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Public Service Commission

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COMMISSION
CLERK

-M-E-M-O-R-A-N-D-U-M-

DATE: June 8, 2006

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

FROM: Division of Economic Regulation (Slemkewicz, Maurey, Draper, Kummer, Springer)
Office of the General Counsel (Brubaker, Helton)

JS

ESD

SM

ASB

Walt

ALM

TS

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.

AGENDA: 06/20/06 – Decision on Stipulation Prior to Hearing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Tew

CRITICAL DATES: If the Commission does not approve the proposed stipulation, the parties have agreed to toll the time limitations established by Section 366.8260, Florida Statutes, by 60 days to June 22, 2006, for a decision in this matter, and July 22, 2006, for the issuance of a financing order.

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060154.RCM.DOC
ATTACHMENTS NOT AVAILABLE ONLINE

Case Background

On February 22, 2006, Gulf Power Company (Gulf or Company) initiated a proceeding before the Commission in this docket seeking either (1) a financing order pursuant to Section 366.8260, Florida Statutes, to securitize through the issuance of storm-recovery bonds (a) the

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remaining balance of the stipulated recovery amount of Gulf's storm-recovery costs associated with Hurricane Ivan, (b) Gulf's storm-recovery costs associated with Hurricanes Dennis and Katrina; and (c) the addition of approximately \$70 million to Gulf's property insurance reserve; or (2) two additional surcharges designed to recover (a) Gulf's storm-recovery costs associated with Hurricanes Dennis and Katrina, and (b) the addition of approximately \$70 million to Gulf's property insurance reserve. By Order No. PSC-06-0152-PCO-EI, issued February 28, 2006, a formal evidentiary hearing on Gulf's petition was scheduled for May 31 – June 2, 2006.

On May 11, 2006, the Office of Public Counsel (OPC), the Florida Industrial Power Users Group (FIPUG), the Florida Retail Federation (FRF), the AARP, and the Company filed a Stipulation and Settlement Agreement (Stipulation) to resolve the issues pending between the parties in this proceeding without the need for litigation. By Order No. PSC-06-0404-PCO-EI, issued May 12, 2006, the parties' request to toll the hearing proceedings was granted in order to afford the Commission an opportunity to consider the proposed Stipulation.

Staff and the parties met on May 26, 2006, to discuss Gulf's May 24, 2006, responses to staff questions concerning the various provisions of the Stipulation. By separate letter dated June 1, 2006, Gulf provided, on behalf of all the parties, additional clarification with regard to several provisions of the Stipulation, and addressed certain provisions of the Stipulation with which staff had expressed concern. This recommendation addresses the merits of the Stipulation and the Stipulation clarifications contained in the May 24, May 30 and June 1, 2006, letters. The Stipulation is attached hereto as Attachment A. Gulf's clarification letter, dated June 1, 2006, is attached hereto as Attachment B. Gulf's responses to staff's data requests, dated May 24, 2006, and May 30, 2006, are attached hereto as Attachment C. Exhibit No. RJMc-1 attached to the prefiled direct testimony of R. J. McMillan, filed February 22, 2006 in this docket, is attached hereto as Attachment D.

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

Discussion of Issues

Issue 1: Should the Commission approve the implementation of the proposed Stipulation and Settlement Agreement?

Recommendation: Although staff has concerns regarding the interest rate specified in the Stipulation as discussed in the body of the staff analysis, the Commission should approve the implementation of the proposed Stipulation and Settlement Agreement with Paragraph 4 modified to include the streamlined formal request procedure alternative, expiration limits and other clarifications as presented in Gulf's June 1, 2006, letter. (Slemkewicz, Maurey, Draper)

