

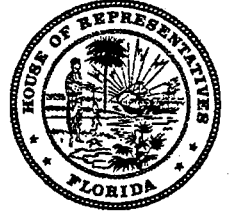
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President

ORIGINAL

ALLEN BENSE
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May 9, 2006

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COMMISSION
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Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 060154-EI

Dear Ms. Bayo:

Enclosed for filing, on behalf of the Citizens of the State of Florida, are the original and 15 copies of the Direct Testimony of Hugh Larkin, Jr.

Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office.

Sincerely,

Patricia A. Christensen
Associate Public Counsel

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FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for issuance of a storm
recovery financing order pursuant to
Section 366.8260, F.S. (2005), by
Gulf Power Company
_____)

) DOCKET NO. 060154-EI

) May 9, 2006

DIRECT TESTIMONY OF
HUGH LARKIN, JR., CPA

Harold McLean
Public Counsel

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c/o The Florida Legislature
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Attorney for the Citizens
Of the State of Florida

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FPSC-COMMISSION CLERK

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1 DIRECT TESTIMONY OF HUGH LARKIN, JR.
2 ON BEHALF OF THE CITIZENS OF FLORIDA
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 GULF POWER COMPANY
5 DOCKET NO. 060154-EI

6 I. INTRODUCTION

7 Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

8 A. My name is Hugh Larkin, Jr. I am a Certified Public Accountant licensed in the
9 States of Michigan and Florida and the senior partner in the firm Larkin &
10 Associates, PLLC, Certified Public Accountants, with offices at 15728
11 Farmington Road, Livonia, Michigan 48154.

12
13 Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

14 A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory
15 Consulting Firm. The firm performs independent regulatory consulting primarily
16 for public service/utility commission staffs and consumer interest groups (public
17 counsels, public advocates, consumer counsels, attorneys general, etc.) Larkin &
18 Associates, PLLC has extensive experience in the utility regulatory field as expert
19 witnesses in over 600 regulatory proceedings, including numerous electric, water
20 and wastewater, gas and telephone utility cases.

21
22 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC
23 SERVICE COMMISSION?

1 A. Yes. I have testified before the Florida Public Service Commission on numerous
2 occasions during the past 30 years. I have also testified before Public
3 Service/Utility Commissions in 35 state jurisdictions, United States District
4 Courts, the Federal Energy Regulatory Commission and the Canadian Natural
5 Energy Board.

6
7 Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR
8 QUALIFICATIONS AND EXPERIENCE?

9 A. Yes. I have attached Appendix I, which is a summary of my regulatory
10 experience and qualifications.

11
12 Q. ON WHOSE BEHALF ARE YOU APPEARING?

13 A. Larkin & Associates, PLLC, was retained by the Florida Office of Public Counsel
14 (OPC) to review and comment on Gulf Power Company's (Gulf or Company)
15 request for recovery of storm restoration costs, and to address the appropriate
16 methodology for determining the amount to be recovered from customers.
17 Accordingly, I am appearing on behalf of the Citizens of Florida (Citizens).

18
19 Q. ARE YOU SPONSORING ANY EXHIBITS?

20 A. Yes, I am sponsoring one composite exhibit comprised of interrogatory responses
21 and a production of document response from Gulf identified as HL-1.

22 II. PURPOSE OF TESTIMONY

23 Q. WHAT IS THE PURPOSE OF THE TESTIMONY YOU ARE FILING IN THIS
24 CASE?

1 A. The purpose of my testimony is to set forth the principles which should underlie
2 the cost recovery for storm damages that the Commission should authorize in this
3 docket. These principles set forth a policy which the Florida Office of Public
4 Counsel and I feel are appropriate for establishing the basis for cost recovery in
5 this docket and all subsequent dockets related to the recovery of storm damage
6 costs.

7

8 Q. THE BASIS ON WHICH FLORIDA UTILITIES RECOVER MAJOR STORM
9 DAMAGE COSTS IS OFTEN DESCRIBED AS "SELF INSURANCE." DO
10 YOU AGREE WITH THAT DESCRIPTION?

11 A. No, I do not. The proper description for the recovery of storm costs under the
12 present method used by the Florida Public Service Commission is "Customer
13 Supplied Insurance." In other words, utility customers have been assigned the
14 risk of compensating utilities for major components of storm damage costs. It is
15 the Office of the Public Counsel's and my opinion that the risk shouldered by
16 ratepayers in compensating companies for storm damage costs should be limited
17 to the incremental costs incurred by utilities in restoring service to ratepayers.
18 That incremental cost should reflect only those additional costs incurred by the
19 company in restoring service which exceed costs already considered and reflected
20 in rates.

21

22 III. INCREMENTAL COST RECOVERY METHOD

23 Q. IN YOUR OPINION, DID GULF'S FILING UTILIZE THE INCREMENTAL
24 COST RECOVERY METHOD?

25 A. Yes.

1 Q. WOULD YOU PLEASE EXPLAIN WHAT THE INCREMENTAL COST
2 RECOVERY METHOD IS?

3 A. In order to understand the incremental cost approach one must first understand
4 some basic accounting features used in utility accounting and, for that matter,
5 accounting in general. Let's start out by examining how utilities account for their
6 normal operating and maintenance costs as they perform their day-to-day
7 operations.

8
9 Labor is a good example. An employee who, for instance, is assigned to an
10 accounting function or some administrative function has a cost center to which his
11 payroll is assigned. In other words, each week that an employee performs his
12 normal function he will fill out a time sheet or computer coding assigning his
13 salary to a function such as general ledger accounting in the Company's chart of
14 accounts. Throughout the month, those costs are accumulated and charged to a
15 responsibility function under Administrative and General expenses in the Uniform
16 System of Accounts.

17
18 In the ratemaking process when rates are initially established, the cost of this
19 employee and all other employees and other non-labor expenses are considered in
20 establishing rates. In other words, all of the costs which the Company can justify
21 as necessary and prudent in providing utility services are used in establishing rates
22 that ratepayers pay. Thus, when utilities collect revenues from ratepayers, they
23 are collecting, in effect, the salary, maintenance, materials and all other operating
24 and maintenance expenses necessary to run and operate the utility in addition to a

1 profit. These normal operating and maintenance expenses are considered to be
2 recovered through base rates.

3
4 During a storm or other emergency, the Company issues special work order
5 numbers. This is different than the function number that the employee uses to
6 charge his regular time during non-emergency periods. However, if this
7 particular employee is assigned to storm duty, then instead of charging his time to
8 his normal work code function he will assign his time to the storm work order
9 function number. Thus, his labor dollars are accumulated in the storm reserve
10 account through the work order process. In addition to his normal work hours,
11 this employee may also incur a number of overtime hours. The overtime costs
12 would also be charged into the storm work order. All materials and supplies
13 utilized during the storm recovery process would also be charged into the storm
14 work order and accumulated in the storm reserve even though during normal
15 business operations, some of the material and supplies would have been charged
16 to operating and maintenance expense.

17
18 Q. IS THERE ANYTHING WRONG WITH USING A SPECIAL WORK ORDER
19 PROCESS?

20 A. No, there is not when used with an incremental cost approach. But when a utility
21 takes the accumulated costs that have been charged into the storm reserve through
22 the work order process and request that the entire amount be recovered through a
23 surcharge or finance order issued by the Commission, this is not an appropriate
24 use of the special work order process. It is my opinion, and it is the opinion of the
25 Office of Public Counsel, that the total recovery of all costs charged to storm

1 work orders, if approved by the Commission, will result in a double recovery. As
2 I have explained above, the employee's normal, regular wages and some overtime
3 have been included in base rates through the ratemaking process. When his time
4 is diverted from his normal work function code and charged to a special storm
5 work order function, there is the possibility of a double recovery. This would
6 occur once through base rates because his time has already been considered when
7 establishing base rates and a second time through the storm reserve recovery
8 mechanism if no adjustment is made to the total dollars charged to the storm
9 costs.

10

11 Q. DOES IT APPEAR THAT GULF HAS MADE ADJUSTMENTS TO THE
12 STORM RECOVERY RESERVE TO REMOVE DOLLARS WHICH WOULD
13 HAVE BEEN RECOVERED THROUGH NORMAL OPERATING AND
14 MAINTENANCE EXPENSE INCLUDED IN BASE RATES?

15 A. Yes, it does. Gulf witness McMillian shows on Exhibit No. __ (RJMc-1),
16 Schedule 3, page 1 of 1, Operating and Maintenance expenses which the
17 Company has removed from storm recovery dollars associated with the 2005
18 storms, Dennis and Katrina.

19

20 Q. ARE YOU RECOMMENDING ANY FURTHER ADJUSTMENTS?

21 A. No, but I am making recommendations regarding costs associated with the
22 securization financing request by Gulf if the Commission were to decide to
23 approve storm recovery financing through securitization.

24

1 Q. DID LARKIN & ASSOCIATES AUDIT OR VERIFY ANY OF THE DOLLAR
2 AMOUNTS INCLUDED IN MR. MCMILLIAN'S SCHEDULE 3?

3 A. No. Our review of these dollar amounts were limited to the responses in the
4 discovery process and PODs propounded to Gulf. We did not independently go to
5 Gulf and examine or test the actual underlying source documents of the charges to
6 storm work orders.

7
8 Q. ARE THERE OTHER COSTS WHICH SHOULD BE EXCLUDED FROM
9 STORM RECOVERY WORK ORDERS WHEN DETERMINING THE NET
10 AMOUNT RECOVERABLE FROM RATEPAYERS?

11 A. Yes. In addition to costs that the Company would recover through base rates as
12 Operating and Maintenance or Administrative and General expense, there are
13 costs which under normal circumstance would be considered capital costs and
14 charged to Account 101 – Electric Plant In Service. In addition, the costs
15 associated with removing the damaged plant would be charged to the
16 Accumulated Reserve for Depreciation since such removal costs are accumulated
17 in that account through depreciation charges.

18
19 Q. WHAT ABOUT INSURANCE PROCEEDS?

20 A. Obviously, if the Company is going to recover any dollar amount from an
21 insurance carrier, then that amount should be removed from the cost to be
22 recovered from ratepayers. Gulf's proposal purports to remove such costs.

1 Q. WOULD YOU EXPLAIN IN MORE DETAIL WHY NORMAL CAPITAL
2 COSTS AND THE COST OF REMOVAL SHOULD BE EXCLUDED FROM
3 STORM RECOVERY COSTS?

4 A. During a storm the Company's facilities, particularly poles, transformers and
5 electric wires may be damaged or rendered unusable. Generally, older poles and
6 older transformers are more susceptible to damage because of their age and
7 possible weakened condition because of years of exposure and use. When those
8 assets are rendered unusable and are replaced, the Company has a brand new asset
9 with a useable life which exceeds the life of the old asset. These replacements are
10 not repairs or maintenance costs, but are capital expenditures since they will
11 provide a benefit to future customers over a substantial period of time (normally
12 many years). Because of this, they should be recorded as an asset and depreciated
13 over future time periods. They are not expenses associated with the current
14 accounting period and have a future benefit in generating income for the
15 Company. Thus, it is appropriate to remove the normal cost of capital as Gulf has
16 done in its petition.

17
18 The cost of removal which is charged against the Reserve for Depreciation is
19 accumulated in that account by charges to ratepayers for depreciation and is
20 accumulated in the Reserve for Depreciation. Ratepayers would be charged twice
21 for this cost of removal if it were recovered once through depreciation rates and a
22 second time through the storm damage recovery. It is, therefore, correct to charge
23 the removal cost against the reserve for depreciation as Gulf has done.

24

1 Q. IN YOUR OPINION, DOES IT APPEAR THAT GULF POWER COMPANY
2 HAS GENERALLY FOLLOWED THE PROCESS YOU DESCRIBED AS THE
3 "INCREMENTAL COST RECOVERY METHOD" BY EXCLUDING
4 OPERATING AND MAINTENANCE EXPENSES RECOVERED IN BASE
5 RATES, INSURANCE PROCEEDS, NORMAL CAPITAL COSTS AND COST
6 OF REMOVAL FROM ITS REQUEST?

