

State of Florida



Public Service Commission

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COMMISSION
CLERK

DATE: - February 17, 2005

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Slemkewicz, Wheeler) *JS DPW*
Office of the General Counsel (C. Keating) *WCK*

RE: Docket No. 050093-EI – Petition for approval of stipulation and settlement for special accounting treatment and recovery of costs associated with Hurricane Ivan's impact on Gulf Power Company.

AGENDA: 03/01/05 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\050093.RCM.DOC
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ATTACHMENT A

Case Background

On February 2, 2005, the Office of Public Counsel (OPC), the Florida Industrial Power Users Group (FIPUG) and Gulf Power Company (Gulf) filed a Joint Petition for Approval of Stipulation and Settlement (Stipulation). The purpose of the Stipulation is to provide a full and complete resolution of all matters and issues addressed in the Stipulation regarding the effects of Hurricane Ivan on Gulf Power Company's Accumulated Provision for Property Insurance. The Stipulation provides for Gulf to implement a surcharge to recover a jurisdictional amount of \$51,384,816, net of interest and taxes, related to the restoration activities resulting from the damage caused by Hurricane Ivan. This recommendation addresses the merits of the Stipulation. The Stipulation is attached hereto as Attachment A.

The Commission has jurisdiction over this matter pursuant to Sections 366.04, 366.05 and 366.06, Florida Statutes.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

Discussion of Issues

Issue 1: Should the Commission approve the Stipulation and Settlement?

Recommendation: Yes, the Commission should approve the Stipulation and Settlement. (Slemkewicz, Wheeler)

Staff Analysis: On September 16, 2004, Hurricane Ivan, a Category 3 storm, struck Gulf's service territory causing widespread and extensive damage to Gulf's plant and property including its transmission lines, distribution feeders, substations and Crist generation plant. As a result, 90% of Gulf's customers had their electric service disrupted. In order to repair its system and restore service to its customers, Gulf estimates that it will ultimately spend \$141.5 million once all of the repairs are completed and all of the costs are known. Gulf, like the other Florida investor-owned electric utilities, is self-insuring for storm damage to its transmission and distribution facilities through the use of a property insurance reserve account. This account also covers other property losses not covered by insurance, such as deductible amounts related to its insured power plants. The authorized amount of Gulf's annual accrual to the property insurance reserve is \$3.5 million.

Prior to Hurricane Ivan, Gulf had accumulated \$27.8 million in its property insurance reserve. As shown on Exhibit B to the Stipulation, the total estimated restoration costs related to Hurricane Ivan are \$124.3 million, net of insurance reimbursements. After the application of the \$27.8 million in the reserve, there is a \$96.5 million deficit remaining. Exhibit C to the Stipulation shows the amounts agreed to by the signatories to be deducted from the total \$96.5 million deficit that result in a net recoverable amount of \$51.7 million, or \$51,384,816 on a jurisdictional basis.

Staff has reviewed the provisions and attached exhibits of the Stipulation and believes it to be a reasonable resolution of the issues regarding the impact of Hurricane Ivan on Gulf's property insurance reserve. In the Stipulation, Gulf has agreed to exclude certain amounts, such as 1) that portion of storm restoration capital expenditures and cost of removal equal to the normal amount under normal operating conditions, 2) straight time labor costs of Gulf employees associated with storm recovery activities, 3) \$400,000 representing transportation costs associated with Gulf-owned vehicles, and 4) \$600,000 representing normal operating costs not chargeable to the property insurance reserve under the principles agreed to in Exhibit A. Also, Gulf is further reducing the deficit amount by making an additional \$14 million accrual to its property insurance reserve for 2004. By making this \$14 million additional accrual, Gulf, in effect, is sharing in the recovery of the storm restoration costs along with its ratepayers.

The major highlights contained in the Stipulation are as follows:

- Financial Impact of Hurricane Ivan on Gulf Power's Property Insurance Reserve:

\$141,510,000	Estimated Total Hurricane Ivan Costs
(-) \$ 17,210,000	Estimated Insurance Reimbursement after Deductible
(-) \$ 27,800,000	Storm Reserve Balance as of 8/31/04
\$ 96,500,000	Estimated Ivan Deficit

- Normal annual property insurance reserve accrual of \$3.5 million is insufficient to eliminate the negative balance resulting from Hurricane Ivan and to build a reasonable balance to be available for future storm events within a reasonable period of time.
- Implementation Date – 30 days following the date of PSC approval.
- Gulf agrees to exclude the following costs from this recovery mechanism:
 - 1) \$23,100,000 – Estimated Capital Costs
 - 2) \$ 3,300,000 – Estimated Cost of Removal
 - 3) \$ 3,400,000 – Straight Time Labor Costs
 - 4) \$ 400,000 – Company-Owned Vehicle Costs*
 - 5) \$ 600,000 – Other Normal Operating Costs*
 - 6) \$14,000,000 – Additional Accrual to Property Reserve in 2004*
 \$44,800,000 – Gulf’s Total Cost Exclusions from this recovery mechanism

*Fixed amounts as agreed between parties to Stipulation and Settlement.

