

ORIGINAL

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

DOCKET NO. 010949-EI

**TESTIMONY AND EXHIBIT
OF
R. M. SAXON**



DOCUMENT NUMBER-DATE

11239 SEP 10 6

FPSC-COMMISSION CLERK

ORIGINAL

GULF POWER COMPANY

**Before the Florida Public Service Commission
Prepared Direct Testimony & Exhibit of
R. Michael Saxon
Docket No. 010949-EI
In Support of Rate Relief
Date of Filing: September 10, 2001**

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4
5
6
7 **Q. Please state your name and business address.**

8 **A. My name is R. Michael Saxon, and my business address is One Energy**
9 **Place, Pensacola FL 32520-0761. I am the Manager of Corporate**
10 **Planning for Gulf Power Company.**

11
12 **Q. Please describe your educational and professional background.**

13 **A. I have a Master of Science Degree in Management from Troy State**
14 **University and a Bachelor of Science Degree in Marketing from the**
15 **University of West Florida. My employment with Gulf Power began in**
16 **1976. I have served in various capacities of increasing responsibility**
17 **including the Pensacola District Manager. In that position, I was**
18 **responsible for the daily customer and field service activities of the**
19 **Pensacola District. I have been in my position as Manager of Corporate**
20 **Planning since March of 2001.**

21
22 **Q. Please describe your responsibilities and duties as the Manager of**
23 **Corporate Planning.**

24 **A. My primary responsibility is to ensure that Gulf's budgeting, forecasting,**
25 **and performance measurements are effective and consistent. I**

DOCUMENT NUMBER-DATE
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1 coordinate the overall planning effort, and I am responsible for the
2 production of the Company's financial forecast. My responsibilities also
3 include the ongoing development and maintenance of the Operation and
4 Maintenance (O & M) and Construction Budgeting System and the
5 development of the O & M and Construction budgets and forecasts. I am
6 responsible for coordinating the Strategic Business Plan and the
7 development of goals and measurements for the Company. The
8 Corporate Planning Department provides financial analysis and maintains
9 expertise in the use of available support tools for decision making.

10
11 Q. Have you prepared an exhibit that contains information to which you will
12 refer in your testimony?

13 A. Yes.

14 Counsel: We ask that Mr. Saxon's Exhibit (RMS-1), comprised of
15 seven schedules, be marked for identification as
16 Exhibit_____.

17
18 Q. Were all of the schedules in this exhibit prepared under your supervision?

19 A. Yes. Each schedule of this exhibit was prepared under my supervision
20 and direction.

21
22 Q. Are you the sponsor of certain minimum filing requirements (MFRs)?

23 A. Yes. The MFRs that I am sponsoring, in part or in whole, are listed on
24 Schedule 7 of my exhibit. To the best of my knowledge, the information in
25 all of the listed MFRs is true and correct.

- 1 Q. What is the purpose of your testimony?
- 2 A. The purpose of my testimony is to provide an overview of the planning
3 process that results in the production of Gulf's financial forecast. The
4 financial forecast is the basis for Gulf's projected data for the test year
5 used in this rate case. Specifically, I will present an overview of Gulf's
6 planning and budgeting process, outline the assumptions used in
7 developing Gulf's financial forecast, and describe both the Construction
8 Budget process and the O & M budget process. I will also sponsor a
9 portion of Gulf's Construction Budget related to General Plant. Because
10 of my prior position with the Company, I will also support the service fees
11 requested by the Company and the level of Customer Accounts dollars
12 requested in the test year. My testimony will also address the Customer
13 Accounts expenses in the O & M Benchmark analysis.
14
- 15 Q. Please describe Schedule 1 of your exhibit.
- 16 A. Schedule 1 is a flow chart of Gulf's annual planning and budgeting
17 process. This is an ongoing process intended to develop a financial
18 forecast for use by management as a tool for making decisions affecting
19 the future direction of the Company. There are eight component budgets
20 that are incorporated into Gulf's financial forecast. The Company's
21 Leadership Team, consisting of Gulf's executive officers, reviews and
22 approves these budgets.
23
- 24 Q. Who will testify on the preparation of the eight component budgets in
25 Gulf's financial forecast?

1 A. The Customer, Energy, Peak Demand, and Revenue Budgets are the
2 responsibility of Mr. McGee; the Fuel Budget is the responsibility of
3 Mr. Moore; the Interchange Budget is the responsibility of Mr. Howell; and
4 the Construction Budget is the responsibility of Mr. Moore, Mr. Howell,
5 Mr. Fisher, and me. Mr. Moore, Mr. Fisher, Mr. McMillan, Ms. Neyman,
6 Mr. Howell, and I will discuss the O & M Budget. Mr. Labrato addresses
7 the interface of the component budgets with the financial model in his
8 testimony.

