

**ORIGINAL**  
MEMORANDUM

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CLERK

TO: DIVISION OF THE COMMISSION CLERK AND ADMINISTRATIVE SERVICES

FROM: OFFICE OF THE GENERAL COUNSEL (BRUBAKER) *JSB*  
*060154-EI -DM*

RE: DOCKET NO. ~~060164-EI~~ - Petition for issuance of storm recovery financing order pursuant to Section 366.8260, F.S. (2005), by Gulf Power Company.

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Attached is Gulf's Responses to Staff's Data Requests to be filed in the above-referenced docket.

*5/25/06*

DATE DOCUMENT SENT TO CCA \_\_\_\_\_

JSB/pz  
Attachment  
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- COM \_\_\_\_\_
- CTR \_\_\_\_\_
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FPSC-COMMISSION CLERK

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May 18, 2006  
Submitted by E-Mail

Jennifer Brubaker, Senior Attorney  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

**RE: Docket No. 060154-EI - Petition for issuance of storm recovery financing order pursuant to Section 366.8260, F.S. (2005), by Gulf Power Company.**

Dear Ms. Brubaker:

Through Ms. Gervasi's letter to me dated May 18, 2006, Staff has submitted a list of 27 questions as Staff Data Requests to Gulf Power Company in the docket referenced above. The responses to these data requests are intended to assist Staff in its review and analysis of the Joint Petition for Approval of Stipulation and Settlement (Stipulation) filed on May 11, 2006.

Although the Staff Data Requests were submitted to Gulf for its responses, due to the nature of the Stipulation as a joint document, we have consulted with all counterparties to the Stipulation as the following responses were prepared. For the convenience of Staff (and the Commission), I have been specifically authorized to inform and represent to the staff that Gulf's responses set forth below have been agreed to by counsel for each of the other counterparties to the Stipulation (specifically, the Office of Public Counsel, the AARP, the Florida Industrial Power Users Group and the Florida Retail Federation).

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1. Based on the extension of the current storm cost recovery surcharge, provide a calculation of the additional amount of revenues that will be collected through the surcharge from April 2007 through June 2009.

**Gulf Power response:** Please see Attachment A.

2. If the extension of the surcharge is approved, does Gulf Power Company (GPC) intend to record the net 2005 storm costs of \$53,356,000 as a regulatory asset in Account No. 182.1, Extraordinary Property Losses? If not, please explain GPC's proposed accounting treatment.

**Gulf Power response:** No. The Stipulation simply extends the current surcharge through June 2009 with all proceeds posted to the property insurance reserve. The intent of the parties was to allow the surcharge to run long enough to fully recover the identified 2005 storm activity costs and end the surcharge period with a positive reserve balance but without the necessity for a true-up mechanism. Therefore, Gulf intends to continue to reflect the negative impact of the 2005 storm costs in the property insurance reserve.

3. Is it the intent of the parties that the Commission's approval of the Stipulation would authorize GPC to automatically implement the 80% interim surcharge without any further action, review or approval from the Commission?

**Gulf Power response:** Yes, if the Stipulation is approved, the interim surcharge would be implemented subject to the notice requirement set forth in the Stipulation without further action, review or approval from the Commission. However, as noted in the Stipulation, all revenues received through the interim surcharge are collected subject to refund. Therefore, subsequent proceedings before the Commission are contemplated in which further action, review and resolution will be subject to the Commission's normal processes (e.g. proposed agency action, agency decision following hearing on the merits, or agency decision on subsequent stipulation and settlement, etc.). Regarding implementation of the interim surcharge, if the Stipulation is approved by the Commission (and prior to the need to initiate an interim surcharge), Gulf plans to file an addition to its retail tariff that sets forth the form of notice that would be used if the stipulated conditions allowing an interim surcharge come to pass. The proposed tariff provision would be in place waiting for the occurrence of conditions that allow Gulf to initiate an interim surcharge. Gulf would then comply with the tariff provisions and simultaneously send the prescribed notice to customers and file a copy with the Commission. Gulf would then file a petition to initiate the subsequent proceedings at a later date.

4. If the implementation of the 80% surcharge is not automatic, is it the intent of the parties that GPC would have to file a formal petition and revised tariffs with the Commission before it could implement the 80% interim surcharge contemplated in Provision 4 of the Stipulation?

**Gulf Power response:** N/A – See Gulf's response to Question 3 above.

5. If the implementation of the 80% surcharge is not automatic, is it the intent of the parties that GPC be required to seek Commission approval before it can issue the 30 days notice to its customers that is contemplated in Provision 4 of the Stipulation?

