	<u>37,151.54</u>	<u>(28,272,155.23)</u>	<u>(75,203)</u>	<u>(28,196,952.23)</u>	<u>37,494.45</u>
12 2001 Revenue Sharing Refund True-Up	0	0	0.00	#N/A	257,876.55	0	257,876.55	#N/A
13 End of Period - Total Net True-Up (C11 + C12)	<u>(28,014,278.68)</u>	<u>(75,203)</u>	<u>(27,939,075.68)</u>	<u>37,151.54</u>	<u>(28,014,278.68)</u>	<u>(75,203)</u>	<u>(27,939,075.68)</u>	<u>37,151.54</u>