GULF POWER COMPANY

Before the Florida Public Service Commission

Prepared Direct Testimony of

William G. Buck, III

Docket No. 110138-EI

In Support of Rate Relief

Date of Filing: July 8, 2011

Q. Please state your name and business address.

A. My name is Bill Buck. My business address is One Energy Place, Pensacola, FL 32520.

Q. By whom are you employed?

A. I am employed by Gulf Power Company (Gulf or the Company) as the Supervisor of Financial Planning in the Corporate Planning Department.

Q. What are your responsibilities as Supervisor of Financial Planning?

A. I am responsible for preparing the Company Operating Budget and Forecast, administering the Capital Additions Budget, preparing various regulatory reports such as the Florida Public Service Commission (FPSC or the Commission) Surveillance Report, and preparing or assisting with various financial analyses and reports for management and outside parties.

Q. What is your educational background?

A. I graduated from Florida State University in 1998 with a Bachelor of Science in Accounting and a Bachelor of Science in Finance.

Q. Please state your prior work experience and responsibilities.

A. Immediately following graduation, I was employed by Arthur Andersen LLP in Atlanta, Georgia in the audit department. In 2001, I accepted a position as a Senior Auditor with the O’Sullivan Creel LLP accounting firm in Pensacola, Florida. In 2002, I began my career with Gulf as a Financial Analyst in the Financial Planning Department. Since 2002, I have been responsible for all department responsibilities at various times, and in April 2006 I was promoted to my current position as Supervisor of Financial Planning.

Q. Do you hold any professional licenses in the field of accounting?

A. Yes. I am a licensed Certified Public Accountant and a member of the Florida Institute of Certified Public Accountants.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide an overview of Gulf’s rigorous planning and budgeting process. This process, which Gulf performs annually, uses the component budgets and financial assumptions to produce a financial forecast on which the Company relies to make decisions on how to provide adequate and reliable service to its customers. Specifically, I will describe the Capital Additions and Operations and Maintenance (O&M) budget processes, set forth the component budgets used in developing the financial forecast, and outline the assumptions used in developing Gulf’s financial forecast. The financial forecast is used by Gulf’s management for a variety of purposes, and in this instance is also the basis for Gulf’s projected data for the test year used in this rate case.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit WGB-1, Schedules 1 through 9. Exhibit WGB-1 was prepared under my supervision and direction, and the information contained in that exhibit is true and correct to the best of my knowledge and belief.

Q. Are you sponsoring any of the MFRs filed by Gulf?

A. Yes. The MFRs that I sponsor in their entirety or that I jointly sponsor are listed on Schedule 1 of my Exhibit WGB-1. The information contained in the MFRs that I sponsor or co-sponsor is true and correct to the best of my knowledge and belief.

Q. Please provide an overview and description of Gulf’s planning and budgeting process.

A. Gulf’s planning and budgeting process is an ongoing process that is designed to help the Company achieve operational and financial goals and objectives, while taking into account economic and financial conditions. This process produces a budget for the current year and a budget forecast for the four subsequent years. These are utilized by management as a tool for evaluating and making decisions to ensure the Company provides efficient and reliable service to its customers. The annual 2011 Budget and Forecast, including the forecasted financial statements for the test year, is the basis for Gulf's projected data for the 2012 test year used in this rate case. Both the 2011 and 2012 budgeted levels of O&M and Capital Additions from the 2011 Budget and Forecast are reasonable, prudent and necessary. The budgeting process for 2011 was consistently applied and produced reliable results which are suitable for establishing the revenue requirements for the 2012 test year.

Q. Please describe Schedule 2 of your exhibit.

A. Schedule 2 is a flow chart of Gulf's annual planning and budgeting process. There are eight component budgets, which are shaded on Schedule 2, that are incorporated into Gulf's financial forecast. The Customer, Energy, and Demand budgets start the process, and these budgets are used as inputs in the derivation of the Revenue, Fuel, Interchange, Capital Additions and O&M budgets. I am responsible for the financial forecast, which integrates the eight component budgets, along with various other financial assumptions and estimates, and results in projected financial statements. These projected financial statements are then used by Gulf Witness McMillan to develop the net operating income, rate base, capital structure and revenue requirements that Gulf is requesting in this filing.

