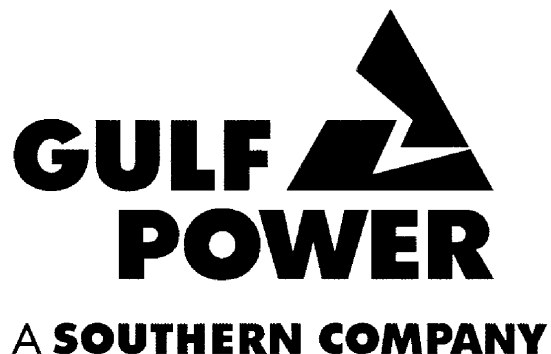


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 060154-E1

TESTIMONY AND EXHIBIT
OF
CONSTANCE J. ERICKSON

In Support of Storm-Recovery Financing



DOCUMENT NUMBER-DATE
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FPSC-COMMISSION CLERK

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Prepared Direct Testimony and Exhibit of
4 Constance J. Erickson
5 Docket No. 06-0154-E1
6 In Support of Storm-Recovery Financing
7 Date of Filing: February 22, 2006

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

9 A. My name is Constance J. Erickson. My business address is One Energy
10 Place, Pensacola, Florida 32520. I am Comptroller of Gulf Power
11 Company.

12 Q. Please describe your educational background and business experience.

13 A. I graduated from the University of North Dakota in 1987 with a Bachelor of
14 Accountancy degree. After graduation I was employed with the audit
15 division of Arthur Andersen & Co. in Minneapolis from 1987 to 1992.
16 From 1992 to 2002 I held various senior financial positions with GNB and
17 Exide Technologies and with Graco Inc. In 2002, I accepted employment
18 with Southern Company and held various financial positions, including
19 Comptroller and Director of Customer Operations and Information
20 Technology with Southern Company Gas and Director of Financial and
21 Contract Services with Southern Company Services, until being named
22 Comptroller of Gulf Power effective January 14, 2006. Also, I am a
23 licensed Certified Public Accountant and a member of the American
24 Institute of Certified Public Accountants.
25

1 Q. Briefly describe your duties and responsibilities as Comptroller of Gulf
2 Power.

3 A. I am responsible for maintaining the accounting records of the Company.
4 Gulf Power Company maintains its books and records in accordance with
5 generally accepted accounting principles and the rules and regulations
6 prescribed for public utilities in the Uniform System of Accounts published
7 by the Federal Energy Regulatory Commission (FERC), and adopted by
8 the Florida Public Service Commission (FPSC). Our books and records
9 are audited by Deloitte & Touche, independent public accountants, and a
10 copy of their latest audit opinion, for the year ending December 31, 2004
11 is included in the Company's 2004 Annual Report to Stockholders. Our
12 books and records are also audited by the FERC and the FPSC.

13
14 Q. What is the purpose of your testimony?

15 A. The purpose of my testimony is to present the accounting entries that will
16 be required for the proposed storm-recovery financing.

17
18 Q. Have you prepared an exhibit that contains information to which you will
19 refer to in your testimony?

20 A. Yes. I have one exhibit consisting of one schedule to which I will refer.
21 This exhibit was prepared under my supervision and direction.

22
23 Counsel: We ask that Ms. Erickson's Exhibit consisting of one
24 schedule be marked as Exhibit No. ____ (CJE-1).

25

1 Q. Please describe the overall accounting treatment for storm-recovery
2 financing.

3 A. If approved by the FPSC, Gulf will conduct storm-recovery financing
4 though a special purpose entity (SPE). The SPE will be created solely to
5 facilitate storm-recovery financing and will be a subsidiary of Gulf. The
6 SPE and Gulf will maintain separate accounting records. The accounting
7 entries necessary to record storm-recovery financing activities, along with
8 an explanation of each, are illustrated in my Schedule 1 to my exhibit.

9
10 Q. What amount of storm-recovery property is Gulf proposing to sell to the
11 SPE?

12 A. Gulf is proposing to sell storm-recovery property net-of-tax in the amount
13 of \$84.6 million to the SPE. Gulf will assume responsibility for the income
14 taxes payable when the Storm Recovery Charges are collected from the
15 customer. As such, the deferred income taxes associated with the
16 regulatory assets will remain on Gulf's books along with an equivalent
17 regulatory asset amount.

18
19 Q. What specific accounting treatment associated with the proposed storm-
20 recovery financing is Gulf proposing for FPSC approval in this docket?