- Ivan Deficit Cost Recovery – Collect approved amount through a monthly surcharge to customer bills based on a 24 month recovery period, subject to true-ups:

\$ 96,500,000	Total Estimated Ivan Deficit
<u>(44,800,000)</u>	Gulf’s Total Cost Exclusions
\$ 51,700,000	Ivan Deficit Cost Recovery Amount
<u>x .9939036</u>	Retail Jurisdictional Factor
\$ 51,384,816	Retail Cost Recovery Amount
<u>1,866,963</u>	Interest
\$ 53,251,779	Retail Cost Recovery Amount including Interest
<u>x 1.00072</u>	Revenue Tax Factor
\$ 53,290,120	Total Ivan Deficit Cost Recovery Amount (Before gross receipts tax)

- \$2.71/month surcharge for 1000 kWh residential bill based on a 24 month recovery period (\$2.78/month including gross receipts tax increase).
- Surcharge will be subject to refund until Commission order is rendered final.
- Regular monthly accrual to the property insurance reserve and any additional accruals shall be used to accumulate a reserve for future losses and such accruals shall not affect the amount to be recovered pursuant to this Stipulation and Settlement.
- Gulf will provide an actual/estimated cost true-up by July 1, 2005.
- Parties retain the right to challenge any actual costs.

- No increase in base rates to take effect prior to March 1, 2007.
- Gulf may seek rate relief in the event of another catastrophic storm or event.
- Securitization:
 - 1) The Florida Legislature may enact legislation that would allow for securitization of storm recovery financing under terms of a financing order.
 - 2) Gulf Power shall have the right to petition the Commission for the entry of such an order in accordance with the terms of the legislation. Any additional amounts requested pursuant to such petition shall not exceed \$27.8 million, and such additional amount shall be used exclusively for replenishing the property insurance reserve.

Most of the provisions and exhibits are self-explanatory, but several of the items merit comment. These are as follows:

SECTION 4 and EXHIBIT A: These items adopt criteria and guidelines that delineate and define the restoration costs that can be charged to, or should be excluded from, the property insurance reserve as a result of damages caused by Hurricane Ivan. One item of particular note is the exclusion of all base salaries and normal, budgeted overtime from all bargaining unit labor costs. Another is the elimination of operating expenses and overheads for company-owned vehicles. Gulf is also prohibited from recovering any amounts associated with uncollectible expenses or lost revenues. However, the Stipulation provides that these items do not set any precedent for the types of costs that can be charged as a result of future storms.

EXHIBIT C: This exhibit shows the calculation of the requested \$51,384,816 jurisdictional surcharge, net of interest and taxes. Items 3 through 8, shown below, delineate the charges that have been excluded from the total estimated Hurricane Ivan deficit of \$96.5 million.

- 3) \$23,100,000 – Estimated Capital Costs
- 4) \$ 3,300,000 – Estimated Cost of Removal
- 5) \$ 3,400,000 – Straight Time Labor Costs
- 6) \$ 400,000 – Company-Owned Vehicle Costs
- 7) \$ 600,000 – Other Normal Operating Costs
- 8) \$14,000,000 – Additional Accrual to Property Reserve in 2004
- \$44,800,000 – Total Cost Exclusions from the recovery surcharge

Item 8 is particularly noteworthy in that Gulf is reducing the amount to be collected from the ratepayer by increasing its 2004 property insurance reserve accrual by \$14 million. Gulf has already adjusted its books for 2004 to include not only the additional \$14 million accrual but the additional capital and expense exclusions noted in 3 through 7. As a result, Gulf's return on equity for 2004 is 11.91% as reported in its December 2004 Earnings Surveillance Report. This is within the company's return on equity range, of 10.75% to 12.75%, authorized in its last rate proceeding. Gulf's ability to have the stockholders absorb part of the recovery costs and offer an additional accrual of \$14 million to the storm reserve was due to the company exceeding its last authorized return on equity range for 2004. It is important to note that Gulf has absorbed costs sufficient to bring its rate of return close to the midpoint of Gulf's authorized range.

Item 15 on Exhibit C is the inclusion of \$1,866,963 of interest on the unrecovered portion of the estimated recoverable deficit of \$51,700,000. The interest rate used, although not spelled out in the settlement, is 3.45% over the two year recovery period. The interest rate, like the cost estimates, is also subject to true-up based on the actual interest rate obtained by Gulf for the recovery period.

SECTION 5 and EXHIBIT D: Section 5 of the Stipulation states that the storm recovery surcharge shall be allocated among the rate classes based on the cost of service methodology approved in Gulf Power's most recent rate case. The computation of the surcharges by rate class is shown in Exhibit D to the Stipulation. Implementation of the proposed storm damage surcharge recovery factors will result in a \$2.78 increase in the 1,000 kilowatt hour residential bill, to \$87.91. The \$2.78 increase includes \$2.71 attributable to the recovery factor and \$0.07 attributable to the State gross receipts tax. The total bill effect does not include any local taxes or franchise fees.

Under the terms of the Stipulation, the factors will remain in effect for 12 months, after which they will be revised to reflect any differences between projected and actual costs, and between projected and actual revenues collected. Following the second 12-month period, any remaining over- or under-recovery amounts will be addressed as part of the true-up in the next fuel and purchased power cost recovery proceedings.

Staff has three concerns with the method used to allocate the storm surcharge recovery factors by rate class, as discussed below.

12 CP vs. 12 CP & 1/13th AD. Column A in Exhibit D contains demand allocator percentages by rate class that were used to develop the 2005 capacity, conservation, and environmental cost recovery factors as filed in the most recent fuel and purchased power cost recovery proceeding. These allocation percentages are based on each rate class's estimated contribution to the average of the 12 monthly system peaks (i.e., the 12 CP method) for the projected calendar year 2005.