Q. Who will testify on the preparation of the component budgets in Gulf's financial forecast?

A. The Customer, Energy, Demand, and Revenue Budgets are the responsibility of Gulf Witness McGee. The Capital Additions Budget is the responsibility of Gulf Witnesses Grove, Caldwell, Moore, and McMillan. Gulf Witnesses Erickson, Twery/Crumlish, Burroughs and Neyman, along with Mr. Grove, Mr. Moore, and Mr. Caldwell will discuss the O&M Budget. The Fuel Budget is the responsibility of Mr. Burroughs, and the Interchange Budget is the responsibility of Mr. Grove.

Q. Who administers the annual planning and budgeting process, and what is the Corporate Planning department’s role in the process?

A. The annual planning and budgeting process is administered by Corporate Planning under the direction of the Chief Financial Officer, Mr. Teel.

The Corporate Planning department is responsible for establishing the budget schedule, developing the Budget Message which is submitted to the Chief Financial Officer for review and approval and transmitting the Budget Message. Corporate Planning also coordinates the Capital Additions and O&M Budget processes, ensuring that all personnel involved with the processes are kept informed of the key assumptions, goals and any strategic issues facing the Company. In addition, Corporate Planning inputs information from the eight component budgets along with other financial assumptions and estimates into the financial model. Finally, Corporate Planning is responsible for the ongoing process of analyzing and maintaining the financial model logic and inputs to ensure the most accurate forecast based on current assumptions.

Q. Please describe the role of Corporate Planning in preparation of the Capital Additions and O&M component budgets.

A. Corporate Planning is responsible for establishing a process for the preparation of the Capital Additions and O&M Budgets, for administering the process under the direction of the Chief Financial Officer and for preparing the summaries, comparisons, and other information that may be requested. The Executive Management Team (the CEO and the four vice presidents) reviews and approves these Budgets. Schedule 3 of my exhibit is a flow chart outlining the Capital Additions and O&M Budget process.

Q. One of the initial steps in the budget process described on your Schedule 3 is the Budget Message. Please describe the Budget Message.

A. Each year to begin the O&M and Capital Additions Budget process, the Budget Message is provided to the Planning Units, which are organizations within the Company that have budget responsibility. The Budget Message provides annual budget guidelines for the O&M and Capital Additions Budgets, along with other assumptions to be used in the budget preparation process. Corporate Planning develops a draft Budget Message, which is submitted to the Chief Financial Officer for review and approval. Once the Budget Message is approved, Corporate Planning sends it to the Planning Units.

Q. Describe the budget process after the issuance of the Budget Message.

A. This is a multi-step, iterative process. Upon receipt of the Budget Message, each Planning Unit follows its own internal process to prepare its O&M and Capital Additions Budgets, and those internal processes are described in the testimony of other witnesses. However, there is a common element among the processes used by each individual Planning Unit – each Planning Unit examines the basic goals and objectives that must be accomplished and builds the budgets necessary to meet these responsibilities. Each Planning Unit prepares the detailed budgets that support its goals and objectives for the budget year. The Vice President for each Planning Unit reviews and, if necessary, modifies that function’s budgets prior to the submission of the Planning Unit’s budgets to Corporate Planning.

Corporate Planning reviews submittals for consistency with the Budget Message and compiles the data for review by the Chief Financial Officer and the other executives. Any changes resulting from the executive review and approval process are communicated to the Planning Unit by Corporate Planning. The final approved budgets for O&M and Capital Additions are summarized and communicated to the Planning Units in a letter from the Chief Financial Officer.

Q. Please describe Gulf’s Capital Additions Budget.

A. The Capital Additions Budget consists of Plant Expenditures (PEs) for additional investments that are categorized as Production, Transmission, Distribution, and General Plant. The PEs are further identified as Specific PEs and Blanket PEs. Specific PEs are generally individual projects costing $50,000 or more that require expenditures in one or more years. Blanket PEs reflect repetitive expenditures based on historical trends and projected customer growth, such as pole replacements and transformers, that are not identified as individual or separate projects at the time the budget is prepared.

Q. Who is responsible for developing PEs?

A. Planning Units are responsible for developing the PEs for their areas. The majority of the PEs are prepared under the direction of Mr. Grove, Mr. Caldwell, and Mr. Moore.

Q. Who is responsible for reviewing and approving the overall Capital Additions Budget?

A. Gulf’s Executive Management Team reviews all Capital Additions Budget requests. After review and approval by the executives, the Capital Additions Budget is approved annually by the Company’s Board of Directors.