21 A. As part of the Company's primary request, Gulf is requesting the FPSC
22 authorize the addition of \$70.0 million to the Accumulated Provision for
23 Property Insurance (the Reserve) to be funded through the issuance of
24 storm-recovery bonds and the establishment of a related regulatory asset.
25 The basis for this requested addition is discussed in Mr. Labrato's and Mr.

1 McMillan's testimonies. This addition to the Reserve will support future
2 storm restoration activities. In addition, Gulf is requesting that the FPSC
3 authorize the establishment of a regulatory asset for the 2005 storm-
4 recovery costs related to Hurricanes Dennis and Katrina, as calculated by
5 Mr. McMillan. Finally, Gulf is requesting authorization to sell these
6 regulatory assets to the SPE, together with the remaining balance of the
7 Hurricane Ivan storm costs which is already a regulatory asset. These
8 regulatory assets will be sold to the SPE net of tax as storm-recovery
9 property pursuant to the definition in Section 366.8260 (1) (o) of the
10 Florida Statutes.

11

12 Q. Are the LLC Agreement, Administration Agreement, Storm-Recovery
13 Property Sale Agreement, and Storm-Recovery Servicing Agreement
14 considered affiliate transactions?

15 A. Yes. Gulf has attached these agreements to Mr. Kim's testimony and
16 requests that the FPSC approve Gulf entering into these agreements in
17 substantially the form as they are being submitted to the FPSC.

18

19 Q. How will the SPE amortize this storm-recovery property?

20 A. The SPE will amortize the storm-recovery property to expense based on
21 the principal amount required for the repayment of the bonds over the
22 expected life of the bonds.

23

24

25

1 Q. How will Gulf amortize the regulatory assets?

2 A. Gulf will amortize its regulatory assets to expense over the life of the
3 bonds. As it is amortized, Gulf will incur current tax obligations related to
4 the revenues collected and will reverse the deferred tax liabilities related
5 to it.

6

7 Q. What are the anticipated accounting entries to be recorded at the SPE?

8 A. As illustrated on pages 1 and 2 of Schedule 1, the accounting entries to be
9 recorded by the SPE are as follows: (1) recording of capital subaccount
10 from Gulf's equity investment; (2) recording of proceeds from the issuance
11 of bonds; (3) purchase of storm-recovery property net-of-tax from Gulf; (4)
12 recording of revenues and the receipt of cash from Gulf for the Storm
13 Bond Repayment Charges collected; (5) amortization of storm recovery
14 property; (6) accrual of interest expense; (7) recording of on-going
15 operating costs and servicing fees payable; (8) amortization of upfront
16 bond issuance costs; (9) payment of bond principal and interest; (10)
17 replenishment of capital subaccount, if needed; and (11) transfer of cash
18 to the excess funds account in the event of excess Storm Bond
19 Repayment Charges collected, if any.

20

21 Q. What are the anticipated accounting entries to be recorded at Gulf?

22 A. As illustrated on pages 3 and 4 of Schedule 1, the accounting entries to be
23 recorded by Gulf are as follows: (1) recording of expenditure of cash to
24 fund the capital subaccount at the SPE and a related investment; (2)
25 establishment of regulatory assets consisting of remaining Hurricane Ivan

1 costs and 2005 storm-recovery costs related to Hurricanes Dennis and
2 Katrina; and the Reserve along with related deferred income tax assets;
3 (3) sale of regulatory assets net-of-tax to the SPE; (4) use of proceeds
4 Gulf receives from the sale of its storm-recovery property to fund the
5 Reserve; (5) recognition, collection, and remittance of Storm Bond
6 Repayment Charges and Storm Bond Tax Charges; (6) amortization of the
7 remaining regulatory assets; (7) reversal of deferred income taxes and
8 payment of current income and revenue taxes; and (8) earnings on the
9 fund and related tax effects.

10
11 Q. How will the Storm Recovery Charges collected from customers be
12 recorded?

13 A. The Storm Bond Repayment Charge collections will be remitted to and
14 recorded as revenues at the SPE. The collections of the Storm Bond Tax
15 Charge (i.e. the component of the Storm Recovery Charge imposed to
16 cover the associated income taxes) will be recorded at Gulf.

17
18 Q. Has the U.S. Treasury Department issued any guidance on accounting for
19 storm-recovery financing and related income taxes?

20 A. Yes. Revenue Procedure 2005-62 provides a safe harbor for public utility
21 companies that, pursuant to specified cost recovery legislation, receive an
22 irrevocable financing order permitting the utility to recover certain specified
23 costs through a qualifying securitization. Under the revenue procedure,
24 Gulf will not recognize taxable income upon 1) the receipt of the financing

1 order; 2) the transfer of Gulf's rights under the financing order to the SPE;
2 or 3) the issuance of the storm-recovery bonds.