In the capacity, conservation, and environmental cost recovery clauses, the 12 Coincident Peak and 1/13th Average Demand method (12 CP & 1/13th AD) is used. This method differs slightly from the 12 CP method because it allocates 1/13th of the total costs on an energy, or average demand basis. The 12 CP & 1/13th AD method is also used for the allocation of production and transmission costs in rate case proceedings, including Gulf's most recent rate case in Docket No. 010949-EI. Therefore, staff believes that it would have been more appropriate to use this method to allocate storm damage costs.

Incorrect Forecast. Further, staff would note that the percentages in column A of the attachment were developed based on an incorrect forecast of the 2005 kilowatt hour sales for two rate classes. Specifically, a portion of the kilowatt hour sales attributable to the General Service – Non-Demand (GS) rate class were inadvertently included in the General Service – Demand (GSD) rate class. This results in an understatement of the GS demand responsibility, and correspondingly, an understatement of the costs allocated to that class. These percentages were then applied to the total proposed recovery amount of \$53.3 million to allocate the dollars to be recovered by rate class (column B). These totals by rate class were then divided by the correct kilowatt hour sales projected for years 2005 and 2006 to derive the recovery factors by rate class

shown in column D. Because the column A percentages were based on an incorrect forecast by rate class, the allocation of dollars and the factors by rate class are not correct.

If the allocation percentages in column A were based on the correct forecast of 2005-06 sales as shown in column C of Attachment D, the factors by rate class that would result are shown in the "Revised Factor" column of the table below. Note that residential customers (RS) are not affected by this change. The General Service – Non-Demand (GS) rate class is most affected. The remaining commercial and lighting classes are also affected to a lesser degree.

Rate Schedule	Factor As Filed (Cents per kWh)	Revised Factor (Cents per kWh)	Difference (Cents per kWh)
RS, RSVP	.271	.271	.000
GS	.184	.261	+.077
GSD, GSDT, GSTOU	.230	.229	-.001
LP, LPT	.204	.196	-.008
PX, PXT, RTP, SBS, CSA	.164	.161	-.003
OS-I/II	.105	.104	-.001
OS-III	.170	.167	-.003

Distribution Costs. Staff also notes that a large proportion of the damage for which Gulf is seeking recovery most likely was incurred on its distribution system. Under the Commission's most recently approved cost of service methodology, distribution costs are primarily allocated to the rate classes based on Class, or Non-Coincident peak, contribution. Staff believes that a more accurate allocation would result if the costs were divided into functional areas (i.e., production, transmission, and distribution) and then allocated using the appropriate allocator for each functional area.

Staff notes that the Stipulation, by its terms, is contingent upon approval in its entirety. As noted below, staff believes that the Stipulation, taken as a whole, provides a reasonable resolution of the issues regarding the effects of Hurricane Ivan on Gulf's property insurance reserve. Thus, despite the concerns identified above, staff believes the Stipulation should be approved.

SECTION 6: This provision preserves the rights of the parties to challenge the reasonableness, prudence, and conformance with the Stipulation of any actual costs included in the surcharge to be recovered from the ratepayers. Though not explicitly stated, the Commission also has the authority, and retains the jurisdiction, to review and challenge any such costs on its own motion.

CONCLUSION: In staff's opinion, the provisions of the Stipulation are a reasonable resolution of the issues regarding the impact of Hurricane Ivan on Gulf's property insurance reserve. First, the filing of this Stipulation, if adopted by the Commission, avoids the potential filing of a separate cost recovery petition. This has the effect of saving all parties the time and expense that would be incurred in processing a cost recovery petition through the Commission. Second, the Stipulation also resolves the apparent overearnings of Gulf for 2004. Third, this

Stipulation resolves many of the issues that have been raised by the staff and other parties in storm cost recovery dockets involving other utilities. These include the exclusion of costs normally attributable to base rates, such as normal O&M expenses, normal cost of removal and normal capitalized amounts. And fourth, the Stipulation recognizes a sharing of restoration costs between Gulf's ratepayers and Gulf's stockholders. Gulf has agreed to absorb \$14 million of these costs in earnings.

In staff's opinion, the requested surcharge balances the interests of the ratepayers and Gulf. Staff, therefore, recommends that the Stipulation is in the public interest and that the Commission should approve the Stipulation settling all of the issues regarding the impact of Hurricane Ivan on Gulf's property insurance reserve.

Issue 2: What is the appropriate implementation date for the surcharge set forth in the Stipulation?

Recommendation: The proposed surcharge should apply to meter readings taken on or after 30 days from the date of the Commission's vote. Assuming that the Commission votes to approve the Stipulation on March 1, 2005, the surcharge should begin to be applied to meter readings on or after March 31, 2005. If the Commission's order approving the Stipulation is timely protested by a person whose substantial interests are affected by the Commission's decision, the surcharge should remain in effect with all revenues held subject to refund pending the Commission's final order. (Slemkewicz, Wheeler, C. Keating)

Staff Analysis: Pursuant to Section 2 of the Stipulation, the Stipulation is to become effective on the day following the Commission's vote approving the Stipulation. This provision also provides that the starting date for the full term of the Stipulation will be 30 days following the Commission's vote and will be referred to as the "Implementation Date." Assuming an affirmative vote by the Commission on March 1, 2005, the effective date would be March 2, 2005, and the Implementation Date would be March 31, 2005. This implementation date is consistent with the requirement that the approved charges not apply to meter readings taken less than 30 days after the date of the vote approving such charges.

In addition, Section 3 provides that any amounts collected through the surcharge are subject to refund until the Commission's order is rendered final and is no longer subject to further administrative or judicial proceedings. Thus, if the Commission's order approving the Stipulation is timely protested by a person whose substantial interests are affected by the Commission's decision, the surcharge should remain in effect with all revenues held subject to refund pending the Commission's final order.