7 A. Yes, it appears Gulf has followed that process. However, I have concerns with
8 certain statements in Mr. McMillian's testimony and that of Mr. Labrato to the
9 extent that the term "voluntary" implies that these "voluntary" adjustments are not
10 required and appropriate under an incremental cost approach.

11
12 Q. WHAT ARE THE STATEMENTS WHICH RAISE CONCERNS?

13 A. On page 8 of his direct testimony, Mr. McMillian makes the following statement:

14 These exclusions were made voluntarily by the Company
15 consistent with the treatment in the negotiated Stipulation and
16 Settlement with the Office of Public Counsel and the Florida
17 Industrial Power Users Group that was approved by the FPSC in
18 Order No. PSC-05-0250-PAA-EI.
19

20 A second quote appears on page 9 where Mr. McMillian states, in part:

21 ...the Company has voluntarily made an adjustment to deduct \$1.6
22 million from the recoverable costs charged to the Reserve for
23 Hurricanes Dennis and Katrina.
24

25 Mr. Labrato makes similar statements in his testimony. At page 6 he states:

26 ...Gulf has voluntarily excluded certain types of costs from the
27 calculation of storm-recovery costs that we are requesting be
28 financed through storm-recovery bonds.
29

30 On page 7 he again states:

1 These voluntary exclusions have been made in a manner and
2 philosophy that is consistent with the treatment of these types of
3 costs in the negotiated Stipulation and Settlement with the Office
4 of Public Counsel and the Florida Industrial Power Users Group
5 that has approved by the FPSC in Order No. PSC-05-0250-PAA-
6 EI.
7

8 Q. PLEASE EXPLAIN FURTHER WHY THESE STATEMENTS CONCERN
9 YOU?

10 A. These statements imply that the adjustments were not appropriate and that the
11 Company has made them as a concession to ratepayers. I totally disagree with
12 that view if that is the intent of the Company's statements. It is my view and the
13 view of the Public Counsel that these adjustments are necessary to avoid a double
14 recovery. I do not believe that any utility has "sacrificed" anything by making
15 these adjustments. They are appropriate and necessary in order not to overcharge
16 ratepayers.
17

18 Q. ARE YOU BEING CRITICAL OF GULF'S APPROACH IN THIS CASE?

19 A. No, I am not. In fact, I think Gulf should be complemented for adopting the right
20 approach in determining the net amount recoverable from ratepayers. However, I
21 am merely pointing out that this approach is the proper approach and not a gift or
22 sacrifice to the ratepayers.
23

24 IV. VOLUNTARY ADDITION TO STORM RESERVE

25 Q. HAS GULF MADE A CONTRIBUTION TO THE STORM RESERVE IN 2005?

26 A. Yes. Gulf, in December 2005, added to the storm reserve \$6 million in the form
27 of voluntary contribution to the storm reserve to reduce its earnings. This had the

1 affect of lowering Gulf's return on equity to 12.48% for the 12 months ended
2 December 31, 2005. In the settlement between the Office of Public Counsel,
3 Florida Industrial Power Users Group and Gulf regarding the 2004 storms, Gulf
4 made a voluntary contribution to the storm damage reserve in the amount of \$14
5 million. This contribution moved Gulf closer to the midpoint of the rate of return
6 on equity authorized in its last case.

7
8 Q. WHAT IS THE RANGE OF RETURN ON EQUITY AUTHORIZED BY THE
9 COMMISSION IN THE LAST GULF RATE CASE?

10 A. The Commission authorized a range of return on common equity of between
11 10.75% to 12.75%.

12
13 Q. WHAT WOULD BE THE MIDPOINT OF THAT RANGE?

14 A. 11.75% would be the midpoint of the range of return on equity for Gulf.

15
16 Q. DID THE VOLUNTARY CONTRIBUTION OF \$6 MILLION TO THE STORM
17 RESERVE BRING GULF TO THE MIDPOINT OF ITS RETURN ON
18 EQUITY?

19 A. No. Gulf was earning above the midpoint of the range of return on equity even
20 with the \$6 million voluntary contribution to the storm reserve. The \$6 million
21 contribution brought Gulf a 12.48% return on equity for the 12 months ended
22 December 31, 2005.

23

1 Q. WHAT WOULD BE THE ADDITIONAL CONTRIBUTION TO THE STORM
2 RESERVE BY GULF IN ORDER TO BRING IT CLOSER TO THE
3 MIDPOINT OF 11.75% RETURN ON EQUITY?

4 A. Using the most recent surveillance report of February 2006, Gulf's average return
5 on common equity is 12.32%. In order to reduce that return on equity to 11.75%
6 a reduction in net operating income of \$2,798,291 would be necessary. Since this
7 is an after tax dollar amount, an adjustment to convert this to before tax dollars
8 would be necessary. Multiplying the after tax dollar amount by 1.628 would
9 result in a voluntary contribution to the storm reserve fund of approximately
10 \$4,500,000. This would move Gulf's return on equity to approximately 11.75%.

11
12 Q. IN YOUR OPINION WOULD IT BE APPROPRIATE TO HAVE GULF MAKE
13 AN ADDITIONAL CONTRIBUTION TO THE STORM RESERVE FUND TO
14 ACHIEVE THE MIDPOINT RETURN ON COMMON EQUITY?

15 A. Yes, it would. By Gulf making an additional voluntary contribution, or the
16 Commission ordering Gulf to reflect that contribution in its final determination of
17 what dollar amount is recoverable as storm damage for the year 2005, Gulf
18 would, in affect, be lowering its return on common equity to the midpoint of
19 11.75%. This would be appropriate since it would relieve some of the hardship
20 that ratepayers have endured because of the storms and still provide a generous
21 return on equity for the stockholders. It recognizes the risk that ratepayers who
22 are in business in Gulf's service territory and working residential consumers
23 experience because of the loss of business or their ability to work during the storm
24 period. I would recommend the Commission require this additional \$4.5 million
25 contribution to the storm reserve fund.

1 V. TRUE-UP

2 Q. SHOULD GULF BE REQUIRED TO TRUE-UP ALL ESTIMATED COSTS IN
3 ITS FINAL ACCOUNTING OF STORM DAMAGE COSTS?

4 A. Yes. Because many of the costs included in the storm damage reserve, at this
5 point in time, are based on estimates of costs incurred, it would be appropriate if
6 Gulf provided a final true-up accounting. In its true-up accounting, it should be
7 able to support each and every expense with either final invoices stating the exact
8 service performed by each and every outside contractor and detailed invoices
9 from affiliated companies. The final accounting should also show the exact
10 amount of Gulf provided labor and material and the basis for which all costs were
11 either capitalized or deducted from the total storm damage cost as being recovered
12 through base rates. The costs should also be clearly shown and verifiable.

13

14 VI. 2005 STORM RECOVERY COST CUT OFF DATE

15 Q. SHOULD THERE BE A CUT OFF DATE FOR THE 2005 STORM
16 RECOVERY COST CHARGED TO THE STORM RESERVE?

17 A. Yes. There should be some finality to the amount of costs charged to the storm
18 reserve. In the FPL Storm case regarding 2004 storm recovery costs, Docket No.
19 041291-EI, the Commission set a July 31, 2005 date for restoration work related
20 to the 2004 storm season. It would be appropriate to set a reasonable cut-off date
21 for Gulf after which additional costs pertaining to the 2005 storm season may not
22 be charged to the storm reserve. Gulf has indicated that the majority of the
23 restoration work will be completed by July 31, 2006, and that certain projects
24 would not be completed by then because of certain decisions by the United States

1 Park Administration which is limiting Gulf's ability to restore certain areas as
2 promptly as could be.

3
4 It is the OPC's opinion and mine that it would be appropriate for the Commission
5 to set a final cut off date for restoration work charged to the storm reserve. This
6 will insure the prompt restoration of service and also insure that Gulf makes a
7 concerted effort to find, identify and repair any storm related damage in a timely
8 manner. It would not be appropriate for ratepayers to be exposed over a lengthy
9 period of time to additional costs being charged to the storm reserve. In the
10 Florida Power and Light Company case, Larkin & Associates recommended a cut
11 off date for the 2005 storm recovery costs of December 31, 2006. I feel it is
12 appropriate to use the same cut off date in regard to Gulf. I am, therefore,
13 recommending that the Commission limit 2005 storm recovery costs charged to
14 the storm reserve to those costs prudently incurred and directly related to the 2005
15 storms to costs incurred prior to December 31, 2006. Also, if Gulf is delayed in
16 restoring some areas because of the U.S. Park Service beyond December 31,
17 2006, they should be allowed to recover the actual cost provided it is verifiable.

18
19 VII. SERVICING AND ADMINISTRATIVE FEES RELATED TO
20 SECURIZATION

21 Q. PLEASE DISCUSS GULF'S PROPOSED SERVICING AND
22 ADMINISTRATIVE FEES AS THEY RELATE TO THE STORM RECOVERY
23 BONDS IF SECURIZATION IS APPROVED.

1 A. In its filing, Gulf has included in its estimated up-front bond issuance fees, a
2 “Servicer Set-up” fee of \$250,000 and estimated ongoing Storm-Recovery bond
3 fees of \$130,800. The purpose of my discussion is to address the extent to which
4 the ratepayers should be liable for these costs.
5

6 Q. WHAT IS THE PURPOSE OF THE SERVICER SET-UP FEE?

7 A. According to the Company’s response to Item No. 20 from OPC’s First Set of
8 Interrogatories (see Exhibit ___HL-1, pages 1-3 of 27), the Servicer Set-up fee is
9 a high level estimate of the costs to program Gulf’s customer accounting system
10 to incorporate this additional charge onto customer’s bills and provide data
11 required by the SPE. In addition, the Servicer Set-up fee includes programming
12 costs necessary to provide accounts receivable data that is required by the rating
13 agencies to ensure a high rating on the bonds.
14

15 Q. DID GULF EXPLAIN THE NATURE OF THE PROGRAMMING CHANGES
16 AND/OR ATTEMPT TO QUANTIFY THE ACTUAL COSTS IT WOULD
17 INCUR TO PERFORM THIS FUNCTION?

18 A. No, it did not. In its response to Item No. 98 from OPC’s Fourth Set of
19 Interrogatories (see Exhibit ___HL-1, pages 4-6 of 27), Gulf stated it does not
20 know the exact nature or extent of programming changes necessary to provide the
21 accounts receivable data, or other information required by the rating agencies or
22 the SPE. Furthermore, the Company stated that the estimate does not include
23 specific activities at this time, but that once all data requirements related to the
24 storm-recovery financing transaction are known, Gulf should be able to identify

1 the specific activities and provide an estimate of the costs of each activity. (See,
2 Exhibit HL-1, pages 1-3 of 27)

3
4 Q. WHAT IS THE PURPOSE OF THE ONGOING SERVICING FEES?

5 A. According to Gulf's response to Item No. 31 from Staff's First Set of
6 Interrogatories (see Exhibit ___HL-1, pages 7-8 of 27), the servicer has
7 responsibility for managing, administering, calculating, billing and collecting the
8 Storm Bond Repayment charges as well as processing and remitting the
9 collections to the trustee. In addition, the servicer will prepare any reports
10 necessary detailing these activities and will also prepare and process the periodic
11 true-up adjustments required by Section 366.8260 of the Florida Statutes and the
12 financing order.

13
14 Q. DID GULF STATE ANY OTHER RATIONALE FOR REQUESTING THE
15 SERVICING FEES?

16 A. Yes. In its response to Item No. 45 from OPC's Second Set of Interrogatories
17 (see Exhibit ___HL-1, pages 9-10 of 27), Gulf stated that the arrangement between
18 the parent company (Gulf) and the SPE must be structured sufficiently to allow a
19 bankruptcy court reviewing the transaction to respect the separate existence of the
20 two entities. In other words, the SPE must pay for its obligations out of its own
21 funds and the relationship between Gulf and the SPE must reflect an arm's length
22 transaction. Gulf performing these services for the SPE would reflect this
23 arrangement.