9
10 Q. Has Gulf Power filed a list of the assumptions used in developing Gulf's
11 financial forecast?

12 A. Yes. MFR F-17 lists the assumptions used in developing Gulf's financial
13 forecast and the supporting basis for each assumption. Gulf's
14 management believes the assumptions used in this financial forecast, as
15 outlined on MFR F-17, to be reasonable in light of our experiences and
16 the circumstances known at the time the assumptions were developed.

17
18 Q. Who administers the financial planning process?

19 A. As the Manager of Corporate Planning, I ensure that all involved with the
20 process are kept informed of the key assumptions, goals, and any
21 strategic issues facing the Company. Our Chief Financial Officer,
22 Mr. Labrato, is responsible for ensuring the Company's Leadership Team
23 reviews and approves the eight component budgets of the planning
24 process.

25

1 Q. Schedule 1 shows Corporate Planning's involvement in producing Gulf's
2 financial forecast. Would you describe your department's involvement?

3 A. Primarily, Corporate Planning is responsible for coordinating the
4 Construction Budget and O & M Budget processes. The department is
5 also responsible for assimilating the information that is produced in the
6 approved Revenue, Fuel, Interchange, Construction and O & M Budgets
7 for use in the financial model. Corporate Planning is responsible for the
8 ongoing process of analyzing and updating the financial model logic to
9 ensure accurate forecasts of the Company's financial performance.

10
11 Q. Please describe Gulf's Construction Budget.

12 A. The Construction Budget consists of Plant Expenditures (PE's) for
13 additional property covering a period of ten years. PE's are categorized
14 as Major Generation, Other Production, Transmission, Distribution, and
15 General Plant. The PE's are further identified as Specific PE's and
16 Blanket PE's. Specific PE's are generally individual projects costing
17 \$50,000 or more that may require expenditures in one or more years.
18 Blanket PE's include repetitive type plant additions that are not easily
19 defined or distinguished as individual or separate projects at the time the
20 budget is prepared.

21
22 Q. Who is responsible for developing PE's?

23 A. Individuals within the functional operating area are responsible for
24 developing the PE's in that area. The appropriate Vice President reviews
25 and approves the PE's prior to their being submitted to Corporate

1 Planning. The majority of the PE's are prepared under the direction of
2 Mr. Moore, Mr. Fisher, and Mr. Howell.

3
4 Q. Who is responsible for reviewing and approving the overall Construction
5 Budget?

6 A. Gulf's Leadership Team reviews all Construction Budget requests.
7 Corporate Planning provides the Leadership Team with any necessary
8 summaries, comparisons, or other information that may be requested.
9 After review and approval by the Leadership Team, the Construction
10 Budget is approved annually by the Company's Board of Directors.

11
12 Q. Does Gulf monitor the actual construction expenditures against its
13 approved budget?

14 A. Yes. Quarterly, Corporate Planning does a comparison of Actual to
15 Budget expenditures. Any variance over or under a set threshold is
16 researched and explained by the appropriate functional area. Variance
17 explanations, by project, are prepared and an estimate of the budget
18 status at year-end or at completion of the project is shared with the Chief
19 Financial Officer. Supervision of this control mechanism is the
20 responsibility of Corporate Planning.

21
22 Q. What is the amount of Gulf's test year Construction Budget?

23 A. Gulf's June 2002 through May 2003 Construction Budget is \$64.9 million.
24 Schedule 2 of my exhibit shows Gulf's test year Construction Budget by
25 category.

1 Q. Are you sponsoring a portion of the General Plant Construction Budget for
2 the test year?

3 A. Yes. I am testifying to the portion of General Plant that relates to
4 telecommunications, computer, and other equipment, which is \$2.1 million
5 in the test year. This \$2.1 million is well within the range of normal
6 expenditures for what Gulf has been spending for this portion of General
7 Plant for the last three years and for the period January 1, 2001 through
8 May 31, 2002.

9

10 Q. Would you please state the purpose of your testimony as it relates to the
11 O & M Budget?

12 A. I will describe the preparation process and provide an overview of the
13 assumptions used to prepare the test year O & M Budget. The following
14 individuals are responsible for and are prepared to address the specific
15 assumptions, details, and explanations related to the test year O & M
16 Budget for the indicated functions: Production is the responsibility of
17 Mr. Moore; Transmission is the responsibility of Mr. Howell; Distribution
18 will be addressed by Mr. Fisher; I will sponsor Customer Accounts;
19 Customer Service & Information, Sales, and Advertising is the
20 responsibility of Ms. Neyman; and Administrative & General expenses will
21 be addressed by Mr. McMillan. The assumptions and their supporting
22 basis for the test year O & M Budget are outlined in MFR F-17.