**Gulf Power response:** N/A – See Gulf's response to Question 3 above.

6. Is it the intent of the parties that GPC can seek up to 100% recovery of its storm restoration costs, i.e., the additional 20% not included in the 80% interim surcharge?

**Gulf Power response:** Yes. As noted in Gulf's response to Question 3 above, subsequent proceedings before the Commission are contemplated after initiation of the interim surcharge set forth in the Stipulation. Such proceedings would address the full recovery of Gulf's claimed costs and the removal of the "subject to refund" condition applicable to the collections made through the surcharge during the "interim" period. These subsequent proceedings would be subject to review and resolution through the Commission's normal processes (e.g. proposed agency action, decision following hearing on the merits, or decision on subsequent stipulation and settlement, etc.). The parties to the Stipulation have agreed not to challenge the collection of 80% of the claimed costs on an interim basis but are not prohibited from taking any position with regard to the ultimate recovery of any amounts during the subsequent proceedings.

7. If GPC can seek 100% recovery of its storm restoration costs, how would the interim surcharge ultimately be affected, i.e., be extended, be increased, etc.?

**Gulf Power response:** Upon determination of the final storm restoration cost recovery amount by the Commission, the amount and/or remaining term of the surcharge implemented on an interim basis could change. The surcharge could be increased or decreased to recover a larger or smaller amount, or the recovery period could be adjusted for the number of months necessary to recover the entire approved amount. The Stipulation provides the flexibility necessary to balance the rate impact and the recovery period. In the event that the amounts collected during the interim period exceed the total amount ultimately authorized by the Commission for recovery in the subsequent proceedings, a refund mechanism may be involved.

8. Is it the intent of the parties that if GPC incurs \$10,000,001 in cumulative costs for storm recovery, it can seek recovery of the entire \$10,000,001? In other words, is recovery limited to amounts in excess of the \$10 million threshold or is it inclusive of the threshold?

**Gulf Power response:** Yes. Under the terms of the Stipulation, once Gulf incurs cumulative costs for storm-recovery activities in excess of \$10 million during any calendar year, Gulf can seek recovery of the entire amount of costs incurred and is not limited to just the excess amount over \$10 million. Whether and when Gulf would seek such recovery on an interim basis or otherwise would be determined by Gulf based on its evaluation of conditions that exist at that time.

9. Is it the intent of the parties that the \$10 million threshold for future storms represents a cumulative amount after any positive amount in the reserve has been depleted?

**Gulf Power response:** The \$10 million threshold for implementing a surcharge on an interim basis is not tied to any specific balance in the property insurance reserve, whether positive or negative. As noted in Gulf's response to question 8 above, whether and when Gulf would seek recovery of costs on an interim basis after the threshold is met would be determined by Gulf based on its evaluation of conditions that exist at that time. Although the Stipulation does not specifically require that the reserve be depleted before an interim surcharge could be implemented under the terms of the Stipulation, Gulf intends to defer implementation of an interim surcharge as long as a positive balance in the property insurance reserve exists.

10. Provision 2 of the Stipulation provides for the calculation of interest on the deficiency in the storm reserve. In what account(s) will this interest be recorded?

**Gulf Power response:** The interest expense related to financing the storm reserve deficiency is recorded in FERC 431. The interest portion of the revenues received through the surcharge to cover this financing cost will be recorded in FERC 419.

11. Provision 5 of the Stipulation provides for the calculation and collection of interest on the claimed costs for storm-recovery activities for future storms. In what account(s) will this interest be recorded?

**Gulf Power response:** The interest expense related to financing the claimed costs for storm-recovery activities for future storms will be recorded in FERC 431. The interest portion of the revenues received through the surcharge to cover this financing cost is recorded in FERC 419.

12. When does the calculation of interest in Provision 5 of the Stipulation commence?

**Gulf Power response:** The calculation of interest will commence when the amounts incurred for storm activities are actually invoiced to and accepted for payment by Gulf Power.

13. Is the interest in Provision 5 of the Stipulation calculated on the after-tax balance of the claimed costs for storm-recovery activities?

**Gulf Power response:** Yes.

14. Assuming that there are no charges against the reserve during the April 2007 to June 2009 extension of the surcharge, what would be the expected balance for the storm reserve at December 31, 2007, December 31, 2008 and June 30, 2009? This would include the annual \$3.5 million accrual.

<b><u>Gulf Power response:</u></b>	December 31, 2007	(\$17.6 million)
	December 31, 2008	\$12.7 million
	June 30, 2009	\$27.9 million

15. Using its discretionary authority, does GPC anticipate making any additional accruals to the storm reserve between June 1, 2006 and June 30, 2009? If so, when and in what amount?