1 Q. HOW WAS THE REQUESTED ONGOING SERVICING FEE OF \$130,800
2 CALCULATED?

3 A. In its response to Item No. 12 from OPC's First Request for Production of
4 Documents (see Exhibit ___HL-1, pages 11-14 of 27), Gulf stated that the
5 servicing fee is an annualized amount equal to 0.15% of the initial amount of the
6 storm-recovery bonds (\$87,200,000 x 0.15%). However, the servicing fee should
7 be adjusted in accordance with the Commission's approved bond issuance
8 amount.

9
10 Q. HAS GULF PROVIDED AN ESTIMATE OF THE INCREMENTAL COSTS
11 FOR PERFORMING THE DUTIES REQUIRED IN THE SERVICING
12 AGREEMENT?

13 A. No, it has not. In its response to Item No. 54 from OPC's Third Set of
14 Interrogatories (see Exhibit ___HL-1, pages 15-16 of 27), Gulf stated that it had
15 not yet identified and estimated the specific costs surrounding the servicing of the
16 bonds. More importantly, in its response to Item No. 28 from OPC's First Set of
17 Interrogatories (see Exhibit ___HL-1, pages 17-18 of 27), Gulf stated that the
18 costs associated with servicing the storm bonds will initially be performed by
19 existing employees and that no incremental positions are anticipated.

20
21 Q. HOW MUCH SHOULD GULF BE AUTHORIZED TO RECOVER FROM
22 RATEPAYERS FOR ITS ROLE AS SERVICER OF THE STORM RECOVERY
23 BONDS?

24 A. Gulf should be authorized to collect from ratepayers the servicing fee through the
25 storm charge to establish an arms-length transaction that is necessary to create an

1 independent SPE. The Commission should establish this amount as fixed, and not
2 be subject to any future increase through the true-up mechanism since this is an
3 affiliated party's transaction. However, Gulf should be allowed to keep only its
4 approved incremental costs for servicing the bonds. Since Gulf has not provided
5 an estimate of its incremental costs as well as stating that it did not anticipate
6 adding any incremental positions, the full amount of the servicer fee should be
7 used to increase the storm reserve available for recovery of future storm costs.
8

9 Q. PLEASE DISCUSS GULF'S PROPOSED ONGOING ADMINISTRATIVE
10 FEE.

11 A. In its filing, Gulf has proposed that its estimated ongoing storm recovery bond
12 fees include an annual administrative fee of \$75,000. Per the Company's
13 response to Item No. 27 from OPC's First Set of Interrogatories (see
14 Exhibit ___HL-1, pages 19-23 of 27), the administrative fee will include
15 accounting services performed on behalf of the SPE such as maintaining separate
16 books of account and preparing financial statements, SEC filings and the filing of
17 federal and state tax returns, among other things.
18

19 Q. DID GULF STATE ANY OTHER RATIONALE FOR REQUESTING THE
20 ADMINISTRATIVE FEE?

21 A. Yes. As noted above in the case of the proposed servicing fee, in its response to
22 Item No.45 from OPC's Second Set of Interrogatories (see Exhibit ___HL-1,
23 pages 24-25 of 27), Gulf stated that the arrangement between Gulf and the SPE
24 must be structured sufficiently to allow a bankruptcy court reviewing the

1 transaction to respect the separate existence of the two entities. Again, such an
2 arrangement would be viewed as an arms-length transaction.

3
4 Q. HOW WAS THE REQUESTED ADMINISTRATIVE FEE OF \$75,000
5 DETERMINED?

6 A. In its response to Item No. 12 from OPC's First Request for Production of
7 Documents (see Exhibit ___HL-1, pages 11-14 of 27), Gulf indicated that
8 Barclay's researched the administration fee in 20 previous rate reduction bonds
9 from December 1997 through December 2005 in various states with annual
10 administration fees ranging from \$5,000 to \$250,000. Barclay's computed an
11 average of \$95,875 from the 20 transactions and therefore, Gulf concluded that
12 the proposed \$75,000 administration fee is consistent with previous rate reduction
13 bond transactions.

14
15 Q. HAS GULF PROVIDED AN ESTIMATE OF THE INCREMENTAL COSTS
16 ASSOCIATED WITH THE PROPOSED ADMINISTRATIVE FEE?

17 A. No, it has not. In its response to Item No. 55 from OPC's Third Set of
18 Interrogatories (see Exhibit ____, HL-1, pages 26-27 of 27), Gulf stated that it had
19 not yet identified and estimated the specific costs surrounding the administration
20 of the bonds. Additionally, as noted above with respect to the proposed servicing
21 fees, Gulf stated in its response to Item No. 28 from OPC's First Set of
22 Interrogatories (see Exhibit ___HL-1, pages 17-18 of 27) that the costs associated
23 with administering the storm bonds will initially be performed by existing
24 personnel and that no incremental positions are anticipated.

1 Q. HOW MUCH SHOULD GULF BE AUTHORIZED TO RECOVER FROM
2 RATEPAYERS FOR ITS ROLE AS ADMINISTRATOR IN THIS
3 TRANSACTION?

4 A. Gulf should be authorized to collect from ratepayers through the storm charge the
5 administrative fee to establish an arms-length transaction that is necessary to
6 create an independent SPE. The Commission should establish this amount as
7 fixed, and not be subject to any future increase through the true-up mechanism
8 since this is an affiliated party's transaction. However, Gulf should be allowed to
9 keep only its approved incremental costs for administering the bonds. Since Gulf
10 has not provided an estimate of its incremental costs as well as stating that it did
11 not anticipate adding any incremental positions, the full amount of the
12 administrative fee should be used to increase the storm reserve available for
13 recovery of future storm costs.

14

15 VIII. ACCOUNTING ENTRIES ASSOCIATED WITH STORM-RECOVERY
16 FINANCING

17 Q. IN THE TESTIMONY OF GULF WITNESS C.J. ERICKSON, THE
18 COMPANY HAS SET FORTH ITS PROPOSED ACCOUNTING FOR
19 RECORDING STORM-RECOVERY FINANCING. DO YOU HAVE ANY
20 CONCERNS REGARDING THAT ACCOUNTING AND HOW IT SHOULD
21 BE TREATED FOR SURVEILLANCE REPORTING AND RATEMAKING?

22 A. Yes, I do. I am particularly concerned about those components of Gulf's
23 accounting which will be reflected on Gulf's books. On Mr. Erickson's
24 Exhibit__(CJE-1), Schedule 1, pages 3 and 4, he provided the proposed

1 accounting entries to record the special purpose entity on Gulf's books. In entry
2 (2) on page 3 of 4, the entry shows the proposed setup of the sale of regulatory
3 assets to the SPE. In that entry, Gulf creates a regulatory asset and a deferred
4 income tax asset along with a deferred income tax liability. The regulatory asset
5 and the deferred income tax liability will be amortized over the life of the bond.
6 The deferred income tax asset will remain on the Company's books until such
7 time as a storm occurs and the invested funds and the deferred income tax asset
8 will be used to fund any required restoration cost.

9
10 Q. DO YOU HAVE ANY SPECIFIC PROBLEMS WITH THE RECORDING OF
11 THE ENTRIES ON GULF'S BOOKS?

12 A. No, I do not. My concerns relate to how the regulatory asset, deferred income tax
13 asset, and deferred income tax liability will be treated by Gulf for surveillance
14 report reporting and ratemaking. If Gulf adds the regulatory asset to rate base in
15 the surveillance report and for ratemaking purposes it would, in affect, be earning
16 a rate of return on an asset which has already been funded by ratepayers.

17
18 If the deferred income tax asset and deferred income tax liability are added to the
19 capital structure, they initially, will not have any impact because they offset one
20 another. However, as time progresses and as each account is amortized, the
21 relationship between the deferred tax asset and liability accounts will differ.

22 Absent another material storm event, the deferred tax asset will be greater than the
23 liability. As such, the impact will cause the cost-free sources of capital to
24 decrease with a resulting increase in the overall cost of capital charged to the
25 ratepayers. The impact of these two transactions will be to understate Gulf's

1 actual rate of return in the surveillance report and overstate its revenue
2 requirements in the event that a rate case is filed.

3

4 Q. WHAT IS YOUR SOLUTION TO THIS POSSIBLE PROBLEM?

5 A. It is my recommendation that the Commission specifically order that these
6 transactions related to storm-recovery financing be accounted for separately and
7 not be reflected in the base rate calculations for surveillance, AFUDC or rate case
8 purposes.

9

10 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

11 A. Yes, it does.

DOCKET NO. 060154-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing has been furnished by U.S. Mail and electronic mail to the following parties on this 9th day of May, 2006.

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Associate Public Counsel

Docket No. 060154-EI

APPENDIX I

CURRICULUM VITAE OF HUGH LARKIN, JR.

Q. WHAT IS YOUR OCCUPATION?

A. I am a certified public accountant and a partner in the firm of Larkin & Associates, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated from Michigan State University in 1960. During 1961 and 1962, I fulfilled my military obligations as an officer in the United States Army.

In 1963 I was employed by the certified public accounting firm of Peat, Marwick, Mitchell & Co., as a junior accountant. I became a certified public accountant in 1966.

In 1968 I was promoted to the supervisory level at Peat, Marwick, Mitchell & Co. As such, my duties included the direction and review of audits of various types of business organizations, including manufacturing, service, sales and regulated companies.

Through my education and auditing experience of manufacturing operations, I obtained an extensive background of theoretical and practical cost accounting.

I have audited companies having job cost systems and those having process cost systems, utilizing both historical and standard costs.

I have a working knowledge of cost control, budgets and reports, the accumulation of overheads and the application of same to products on the various recognized methods.

Additionally, I designed and installed a job cost system for an automotive parts manufacturer.

I gained experience in the audit of regulated companies as the supervisor in charge of all railroad audits for the Detroit office of Peat, Marwick, including audits of the Detroit, Toledo and Ironton Railroad, the Ann Arbor Railroad, and portions of the Penn Central Railroad Company. In 1967, I was the supervisory senior accountant in charge of the audit of the Michigan State Highway Department, for which Peat, Marwick was employed by the State Auditor General and the Attorney General.

In October of 1969, I left Peat, Marwick to become a partner in the public accounting firm of Tischler & Lipson of Detroit. In April of 1970, I left the latter firm to form the certified public accounting firm of Larkin, Chapski & Company. In September 1982 I re-organized the firm into Larkin & Associates, a certified public accounting firm. The firm of Larkin & Associates performs a wide variety of auditing and accounting services, but concentrates in the area of utility regulation and ratemaking. I am a member of the Michigan Association of Certified Public Accountants and the American Institute of Certified Public Accountants. I testified before the Michigan Public Service Commission and in other states in the following cases:

U-3749	Consumers Power Company - Electric Michigan Public Service Commission
U-391	Detroit Edison Company Michigan Public Service Commission
U-4331	Consumers Power Company - Gas Michigan Public Service Commission
U-4332	Consumers Power Company - Electric Michigan Public Service Commission
U-4293	Michigan Bell Telephone Company Michigan Public Service Commission
U-4498	Michigan Consolidated Gas sale to Consumers Power Company Michigan Public Service Commission
U-4576	Consumers Power Company - Electric Michigan Public Service Commission
U-4575	Michigan Bell Telephone Company Michigan Public Service Commission
U-4331R	Consumers Power Company - Gas - Rehearing Michigan Public Service Commission
6813	Chesapeake and Potomac Telephone Company of Maryland, Public Service Commission, State of Maryland
Formal Case	New England Telephone and Telegraph Co.