23

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

25 A. The test year O & M Budget exclusive of all related Net Operating Income

1 (NOI) adjustments is \$186.4 million. Schedule 3 of my exhibit
2 summarizes the test year O & M Budget by major functional category.
3 This schedule ties with Mr. Labrato's Schedule 8 and the adjusted 2000
4 actual O & M that is shown in MFR C-2. The witnesses responsible for
5 O & M expenses by function will be addressing the increases from the
6 adjusted 2000 O & M to the test year O & M.

7
8 Q. Please describe Corporate Planning's role in preparing Gulf's O & M
9 Budget.

10 A. Corporate Planning is responsible for establishing a logical process for the
11 preparation of the budget; for administering the process under the
12 direction of the Chief Financial Officer; and for preparing the necessary
13 summaries, comparisons, or other information that may be requested.
14 The Leadership Team reviews and approves the O & M Budget.
15 Schedule 4 of my exhibit is a flow chart outlining the O & M Budget
16 process.

17
18 Q. Would you describe the process of preparing Gulf's O & M budget?

19 A. Referring to my Schedule 4, the first step in Gulf's O & M Budget process
20 is to develop a list of strategic issues facing the Company. These issues
21 are then integrated into the Company's Strategic Business Plan. Each
22 Planning Unit within the Company prepares objectives and goals that
23 address its direction and major emphasis for the coming year. These
24 goals and objectives support specific issues identified in the Company's
25 Strategic Business Plan. The Chief Financial Officer then reviews the

1 budgeted revenues forecasted for the period and communicates a Budget
2 Message that outlines the goals and objectives of the Company and gives
3 specific guidelines to the Planning Units for development of their budgets
4 and forecasts.

5

6 Q. Please describe the O & M Budget process after the issuance of the
7 Budget Message.

8 A. Upon receipt of the Budget Message each Planning Unit prepares a
9 detailed budget that supports its approved goals and objectives for the
10 budget year. The budget represents the funds required to accomplish its
11 goals and objectives. The Vice President for each function approves the
12 function's budget prior to its submission to Corporate Planning. Corporate
13 Planning reviews submittals for compliance with the Budget Message and
14 compiles the data for review by the Chief Financial Officer and the
15 Leadership Team. Any changes are documented and the approved
16 budget is then sent to the Planning Units. A signature page is maintained
17 with the Chief Financial Officer and the President signifying final approval
18 of the O & M Budget.

19

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

22 A. The Budget Message issued by the Chief Financial Officer includes the
23 inflation rate to be used by the Planning Units in preparing the O & M
24 Budget. The rate of inflation for 2002 and 2003 used in preparing the
25 O & M Budget was 2.43 percent and 2.40 percent, respectively. These

1 rates of inflation are developed by Southern Company Services utilizing
2 forecast data obtained from Regional Financial Associates (RFA), now
3 known as Economy.com, Inc.
4

5 Q. How are salary increases budgeted?

6 A. Corporate Planning sends a letter to the Planning Unit Managers with an
7 appropriate rate, furnished annually by Human Resources, to be used for
8 salary increases. A suggested amount for promotions is also stated.
9

10 Q. What is the value of the O & M budgeting process used by Gulf Power
11 Company?

12 A. Gulf uses the budgeting process as a comprehensive management tool
13 both to plan and to control the Company's operations. Goals, objectives,
14 priorities, and appropriate expenditure levels are established through the
15 budgeting process.
16

17 Q. How do Planning Unit Managers monitor monthly budget variances?

18 A. Our on-line accounting and reporting system allows each user to produce
19 monthly budget to actual comparison reports. Each quarter, the
20 departments are required to submit reports that include explanations of
21 variances that are plus or minus 10 percent and greater than \$25,000.
22 Any variance amount that exceeds plus or minus \$500,000, regardless of
23 the percentage, must be explained. Projections for year-end expenditures
24 are also submitted quarterly. The Chief Financial Officer reviews these
25 reports and year-end projections and informs the Leadership Team as the

1 need arises.

2

3 Q. Please describe any new initiatives Gulf has undertaken to improve the
4 Construction and O & M budget process.

5 A. Gulf is using a proprietary budget system called BUDWORKS for
6 electronic submittal of Construction and O & M budgets and forecasts.
7 This system, developed in 1997 and enhanced each year, has greatly
8 reduced the time spent in the development, reporting and submittal of
9 budget requests.