3

4 Q. Does the storm-recovery financing Gulf is proposing meet the
5 requirements of this revenue procedure?

6 A. Yes.

7

8 Q. Please describe how the Company, as servicer, proposes to remit Storm
9 Bond Repayment Charges to the SPE.

10 A. Gulf will remit Storm Bond Repayment Charges to the SPE monthly (at the
11 end of the month) based on billed kilowatt hours and an unbilled
12 calculation for retail customers, less an assumed delinquency rate. Since
13 there is a lag between the time charges are billed and the time payment is
14 received, Gulf will remit Storm Bond Repayment Charges on a one-month
15 lag. For example, the Storm Bond Repayment Charges billed in
16 September 2006 will be remitted to the SPE at the end of October 2006.

17

18 Q. How will Gulf allocate partial payments on a bill to the Storm Bond
19 Repayment Charge?

20 A. Partial payments will be allocated to Storm Bond Repayment Charges in
21 the same proportion that such charges bear to the total bill. The first
22 dollars collected would be attributed to past due balances, if any. Once
23 those balances are paid in full, if cash collections are not sufficient to pay
24 a customer's current bill, then the cash would be prorated between the
25 different components of the bill.

1 Q. Will Gulf reconcile Storm Bond Repayment Charge collections and
2 estimated remittances?

3 A. Yes. On or before March 1 of each year, the Company will reconcile
4 Storm Bond Repayment Charge collections during the prior calendar year
5 with amounts remitted. If Storm Bond Repayment Charges have been
6 under-remitted, the Company will remit the shortfall to the bond trustee on
7 the next servicer business day. If the Storm Bond Repayment Charges
8 have been over-remitted, then the Company will reduce the next
9 succeeding remittance(s) by the amount of the over-remittance. Gulf will
10 also update the data underlying the delinquency factor.

11
12 Q. In the event of a storm loss, what would be the anticipated accounting
13 entries that would occur?

14 A. Storm losses would continue to be recorded on Gulf's books. Gulf would
15 charge the pre-tax storm costs to the Reserve and would withdraw cash
16 from the fund on an after-tax basis. In addition, a proportional amount of
17 the deferred income tax asset associated with the Reserve will be
18 reversed and a current tax benefit for storm losses incurred will be
19 established.

20
21 Q. Please summarize your testimony.

22 A. I have presented and discussed the necessary accounting entries to
23 record the proposed storm-recovery financing, including special
24 accounting treatment for the set up and sale of regulatory assets which
25 Gulf is requesting the Commission to authorize.

1 Q. Does this conclude your direct testimony?

2 A. Yes.

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STATE OF FLORIDA)
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COUNTY OF ESCAMBIA)

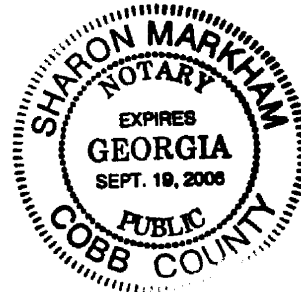
Docket No. _____

Before me the undersigned authority, personally appeared Constance J. Erickson, who being first duly sworn, deposes, and says that she is the Comptroller of Gulf Power Company, a Florida corporation, that the foregoing is true and correct to the best of her knowledge, information, and belief. She is personally known to me.

Constance J. Erickson
Constance J. Erickson
Comptroller

Sworn to and subscribed before me this 20th day of
February, 2006.

Sharon Markham
Notary Public, State of Georgia, Cobb County



**Accounting Entries to Record Storm-Recovery Financing
by the
Special Purpose Entity (SPE)**

Description	Debit	Credit	Income Statement	Balance Sheet
<u>Entries for the Set-up of the SPE</u>				
(1) To record the initial investment and establish a restricted cash account in the SPE by Gulf.				
Cash/Capital Subaccount	X			X
Shareholder's Equity		X		X
<u>Entries Related to the Issuance of Storm-Recovery Bonds</u>				
(2) To record the issuance of storm recovery bonds.				
Cash	X			X
Upfront Bond Issuance Costs	X			X
Bonds Payable		X		X
<u>Entries Related to the Purchase of Regulatory Assets from Gulf</u>				
(3) To record the purchase of the Regulatory Assets net of tax from Gulf related to storm-recovery financing.				
Storm-Recovery Property	X			X
Cash		X		X
<u>Monthly Entries Related to Storm-Recovery Financing</u>				
(4) To record revenues from the collection of Storm Bond Repayment Charges from customers.				
Accounts Receivable from Gulf	X			X
Revenues		X	X	
(4) To record the proceeds of Storm Bond Repayment Charges collected by Gulf and to be remitted to SPE.				
Cash/General Subaccount	X			X
Accounts Receivable from Gulf		X		X
(5) To record the amortization of the storm-recovery property.				
Amortization Expense	X		X	
Storm-Recovery Property		X		X