No. 2090	State of Maine Public Utilities Commission
Dockets 574, 575, 576	Sierra Pacific Power Company, Public Service Commission, State of Nevada
U-5131	Michigan Power Company Michigan Public Service Commission
U-5125	Michigan Bell Telephone Company Michigan Public Service Commission
R-4840 & U-4621	Consumers Power Company Michigan Public Service Commission
U-4835	Hickory Telephone Company Michigan Public Service Commission
36626	Sierra Pacific Power Company v. Public Service Commission, et al, First Judicial District Court of the State of Nevada
American Arbitration Association	City of Wyoming v. General Electric Cable TV
760842-TP	Southern Bell Telephone and Telegraph Company, Florida Public Service Commission
U-5331	Consumers Power Company Michigan Public Service Commission
U-5125R	Michigan Bell Telephone Company Michigan Public Service Commission
770491-TP	Winter Park Telephone Company, Florida Public Service Commission
77-554-EL-AIR	Ohio Edison Co., Public Utility Commission of Ohio
78-284-EL-AEM	Dayton Power and Light Co., Public Utility Commission of Ohio
0R78-1	Trans Alaska Pipeline, Federal Energy Regulatory Commission (FERC)

78-622-EL-FAC	Ohio Edison Co., Public Utility Commission of Ohio
U-5732	Consumers Power Company - Gas, Michigan Public Service Commission
77-1249-EL-AIR, et al	Ohio Edison Co., Public Utility Commission of Ohio
78-677-EL-AIR	Cleveland Electric Illuminating Co., Public Utility Commission of Ohio
U-5979	Consumers Power Company, Michigan Public Service Commission
790084-TP	General Telephone Company of Florida, Florida Public Service Commission
79-11-EL-AIR	Cincinnati Gas and Electric Co., Public Utilities Commission of Ohio
790316-WS	Jacksonville Suburban Utilities Corp., Florida Public Service Commission
790317-WS	Southern Utility Company, Florida Public Service Commission
U-1345	Arizona Public Service Company, Arizona Corporation Commission
79-537-EL-AIR	Cleveland Electric Illuminating Co., Public Utilities Commission of Ohio
800011-EU	Tampa Electric Company, Florida Public Service Commission
800001-EU	Gulf Power Company, Florida Public Service Commission
U-5979-R	Consumers Power Company, Michigan Public Service Commission
800119-EU	Florida Power Corporation, Florida Public Service Commission

810035-TP	Southern Bell Telephone and Telegraph Company, Florida Public Service Commission
800367-WS	General Development Utilities, Inc., Port Malabar, Florida Public Service Commission
TR-81-208**	Southwestern Bell Telephone Company, Missouri Public Service Commission
810095-TP	General Telephone Company of Florida, Florida Public Service Commission
U-6794	Michigan Consolidated Gas Company, 16 refunds Michigan Public Service Commission
U-6798	Cogeneration and Small Power Production -PURPA, Michigan Public Service Commission
0136-EU	Gulf Power Company, Florida Public Service Commission
E-002/GR-81-342	Northern State Power Company Minnesota Public Utilities Commission
820001-EU	General Investigation of Fuel Cost Recovery Clauses, Florida Public Service Commission
810210-TP	Florida Telephone Corporation, Florida Public Service Commission
810211-TP	United Telephone Co. of Florida, Florida Public Service Commission
810251-TP	Quincy Telephone Company, Florida Public Service Commission
810252-TP	Orange City Telephone Company, Florida Public Service Commission
8400	East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission
U-6949	Detroit Edison Company - Partial and Immediate Rate Increase Michigan Public Service Commission

18328	Alabama Gas Corporation, Alabama Public Service Commission
U-6949	Detroit Edison Company - Final Rate Recommendation Michigan Public Service Commission
820007-EU	Tampa Electric Company, Florida Public Service Commission
820097-EU	Florida Power & Light Company, Florida Public Service Commission
820150-EU	Gulf Power Company, Florida Public Service Commission
18416	Alabama Power Company, Public Service Commission of Alabama
820100-EU	Florida Power Corporation, Florida Public Service Commission
U-7236	Detroit Edison-Burlington Northern Refund Michigan Public Service Commission
U-6633-R	Detroit Edison - MRCS Program, Michigan Public Service Commission
U-6797-R	Consumers Power Company - MRCS Program, Michigan Public Service Commission
82-267-EFC	Dayton Power & Light Company, Public Utility Commission of Ohio
U-5510-R	Consumers Power Company - Energy Conservation Finance Program, Michigan Public Service Commission
82-240-E	South Carolina Electric & Gas Company, South Carolina Public Service Commission
8624 8625	Kentucky Utilities, Kentucky Public Service Commission

8648	East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission
U-7065	The Detroit Edison Company (Fermi II) Michigan Public Service Commission
U-7350	Generic Working Capital Requirements, Michigan Public Service Commission
820294-TP	Southern Bell Telephone Company, Florida Public Service Commission
Order RH-1-83	Westcoast Gas Transmission Company,Ltd., Canadian National Energy Board
8738	Columbia Gas of Kentucky, Inc., Kentucky Public Service Commission
82-168-EL-EFC	Cleveland Electric Illuminating Company, Public Utility Commission of Ohio
6714	Michigan Consolidated Gas Company Phase II, Michigan Public Service Commission
82-165-EL-EFC	Toledo Edison Company, Public Utility Commission of Ohio
830012-EU	Tampa Electric Company, Florida Public Service Commission
ER-83-206**	Arkansas Power & Light Company, Missouri Public Service Commission
U-4758	The Detroit Edison Company (Refunds), Michigan Public Service Commission
8836	Kentucky American Water Company, Kentucky Public Service Commission
8839	Western Kentucky Gas Company, Kentucky Public Service Commission
83-07-15	Connecticut Light & Power Company, Department of Utility Control State of Connecticut

81-0485-WS	Palm Coast Utility Corporation, Florida Public Service Commission
U-7650	Consumers Power Company - (Partial and Immediate), Michigan Public Service Commission
83-662**	Continental Telephone Company, Nevada Public Service Commission
U-7650	Consumers Power Company – Final Michigan Public Service Commission
U-6488-R	Detroit Edison Co. (FAC & PIPAC Reconciliation), Michigan Public Service Commission
Docket No. 15684	Louisiana Power & Light Company, Public Service Commission of the State of Louisiana
U-7650	Consumers Power Company (Reopened Reopened Hearings) Michigan Public Service Commission
38-1039**	CP National Telephone Corporation Nevada Public Service Commission
83-1226	Sierra Pacific Power Company (Re application to form holding company) Nevada Public Service Commission
U-7395 & U-7397	Campaign Ballot Proposals Michigan Public Service Commission
820013-WS	Seacoast Utilities Florida Public Service Commission
U-7660	Detroit Edison Company Michigan Public Service Commission
U-7802	Michigan Gas Utilities Company Michigan Public Service Commission
830465-EI	Florida Power & Light Company Florida Public Service Commission

U-7777	Michigan Consolidated Gas Company Michigan Public Service Commission
U-7779	Consumers Power Company Michigan Public Service Commission
U-7480-R	Michigan Consolidated Gas Company Michigan Public Service Commission
U-7488-R	Consumers Power Company – Gas Michigan Public Service Commission
U-7484-R	Michigan Gas Utilities Company Michigan Public Service Commission
U-7550-R	Detroit Edison Company Michigan Public Service Commission
U-7477-R	Indiana & Michigan Electric Company Michigan Public Service Commission
U-7512-R	Consumers Power Company – Electric Michigan Public Service Commission
18978	Continental Telephone Company of the South - Alabama, Alabama Public Service Commission
9003	Columbia Gas of Kentucky, Inc. Kentucky Public Service Commission
R-842583	Duquesne Light Company Pennsylvania Public Utility Commission
9006*	Big Rivers Electric Corporation Kentucky Public Service Commission *Company withdrew filing
U-7830	Consumers Power Company - Electric (Partial and Immediate) Michigan Public Service Commission
7675	Consumers Power Company - Customer Refunds Michigan Public Service Commission

5779	Houston Lighting & Power Company Texas Public Utility Commission
U-7830	Consumers Power Company - Electric – "Financial Stabilization" Michigan Public Service Commission
U-4620	Mississippi Power & Light Company (Interim) Mississippi Public Service Commission
U-16091	Louisiana Power & Light Company Louisiana Public Service Commission
9163	Big Rivers Electric Corporation Kentucky Public Service Commission
U-7830	Consumers Power Company - Electric - (Final) Michigan Public Service Commission
U-4620	Mississippi Power & Light Company - (Final) Mississippi Public Service Commission
76-18788AA & 76-18788AA	Detroit Edison (Refund - Appeal of U-4807) Ingham County Circuit Court Michigan Public Service Commission
U-6633-R	Detroit Edison (MRCS Program Reconciliation) Michigan Public Service Commission
19297	Continental Telephone Company of the South - Alabama, Alabama Public Service Commission
9283	Kentucky American Water Company Kentucky Public Service Commission
850050-EI	Tampa Electric Company Florida Public Service Commission
R-850021	Duquesne Light Company Pennsylvania Public Service Commission
TR-85-179**	United Telephone Company of Missouri Missouri Public Service Commission

6350	El Paso Electric Company The Public Utility Board of the City of El Paso
6350	El Paso Electric Company Public Utility Commission of Texas
85-53476AA & 85-534855AA	Detroit Edison-refund-Appeal of U-4758 Ingham County Circuit Court Michigan Public Service Commission
U-8091/ U-8239	Consumers Power Company-Gas Michigan Public Service Commission
9230	Leslie County Telephone Company, Inc. Kentucky Public Service Commission
85-212	Central Maine Power Company Maine Public Service Commission
850782-EI & 850783-EI	Florida Power & Light Company Florida Public Service Commission
ER-85646001 & ER-85647001	New England Power Company Federal Energy Regulatory Commission
Civil Action * No. 2:85-0652	Allegheny & Western Energy Corporation, Plaintiff, - against - The Columbia Gas System, Inc. Defendent
Docket No. 850031-WS	Orange Osceola Utilities, Inc. Before the Florida Public Service Commission
Docket No. 840419-SU	Florida Cities Water Company South Ft. Myers Sewer Operations Before the Florida Public Service Commission
R-860378	Duquesne Light Company Pennsylvania Public Service Commission
R-850267	Pennsylvania Power Company Pennsylvania Public Service Commission
R-860378	Duquesne Light Company - Surrebuttal Testimony - OCA Statement No. 2D Pennsylvania Public Service Commission

Docket No. 850151	Marco Island Utility Company Before the Florida Public Service Commission
Docket No. 7195 (Interim)	Gulf States Utilities Company Public Utility Commission of Texas
R-850267 Reopened	Pennsylvania Power Company Pennsylvania Public Service Commission
Docket No. 87-01-03	Connecticut Natural Gas Corporation Connecticut Department of Public Utility Control
Docket No. 5740	Hawaiian Electric Company Hawaii Public Utilities Commission
1345-85-367	Arizona Public Service Company Arizona Corporation Commission
Docket 011	Tax Reform Act of 1986 - California No. 86-11-019 California Public Utilities Commission
Case No. 29484	Long Island Lighting Company New York Department of Public Service
Docket No. 7460	El Paso Electric Company Public Utility Commission of Texas
Docket No. 870092-WS*	Citrus Springs Utilities Before the Florida Public Service Commission
Case No. 9892	Dickerson Lumber EP Company - Complainant vs. Farmers Rural Electric Cooperative and East Kentucky Power Cooperative – Defendants Before the Kentucky Public Service Commission
Docket No. 3673-U	Georgia Power Company Before the Georgia Public Service Commission
Docket No. U-8747	Anchorage Water and Wastewater Utility Report on Management Audit
Docket No. 861564-WS	Century Utilities Before the Florida Public Service Commission