Q. Does Gulf monitor the actual construction expenditures against its approved budget?

A. Yes. Corporate Planning monitors and prepares a comparison of actual to budget expenditures each month. For non-quarter end months, explanations are only required for variances that exceed $250,000. For quarter end months, the Planning Units must submit variance explanations for each PE that has a year-to-date variance that exceeds 10 percent or $250,000, whichever is less. Variances less than $10,000 do not require an explanation. In addition to researching and explaining year-to-date variances, the appropriate Planning Unit is required to prepare an estimate of the budget status at year-end or at completion of the project. Monitoring the variances and ensuring this process is followed is the responsibility of Corporate Planning.

Q. What is the amount of Gulf’s test year Capital Additions Budget?

A.Gulf’s test year Total Company Capital Additions Budget is $423,622,000, and Gulf’s Test Year Capital Additions Budget excluding wholesale, cost recovery clauses and non-utility is $189,103,000. These projections are shown by major functional category on Schedule 4 of my exhibit.

Q. Please describe Gulf’s O&M Budget.

A. The O&M Budget consists of expenses required to safely provide efficient and reliable service to Gulf’s customers, covering a period of five years. Gulf’s Planning Units submit detailed budget requests through the computerized budget input system. All O&M budget amounts are required to be submitted through this process, with the exception of the fuel and interchange information, which is derived from the Fuel and Interchange component budgets. The O&M Budget is provided to the Executive Management Team for their review and approval.

Q. How is the rate of inflation used by Gulf in the preparation of its O&M Budget?

A. As stated previously, the Budget Message issued by the Chief Financial Officer includes the O&M and Capital Additions Budget guidelines for each Business Unit, in addition to other budget assumptions to be used. An inflation rate is provided as part of the Budget Message as an aid to Planning Units in the development of their budget details. However, justification of O&M expenses requires more than mere escalation by the Consumer Price Index (CPI) or any other measure of inflation. As I mentioned earlier in my testimony, each Planning Unit develops its O&M budget by examining the activities necessary to meet its goals and objectives, not by simply escalating costs associated with prior periods. The inflation rates for 2011 and 2012 included in the Budget Message were 2.1 percent and 2.8 percent, respectively. These rates of inflation were based upon forecast data for CPI obtained from Moody’s Analytics, formerly known as Moody’s Economy.com.

Q. How does Corporate Planning monitor O&M budget variances?

A. Corporate Planning monitors budget variance reports each month, using Gulf’s accounting and reporting system. Each quarter, the Planning Units are required to submit year-to-date reports that include explanations of all variances of 10 percent or more that equal or exceed $25,000. Any variance amount that exceeds $500,000, regardless of the percentage, must also be explained. Projections for the year-end expenses are also submitted quarterly and reviewed by the Chief Financial Officer.

Q. What is the amount of Gulf’s test year O&M Budget?

A. The test year System Per Books O&M Budget is $1,086,835,000, and the test year Total Adjusted O&M Budget is $288,474,000, as reflected on exhibit RJM-1, Schedule 18 of Mr. McMillan’s testimony. Schedule 5 of my exhibit summarizes the test year O&M Budget by major functional category. The witnesses responsible for O&M expenses by function will address their test year O&M budgets and any O&M benchmark variances.

Q. Have there been any significant changes in Gulf’s budget process since the development of the forecast that was used to support Gulf’s last base rate case?

A. No. Gulf’s budget process continues to successfully produce reliable budgets and forecasts. Therefore, there have not been any significant changes in Gulf’s budget process since the last base rate case, and it has been consistently applied for the 2011 Budget and Forecast, which includes the 2012 test year.

Q. Turning now to the financial forecast, please explain how this forecast is developed.

A. The outputs of the component budgets that I described earlier in my testimony are input into Gulf’s financial model. Additionally, various income statement and balance sheet items not captured in the component budgets are analyzed, developed and input into the financial model. The financial model, in turn, processes this data using a number of integrated calculation modules to generate the financial and accounting statements that comprise Gulf’s financial forecast. This dynamic iterative process ensures that these various items are consistent with the other budgeted items. For example, forecasted debt issuances and associated interest expense are analyzed and updated when necessary due to other budget changes.

Q. What is the financial model to which you have referred?

A. The financial model is a proprietary, computer-based model that simulates Gulf’s actual financial and accounting results based on a given set of inputs. Schedule 6 is a summarized flowchart of the financial model inputs and outputs required to produce the financial forecast.