Docket No. 050093-EI
Date: February 17, 2005

Issue 3: If the Commission approves the proposed storm damage Stipulation and Settlement, should Gulf Power Company be required to file tariff revisions reflecting the storm damage surcharge recovery factors by rate class?

Recommendation: Yes. Gulf should be required to file the tariff revision for administrative approval. (Wheeler)

Staff Analysis: If the Commission approves the stipulation, Gulf should be required to file revisions to its tariff that reflect the application of the storm damage surcharge recovery factors by rate class that are contained in Attachment D to the stipulation. Staff recommends that it be permitted to administratively approve the tariff revisions.

Issue 4: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (C. Keating)

Staff Analysis: At the conclusion of the protest period, if no protest is filed this docket should be closed upon the issuance of a consummating order.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Joint petition for approval of special)	
accounting treatment and recovery of costs)	
associated with Hurricane Ivan's impact on)	Docket No. 05 <u>0093</u> -EI
Gulf Power Company.)	Date filed: _____
_____)	

**JOINT PETITION FOR APPROVAL
OF STIPULATION AND SETTLEMENT**

The Citizens of the State of Florida, through the Office of Public Counsel, the Florida Industrial Power Users Group through its undersigned counsel, and Gulf Power Company, through its undersigned counsel, jointly petition the Florida Public Service Commission for entry of a final order approving the attached Stipulation and Settlement as full and complete resolution of any and all matters and issues which might be addressed in connection with the matters set forth therein regarding the effects of Hurricane Ivan on Gulf Power Company's Accumulated Provision for Property Insurance, Account No. 228.1 in accordance with Section 120.57(4), Florida Statutes (2003).

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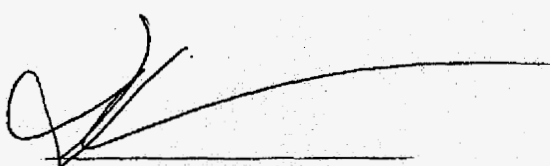
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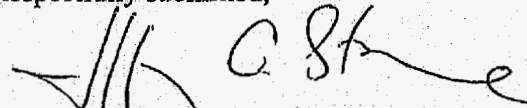
WHEREFORE, the undersigned parties respectfully urge the Florida Public Service Commission to approve the attached Stipulation and Settlement in all respects.

DATED this 1st day of February, 2005.

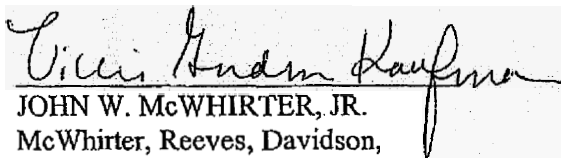


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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of special)
accounting treatment and recovery of costs)
associated with Hurricane Ivan's impact on) Docket No. 05____-EI
Gulf Power Company's property insurance) Date filed: _____
reserve.)
_____)

STIPULATION AND SETTLEMENT

The Office of Public Counsel ("OPC"), the Florida Industrial Power Users Group ("FIPUG"), and Gulf Power Company ("Gulf Power", "Gulf", or "the Company") (collectively, "the Parties"), pursuant to Section 120.57(4), Florida Statutes (2003), have entered into this Stipulation and Settlement to effect an informal disposition and complete and binding resolution of any and all matters and issues which might be addressed in connection with the matters set forth herein regarding the effects of Hurricane Ivan on the Company's Accumulated Provision for Property Insurance, Account No. 228.1 ("property insurance reserve").

WHEREAS, in the early morning hours of September 16, 2004 Hurricane Ivan struck Northwest Florida with a storm surge of approximately 16 feet and winds of approximately 130 miles per hour, causing widespread catastrophic damage to infrastructure, buildings, and other property; and

WHEREAS, the hurricane inflicted extensive damage to Plant Crist, Gulf Power's largest generating plant, and to 790 miles of transmission lines, 211 of 249 main distribution feeders, and 79 substations throughout Gulf Power's service area, as well as many of Gulf's office buildings and other facilities and equipment, ultimately disrupting the electric service of 90% of Gulf Power's customers (including all customers in Escambia and Santa Rosa counties); and

WHEREAS, the hurricane also damaged bridges and highways as well as hotels ordinarily relied upon to house outside workers, rendering efforts to restore service more difficult; and

WHEREAS, Hurricane Ivan was the third major storm to strike Florida and the southeastern United States in a little over four weeks, making outside assistance difficult to secure because of the previous commitments to restoring service interrupted by the two previous storms; and

WHEREAS, in order to restore service to its customers as rapidly as possible, Gulf Power was able to bring in more than 4,000 outside workers and related equipment to augment the efforts of Gulf's more than 1,400 employees; and

WHEREAS, Gulf Power estimates the costs of repairing its system and restoring service to customers will reach \$141.5 million once all repairs have been completed and all costs are known (compared to a combined cost of \$25 million incurred in 1995 as a result of Hurricanes Erin and Opal that struck the area over the course of two months in 1995); and

WHEREAS, pursuant to Rule 25-6.143, Florida Administrative code, Gulf Power maintains a property insurance reserve account (Account No. 228.1, Accumulated Provision for Property Insurance, hereinafter "property insurance reserve") for the purpose of covering the costs of property losses not covered by insurance; and

WHEREAS, prior to Hurricane Ivan, Gulf Power over time had accumulated \$27.8 million in its property insurance reserve account; and