Docket No. FA86-19-001	Systems Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. 870347-TI	AT&T Communications of the Southern States, Inc. Florida Public Service Commission
Docket No. 870980-WS	St. Augustine Shores Utilities Inc. Florida Public Service Commission
Docket No. 870654-WS*	North Naples Utilities, Inc. Florida Public Service Commission
Docket No. 870853	Pennsylvania Gas & Water Company Pennsylvania Public Utility Commission
Civil Action* No. 87-0446-R	Reynolds Metals Company, Plaintiff, v. The Columbia Gas System, Inc., Commonwealth Gas Services, Inc., Commonwealth Gas Pipeline Corporation, Columbia Gas Transmission Corporation, Columbia Gulf Transmission Company, Defendants - In the United States District Court for the Eastern District of Virginia - Richmond Division
Docket No. E-2, Sub 537	Carolina Power & Light Company North Carolina Utilities Commission
Case No. U-7830	Consumers Power Company - Step 2 Reopened Michigan Public Service Commission
Docket No.: 880069-TL	Southern Bell Telephone & Telegraph Florida Public Service Commission
Case No. U-7830	Consumers Power Company - Step 3B Michigan Public Service Commission
Docket No. 880355-EI	Florida Power & Light Company Florida Public Service Commission
Docket No. 880360-EI	Gulf Power Company Florida Public Service Commission
Docket No. FA86-19-002	System Energy Resources, Inc. Federal Energy Regulatory Commission

Docket Nos. 83-0537-Remand & 84-0555-Remand	Commonwealth Edison Company Illinois Commerce Commission
Docket Nos. 83-0537 Remand & 84-0555 Remand	Commonwealth Edison Company Surrebuttal Illinois Commerce Commission
Docket No. 880537-SU	Key Haven Utility Corporation Florida Public Service Commission
Docket No. 881167-EI***	Gulf Power Company Florida Public Service Commission
Docket No. 881503-WS	Poinciana Utilities, Inc. Florida Public Service Commission
Cause No. U-89-2688-T	Puget Sound Power & Light Company Washington Utilities & Transportation Committee
Docket No. 89-68	Central Maine Power Company Maine Public Utilities Commission
Docket No. 861190-PU	Proposal to Amend Rule 25-14.003, F.A.C. Florida Public Service Commission
Docket No. 89-08-11 Control	The United Illuminating Company State of Connecticut, Department of Public Utility
Docket No. R-891364	The Philadelphia Electric Company Pennsylvania Public Utility Commission
Formal Case No. 889	Potomac Electric Power Company Public Service Company of the District of Columbia
Case No. 88/546*	Niagara Mohawk Power Corporation, et al Plaintiffs, v. Gulf+Western, Inc. et al, defendants (In the Supreme Court County of Onondaga, State of New York)
Case No. 87-11628*	Duquesne Light Company, et al, plaintiffs, against Gulf + Western, Inc. et al, defendants (In the Court of the Common Pleas of Allegheny County, Pennsylvania Civil Division)

Case No. 89-640-G-42T*	Mountaineer Gas Company West Virginia Public Service Commission
Docket No. 890319-EI	Florida Power & Light Company Florida Public Service Commission
Docket No. EM-89110888	Jersey Central Power & Light Company Board of Public Utilities Commissioners
Docket No. 891345-EI	Gulf Power Company Florida Public Service Commission
BPU Docket No. ER 8811 0912J	Jersey Central Power & Light Company Board of Public Utilities Commissioners
Docket No. 6531	Hawaiian Electric Company Hawaii Public Utilities Commissioners
Docket No. 890509-WU	Florida Cities Water Company, Golden Gate Division Florida Public Service Commission
Docket No. 880069-TL	Southern Bell Telephone Company Florida Public Service Commission
Docket Nos. F-3848, F-3849, and F-3850	Northwestern Bell Telephone Company South Dakota Public Utilities Commission
Docket Nos. ER89-* 678-000 & EL90-16-000	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. 5428	Green Mountain Power Corporation Vermont Department of Public Service
Docket No. 90-10	Artesian Water Company, Inc. Delaware Public Service Commission
Case No. 90-243-E-42T*	Wheeling Power Company West Virginia Public Service Commission
Docket No. 900329-WS	Southern States Utilities, Inc. Florida Public Service Commission
Docket Nos. ER89-* 678-000 & EL90-16-000	System Energy Resources, Inc. (Surrebuttal) Federal Energy Regulatory Commission

Application No. 90-12-018	Southern California Edison Company California Public Utilities Commission
Docket No. 90-0127	Central Illinois Lighting Company Illinois Commerce Commission
Docket No. FA-89-28-000	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. U-1551-90-322	Southwest Gas Corporation Before the Arizona Corporation Commission
Docket No. R-911966	Pennsylvania Gas & Water Company The Pennsylvania Public Utility Commission
Docket No. 176-717-U	United Cities Gas Company Kansas Corporation Commission
Docket No. 860001-EI-G	Florida Power Corporation Florida Public Service Commission
Docket No. 6720-TI-102	Wisconsin Bell, Inc. Wisconsin Citizens' Utility Board
(No Docket No.)	Southern Union Gas Company Before the Public Utility Regulation Board of the City of El Paso
Docket No. 6998	Hawaiian Electric Company, Inc. Before the Public Utilities Commission of the State of Hawaii
Docket No. TC91-040A	In the Matter of the Investigation into the Adoption of a Uniform Access Methodology Before the Public Utilities Commission of the State of South Dakota
Docket Nos. 911030-WS & 911067-WS	General Development Utilities, Inc. Before the Florida Public Service Commission
Docket No. 910890-EI	Florida Power Corporation Before the Florida Public Service Commission
Docket No. 910890-EI	Florida Power Corporation, Supplemental Before the Florida Public Service Commission

Case No. 3L-74159	Idaho Power Company, an Idaho corporation In the District Court of the Fourth Judicial District of the State of Idaho, In and For the County of Ada - Magistrate Division
Cause No. 39353*	Indiana Gas Company Before the Indiana Utility Regulatory Commission
Docket No. 90-0169 (Remand)	Commonwealth Edison Company Before the Illinois Commerce Commission
Docket No. 92-06-05	The United Illuminating Company State of Connecticut, Department of Public Utility Control
Cause No. 39498	PSI Energy, Inc. Before the State of Indiana - Indiana Utility Regulatory Commission
Cause No. 39498	PSI Energy, Inc. - Surrebuttal testimony Before the State of Indiana - Indiana Utility Regulatory Commission
Docket No. 7287	Public Utilities Commission - Instituting a Proceeding to Examine the Gross-up of CIAC Before the Public Utilities Commission of the State of Hawaii
Docket No. 92-227-TC	US West Communications, Inc. Before the State Corporation Commission of the State of New Mexico
Docket No. 92-47	Diamond State Telephone Company Before the Public Service Commission of the State of Delaware
Docket Nos. 920733-WS & 920734-WS	General Development Utilities, Inc. Before the Florida Public Service Commission
Docket No. 92-11-11	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control
Docket Nos. EC92-21-000 & ER92-806-000	Entergy Corporation Before the Federal Energy Regulatory Commission

Docket No. 930405-EI	Florida Power & Light Company Before the Florida Public Service Commission
Docket No. UE-92-1262	Puget Sound Power & Light Company Before the Washington Utilities & Transportation Commission
Docket No. 93-02-04	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 93-02-04	Connecticut Natural Gas Corporation, Supplemental State of Connecticut, Department of Public Utility Control
Docket No. 93-057-01	Mountain Fuel Supply Company Before the Utah Public Service Commission
Cause No. 39353 (Phase II)	Indiana Gas Company Before the Indiana Utility Regulatory Commission
PU-314-92-1060	US West Communications, Inc. Before the North Dakota Public Service Commission
Cause No. 39713	Indianapolis Water Company Before the Indiana Utility Regulatory Commission
93-UA-0301*	Mississippi Power & Light Company Before the Mississippi Public Service Commission
Docket No. 93-08-06	SNET America, Inc. State of Connecticut, Department of Public Utility Control
Docket No. 93-057-01	Mountain Fuel Supply Company - Rehearing on Unbilled Revenues - Before the Utah Public Service Commission
Case No. 78-T119-0013-94	Guam Power Authority vs. U.S. Navy Public Works Center, Guam - Assisting the Department of Defense in the investigation of a billing dispute. Before the American Arbitration Association

Application No. 93-12-025 - Phase I	Southern California Edison Company Before the California Public Utilities Commission
Case No. 94-0027-E-42T	Potomac Edison Company Before the Public Service Commission of West Virginia
Case No. 94-0035-E-42T	Monongahela Power Company Before the Public Service Commission of West Virginia
Docket No. 930204-WS**	Jacksonville Suburban Utilities Corporation Before the Florida Public Service Commission
Docket No. 5258-U	Southern Bell Telephone and Telegraph Company Before the Georgia Public Service Commission
Case No. 95-0011-G-42T*	Mountaineer Gas Company Before the West Virginia Public Service Commission
Case No. 95-0003-G-42T*	Hope Gas, Inc. Before the West Virginia Public Service Commission
Docket No. 95-02-07	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 95-057-02*	Mountain Fuel Supply Before the Utah Public Service Commission
Docket No. 95-03-01	Southern New England Telephone Company State of Connecticut, Department of Public Utility Control
BRC Docket No. EX93060255 OAL Docket PUC96734-94	Generic Proceeding Regarding Recovery of Capacity Costs Associated with Electric Utility Power Purchases from Cogenerators and Small Power Producers Before the New Jersey Board of Public Utilities
Docket No. U-1933-95-317	Tucson Electric Power Before the Arizona Corporation Commission
Docket No. 950495-WS	Southern States Utilities Before the Florida Public Service Commission

Docket No. 960409-EI	Prudence Review to Determine Regulatory Treatment of Tampa Electric Company's Polk Unit 1
Docket No. 960451-WS	United Water Florida Before the Florida Public Service Commission
Docket No. 94-10-05	Southern New England Telephone Company State of Connecticut Department of Public Utility Control
Docket No. 96-UA-389	Generic Docket to Consider Competition in the Provision of Retail Electric Service Before the Public Service Commission of the State of Mississippi
Docket No. 970171-EU	Determination of appropriate cost allocation and regulatory treatment of total revenues associated with wholesale sales to Florida Municipal Power Agency and City of Lakeland by Tampa Electric Company Before the Florida Public Service Commission
Case No. PUE960296 *	Virginia Electric and Power Company Before the Commonwealth of Virginia State Corporation Commission
Docket No. 97-035-01	PacifiCorp, dba Utah Power & Light Company Before the Public Service Commission of Utah
Docket No. G-03493A-98-0705*	Black Mountain Gas Division of Northern States Power Company, Page Operations Before the Arizona Corporation Commission
Docket No. 98-10-07	United Illuminating Company State of Connecticut Department of Public Utility Control
Docket No. 98-10-07	Connecticut Light & Power Company State of Connecticut Department of Public Utility Control
Docket NO. 99-02-05	Connecticut Light & Power Company State of Connecticut Department of Public Utility Control
Docket No. 99-03-36	Connecticut Light & Power Company

	State of Connecticut Department of Public Utility Control
Docket No. 99-03-35	United Illuminating Company State of Connecticut Department of Public Utility Control
Docket No. 99-03-04	United Illuminating Company State of Connecticut Department of Public Utility Control
Docket No. 99-08-02	Yankee Energy System, Inc. State of Connecticut Department of Public Utility Control
Docket No. 99-08-09	CTG Resources, Inc. State of Connecticut Department of Public Utility Control
Docket No. 99-07-20	Connecticut Energy Corporation / Energy East State of Connecticut Department of Public Utility Control
Docket No. 99-09-03 Phase II	Connecticut Natural Gas State of Connecticut Department of Public Utility Control
Docket No. 99-09-03 Phase III	Connecticut Natural Gas State of Connecticut Department of Public Utility Control
Docket No. 99-04-18 Phase II	Southern Connecticut Gas Company State of Connecticut Department of Public Utility Control
Docket No. 99-057-20*	Questar Gas Company Public Service Commission of Utah
Docket No. 99-035-10	PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah
Docket No. T-1051B-99-105	U.S. West Communications, Inc. Arizona Corporation Commission
Docket No. 01-035-10*	PacifiCorp dba Utah Power & Light Company Public Service Commission of Utha