Q. Does Gulf prepare financial forecasts for purposes other than rate cases?

A. Yes. Gulf prepares and updates its financial forecast in the regular course of its business to provide management with the most accurate and up-to-date projections to manage the business and to help the Company achieve operational and financial goals.

Gulf uses the financial model to prepare the Annual Budget and Forecast, and also to continually update financial projections. These financial forecasts are also used for external purposes such as analyst earnings calls, rating agency information, forecasted earnings surveillance reports filed with the FPSC, and other financial requests.

Q. Please describe the financial statements shown on Schedules 7 and 8 of your exhibit.

1. Schedule 7 is Gulf’s projected monthly Balance Sheet for the period December 2011 through December 2012, which is the basis for developing the rate base and capital structure. Schedule 8 is the projected monthly Income Statement for the twelve months ended December 31, 2012, used in developing net operating income. These financial statements from the financial model are based on current budget estimates for 2012 from the 2011 Budget and Forecast.

Q. You have summarized utility plant data on your Schedule 7. Have you prepared a report with a further breakdown of the plant balances?

A. Yes. Schedule 9 presents a further breakdown of the utility plant balances along with the monthly activity in these accounts for the test period. The projected plant data is based on the approved Capital Additions Budget, which is supported by various witnesses as noted on Schedule 4.

Q. Has Gulf Power filed a list of the assumptions used in developing Gulf’s financial forecast?

A. Yes. MFR F-8 lists the assumptions used in developing Gulf’s financial forecast and the supporting basis for each assumption. The assumptions used in this financial forecast, as outlined on MFR F-8, are reasonable in light of our experience and the circumstances known at the time the assumptions were developed.

Q. Please summarize your testimony.

A. Gulf utilizes a very straightforward, logical and comprehensive budget process, including the development of the component budgets that are incorporated into the financial model, which produces Gulf’s financial forecast. The budgeting process is performed annually and results in a forecast that management uses as a tool in planning and decision making. The assumptions contained in the budget process are reasonable, and they have been obtained from the best sources available at the time the budget was developed. The financial forecast that results from this process provides a reasonable and sound basis for projecting the results of Gulf’s operations during the 2012 test year as incorporated in the MFRs, testimony and exhibits filed in this case.

Q. Does that conclude your testimony?

A. Yes.

AFFIDAVIT

STATE OF FLORIDA ) Docket No. 110138-EI

)

COUNTY OF ESCAMBIA )

Before me the undersigned authority, personally appeared William G. Buck, III, who being first duly sworn, deposes, and says that he is the Supervisor of Financial Planning of Gulf Power Company, a Florida corporation, and that the foregoing is true and correct to the best of his knowledge, information, and belief. He is personally known to me.

The signed original affidavit is attached to the

original testimony on file with the FPSC.

*s/\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*

William G. Buck, III

Supervisor of Financial Planning

William G. Buck, III

Supervisor of Financial Planning

Sworn to and subscribed before me this \_\_\_\_\_\_ day of \_\_\_\_\_\_\_\_\_\_\_\_\_, 2011.

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Notary Public, State of Florida at Large

Commission No. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

My Commission Expires \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_



  


FLORIDA PUBLIC SERVICE COMMISSION

Docket No.: 110138-EI

GULF POWER COMPANY

Witness: W.G. Buck, III

Exhibit No. \_\_\_\_\_ (WGB-1)

Schedule 3

Page 1 of 1

**GULF POWER COMPANY**

**BALANCE SHEET**

**For the Period December 2011 through December 2012**

**($000)**

**GULF POWER COMPANY**

**BALANCE SHEET**

**For the Period December 2011 through December 2012**

**($000)**

**GULF POWER COMPANY**

**BALANCE SHEET**

**For the Period December 2011 through December 2012**

**($000)**

**GULF POWER COMPANY**

**INCOME STATEMENT**

**For the Twelve Months Ended December 31, 2012**

**($000)**

**GULF POWER COMPANY**

**INCOME STATEMENT**

**For the Twelve Months Ended December 31, 2012**

**($000)**

**GULF POWER COMPANY**

**INCOME STATEMENT**

**For the Twelve Months Ended December 31, 2012**

**($000)**

**GULF POWER COMPANY**

**UTILITY PLANT BALANCES**

**For the Periods Ended December 2011 through December 2012**

**($000)**

**GULF POWER COMPANY**

**UTILITY PLANT BALANCES**

**For the Periods Ended December 2011 through December 2012**

**($000)**