WHEREAS, pursuant to Rule 25-6.0143, Gulf Power would ordinarily charge to its property insurance reserve all of its 2004 storm damage costs that qualify for inclusion, thereby resulting in a substantial negative balance; and

WHEREAS, through the operation of Rule 25-6.0143 the Florida Public Service Commission ("Commission") allows electric utilities subject to the rule, including Gulf Power, to defer recognition of the storm damage expenses to future periods that are reflected in a negative property insurance reserve balance in anticipation of future recovery; and

WHEREAS, Gulf Power's normal annual accrual to the property insurance reserve of \$3.5 million is insufficient to eliminate the negative balance of the property insurance reserve resulting from Hurricane Ivan and build a reasonable balance to be available for future storm events within a reasonable period of time; and

WHEREAS, Gulf Power has a need to eliminate the negative balance in the property insurance reserve within a reasonable time, and to begin to accumulate a positive reserve balance; and

WHEREAS, the parties are receptive to a compromise that would address the negative reserve balance in a manner that takes into account the specific concerns of OPC and FIPUG regarding (i) the appropriate costs for recovery and (ii) a mechanism to share the burden for the costs associated with Hurricane Ivan between customers and shareholders; and

WHEREAS, to avoid the time, expense and uncertainty associated with potential adversarial litigation regarding the matters addressed herein, the Parties entered into negotiations designed to reach an agreement that will address the needs and objectives identified above while protecting their respective interests; and

WHEREAS, for purposes of this Stipulation and Settlement the Parties have agreed to the application of certain guidelines designed to identify certain categories of costs and exclude them from the property insurance reserve; and

WHEREAS, because not all costs are fully known or reviewable as of the execution date of this document, OPC and FIPUG should have an opportunity to review final costs to ensure they qualify for inclusion in the property insurance reserve account pursuant to the criteria established herein; and

WHEREAS, such opportunity should be limited to the period reasonably necessary to accomplish said review, so that this matter may be concluded without unnecessary delay;

NOW THEREFORE, Gulf Power, OPC, and FIPUG agree, stipulate and bind themselves to the following:

1. Gulf Power, OPC, and FIPUG hereby approve and adopt all of the foregoing recitations.
2. This Stipulation and Settlement will become effective on the day following the vote of the Florida Public Service Commission approving this Stipulation and Settlement. The starting date for the full term of this Stipulation and Settlement will be 30 days following said vote and will be referred to as the "Implementation Date."
3. Beginning on the Implementation Date, Gulf shall initiate recovery of the amount agreed to in this Stipulation and Settlement (the "Ivan Deficit Cost Recovery Amount") through a monthly surcharge to apply to customer bills based on a twenty-four month recovery period. The recovery authorized by the approval of this Stipulation and Settlement shall be, subject to true-up, the Total Estimated Ivan Deficit shown on line 18 of Exhibit B (consisting of (1) the

total costs of Hurricane Ivan net of insurance proceeds, less (2) the amount in Gulf's property insurance reserve as of August 31, 2004), less adjustments for certain specific amounts Gulf has agreed to exclude as further set forth in this Stipulation and Settlement and shown on the attached Exhibit C. The resulting Ivan Deficit Cost Recovery Amount, including allowances for related financing costs and adjustments for jurisdictionalization and revenue taxes is also set forth on the attached Exhibit C. The amounts recovered by Gulf pursuant to the surcharge established by this Stipulation and Settlement prior to such time as the Commission's order approving this Stipulation and Settlement is rendered final and no longer subject to further administrative or judicial proceedings shall be considered subject to refund by Gulf unless and until such order becomes final and no longer subject to further administrative or judicial proceedings. In the event that the Commission's order approving this Stipulation and Settlement does not become final and is ultimately reversed or otherwise overturned, Gulf hereby agrees that it shall refund the amounts considered subject to refund in accordance with this paragraph to its customers in accordance with the directions of the Commission.

4. For the sole purpose of this Stipulation and Settlement, and without prejudice to the right and ability of any party to assert how such charges associated with future storms should be charged to the property insurance reserve, the parties adopt and agree to apply the criteria and guidelines contained in Exhibit A to this document. The parties acknowledge and accept that their agreement to adhere to these guidelines and exclude certain charges is reasonable under the circumstances. The Parties further agree that the willingness of each of them to enter this Stipulation and Settlement is contingent on the approval of this Stipulation and Settlement in its entirety. Among the specific charges that consistent with Exhibit A, Gulf shall exclude are: (1)

that portion of the capital expenditures and cost of removal related to recovery from Hurricane Ivan equal to the normal amount that would be charged to capital accounts under normal operating conditions (that portion of the otherwise capitalized charges that exceeds the normal amount that would be charged to capital accounts under normal operating conditions has been charged against the property insurance reserve and will be part of the recovery amount addressed by this Stipulation and Settlement), (2) the straight time labor costs for Gulf Power employees associated with storm recovery activity (any overtime labor charges associated with Hurricane Ivan restoration have been charged against the property insurance reserve and are part of the recovery amount addressed by this Stipulation and Settlement subject to the adjustment for normal budgeted levels of overtime that is the subject of (4) below), (3) \$400,000 representing transportation costs associated with Company-owned vehicles, (4) \$600,000 representing other normal operating costs not chargeable to the property insurance reserve under the principles agreed to in Exhibit A including the normal levels of budgeted overtime identified in (2) above, and (5) \$14 million, which will be accomplished by an additional accrual to the property insurance reserve for 2004 over the annual accrual of \$3.5 million as reflected in Gulf's current base rates.¹ The additional accrual for 2004 is made pursuant to Commission authority granted in Docket No. 951433-EI, Order No. PSC-96-0023-FOF-EI dated January 8, 1996, which provides Gulf with the flexibility to increase the annual accrual to the reserve. As shown on

¹The parties agree that in lieu of eliminating (i) all normal, budgeted overtime from bargaining unit labor costs charged to the property insurance reserve in accordance with paragraph D of Exhibit A; (ii) normal materials and supplies expense in accordance with paragraph E of Exhibit A; and (iii) any amounts excludable in accordance with paragraph G of Exhibit A, such costs will be considered part of the \$15.0 million removed from the Ivan Deficit Cost Recovery Amount pursuant to enumerated items (3), (4) and (5) within this paragraph 4 of the Stipulation and Settlement.