Docket No. 991437-WU	Wedgefield Utilities, Inc. Before the Florida Public Service Commission
Docket No. 991643-SU	Seven Springs Before the Florida Public Service Commission
Docket No. 98P55045	General Telephone and Electronics of California California Public Utilities Commission
Docket No. 00-01-11	Consolidated Edison, Inc. and Northeast Utilities Merger State of Connecticut Before the Department of Public Utility Control
Docket No. 00-12-01	Connecticut Light & Power Company State of Connecticut Before the Department of Public Utility Control
Docket No. 000737-WS	Aloha Utilities/Seven Springs Utilities Before the Florida Public Service Commission
Consolidated Docket Nos. EL00-66-000 ER00-2854-000 EL95-33-000	Entergy Services, Inc. Before the Federal Energy Regulatory Commission
Docket No. 950379-EI	Tampa Electric Company Before the Florida Public Service Commission
Docket No. 010503-WU	Aloha Utilities, Inc. – Seven Springs Water Division Before the Florida Public Service Commission
Docket No. 01-07-06*	The Towns of Durham and Middlefield State of Connecticut Before the Department of Public Utility Control
Docket No. 99-09-12-RE-02	Connecticut Light & Power/Millstone State of Connecticut Before the Department of Public Utility Control
Civil Action No. C2-99-1181	The United States et al v. Ohio Edison et al U.S. District Court, S.D. Ohio

Docket No . 001148-ET****	Florida Power & Light Company Before the Florida Public Service Commission
Civil Action No. 99-833-Per *	The United States et al v. Illinois Power Company U.S. District Court, S.D. Illinois
Civil Action No . IP99-1692-C-M/s *	The United States et al v. Southern Indiana Gas and Electric Company U.S. District Court, S.D. Indiana
Docket No. 02-057-02*	Questar Gas Company Public Service Commission of Utah
Docket No. EL01-88-000	Entergy Services, Inc. et. al. Mississippi Public Service Commission
Docket No. 9355-U	Georgia Power Company Before the Georgia Public Service Commission
Case No. 1016	Washington Gas Light Company Before the Public Service Commission of the District of Columbia
Civil Action Nos. C2 99-1182 C2 99-1250 (Consolidated)	The United States et al v. American Electric Power Company, ET, AL
Docket No. 030438-EI *	Florida Public Utilities Company Before the Florida Public Service Commission
Docket No. EL01-88-000	Entergy Services, Inc., et al Before the Federal Energy Regulatory Commission
Civil Action No. 1:00 CV1262	The United States et al v. Duke Energy Company
Docket No. 050045-EI *	Florida Power & Light Corporation Before the Florida Public Service Commission
Docket No. 050078-EI *	Progress Energy Florida, Inc. Before the Florida Public Service Commission
Civil Action No. 1P99-1693 C-M/S	The United States et al. v. Cinergy Corporation, ET AL.
Civil Action No.	The United States et al. v. East Kentucky Power

04-34-KSF

Cooperative, Inc. ET AL.

Case No.
05-0304-G-42T *

Hope Gas, Inc. d/b/a Dominion Hope
Consumer Advocate Division of the Public
Service Commission of West Virginia

Case No.
05-E-1222

New York State Electric & Gas Corporation
Before the New York Public Service Commission

Case Nos.
05-E-0934
05-G-0935

Central Hudson Gas & Electric Corporation
Before the New York Public Service Commission

Docket No. 060038-EI

Florida Power & Light Company
Before the Florida Public Service Commission

*Case Settled

**Issues Stipulated

***Testimony Withdrawn

****Case Settled, Testimony Not Filed

Docket No. 0600154-EI

EXHIBIT

Citizens' First Set of Interrogatories
Docket No. 060154-EI
GULF POWER COMPANY
March 16, 2006
Item No. 20
Page 1 of 2

20. Please give a specific description of all services and activities with a line item estimate of costs that are included in the SPE set-up fee and the servicer set-up fee. Explain whether any of the estimated costs are for employees or contractual labor other expenses that are currently charged or allocated from any Gulf affiliate to Gulf for base rate recovery.

ANSWER:

SPE Set-up Fee:

In setting up an SPE, Gulf Power will need to form a Delaware Limited Liability Company under the Delaware Limited Liability Company Act. The limited liability company will be formed pursuant to a limited liability company agreement executed by Gulf, as its sole equity member, and the filing of a certificate of formation with the Secretary of State of Delaware. In addition, a Certificate of Authority will need to be filed with the Secretary of State of Florida. Lastly, Gulf will be required to retain an independent director. The estimated cost of the SPE set-up fee is \$15,000.

Estimated SPE Set-Up Fee

Draft Limited Liability Company Agreement ⁽¹⁾	\$11,000
Draft Certificate of Formation ⁽¹⁾	\$600
File Certificate of Formation ⁽²⁾	
Filing Fee	\$120
State Fee	\$90
Certified Copy Fee	\$30
Service Fee	\$150
Registered Agent	\$250
File Certificate of Authority ⁽²⁾	
Filing Fee	\$125
Service Fee	\$150
Registered Agent	\$250
Certificate of Good Standing	\$30
Independent Director	\$2,000
Total	\$14,795

⁽¹⁾Would need to hire Delaware Counsel

⁽²⁾Fee estimates from Corporation Service Company

Citizens' First Set of Interrogatories
Docket No. 060154-EI
GULF POWER COMPANY
March 16, 2006
Item No. 20
Page 2 of 2

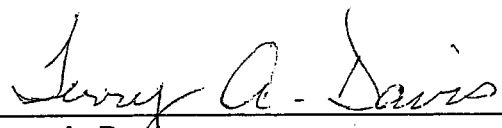
The servicer set-up fee is a high level estimate of the costs to program Gulf's customer accounting system to incorporate this additional charge onto customer's bills and to provide the data required by the SPE. In addition, it includes programming costs necessary to provide accounts receivable data that is required by the rating agencies to ensure a high rating on the bonds. The estimate does not include specific activities at this time, but rather is a high level estimate based on prior experience with projects requiring programming changes.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

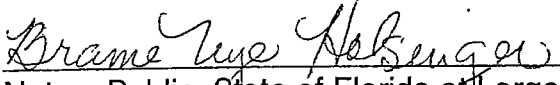
Docket No. 060154-EI

Before me the undersigned authority, personally appeared Terry A. Davis, Assistant Secretary and Assistant Treasurer of Gulf Power Company, and who on behalf of said corporation, being first duly sworn, deposes, and says that pursuant to Rule 1.340(a), Florida Rules of Civil Procedure, she verifies that the foregoing answers to the interrogatories are submitted on behalf of said corporation, and that the foregoing constitute true and correct answers to the best of her knowledge, information, and belief based on the information provided by others in the course of business. She is personally known to me.



Terry A. Davis
Assistant Secretary and Assistant Treasurer

Sworn to and subscribed before me this 15th day of March, 2006.



Notary Public, State of Florida at Large



Citizens' Fourth Set of Interrogatories
Docket No. 060154-EI
GULF POWER COMPANY
May 1, 2006
Item No. 98
Page 1 of 2

98. Please refer to Item No. 28 from Staff's First Set of Interrogatories. Please explain the nature of the programming cost necessary to provide accounts receivable data required by rating agencies and provide a breakout of the estimated cost. Also, please address the following:
- a) when does the Company anticipate that it will be able to quantify actual cost incurred related to specific activities; and
 - b) provide specific examples of past projects requiring programming changes and the associated cost involved with those projects. Show detailed calculations.

ANSWER:

At this time Gulf does not know the exact nature or extent of programming changes necessary to provide accounts receivable data, or other information, required by the rating agencies or the SPE. Once all data requirements related to the storm-recovery financing transaction are known, Gulf should be able to identify the specific activities and provide an estimate of the costs for each activity.

Attached are examples of past projects requiring programming changes to the Company's Customer Service System (CSS) and the associated cost involved with these projects. Each project is broken down by the number of hours and cost based on the different phases of the project. These phases are defined below:

- Requirements Gathering - CSS Support works with the business unit to understand and document the requirements both from a business and application perspective.
- Technical Analysis - CSS Support works with programming staff to insure an understanding of the requirements and identify specific impacts to the application. A cost estimate is completed and communicated as appropriate.
- Detail Analysis - CSS Support identifies the coding changes necessary to complete the work.
- Code and Test - Modules and programs are coded. All changes are tested to insure they are operating as designed within the module and any interfacing modules.
- Regression Test - User acceptance testing. The application changes are tested against a predefined set of test conditions.

Citizens' Fourth Set of Interrogatories
Docket No. 060154-EI
GULF POWER COMPANY
May 1, 2006
Item No. 98
Page 2 of 2

PROJECT I – Bill Payment Protection

	Hours	Cost/Hour	Total Cost
Requirements Gathering	40	85	\$3,400
Technical Analysis	103	100	\$10,300
Detail Analysis	516	100	\$51,600
Code and Test	805	100	\$80,500
Regression Test	161	85	\$13,685
Total	1625		\$159,485

PROJECT II – Automated New Business Set Up

	Hours	Cost/Hour	Total Cost
Requirements Gathering	80	85	\$6,800
Technical Analysis	153	100	\$15,300
Detail Analysis	771	100	\$77,100
Code and Test	1716	100	\$171,600
Regression Test	343	85	\$29,155
Total	3063		\$299,955

PROJECT III – Flat Bill

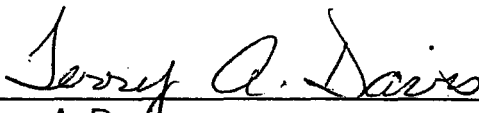
	Hours	Cost/Hour	Total Cost
Requirements Gathering	60	85	\$5,100
Technical Analysis	149	100	\$14,900
Detail Analysis	753	100	\$75,300
Code and Test	1777	100	\$177,700
Regression Test	355	85	\$30,175
Total	3094		\$303,175

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

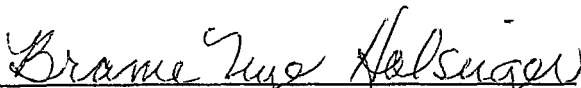
Docket No. 060154-EI

Before me the undersigned authority, personally appeared Terry A. Davis, Assistant Secretary and Assistant Treasurer of Gulf Power Company, and who on behalf of said corporation, being first duly sworn, deposes, and says that pursuant to Rule 1.340(a), Florida Rules of Civil Procedure, she verifies that the foregoing answers to the interrogatories are submitted on behalf of said corporation, and that the foregoing constitute true and correct answers to the best of her knowledge, information, and belief based on the information provided by others in the course of business. She is personally known to me.



Terry A. Davis
Assistant Secretary and Assistant Treasurer

Sworn to and subscribed before me this 1st day of May, 2006



Notary Public, State of Florida at Large



Staff's First Set of Interrogatories
Docket No. 060154-EI
GULF POWER COMPANY
March 29, 2006
Item No. 31
Page 1 of 1

31. What is meant by "servicing" as this term is used with respect to the proposed transaction? For purposes of this response, please explain the activities to be performed, the anticipated costs to perform them, and designate which of these costs are new or incremental to Gulf Power Company.

ANSWER:

The servicer in the proposed securitization transaction has responsibility for managing, administering, calculating, billing and collecting the Storm Bond Repayment Charges and for processing and remitting the collections to the trustee. The servicer will prepare any reports necessary detailing its activities. The servicer will also prepare, file and process the periodic true-up adjustments required by Section 366.8260 of the Florida Statutes and the financing order. The requested annual servicing fee is \$130,800. See also Gulf's response to Item No. 47 of Citizens' Second Set of Interrogatories.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 060154-EI

Before me the undersigned authority, personally appeared Terry A. Davis, Assistant Secretary and Assistant Treasurer of Gulf Power Company, and who on behalf of said corporation, being first duly sworn, deposes, and says that pursuant to Rule 1.340(a), Florida Rules of Civil Procedure, she verifies that the foregoing answers to the interrogatories are submitted on behalf of said corporation, and that the foregoing constitute true and correct answers to the best of her knowledge, information, and belief based on the information provided by others in the course of business. She is personally known to me.