Staff Analysis: On July 10, 2005, Hurricane Dennis struck Gulf's service territory causing widespread and extensive damage to Gulf's plant and property including its transmission lines, distribution feeders, substations and Plant Crist's cooling tower. As a result, approximately 67 percent of Gulf's customers had their electric service disrupted. On August 29, 2005, Hurricane Katrina struck Gulf's service territory causing further damage to Gulf's plant and property including its generating facilities at Plant Daniel in Mississippi. As a result, approximately 33 percent of Gulf's customers had their electric service disrupted. The total estimated jurisdictional cost for storm restoration activities for Hurricanes Dennis and Katrina was \$63.6 million. The estimated insurance reimbursements were \$900,000, leaving a jurisdictional balance of \$62.7 million of unrecovered storm restoration costs. Gulf further reduced this amount by voluntary exclusions of \$9.4 million to a net jurisdictional balance of \$53.3 million of unrecovered storm restoration costs. The calculation of these amounts is shown on Exhibit No. RJMc-1 attached to the prefiled direct testimony of R. J. McMillan, filed February 22, 2006, in this docket. (See Attachment D)

On February 22, 2006, Gulf initiated a proceeding before the Commission in this docket seeking either (1) a financing order pursuant to Section 366.8260 of the Florida Statutes to securitize through the issuance of storm-recovery bonds: (a) the remaining balance of the stipulated recovery amount of Gulf's storm-recovery costs associated with Hurricane Ivan (\$13,583,000); (b) Gulf's storm-recovery costs associated with Hurricanes Dennis and Katrina (\$54,261,000); and (c) the addition of approximately \$70 million to Gulf's property insurance reserve; or (2) two additional surcharges designed to recover (a) Gulf's storm-recovery costs associated with Hurricanes Dennis and Katrina; and (b) the addition of approximately \$70 million to Gulf's property insurance reserve.

On May 11, 2006, the parties filed a Stipulation and Settlement Agreement (Stipulation) to resolve the issues pending between the parties in this proceeding without the need for litigation. The Stipulation is attached hereto as Attachment A.

The major highlights contained in the Stipulation, as originally filed, are as follows:

- Gulf will extend the current storm cost recovery surcharge for 27 months (April 2007 through June 2009). For residential customers using 1,000 kWh, the current charge is \$2.57.
- Gulf will continue the \$3.5 million annual accrual to the storm reserve.

- Gulf's limited discretionary authority to make additional accruals to the storm reserve will continue.
- No definite amount for the replenishment of storm reserve is set.
- The unrecovered storm costs will be carried as a debit (negative) balance in the storm reserve.
- Interest will be calculated on the after-tax balance of the deficiency using a 30-day Dealer Commercial Paper rate equivalent to Gulf's actual rating as published by the Federal Reserve.
- The Storm Reserve will continue to be funded.
- Gulf would be authorized to establish, at its option, an automatic interim surcharge of up to 80 percent of the claimed storm damage costs, subject to refund, whenever cumulative storm-recovery costs in excess of \$10 million are incurred in any calendar year in perpetuity.
- Parties retain the right to contest the collection of any costs or amounts requested by Gulf in subsequent proceedings, however, parties may not protest the implementation of the interim surcharge at the time of implementation.
- Gulf retains the right to petition the Commission for cost recovery of any future damages and to replenish any storm reserve account either through securitization, surcharge, base rate relief or other cost recover mechanism.
- Gulf would be allowed to recover 50 percent of its incremental costs (travel expenses, expert witness fees, etc.) incurred with its petition for a financing order not to exceed \$300,000.
- The time limits specified by Section 366.8260, Florida Statutes, for a Commission decision and issuance of a financing order will be tolled for 60 days from June 22, 2006, (decision) and July 7, 2006 (order), respectively.
- The provisions of the Stipulation are contingent upon the approval of the Stipulation in its entirety by the Commission prior to June 30, 2006

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

Paragraph 1: This provision extends the current surcharge for all rate classes (\$2.57 per 1,000 kWh for a residential customer) for 27 months through the last billing cycle in June 2009. The current surcharge is scheduled to expire following the last billing cycle for March 2007.

