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September 24, 2002

Robert D. Vandiver, Esquire  
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111 W. Madison St., #812  
Tallahassee, Florida 32399-1400

RE: Docket No. 020943-EI

Dear Rob:

This follows our recent telephone conversations regarding the agreement between the Florida Department of Environmental Protection ("FDEP") and Gulf Power Company ("Gulf Power") dated August 28, 2002 ("the Agreement"). A copy of the Agreement is attached as Appendix A to our petition on behalf of Gulf Power that was filed with the Florida Public Service Commission ("Commission") on August 30, 2002 in Docket No. 020943-EI. The purpose and result of our telephone conversations as confirmed by this letter is to clarify a matter of concern to you.

You have expressed concern about certain language contained in the Agreement. Specifically, you are concerned about the phrase "... and (b) authorizing related cost recovery pursuant to Section 366.8255(1)(d) of the Florida Statutes ..." that appears on page 1 and again on page 4 of the agreement. The concern you raised is that someone who is not familiar with the negotiations that lead to the Agreement could interpret this language as an indication that the FDEP and Gulf Power have entered into the agreement with the intent to preempt or usurp the the Commission with regard to its role under Section 366.8255 of the Florida Statutes. Pursuant to the statute, it is the Commission that approves a utility's environmental compliance activities and allows recovery of these costs through an environmental compliance cost-recovery factor that is separate and apart from the utility's base rates.

Clearly, the parties to the Agreement did not intend for the questioned language to be interpreted as an attempt to preempt or usurp the Commission's statutory role under Section 366.8255 of the Florida Statutes. To the contrary, as acknowledged in paragraph 8 of the Agreement, the purpose of the agreement was to allow the Commission through an order

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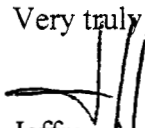
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pursuant to the statute to authorize Gulf Power to recover the costs of the activities and projects required thereunder through the environmental cost recovery clause. The intent of the parties was to meet the requirements of the statute in order to bring the costs incurred pursuant to the Agreement under the enlarged definition of "Environmental compliance costs" that resulted from Chapter 2002-276 of the Laws of Florida. As set forth in paragraph 8, absent the Commission's approval, the Agreement unwinds and the projects and activities set forth therein will not be undertaken.

As noted in our most recent conversation, I am providing a copy of this letter to FDEP's counsel with a request that we be contacted immediately if any of my statements above have misrepresented the parties' intent with regard to the Commission's statutory role under Section 366.8255 of the Florida Statutes.

Thank you for the opportunity to clarify this matter of concern.

Very truly yours,  
  
Jeffrey A. Stone  
For the firm

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