10

11 Q. Mr. Saxon, are you familiar with the development of the costs for Gulf's
12 service fees?

13 A. Yes. Because of my experience in district operations, I am familiar with
14 the job functions associated with providing these services. I am also
15 familiar with the cost components of these job functions.

16

17 Q. Does the Company propose any changes to these fees?

18 A. Yes. Based on our analysis of current costs, Gulf has developed new
19 fees for the connection of initial service, existing service, and temporary
20 service; restoration of service (after violation of rules); premise visit;
21 investigation of unauthorized use; and returned item charges.

22

23 Q. How have these fees changed?

24 A. My Schedule 5 shows a summary of the proposed changes to the service
25 fees. Supporting details are included in MFR E-10.

- 1 Q. How long have these service fees been in effect?
- 2 A. The fees for connection of existing service, restoration of service (after
3 violation of rules) and premise visit have been in effect since 1983. The
4 fees for connection of initial service, connection of temporary service, and
5 investigation of unauthorized use became effective with Gulf's last rate
6 case in 1990. The Company proposes to increase these fees to more
7 closely reflect the cost of providing these customer-requested or
8 customer-driven services. The returned item fee has been in effect since
9 1993 and the proposed increase is in accordance with Florida law.
10
- 11 Q. Please describe the methodology used to calculate the proposed level
12 requested for these service fees.
- 13 A. The steps required to provide each service were identified, and the cost
14 associated with each step was determined. Gulf then adjusted these fees
15 in \$5.00 increments for ease of administration. The total cost for each
16 service, prior to being adjusted, is listed in column 2 of my Schedule 5. All
17 of the proposed fees are cost-based, except for the returned item charge.
18 Gulf proposes a returned item charge that varies by item amount in
19 accordance with Florida law.
20
- 21 Q. Are any of the requested service fees new to the customers?
- 22 A. No. Gulf currently has a fee for each of these services. However, Gulf is
23 subdividing the fee for restoration of service (after violation of rules) into
24 three different categories. The three categories are restoration of service,
25 restoration of service after hours, and restoration of service at the pole.

1 Each category has different cost components that justify a different
2 charge.

3
4 Q. Are you sponsoring the level of Customer Accounts O & M expenses in
5 the test year?

6 A. Yes. In my previous position as Pensacola District Manager, I was
7 involved in the day-to-day activities of our customer accounting function.
8 The Company's request of \$16.6 million dollars for the test year Customer
9 Accounts expense is reasonable, prudent, and necessary. Since the
10 addition of Gulf's CSS system, Customer Accounts expenses have
11 averaged \$15.8 million dollars per year. Customer Accounts expenses
12 have increased since 2000 by \$1.3 million. This increase is due to
13 postage expenses, uncollectible expenses, and Automated Resource
14 Management System (ARMS) expenses. The remaining increase is
15 primarily related to the normal increases in labor and programs due to
16 inflation and customer growth.

17
18 Q. Are you sponsoring the Customer Accounts Benchmark analysis variance
19 information?

20 A. Yes. The total Company O & M expenses are under the Benchmark by
21 \$3.7 million; however, the Customer Accounts Benchmark variance is
22 over by \$2.5 million. As shown on my Schedule 6, this variance is related
23 to four areas. The first is Information Technology (IT) in the amount of
24 \$1.1 million; second is the Customer Service System (CSS) in the amount
25 of \$940,000; next is Uncollectible Accounts of \$607,000; and ARMS

1 makes up the remainder.

2
3 Q. Please discuss the expense changes that have caused IT costs to exceed
4 the Benchmark.

5 A. In 1990, the majority of all IT costs were in the A & G function. These IT
6 costs are now charged directly to the Planning Unit wherever it is feasible
7 to do so. With the evolution of computer technology within the workforce
8 over the past 10-12 years, there has been a decrease in the need for
9 support personnel to handle correspondence, presentations, reports, etc.,
10 for other professional job classifications. Computer technology has
11 enabled the general workforce to do more with automated processes, thus
12 increasing productivity.

13
14 Q. Please discuss CSS and why this is an increase over the Benchmark in
15 Customer Accounts.