**Gulf Power response:** Gulf's financial forecast does not include any discretionary accruals to the storm reserve. Gulf's ability to make discretionary accruals to the storm reserve is largely dependent upon variances in actual revenues due to weather. Therefore, Gulf cannot predict when and if discretionary accruals will be made.

16. As part of the Stipulation for the Hurricane Ivan storm-recovery costs approved in Order No. PSC-05-0250-PAA-EI, GPC made an additional \$14 million accrual to the storm reserve as an offset to the \$96.5 million total estimated Ivan Deficit. Has GPC included a similar voluntary offset against the amount to be recovered for the 2005 storm-recovery costs?

**Gulf Power response:** No. As noted in Gulf's response to Question 2 above, the Stipulation simply extends the current surcharge through June 2009 with all proceeds (net of interest) posted to the property insurance reserve. The intent of the parties is to extend the existing surcharge without change to the rates through June 2009 which is expected to allow Gulf to fully recover the identified 2005 storm activity costs and end the surcharge period with a positive reserve balance without the necessity for a true-up mechanism. The impact of the \$6 million discretionary accrual made in 2005 serves to decrease the deficit and ultimately increase the balance in the property insurance reserve. This treatment of the discretionary accrual also decreases the amount of interest on the reserve deficit that customers will pay through the extended surcharge by reducing that deficit.

17. The current stipulation provides for an annual true-up of the surcharge to reflect differences in projected and actual costs and projected and actual revenues collected. Does Gulf propose to continue doing that? If yes, would Gulf file for administrative approval of revised factors effective March 31, 2007 and subsequent years? For the year 2009, would Gulf file revised factors effective March 31, 2009 through June 31, 2009?

**Gulf Power response:** No. The intent of the parties is to extend the existing surcharge without change to the rates through June 2009 which is expected to allow Gulf to fully recover the identified 2005 storm activity costs and end the surcharge period with a positive reserve balance without the necessity for a true-up mechanism. Pursuant to the stipulation, the factors currently in place for the Ivan Deficit Cost Recovery Surcharge will continue through June 30, 2009. Any difference between actual costs incurred for storm restoration and revenues received through the surcharge will be reflected in the property insurance reserve balance.

18. Would the interim surcharge by rate class contemplated in provision 4 of the stipulation be calculated in the same manner as the current surcharge, i.e., allocated to the rate classes on a 12 CP demand allocator? If not, please explain.

**Gulf Power response:** Yes.

19. Is it the intent of the parties that the Commission or staff approve the notice that is contemplated in Provision 4 of the Stipulation prior to being mailed?

**Gulf Power response:** As noted in response to Question 3 above, in order to be prepared to implement the interim surcharge provision of the Stipulation, Gulf intends to submit a proposed tariff addition including a proposed form of notice for Commission or Commission Staff review and approval. Once approved, the tariff provision and pre-approved form of notice will be available to Gulf in the event an interim surcharge is needed. The tariff provision will be followed and the form of notice will be completed and used by Gulf to implement the interim surcharge provision of the Stipulation without any additional review or approval. If Gulf's tariff addition or form of notice has not been approved in advance of the first need to implement an interim surcharge, Gulf would request that Staff conduct its review of the proposed documents in an expedited manner in order to give effect to the intent of the parties as expressed in the Stipulation.

20. What information will be included in the notice to the customers contemplated in Provision 4 of the Stipulation?

**Gulf Power response:** In addition to all information necessary to comply with applicable rules, regulations and orders of the Commission, the information provided pursuant to paragraph 4 would include:

- a. The reason for the interim storm recovery surcharge (identification of the storm or storms and the resulting estimated costs being recovered)
- b. The authority under which the interim surcharge is being implemented (reference to the approved stipulation and related Commission order)
- c. The amount of the interim storm surcharge, by rate schedule
- d. The effective dates of the interim storm surcharge



21. The surcharge contemplated in Paragraph 4 of the Stipulation does not appear to be tied to any reserve amount. Is it the parties' intent to impose an additional surcharge even if funds are available in the storm reserve account to offset all or part of such incremental costs?

**Gulf Power response:** As noted in Gulf's responses to question 9 above, the \$10 million threshold for implementing a surcharge on an interim basis is not tied to any specific balance in the property insurance reserve, whether positive or negative. Whether and when Gulf would seek recovery of costs on an interim basis after the threshold is met would be determined by Gulf based on its evaluation of conditions that exist at that time. Although the Stipulation does not specifically require that the reserve be depleted before an interim surcharge could be implemented under the terms of the Stipulation, Gulf intends to defer implementation of an interim surcharge as long as a positive balance in the property insurance reserve exists.