Terry A. Davis
Terry A. Davis
Assistant Secretary and Assistant Treasurer

Sworn to and subscribed before me this 29th day of March, 2006

Brame Nye Holsinger
Notary Public, State of Florida at Large



Citizen's Second Set of Interrogatories
Docket No. 060154-EI
GULF POWER COMPANY
March 22, 2006
Item No. 45
Page 1 of 1

45. Please provide all mandates or bond rating criteria that state that Gulf must be compensated specifically through the SPE for the administrative, servicing or other fees performed by Gulf employees or contract labor that are already recovered through base rates.

ANSWER:

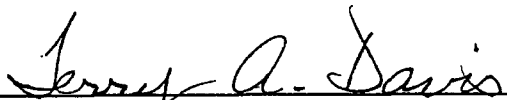
Based on discussions with the rating agencies, one of the important elements of the rate reduction bond transaction structure is the bankruptcy remoteness of the SPE. The arrangement between the parent entity (in this case, Gulf) and the SPE must be structured sufficiently to allow a bankruptcy court reviewing the transaction to respect the separate existence of the two entities. In this regard, it is important that the SPE pay for its obligations out of its own funds and that the relationship between the SPE and the parent entity operate at arm's length. The proposed arrangement by which Gulf will perform services for the SPE in exchange for compensation from the SPE reflects this concept. The rating agencies could potentially have some difficulty in ascribing a "AAA" rating to a transaction which did not provide for payment of these fees through the SPE due to potential concerns of consolidation. The majority of Asset-Backed Securities transactions, as well as, other Rate Reduction Bond transactions, have these fees, including servicing, paid out of the SPE as an "asset" of the trust. Since securitizations are expected to be transactions through which the property of the SPE provides sufficient cash flows to service the debt, the expectation from bondholders, and thus the rating agencies, is that requisite cash flows of the SPE needed for the servicing of the debt must include payment of the administration and servicing fees.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)


Docket No. 060154-EI

Before me the undersigned authority, personally appeared Terry A. Davis, Assistant Secretary and Assistant Treasurer of Gulf Power Company, and who on behalf of said corporation, being first duly sworn, deposes, and says that pursuant to Rule 1.340(a), Florida Rules of Civil Procedure, she verifies that the foregoing answers to the interrogatories are submitted on behalf of said corporation, and that the foregoing constitute true and correct answers to the best of her knowledge, information, and belief based on the information provided by others in the course of business. She is personally known to me.

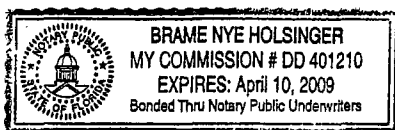


Terry A. Davis
Assistant Secretary and Assistant Treasurer

Sworn to and subscribed before me this 22nd day of March, 2006.



Notary Public, State of Florida at Large



12. Please supply all documents in your possession, custody or control that address the projected cost of servicing and administrating the SPE by Gulf.

Response: See documents bearing Bates Stamp Nos. 434, 436, and 437

Administration Fee – The estimated on-going annual administration fee for the storm recovery bonds is \$75,000. Barclays researched the administration fee in 20 rate reduction bonds from December 1997 to December 2005, which constitute utilities in California, Connecticut, Illinois, Massachusetts, Michigan, New Hampshire, New Jersey, Pennsylvania and Texas (the administration fee for other transactions was unavailable). Annual administration fees paid ranged from \$5,000 to \$250,000. Barclays took a straight average of the 20 transactions to come up with an average administration fee of \$95,875. The \$75,000 on-going administration fee to be paid on the storm recovery bonds is consistent with the administration fee in previous rate reduction bond transactions.

If necessary, Barclays can provide the prospectuses for each transaction supporting the following table.

ADMINISTRATION FEE COMPARISON

UTILITY	DATE	ISSUANCE AMOUNT	ON-GOING ANNUALIZED ADMINISTRATION FEES
CenterPoint Energy	12/ 15/ 2005	\$1,800 million	\$100,000
Pacific Gas & Electric	11/ 09/ 2005	\$845 million	\$100,000
Public Service Electric & Gas	09/ 09/ 2005	\$102.7 million	\$125,000
Boston Edison Company/ Commonwealth Electric Company	02/ 15/ 2005	\$674.5 million	\$150,000
Pacific Gas & Electric	02/ 03/ 2005	\$1,900 million	\$100,000
Oncor Electric Delivery	08/ 21/ 2003	\$500 million	\$50,000
Atlantic City Electric	12/ 19/ 2002	\$440 million	\$80,000
Public Service Company of New Hampshire	01/ 30/ 2002	\$50 million	\$5,000
CenterPoint Energy	10/ 24/ 2001	\$749 million	\$100,000
Western Massachusetts Electric	05/ 17/ 2001	\$155 million	\$75,000
Public Service Company of New Hampshire	04/ 25/ 2001	\$525 million	\$52,500
Connecticut Light & Power	03/ 30/ 2001	\$1,438 million	\$75,000
Detroit Edison	03/ 09/ 2001	\$1,750 million	\$250,000
West Penn Power	11/ 16/ 1999	\$600 million	\$80,004
Pennsylvania Power & Light	08/ 10/ 1999	\$2,420 million	\$100,000
Boston Edison	07/ 29/ 1999	\$725 million	\$75,000
Commonwealth Edison	12/ 16/ 1998	\$3,400 million	\$100,000
San Diego Gas & Electric	12/ 16/ 1997	\$658 million	\$100,000
Southern California Edison	12/ 11/ 1997	\$2,463 million	\$100,000
Pacific Gas & Electric	12/ 08/ 1997	\$2,901 million	\$100,000
Average			\$95,875

Servicing Fee – The servicing fee will be an annualized amount equal to 0.15% of the initial principal amount of the storm-recovery bonds when Gulf Power is the servicer. The servicing fee to be paid to Gulf Power is consistent with the servicing fee in numerous rate reduction bond transactions. Barclays has researched the servicing fees in all rate reduction bonds from November 1997 to December 2005, which constitute 34 issues involving 24 utilities in California, Connecticut, Illinois, Massachusetts, Michigan, Montana, New Hampshire, New Jersey, Pennsylvania and Texas. In most cases, servicing fees paid to the sponsoring utility are either 0.05%, 0.09%, 0.10%, or 0.125% of the initial principal amount of the notes. In ten cases, the utility receives 0.25% of the outstanding principal amount of notes. Barclays took a straight average and weighted average of the 34 transactions to come up with 0.14% and 0.15%, respectively.

If necessary, Barclays can provide the prospectuses for each transaction supporting the following table.

SERVICING COMPENSATION COMPARISON

UTILITY	DATE	ISSUANCE AMOUNT	SERVICING FEES		% of OUTSTANDING OR INITIAL
			INITIAL	BACKUP	
Centerpoint Energy	12/16/2005	\$1,800 million	0.05%	0.60%	Initial
Pacific Gas & Electric	11/03/2005	\$845 million	0.09%		Initial
West Penn Power	09/22/2005	\$115 million	0.25%	1.50%	--
Public Service Electric & Gas	09/09/2005	\$102.7 million	0.05%	1.25%	Initial
Nstar (fka Boston Edison)	02/15/2005	\$674.5 million	0.05%	1.25%	Initial
Pacific Gas & Electric	02/03/2005	\$1,900 million	0.09%		Initial
Rockland Electric	07/28/2004	\$46.3 million	0.13%	1.25%	--
TXU Electric Delivery	05/28/2004	\$790 million	greater of \$400k all outstanding or 0.05%/ yr of initial of all series	0.60%	--
Atlantic City Electric	12/18/2003	\$152 million	0.10%	1.25%	Initial
Oncor Electric Delivery	08/14/2003	\$500 million	greater of \$400k all outstanding or 0.05%/ yr of initial of all series	0.60%	--
Atlantic City Electric	12/11/2002	\$440 million	0.10%	1.25%	Initial
Jersey Central Power and Light	06/04/2002	\$320 million	0.13%	1.25%	Initial
Central Power and Light	01/31/2002	\$797 million	0.05%	0.60%	Initial
Public Service of New Hampshire	01/17/2002	\$50 million	0.25%	1.50%	Outstanding
Consumers Energy	10/31/2001	\$469 million	0.25%	1.50%	Outstanding
Reliant Energy	10/17/2001	\$749 million	0.05%	0.06%	Initial
Western Massachusetts	05/15/2001	\$155 million	0.05%	1.25%	Initial
Public Service of New Hampshire	04/20/2001	\$525 million	0.25%	1.50%	Outstanding
Connecticut Light & Power	03/27/2001	\$1,438 million	0.05%	1.25%	Initial
Detroit Edison	03/02/2001	\$1,750 million	0.05%	1.25%	Initial, Backup of Outstanding
PECO Energy	02/15/2001	\$805 million	0.25%	1.50%	Outstanding
PSE&G	01/25/2001	\$2,525 million	0.05%	1.25%	Initial
PECO Energy	04/27/2000	\$1,000 million	0.25%	1.50%	Outstanding
West Penn Power	11/16/1999	\$600 million	\$312,500 per quarter (initially approx. 5 bps)	1.50%	Outstanding
Pennsylvania Power & Light	07/29/1999	\$2,420 million	\$312,500 per quarter (initially approx. 1 bps)	1.50%	Outstanding
Boston Edison	07/14/1999	\$725 million	0.05%	1.25%	Initial
Sierra Pacific Power	04/08/1999	\$24 million			--
PECO Energy	03/18/1999	\$4,000 million	0.25%	1.50%	Outstanding
Montana Power	12/15/1998	\$62.7 million	\$500K		--
Illinois Power	12/10/1998	\$864 million	\$540k per quarter (initially approx. 87 bps)		--
Commonwealth Edison	12/07/1998	\$3,400 million	\$750k per quarter (initially approx. 2 bps)		--
Southern California Edison	12/04/1997	\$2,463 million	0.25%	1.50%	Outstanding
San Diego Gas & Electric	12/04/1997	\$658 million	0.25%	1.50%	Outstanding
Pacific Gas & Electric	11/25/1997	\$2,901 million	0.25%	1.50%	Outstanding
Puget Sound Energy	07/30/1997	\$35 million			
Puget Sound Energy (fka Puget Sound Power & Light)	06/01/1995	\$202 million			

Average	0.14%	1.22%
Wtg Avg	0.15%	1.13%

Citizens' Third Set of Interrogatories
Docket No. 060154-EI
GULF POWER COMPANY
April 24, 2006
Item No. 54
Page 1 of 1

54. Please provide the amount and a description of the incremental costs to Gulf for servicing the bonds in light of Gulf's discovery response that at this time that it does not plan of adding additional staff.

ANSWER:

As discussed in Mr. Kim's testimony, the servicing fees requested in this filing were determined based on servicing fees in similar rate reduction bond transactions. We have not yet identified and estimated the specific costs surrounding the servicing of the bonds. We anticipate we may incur costs related, but not limited, to the following items:

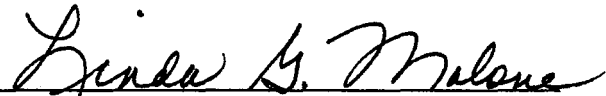
- Programming changes to:
 - bill formats
 - financial reports
 - regulatory reports
- Regulatory filings
- Bank fees
- Incremental personnel, if required

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

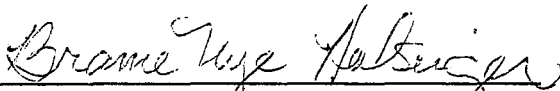
Docket No. 060154-EI

Before me the undersigned authority, personally appeared Linda G. Malone, Assistant Secretary and Assistant Treasurer of Gulf Power Company, and who on behalf of said corporation, being first duly sworn, deposes, and says that pursuant to Rule 1.340(a), Florida Rules of Civil Procedure, she verifies that the foregoing answers to the interrogatories are submitted on behalf of said corporation, and that the foregoing constitute true and correct answers to the best of her knowledge, information, and belief based on the information provided by others in the course of business. She is personally known to me.