16 A. Mr. Fisher's testimony includes a discussion of the reasons why Gulf
17 implemented CSS. As described in Mr. Fisher's testimony, CSS is a
18 powerful tool that is critical to Gulf's future. In 1997, this system replaced
19 the General On-line System (GOLS) which had been in use since 1972.
20 CSS helps Gulf meet the expectations of our customers for outstanding
21 service while controlling costs and providing the flexibility to respond to
22 opportunities that arise in the marketplace. Purchasing a standard system
23 and making enhancements was the most cost-effective way to satisfy
24 Southern Company's need for a state-of-the-art customer information
25 system across all five operating companies.

1 Q. Please discuss the Benchmark variance for Uncollectible Accounts.
2 A. The Benchmark for uncollectibles was established by applying the rate of
3 inflation and customer growth to the 1990 budget of \$511,000. Actual
4 uncollectible expense for 1990 was \$1,267,283. The average
5 uncollectible expense for 1997, 1998, 1999, and 2000, with the current
6 year-end projection for 2001, is \$1,408,000. This supports the
7 reasonableness of Gulf's test year request of \$1,543,000. Some of the
8 factors impacting uncollectible expense include national economic
9 conditions, local economic conditions, and weather. During extreme
10 weather conditions, Gulf does not disconnect electric service for non-
11 payment. Gulf's policy is not to disconnect for non-payment when
12 temperatures are forecasted to be 32 degrees or less, 95 degrees or
13 greater, or when the heat index is forecasted to be 105 degrees or
14 greater. These extreme weather conditions, in effect, increase arrears
15 and, consequently, uncollectibles.

16
17 Q. Please discuss the Benchmark variance for ARMS.
18 A. Mr. Fisher's testimony includes a summary of the benefits of ARMS.
19 ARMS is a very valuable tool for managing the daily work schedules of
20 Field Service Representatives and Service Technicians engaged in
21 service work orders. This new system has increased productivity and
22 efficiency.

23
24 Q. Mr. Saxon, would you please summarize your testimony?
25 A. Gulf utilizes a very straightforward, logical, and comprehensive process in

1 developing the eight component budgets that are incorporated into the
2 model, which results in Gulf's financial forecast. This budgeting process
3 is performed annually and results in a forecast that management uses as
4 a tool in planning and decision making. We believe the assumptions
5 contained in each budget are reasonable and that they have been
6 obtained from the best sources available at the time the budgets were
7 developed.

8 The \$2.1 million of General Plant expenditures in the test year that
9 relate to telecommunications, computer, and other equipment are
10 reasonable and well within the range of normal expenditures for the last
11 three years. The requested level of O & M Customer Accounts expenses
12 in the test year are reasonable, prudent, and necessary. Our current
13 service fees have been in effect for over ten years, some as long as
14 18 years, and do not adequately recover our costs of performing these
15 activities. The proposed changes to these fees more closely reflect the
16 current cost of these activities.

17
18 Q. Does this conclude your testimony?

19 A. Yes, it does.
20
21
22
23
24
25

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 010949-EI

Before the undersigned authority, personally appeared
R. Michael Saxon, who being first duly sworn, deposes, and says that he is the
Corporate Planning Manager, Corporate Planning Department of Gulf Power
Company, a Maine corporation, and that the foregoing is true and correct to the
best of his knowledge, information, and belief.

R. Michael Saxon

R. Michael Saxon
Manager of Corporate Planning

Sworn to and subscribed before me by R. Michael Saxon who is
personally known to me this 7th day of September, 2001.