**Accounting Entries to Record Storm-Recovery Financing
by the
Special Purpose Entity (SPE)**

Description	Debit	Credit	Income Statement	Balance Sheet
<u>Monthly Entries Related to Storm-Recovery Financing (continued)</u>				
(6)To record interest expense on the storm recovery bonds.				
Interest Expense	X		X	
Interest Payable		X		X
(7)To record on-going operating costs and servicing fees.				
Admin & General Expenses	X		X	
Cash/General Subaccount		X		X
(8)To record amortization of upfront bond issuance costs.				
Interest Expense – Issuance Costs	X		X	
Upfront Bond Issuance Costs		X		X
(9)To record payment of principal and interest on storm-recovery bonds.				
Bonds Payable	X			X
Interest Payable	X			X
Cash/General Subaccount		X		X
(9)To record payment of principal and interest on storm-recovery bonds if revenues received from the Storm Bond Repayment Charge are insufficient.				
Bonds Payable	X			X
Interest Payable	X			X
Cash/Capital Subaccount		X		X
(10)To record replenishment of the capital subaccount through the true-up mechanism, if funds are used.				
Cash/Capital Subaccount	X			X
Cash/General Subaccount		X		X
(11)To record excess proceeds from the Storm Bond Repayment Charges remitted to the SPE after payments for principal, interest, on-going operating costs and servicing fees, and replenishment of the capital subaccount.				
Cash/Excess Funds Subaccount	X			X
Cash/General Subaccount		X		X

**Accounting Entries to Record Storm-Recovery Financing
for
Gulf Power Company (Gulf)**

Description	Debit	Credit	Income Statement	Balance Sheet
<u>Entries for the Set-up of the SPE</u>				
(1) To record the initial investment in the SPE by Gulf.				
Investment in SPE	X			X
Cash		X		X
<u>Entries Related to the Sale of Regulatory Assets to the SPE</u>				
(2) To record the addition to the Reserve as approved by the Commission.				
Regulatory Asset	X			X
Deferred Income Tax Asset	X			X
Reserve		X		X
Deferred Income Tax Liability		X		X
(3) To record the sale of the Regulatory Assets net of tax to the SPE.				
Cash	X			X
Regulatory Assets		X		X
<u>Entry to Record the Funding of the Reserve</u>				
(4) To establish a fund thereby creating a funded reserve.				
Fund (net of tax)	X			X
Cash		X		X
<u>Monthly Entries Related to Storm-Recovery Financing</u>				
(5) To record the revenues of Storm Bond Repayment Charges collected by Gulf on behalf of the SPE.				
Customer Accounts Receivable	X			X
Account Payable to SPE		X		X
(5) To record the revenues of Storm Bond Tax Charges collected by Gulf				
Customer Accounts Receivable	X			X
Revenue Taxes and Fees	X		X	
Revenues		X	X	
Revenue Taxes and Fees Payable		X		X

**Accounting Entries to Record Storm-Recovery Financing
for
Gulf Power Company (Gulf)**

Description	Debit	Credit	Income Statement	Balance Sheet
<u>Monthly Entries Related to Storm-Recovery Financing (continued)</u>				
(5)To record collection of cash received from customers.				
Cash	X			X
Customer Accounts Receivable		X		X
(5)To record the payment of Storm Bond Repayment Charges to the SPE.				
Account Payable to SPE	X			X
Cash		X		X
(6)To record amortization of Regulatory Asset associated with the Storm Bond Tax Charge.				
Amortization Expense	X		X	
Regulatory Asset		X		X
(7)To record current and deferred income taxes related to the amortization of Regulatory Assets.				
Deferred Income Tax Liabilities	X			X
Deferred Income Tax Expense		X	X	
Current Income Tax Expense	X		X	
Current Income Tax Payable		X		X
(7)To record payment of revenue and income taxes.				
Revenue Taxes and Fees Payable	X			X
Current Income Tax Payable	X			X
Cash		X		X
(8)To record fund earnings and recognize the future deductibility of current earnings and related deferred income taxes.				
Fund (net of tax)	X			X
Earnings on the Fund (net of tax)		X	X	
Expense (transfer Fund earnings to Reserve)	X		X	
Deferred Income Tax Asset	X			X
Reserve		X		X
Deferred Income Tax Expense		X	X	