Exhibit C, the adjustments agreed to by the Parties as set forth herein have reduced the Ivan Deficit Cost Recovery Amount by \$44.8 million from \$96.5 million to \$51.7 million (before adjustments for interest, jurisdictionalization and revenue taxes). Except for adjustments for interest, jurisdictionalization and revenue taxes and the operation of the true-up mechanism as provided below, the Ivan Deficit Cost Recovery Amount shall not be subject to further change.

5. The computation of the stipulated surcharge is shown on the attached Exhibit D, Ivan Deficit Cost Recovery Surcharge Computation. The Ivan Deficit Cost Recovery Surcharge shall be allocated among rate classes based on the cost of service methodology approved in Gulf Power's most recent rate case in Docket No. 010949-EI.

6. In a report to be filed with the Commission and served on the parties not later than July 1, 2005, Gulf shall compare the actual amounts incurred for storm restoration costs included in the Recoverable Ivan Deficit (before interest and revenue taxes) to the estimate set forth on line 10 of Exhibit C in order to determine the amount necessary to true-up the estimate forming the basis for this Stipulation and Settlement. No later than 60 days after the filing of such report, any party to this Stipulation and Settlement may, through a written notice filed with the Commission, challenge any actual costs included in the Recoverable Ivan Deficit (before interest and revenue taxes) on the grounds that such costs do not conform to this Stipulation and Settlement or that such costs were not reasonable and prudent. Any determination as to whether costs included in the Recoverable Ivan Deficit (before interest and revenue taxes) were reasonable and prudent shall be made with reference to the general public interest in, and the scope of effort required to provide, the safe and expeditious restoration of electric service. If the parties are not able to resolve any such challenge through settlement within 30 days after the

written notice of such challenge, the matter shall be brought before the Commission for resolution. It is the intent and desire of the parties that the Commission render a final order resolving such dispute at least 90 days prior to the end of the first 12 months of the recovery period.

7. At least 60 days prior to end of the first 12 months of the recovery period, Gulf Power shall submit a revised computation of the Ivan Deficit Cost Recovery Surcharge designed to collect the remaining unrecovered portion of the Ivan Deficit Cost Recovery amount over the final 12 months of the 24 month recovery period. Such subsequent calculation shall take into account adjustments for the difference between projected and actual costs (including the final resolution, if known, of a challenge brought pursuant to paragraph 6 above), and for the difference between projected and actual revenues collected pursuant to the Ivan Deficit Cost Recovery Surcharge. Within sixty days following expiration of the 24 month recovery period, Gulf shall file the final true-up calculation. Any remaining under- or over- recovery amounts will be treated as part of the true-up in the next fuel and purchased power cost recovery proceedings.

8. In order to facilitate the purpose and intent of this Stipulation and Settlement, the agreed upon Jurisdictional Recoverable Ivan Deficit (before interest and revenue taxes) shown on line 12 of Exhibit C shall be transferred to a separate subaccount designated as the Ivan Deficit Recovery, such subaccount balance to constitute a regulatory asset for which recovery is authorized by the Commission pursuant to this Stipulation and Settlement. The parties agree that the regular monthly accrual to the property insurance reserve, and any additional accruals made pursuant to the authority granted in Docket No. 951433-EI, Order No. PSC-96-0023-FOF-EI

dated January 8, 1996, shall be used in the normally anticipated manner to accumulate a property insurance reserve for future losses and such accruals shall not affect the total amount to be recovered pursuant to this Stipulation and Settlement.

9. In the event that the Florida Legislature enacts legislation that will allow for the securitization of storm recovery financing under terms of a financing order that provides for the establishment of storm recovery property and a resulting storm recovery surcharge, Gulf Power shall have the right, in its sole discretion and notwithstanding this Stipulation and Settlement, to petition the Commission for the entry of such an order in accordance with and under the terms of such legislation to securitize the recovery of the amount agreed to in this Stipulation and Settlement (\$51.7 million before interest and revenue taxes) and, subject to the limitations set forth in this paragraph, additional amounts not to exceed \$27.8 million (before interest and revenue taxes). To the extent Gulf Power requests in its petition authority to finance and recover from its customers amounts in addition to the Jurisdictional Recoverable Ivan Deficit (before interest and revenue taxes) identified herein, said request shall not be deemed a violation of this Stipulation and Settlement so long as the additional amounts requested are intended and are used for the sole purpose of replenishing \$27.8 million (the level that existed immediately prior to the occurrence of Hurricane Ivan) to the property insurance reserve, or such other lesser amount authorized by the Commission consistent with the legislation. Each party will be free to participate in the proceeding on Gulf Power's petition and assert any position with regard to the additional relief requested therein that it deems consistent with its interests. Notwithstanding the foregoing, each party agrees to meet with the others early in the proceeding on said petition for the purpose of exploring the possibility of settling the issues raised by the petition.