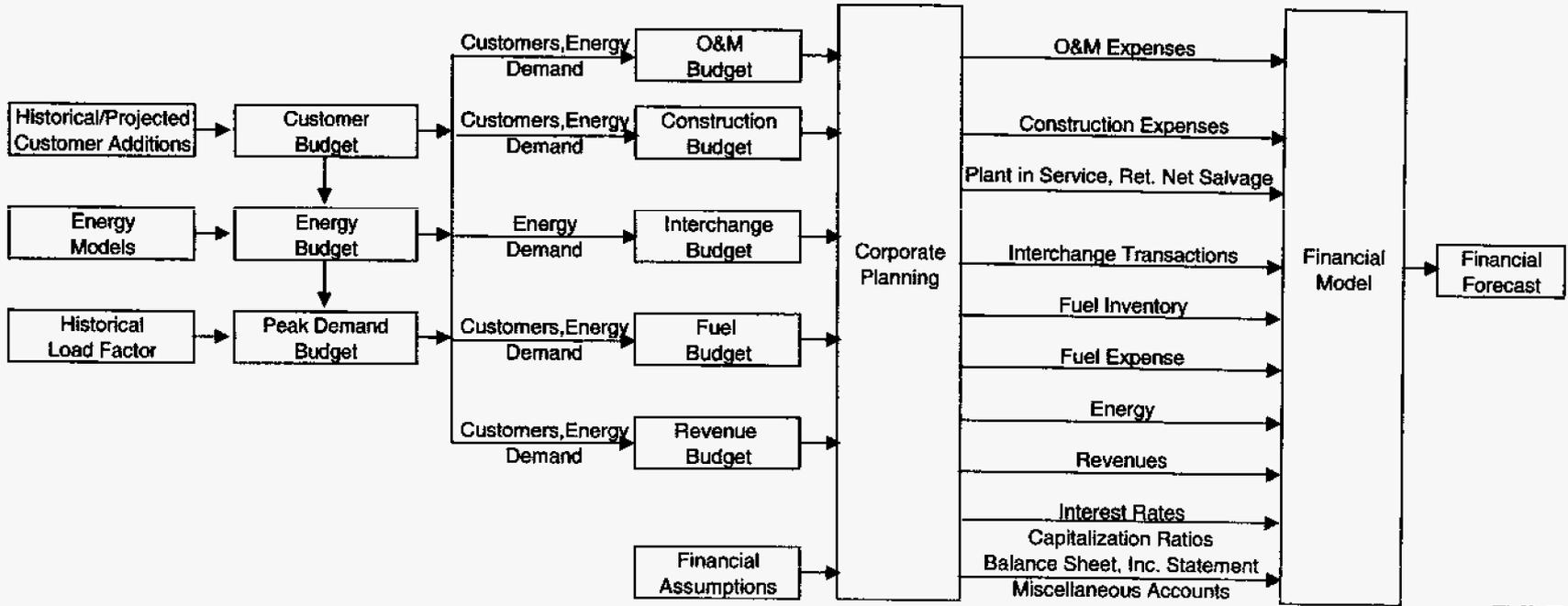
Linda C. Webb

Notary Public, State of Florida at Large



LINDA C. WEBB
Notary Public-State of FL
Comm. Exp: May 31, 2002
Comm. No: CC 725969

GULF POWER FINANCIAL PLANNING PROCESS



GULF POWER COMPANY

Test Year Construction Budget & Prior Period

By Function
(000's)

Function	Test Year Amount	Prior Period Amount *	Witness
MAJOR GENERATION	\$677	\$188,232	Moore
OTHER PRODUCTION	12,332	49,828	Moore
TRANSMISSION	7,505	48,530	Howell
DISTRIBUTION	38,305	57,113	Howell/Fisher
GENERAL	6,113	5,256	Fisher/Saxon
	<hr/>	<hr/>	
TOTAL	<u>\$64,932</u>	<u>\$348,959</u>	