Linda G. Malone
Assistant Secretary and Assistant Treasurer

Sworn to and subscribed before me this 24th day of April, 2006



Notary Public, State of Florida at Large



Citizens' First Set of Interrogatories
Docket No. 060154-EI
GULF POWER COMPANY
March 16, 2006
Item No. 28
Page 1 of 1

28. Please supply a schedule that reflects each of the Gulf or SPE employees or contractual labor, with a description of each position, which will be used to perform the administrative, servicing, accounting, legal or administrative fees. Please address the following: a) the salaries and benefits for each position and any other expenses estimated to be incurred; b) whether payroll costs or expenses of any of the positions are existing costs incurred by Gulf for base rate purposes; c) whether any of the expenses will be allocated between Gulf and the SPE, and if so how are the cost to be allocated; and d) list any positions that will perform services to the SPE that will be incremental to those that perform services for Gulf in 2006.

ANSWER:

a) The SPE will have no employees. The SPE will contract with Gulf to service the bonds and perform administrative functions for the SPE. The following positions will be required to perform servicing and administrative activities to some extent in addition to their existing responsibilities. We expect the support from some of these positions to be minimal based on the current financing proposal. Once the financing occurs, we will continue to evaluate whether additional resources are needed.

<u>Position</u>	<u>Payroll & Benefits</u>	<u>A&G Overhead</u>
Accountant	85,983	26,609
Treasury Analyst	85,983	26,609
Tax Analyst	85,983	26,609
Rates Analyst	85,983	26,609
Management	147,172	40,485

b) The costs associated with servicing the Storm Bonds and performing administrative functions will initially be performed by existing employees.

c) Gulf has not proposed to allocate these costs to the SPE since these functions will initially be performed by existing employees. See response to (d) below.

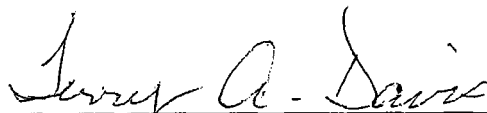
d) No incremental positions are anticipated at this time. As discussed in response to Item 14, Gulf will evaluate whether additional resources are needed after the additional activities and processes have been documented and fully understood.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

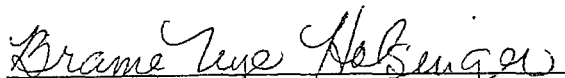
Docket No. 060154-EI

Before me the undersigned authority, personally appeared Terry A. Davis, Assistant Secretary and Assistant Treasurer of Gulf Power Company, and who on behalf of said corporation, being first duly sworn, deposes, and says that pursuant to Rule 1.340(a), Florida Rules of Civil Procedure, she verifies that the foregoing answers to the interrogatories are submitted on behalf of said corporation, and that the foregoing constitute true and correct answers to the best of her knowledge, information, and belief based on the information provided by others in the course of business. She is personally known to me.



Terry A. Davis
Assistant Secretary and Assistant Treasurer

Sworn to and subscribed before me this 15th day of March, 2006.



Notary Public, State of Florida at Large

OPC's First Set of Interrogatories
Docket No. 060154-EI
GULF POWER COMPANY
March 16, 2006
Item No. 27
Page 1 of 4

27. Please provide a detailed description of what legal and accounting services will be provided to the SPE on an annual basis. Please include the following information: a) the annual costs of the service by its description; b) any mandates or requirements which specify that these individual services be provided and requiring authority; and c) delineate which of these services will be provided by Gulf or any Gulf affiliates other than the SPE.

Answer:

Attached is a schedule of legal and accounting services to be performed on behalf of the SPE on an annual basis. Gulf has identified which activities have separate cost estimates and those activities whose costs are included in the servicing or administrative fee. The SPE will have no employees. It will contract with Gulf to provide servicing and administrative functions.

Accounting Services	Estimated Costs	Mandated By
1. Calculate and record payments to trustee in accounting records.	Included in Servicing Fee	Items 1-9: Basic services required to maintain records, obtain necessary legal opinions and maintain "AAA" ratings.
2. Wire transfer funds to trustee.	Included in Servicing Fee	
3. Complete and send remittance reporting to trustee.	Included in Servicing Fee	
4. Provide instructions to trustee on each payment date as to application of amounts held under indenture.	Included in Servicing Fee	
5. Calculate and forecast periodic Storm Charges.	Included in Servicing Fee	
6. Calculate over/under collection of Storm Charges from prior period, and file periodic true-ups.	Included in Servicing Fee	
7. Reconciliation of actual to estimated write-offs.	Included in Servicing Fee	
8. Provide for payment of all SPE invoices for services rendered.	Included in Servicing Fee	
9. Maintain separate books of account and financial statements.	Included in Administrative Fee	
10. Prepare and file periodic distribution reports on form (10-D) with all required disclosures.	Included in Administrative Fee	Securities & Exchange Commission

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Accounting Services

11. Prepare and file annual reports on form (10-K) with all required disclosures.
12. Document processes for management testing of accounting controls.
13. Perform testing and review and evaluate results of testing of accounting controls.
14. Prepare state income tax return (to be included in consolidated filing).
15. Prepare federal income tax return (to be included in consolidated filing).
16. Prepare annual audit schedules and support external auditor's assessment of service criteria.
17. Provide all necessary reports for rating agencies to maintain ratings.
18. Annual Auditor Assessment of Servicer criteria, auditor attestation and Sarbanes-Oxley Section 302 certification.

Estimated Costs

Included in
Administrative Fee
Included in
Administrative Fee
Included in
Administrative Fee
Included in
Administrative Fee
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Administrative Fee
Included in
Administrative Fee
Included in
Administrative Fee
Included in
Administrative Fee
\$50,000 (1)

Mandated By

Securities & Exchange
Commission
Securities & Exchange
Commission
Securities & Exchange management
Commission
State of Florida

Internal Revenue Service

Securities & Exchange
Commission
Required to maintain ratings

Securities & Exchange
Commission

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<u>Legal Services</u>	<u>Estimated Costs</u>	<u>Mandated By</u>
1. Prepare and file periodic Servicer Certificates.	Included in Servicing Fee	Servicing Agreement / Securities & Exchange Commission
2. Prepare and file annual Certificate of Compliance.	Included in Servicing Fee	Servicing Agreement / Securities & Exchange Commission
3. Review SEC filings for legal compliance, including annual assessment of servicing functions under Regulation AB.	Included in Servicing Fee	Securities & Exchange Commission
4. Preparation of minutes of the SPE and such other documents required to maintain separate limited liability existence and good standing.	Included in Administrative Fee	Administrative Agreement, Delaware law
5. Preparation of amendments to documents deemed necessary by SPE's Managers.	Included in Administrative Fee	Administrative Agreement
6. External legal review of items 1-5, including review of SEC filings for legal compliance, including annual assessment of servicer functions under Regulation AB.	\$30,000 (1)	
7. Provide for the defense (at SPE's Manager's direction) of any action suit or proceeding affecting SPE.	Unknown (2)	Administration Agreement
8. Defend Storm-Recovery Property against claims.	Unknown (2)	Storm Property Servicing Agreement

(1) SPE will pay actual cost to outside vendor. Differences between estimated and actual on-going costs will flow through the true-up adjustment.

(2) These are only contingencies provided for in the Servicing or Sales Agreement.

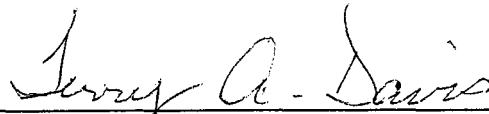
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March 16, 2006
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AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

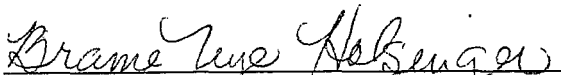
Docket No. 060154-EI

Before me the undersigned authority, personally appeared Terry A. Davis, Assistant Secretary and Assistant Treasurer of Gulf Power Company, and who on behalf of said corporation, being first duly sworn, deposes, and says that pursuant to Rule 1.340(a), Florida Rules of Civil Procedure, she verifies that the foregoing answers to the interrogatories are submitted on behalf of said corporation, and that the foregoing constitute true and correct answers to the best of her knowledge, information, and belief based on the information provided by others in the course of business. She is personally known to me.



Terry A. Davis
Assistant Secretary and Assistant Treasurer

Sworn to and subscribed before me this 15th day of March, 2006.


Notary Public, State of Florida at Large

Citizen's Second Set of Interrogatories
Docket No. 060154-EI
GULF POWER COMPANY
March 22, 2006
Item No. 45
Page 1 of 1

45. Please provide all mandates or bond rating criteria that state that Gulf must be compensated specifically through the SPE for the administrative, servicing or other fees performed by Gulf employees or contract labor that are already recovered through base rates.

ANSWER:

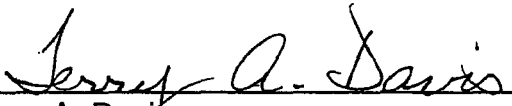
Based on discussions with the rating agencies, one of the important elements of the rate reduction bond transaction structure is the bankruptcy remoteness of the SPE. The arrangement between the parent entity (in this case, Gulf) and the SPE must be structured sufficiently to allow a bankruptcy court reviewing the transaction to respect the separate existence of the two entities. In this regard, it is important that the SPE pay for its obligations out of its own funds and that the relationship between the SPE and the parent entity operate at arm's length. The proposed arrangement by which Gulf will perform services for the SPE in exchange for compensation from the SPE reflects this concept. The rating agencies could potentially have some difficulty in ascribing a "AAA" rating to a transaction which did not provide for payment of these fees through the SPE due to potential concerns of consolidation. The majority of Asset-Backed Securities transactions, as well as, other Rate Reduction Bond transactions, have these fees, including servicing, paid out of the SPE as an "asset" of the trust. Since securitizations are expected to be transactions through which the property of the SPE provides sufficient cash flows to service the debt, the expectation from bondholders, and thus the rating agencies, is that requisite cash flows of the SPE needed for the servicing of the debt must include payment of the administration and servicing fees.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 060154-EI

Before me the undersigned authority, personally appeared Terry A. Davis, Assistant Secretary and Assistant Treasurer of Gulf Power Company, and who on behalf of said corporation, being first duly sworn, deposes, and says that pursuant to Rule 1.340(a), Florida Rules of Civil Procedure, she verifies that the foregoing answers to the interrogatories are submitted on behalf of said corporation, and that the foregoing constitute true and correct answers to the best of her knowledge, information, and belief based on the information provided by others in the course of business. She is personally known to me.



Terry A. Davis
Assistant Secretary and Assistant Treasurer

Sworn to and subscribed before me this 22nd day of March, 2006.



Notary Public, State of Florida at Large



Citizens' Third Set of Interrogatories
Docket No. 060154-EI
GULF POWER COMPANY
April 24, 2006
Item No. 55
Page 1 of 1

55. Please give the amount and a description of the incremental costs to Gulf for administering the bonds in light of Gulf's discovery response that at this time that it does not plan of adding additional staff.

ANSWER:

The administration fees requested in this filing were estimated based on administration fees in similar rate reduction bond transactions. We have not yet identified and estimated the specific costs surrounding the administration of the bonds. Based on the duties of the administrator as described in the Administration Agreement (Schedule 13 of Mr. Kim's testimony), the administration fees would include amounts for the following items:


- Tax return preparation
- Regulatory filing fees
- Programming changes related to audit requirements
- Incremental personnel, if required

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

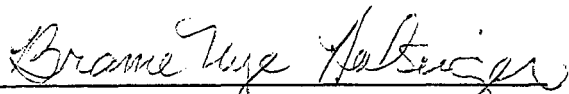
Docket No. 060154-EI

Before me the undersigned authority, personally appeared Linda G. Malone, Assistant Secretary and Assistant Treasurer of Gulf Power Company, and who on behalf of said corporation, being first duly sworn, deposes, and says that pursuant to Rule 1.340(a), Florida Rules of Civil Procedure, she verifies that the foregoing answers to the interrogatories are submitted on behalf of said corporation, and that the foregoing constitute true and correct answers to the best of her knowledge, information, and belief based on the information provided by others in the course of business. She is personally known to me.



Linda G. Malone
Assistant Secretary and Assistant Treasurer

Sworn to and subscribed before me this 24th day of April, 2006



Notary Public, State of Florida at Large