10. Except under circumstances provided for within this Stipulation and Settlement, Gulf Power agrees that it will not petition for an increase in its base rates and charges, including interim rate increases, to take effect until after March 1, 2007. Notwithstanding the foregoing, Gulf shall not be precluded from seeking and receiving rate relief in the form of an increase in its base rates and charges, additional surcharge, or any other rate recovery mechanism if the area served by Gulf Power is struck by another catastrophic storm or other property casualty event and as a result thereof, Gulf incurs costs related to the replacement of property damaged or destroyed through such catastrophic event and/or the restoration of electric service taking into account the general public interest in the safe and expeditious restoration of electric service interrupted by such catastrophic event unless there are sufficient accumulated amounts in Gulf's property insurance reserve or available insurance to cover the full amount of the costs reasonably and prudently incurred by Gulf in consideration of the stated general public interest. Parties to this Stipulation and Settlement are not precluded from participating in a proceeding initiated through Gulf's request for rate relief made under such circumstances.

11. No party to this Stipulation and Settlement will request, support or seek to impose a change in the application of any provision hereof, including without limitation, the determination of the Ivan Deficit Cost Recovery Amount set forth in paragraph 4 above. Subject to the approvals of the Florida Public Service Commission set forth in the paragraphs below, and with the exception of any challenges to individual costs as provided herein, all parties hereto waive any right to request further administrative or judicial proceedings in regards to the establishment or implementation of this Stipulation and Settlement. Such requests for further administrative or judicial proceedings shall include (but not be limited to): a petition for a formal proceeding, in

the form provided by Rule 28-106.201, Florida Administrative Code; a motion for reconsideration of the decision in this matter in the form prescribed by Rule 25-22.060, Florida Administrative Code; or a notice of appeal to initiate judicial review by the Florida Supreme Court pursuant to Rule 9.110, Florida Rules of Appellate Procedure, in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

12. This Stipulation and Settlement Agreement is contingent upon approval in its entirety by the Florida Public Service Commission. This Stipulation and Settlement will resolve all matters discussed herein pursuant to and in accordance with Section 120.57(4), Florida Statutes (2003). If this Stipulation and Settlement is not accepted and approved without modification by an order not subject to further proceedings or judicial review, then this Stipulation and Settlement shall be considered null and void and of no further force or effect.

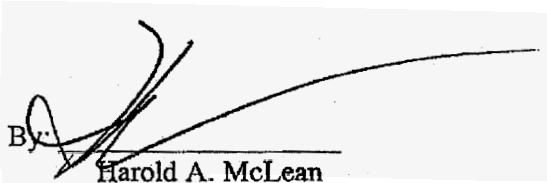
13. It is understood and explicitly agreed that the Parties have entered this Stipulation for purposes of settlement, and their participation shall not prejudice the right and ability of any party hereto to take any position in any other proceeding in any venue.

14. This Stipulation and Settlement, dated as of February 17, 2005, may be executed in counterpart originals and a facsimile of an original signature shall be deemed an original.

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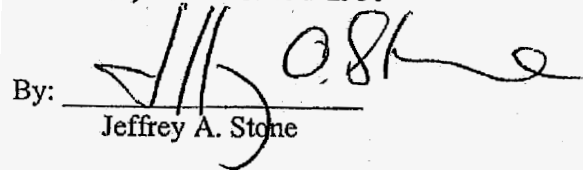
The Parties evidence their acceptance and agreement with the provisions of this
Stipulation and Settlement by their signatures:

Office of Public Counsel
111 W. Madison Street, Room 812
Tallahassee, Florida 32399-1400

By: 
Harold A. McLean

Gulf Power Company
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Pensacola, Florida 32520

Beggs & Lane
P. O. Box 12950
Pensacola, Florida 32591-2950

By: 
Jeffrey A. Stone

Florida Industrial Power Users Group

McWhirter, Reeves, Davidson,
Kaufman & Arnold, P.A.

400 North Tampa Street, Suite 2450
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117 South Gadsden Street
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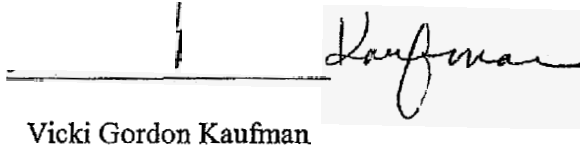

Vicki Gordon Kaufman

EXHIBIT A

**AGREED GUIDELINES GOVERNING IVAN-RELATED
CHARGES TO PROPERTY INSURANCE RESERVE**

- A. Gulf Power will book all capital additions to plant in service at an amount equal to the normal amount for material, labor and other charges that would be charged to capital accounts under normal operating conditions. Only additional, extraordinary capital-related expenses will be booked to the property insurance reserve.**
- B. Gulf Power will book all retirements resulting from 2004 storms based on its existing, approved depreciation/retirement procedures.**
- C. Gulf Power will exclude from storm recovery expenses charged to the property insurance reserve the cost of removal expense related to said plant items that have been retired due to 2004 storm damage.**
- D. Gulf Power will eliminate all base salaries and normal, budgeted overtime from all bargaining unit labor costs charged to the property insurance reserve.**
- E. Gulf Power will charge to the property insurance reserve only those costs of materials and supplies not part of capitalized projects that exceed the material and supplies expense anticipated under normal operations.**
- F. Gulf Power will eliminate all insurance recoveries, less deductibles, from the storm recovery amounts.**
- G. Gulf Power will exclude from the amount charged to the property insurance reserve any expenses associated with the following activities:**
- 1. Operating expenses and overheads for company-owned vehicles.**
 - 2. Storeroom expense.**
 - 3. Advertising expense.**
 - 4. Employee training expense.**
 - 5. Management overheads except for overtime when working on storms.**
 - 6. All other allocated expenses included in normal operations and existing budgets.**
 - 7. Labor costs associated with repairs and replacements that have been identified as job or work orders, but that have not yet been worked and that will be completed by existing, full time employees or regular, budgeted contract personnel.**

8. Labor costs associated with any work or activity related to the storm other than the jobs or work orders identified in (7) above that will be completed by any employees as part of their regular job duties.
9. Call center activities shall be excluded except for non-budgeted overtime or other incremental costs associated with the storm event.