* Prior Period covers the 17 month period, January 2001 through May 2002

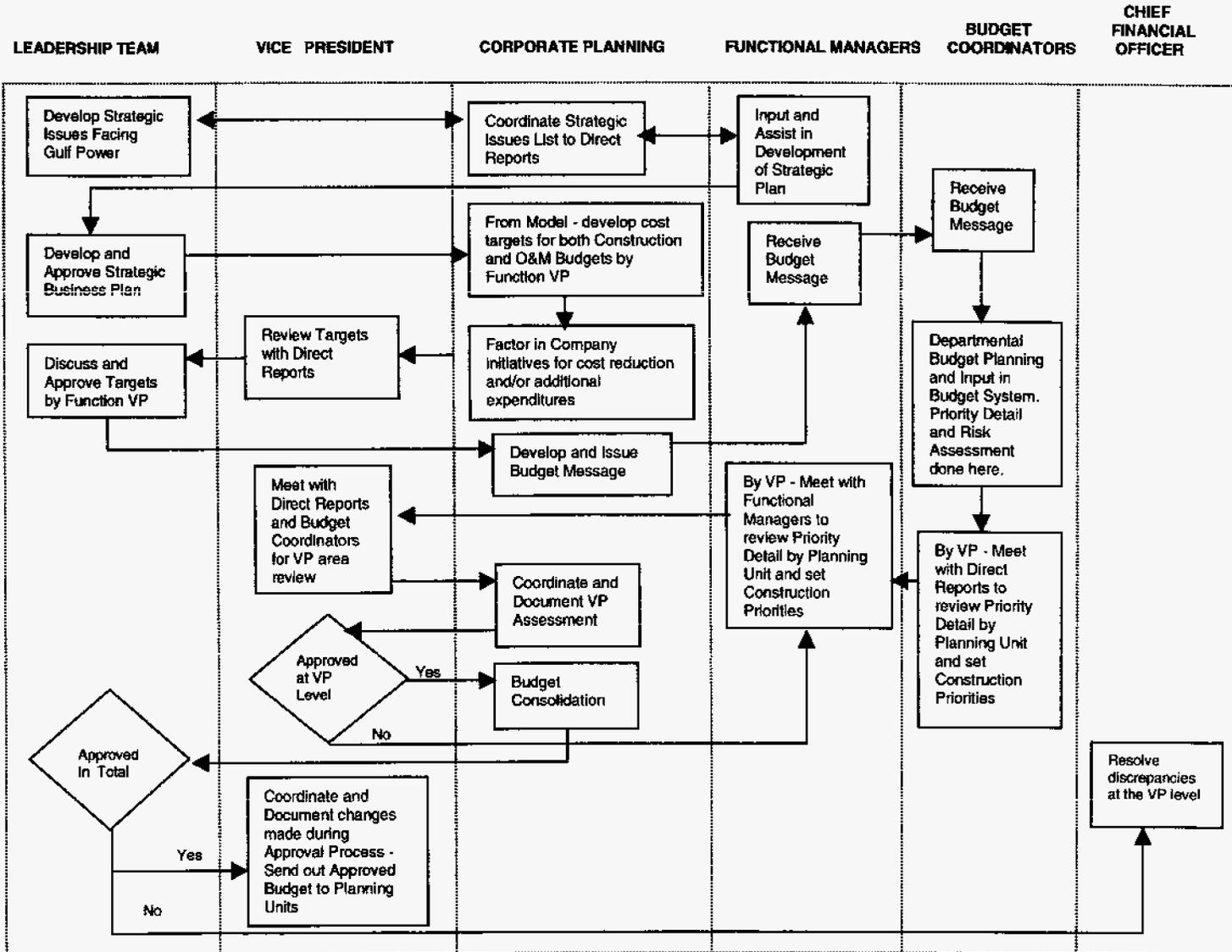
GULF POWER COMPANY

Test Year Operation and Maintenance Expense
Excluding Direct Fuel, Purchased Power
By Function
(000's)

Function	1 Test Year Adjusted Amount *	2 2000 Adjusted Amount	3 Variance (Col 1 - Col 2)	Witness
Power Production	\$77,202	\$66,817	\$10,385	Moore
Transmission	8,209	6,975	1,234	Howell
Distribution	33,048	24,828	8,220	Fisher
Customer Accounts	16,662	15,363	1,299	Saxon
Customer Service and Information	9,922	9,733	189	Neyman
Sales	1,006	711	295	Neyman
Administration & General	40,305	40,770	(465)	McMillan/Moore/Neyman
Total Operation and Maintenance	<u>\$186,354</u>	<u>\$165,197</u>	<u>\$21,157</u>	

* O & M adjusted by Income adjustments see MFR C-54

BUDGET PROCESS



Florida Public Service
 Commission
 Docket No. 010949-EI
GULF POWER COMPANY
 Witness: R. M. Saxon
 Exhibit No. _____ (RMS-1)
 Schedule 4
 Page 1 of 1

GULF POWER COMPANY

Service Fees

	Name	Present Charge	Unit Cost	Proposed Charge
		\$	\$	\$
1	Connection of Initial Service	20.00	27.52	30.00
2	Connection of Existing Service	16.00	26.87	30.00
3	Restoration of Service (After Violation of Rules)	16.00	36.03	35.00
4	Restoration of Service After Hours (After Violation of Rules)	16.00	53.28	55.00
5	Restoration of Service at Pole (After Violation of Rules)	16.00	95.68	95.00
6	Premise Visit	6.00	19.32	20.00
7	Connection of Temporary Service	60.00	111.82	110.00
8	Investigation of Unauthorized Use	55.00	73.34	75.00
9	Returned Item Charge < \$50	20.00	N/A	25.00
10	Returned Item Charge > \$50 and < \$300	20.00	N/A	30.00
11	Returned Item Charge > \$300	20.00	N/A	40.00

O&M BENCHMARK VARIANCE BY FUNCTION

CUSTOMER ACCOUNTS

	<u>\$(000)</u>			
1990 Allowed				7,733
Test Year Adjusted Benchmark				14,160
Test Year Adjusted Request				16,662
System Benchmark Variance				2,502
<u>Description</u>	<u>1990 Allowed</u>	<u>Test Year Benchmark</u>	<u>Test Year Request</u>	<u>Variance</u>
1. CSS	2,041	3,737	4,677	940
2. ARMS	0	0	58	58
3. IT Products and Services	132	242	1,382	1,140
4. Uncollectible Accounts	511	936	1,543	607
				2,745