22. If the \$10 million threshold is exceeded prior to the expiration of the current surcharge, is it the parties' intent to add a second surcharge on top of the existing one?

**Gulf Power response:** Yes. Under such circumstances, the interim surcharge will be collected subject to refund in addition to any existing surcharge.

23. Is it the parties' intent that there be a true-up of \$53.3 million of storm-recovery costs associated with Hurricanes Dennis and Katrina? If so, when would such a true-up be filed?

**Gulf Power response:** No. Any difference between actual costs incurred for storm restoration and revenues received through the surcharge will be reflected in the property insurance reserve balance.

24. Does GPC fund the full after-tax amount of the positive balance in its storm reserve? If not, please explain the basis for the amount that is funded.

**Gulf Power response:** Yes.

25. Is it the parties' intent that the \$3.5 million annual accrual, and any additional discretionary accruals, be credited to the storm reserve on a funded basis and not be netted against any of the outstanding portion of the \$53.3 million being recovered through the surcharge?

**Gulf Power response:** No. As noted in Gulf's response to Question 2 above, the identified 2005 storm activity costs would remain in the reserve. The amounts collected through the extended surcharge along with the \$3.5 million annual accrual and any additional discretionary accruals that may be made will be credited to the property insurance reserve. Any positive balance in the reserve will be funded on an after-tax basis.

26. Regarding the funded reserve GPC has referenced in paragraph 3 of the agreement, how would this money be invested by GPC? For purposes of this response, please discuss the type of investments and the rate of return GPC expects to earn on this money.

**Gulf Power response:** Although this subject is not addressed in the stipulation, the money in the funded property insurance reserve would be invested in low-risk money market funds. Currently the rate of return on this type of investment is around 4.6%. The rate of return we expect to earn in the future would be dependent on overall market conditions at the time.

27. What is the average investment return on the storm fund for the last five years?

**Gulf Power response:** Although this subject is not addressed in the stipulation, the information requested is as follows:

2001	3.27%
2002	2.09%
2003	0.96%
2004	0.76%
2005	N/A (the reserve was in a deficit position for the entire year)

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Jennifer Brubaker, Senior Attorney  
Docket No. 060154-EI  
Gulf's Responses to Staff Data Requests  
May 24, 2006  
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On behalf of Gulf Power and all the other counterparties to the Stipulation and Settlement Agreement, I hope that the foregoing answers to Staff's Data Requests will be of assistance in reaching a prompt recommendation to the Commission that the Joint Petition be granted in all respects and that the Stipulation and Settlement Agreement be accepted and approved as a complete settlement of the matters addressed therein. If there are any questions regarding this submission, please do not hesitate to contact me.

Very truly yours,

*/s/ Jeffrey A. Stone*  
Jeffrey A. Stone  
For the firm

Cc: Harold McLean  
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Gulf Power Company  
 Stipulation and Settlement related to Storm Costs dated 5/11/06  
 Calculation of projected revenues to be collected through storm surcharge  
 from April 2007 through June 2009

Attachment A

Month	A	B
	Projected Retail KWH	Current Month Revenues (1) Col A x .229 cents/kwh
Apr 2007	824,384,300	1,887,840
May	1,031,741,295	2,362,688
June	1,130,512,643	2,588,874
July	1,208,254,015	2,766,902
August	1,217,324,248	2,787,673
Sept	1,012,436,946	2,318,481
Oct	872,437,216	1,997,881
Nov	786,813,056	1,801,802
Dec	899,902,838	2,060,777
Jan 2008	951,537,558	2,179,021
Feb	827,923,668	1,895,945
Mar	835,679,814	1,913,707
Apr	853,554,652	1,954,640
May	1,040,923,648	2,383,715
June	1,168,230,468	2,675,248
July	1,232,616,789	2,822,692
August	1,260,028,899	2,885,466
Sept	1,021,541,083	2,339,329
Oct	900,765,428	2,062,753
Nov	831,009,671	1,903,012
Dec	926,087,029	2,120,739
Jan 2009	976,274,372	2,235,668
Feb	843,926,052	1,932,591
Mar	859,895,525	1,969,161
Apr	875,335,748	2,004,519
May	1,055,218,000	2,416,449
June	1,188,409,239	2,721,457
Total		<u>60,989,030</u>

(1) .229 cent/kwh is the overall factor derived from surcharge currently in place