H. Gulf Power shall not book any uncollectible expenses or lost revenues to the property insurance reserve.

I. Gulf Power shall not book to the property insurance reserve cash advances made to employees. Storm related expenses paid with these advances and documented with expense accounts shall be chargeable to the property insurance reserve.

Exhibit B

**Gulf Power Company
 Calculation of Total Estimated Ivan Deficit**

Estimated Transmission and Distribution Costs

1	External Costs including Contractors and Equipment	\$ 90,000,000
2	Food, Lodging, Transportation, & Other	14,200,000
3	Materials	9,900,000
4	Company - Straight Time Labor, Payroll Taxes and Benefits	3,400,000
5	Company - Overtime & Payroll Taxes	3,300,000
6	Fuel	1,600,000
7	Total Estimated Transmission and Distribution Costs (Lines 1-6)	<u>\$ 122,400,000</u>

Estimated Generating Plants and Office Facilities

8	Crist Plant Cooling Tower	\$ 9,300,000
9	Other Damages to Plants	4,700,000
10	Damaged Vehicles	220,000
11	Security Equipment	40,000
12	Office Buildings	4,850,000
13	Total Estimated Generating Plants and Office Facilities (Lines 8-12)	<u>\$ 19,110,000</u>
14	Total Estimated Hurricane Ivan Costs (Line 7 + Line 13)	\$ 141,510,000
15	Less: Estimated Insurance Reimbursement (net of \$1.9 million deductible)	<u>17,210,000</u>
16	Estimated Ivan Costs net of Insurance Reimbursement (Line 14 - Line 15)	\$ 124,300,000
17	Less: Balance in Property Insurance Reserve as of 8/31/04	<u>27,800,000</u>
18	Total Estimated Ivan Deficit (Line 16 - Line 17)	<u>\$ 96,500,000</u>

Exhibit C

Gulf Power Company
Ivan Deficit Cost Recovery Amount Computation

1 Total Estimated Ivan Deficit (Exhibit B)		\$ 96,500,000
2 Less: Company Voluntary Exclusions from Ivan Deficit Cost Recovery Surcharge		
3 Estimated Capital Costs Under Normal Operating Conditions	\$ 23,100,000	
4 Estimated Cost of Removal Under Normal Operating Conditions	\$ 3,300,000	
5 Straight Time Labor Costs	3,400,000	
6 Company-Owned Vehicle Costs	400,000 *	
7 Other Normal Operating Costs	600,000 *	
8 Additional Accrual to Property Reserve in 2004	<u>14,000,000 *</u>	
9 Total Exclusions from Ivan Deficit Cost Recovery Surcharge (Lines 3 thru 8)		<u>44,800,000</u>
10 Recoverable Ivan Deficit Before Interest & Revenue Taxes (Line 1 - Line 9)		\$ 51,700,000
11 Retail Jurisdictional Factor		x <u>0.9939036</u>
12 Jurisdictional Recoverable Ivan Deficit Before Interest & Revenue Taxes (Line 10 x Line 11)		\$ 51,384,816
13 Interest on Jurisdictional Recoverable Ivan Deficit Over 2 Years		<u>1,866,963</u>
14 Jurisdictional Recoverable Ivan Deficit Including Interest (Line 12 + Line 13)		\$ 53,251,779
15 Revenue Tax Factor		x <u>1.00072</u>
16 Ivan Deficit Cost Recovery Amount (Line 14 x Line 15)		<u>\$ 53,290,120</u>

* Fixed Amounts As Agreed Between Parties to Stipulation and Settlement

Exhibit D

**Gulf Power Company
 Calculation of Ivan Deficit Cost Recovery Surcharge**

<u>Rate Class</u>	<u>A</u> % <u>Demand</u> <u>Allocator</u>	<u>B</u> \$ <u>Ivan Deficit Cost</u> <u>Recovery Amount</u> <u>Costs</u>	<u>C</u> <u>2005-2006</u> <u>Projected</u> <u>KWH Sales</u>	<u>D</u> (¢ / KWH) <u>Ivan</u> <u>Recovery</u> <u>Factors</u> Col. B/ Col. C
RS, RSVP	53.35737	28,434,207	10,499,638,000	0.271
GS	2.11880	1,129,111	615,171,000	0.184
GSD, GSDT, GSTOU	22.56380	12,024,276	5,217,349,000	0.230
LP, LPT	14.70531	7,836,477	3,848,245,000	0.204
PX, PXT, RTP, SBS, CSA	6.65923	3,548,712	2,161,378,000	0.164
OS-I/II	0.42392	225,907	214,481,000	0.105
OS-III	<u>0.17157</u>	<u>91,430</u>	<u>53,818,000</u>	0.170
TOTAL	<u>100.00000</u>	<u>53,290,120</u>	<u>22,610,080,000</u>	0.236

Demand allocator is consistent with the capacity, conservation, and environmental cost recovery clauses.