O&M BENCHMARK VARIANCE BY FUNCTION
CUSTOMER ACCOUNTS

1. Customer Service System (CSS)

	<u>\$(000)</u>
1990 Allowed	2,041
Test Year Adjusted Benchmark	3,737
Test Year Adjusted Request	4,677
System Benchmark Variance	940

Justification

The Customer Service System (CSS) is a powerful tool that is critical to Gulf's future. This system replaced the General On-Line System (GOLS) in October 1997. The system has been designed to benefit many departments, including Customer Service, Marketing, Accounting, and Power Delivery. It meets the demands of our customers for outstanding service while controlling costs and providing the flexibility to respond to opportunities that arise in the marketplace. CSS was modified and enhanced to meet the Company's business strategies and needs. Purchasing a standard system and making enhancements was the most cost-effective way to satisfy Southern Company's need for a state-of-the-art customer information system across all five operating companies.

**O&M BENCHMARK VARIANCE BY FUNCTION
CUSTOMER ACCOUNTS**

2. Automated Resource Management System (ARMS)

	<u>\$(000)</u>
1990 Allowed	0
Test Year Adjusted Benchmark	0
Test Year Adjusted Request	58
System Benchmark Variance	58

Justification

ARMS is a very valuable tool for managing the daily work schedules of Field Service Representatives and Service Technicians engaged in service work orders. It allows management to proactively determine the number of orders to be assigned and the number of personnel needed to meet customer commitments on a daily basis. It allows management to determine instantly where the field personnel are, how many orders they have left to complete, and decide if additional manpower is needed to minimize overtime and meet customer commitments. ARMS has increased productivity and efficiency.

O&M BENCHMARK VARIANCE BY FUNCTION
CUSTOMER ACCOUNTS
3. IT Products and Services

	<u>\$(000)</u>
1990 Allowed	132
Test Year Adjusted Benchmark	242
Test Year Adjusted Request	1,382
System Benchmark Variance	1,140

Justification

In 1990, the majority of all Information Technology (IT) costs were in the A & G function. These IT costs are now charged directly to the business unit incurring the costs wherever it is feasible to do so. With the evolution of computer technology use within the workforce over the past 10-12 years, there has been marked decreases in the need for support personnel to handle correspondence, presentations, reports, etc. for other professional job classifications. Computer technology has enabled the general workforce to do more with automated processes, thus increasing productivity.

O&M BENCHMARK VARIANCE BY FUNCTION
CUSTOMER ACCOUNTS
4. Uncollectible Accounts

	<u>\$(000)</u>
1990 Allowed	511
Test Year Adjusted Benchmark	936
Test Year Adjusted Request	1,543
System Benchmark Variance	607

Justification

The uncollectible budget in 1990 was understated and the actual uncollectible expenses of \$1,267,283 were over budget by 148%. Using the actual 1990 uncollectible expense as the base year amount, Gulf would be \$777,000 under the benchmark with its current request. The average uncollectible expense for 1997, 1998, 1999, 2000, and estimated 2001 is \$1,408,000. This supports the reasonableness of Gulf's current test year request of \$1,543,000.

Some of the factors impacting uncollectible expense include national economic conditions, local economic conditions, and weather. Gulf provides electricity to national accounts and other customers whose economic well-being depends on the national economy for both its supplier and customer base. It also provides electricity to customers who depend almost entirely on the local economy for their sources of income. In addition, during extreme weather conditions, we do not disconnect electric service for non-payment. Gulf's policy is not to disconnect for non-payment when temperatures are forecasted to be 32 degrees or less, 95 degrees or greater, or when the heat index is forecasted to be 105 degrees or greater. The weather conditions, in effect, increase arrears and, consequently, uncollectibles.

MINIMUM FILING REQUIREMENTS

Schedule	Title
A - 5	Summary of tariffs
A - 8	Five year analysis - change in cost
C - 8	Report of operations compared to forecast - revenues & expenses
C - 12	Budgeted vs. actual operating revenues and expenses
C - 19	Operation and maintenance expenses - test year
C - 20	Operation and maintenance expenses - prior year
C - 21	Detail of changes in expenses
C - 33	Payroll and fringe benefit increases compared to CPI
C - 57	O & M benchmark variance by function
C- 65	Outside professional services
E - 10	Development of service charges
E-16b	Revenues by rate schedule - service charges
E- 17	Proposed tariff sheets and support for charges
F - 9	Forecasting models
F- 15	Forecasting models - consistency of data
F - 17	Assumptions