Gulf estimates that the extension of the current surcharge will generate approximately \$61 million in additional revenues. The additional funds will be used first to offset the remaining Hurricane Ivan costs, then to offset the Hurricane Dennis and Hurricane Katrina costs, and any remaining funds will be used to replenish the storm reserve. Gulf will also continue its \$3.5 million annual accrual to the storm reserve. Assuming that there are no charges against the reserve, Gulf has estimated that the storm reserve balance would be \$27.9 million by June 30, 2009. This also assumes that no additional discretionary accruals are made to the storm reserve beyond the \$6 million already accrued for 2005. Extending the current surcharge through June 2009 would allow Gulf to fully recover its 2005 storm costs and end the surcharge period with a positive reserve balance.

As proposed, the Stipulation does not include any true-up provision for matching the revenues collected against any incurred costs. The extension of the surcharge is not intended to recover any specific amount of storm costs. In addition, the Stipulation does not establish any target level for the replenishment of the storm reserve. Therefore, it is not necessary to true-up the revenues. However, the \$53.3 million of 2005 storm costs are still subject to audit and review. Any resulting adjustments would be credited or debited to the reserve as appropriate.

Paragraphs 2 and 5: These provisions provide for the calculation of interest on the after-tax unrecovered deficiency in the storm reserve. The interest rate to be used is the 30-day Dealer Commercial Paper rate equivalent to Gulf's actual rating as published by the Federal Reserve. This rate differs from the Commission's usual practice of prescribing the 30-day commercial paper rate for high grade, unsecured notes sold through dealers by major corporations in multiples of \$1,000 as regularly published in the Wall Street Journal. The latter is the interest rate specified in Rule 25-6.109, Florida Administrative Code. Staff does not believe there is a compelling reason to depart from the long-standing Commission practice of using the 30-day commercial paper rate specified in Rule 25-6.109, Florida Administrative Code for the calculation of interest in the instant case. While this rate is most commonly associated with the calculation of interest for refunds, this rate has also been used in numerous other applications. Examples include the calculation of interest on fuel over and under recoveries for all electric utilities, deferred revenue associated with Tampa Electric Company's 1995 earnings sharing plan, and Florida Power & Light Company's unrecovered balance of reasonable and prudently incurred storm damage restoration costs associated with the 2004 and 2005 storm seasons.¹ Although the incremental difference between the interest rate proposed in the Stipulation and the interest rate specified in Rule 25-6.109, Florida Administrative Code, is minimal in the instant case at this point in time, for administrative efficiency staff believes the appropriate interest rate for the calculation of interest should be consistent with the interest rate used for all other regulatory purposes.

Paragraph 4: As originally filed, this provision provides that in the event Gulf incurs cumulative costs for storm-recovery activities in excess of \$10 million during any calendar year,

¹ Order No. PSC-05-1252-FOF-EI, issued December 23, 2005, in Docket No. 050001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor; Order No. PSC-97-0436-FOF-EI, issued April 17, 1997, in Docket No. 950379-EI, In re: Investigation into earnings for 1995 and 1996 of Tampa Electric Company; Order No. PSC-06-0464-FOF-EI, issued May 30, 2006, in Docket No. 060038-EI, In re: Petition for issuance of a storm recovery financing order by Florida Power & Light Company.

Gulf, at its own option, would be able to collect, subject to refund, an interim surcharge for up to 80 percent of the claimed costs for storm-recovery activities. The interim surcharge would be implemented upon 30 days notice to Gulf's customers. For purposes of calculating the interim surcharge, Gulf can choose a recovery period of not less than 24 months and not greater than 36 months.

If the Commission approves the Stipulation as filed, Gulf would file tariff sheets with the Commission that provide the form of the notice that would be mailed to customers if Gulf implements the interim surcharge. By approving the form of the notice that would be mailed to customers, the Commission essentially allows Gulf to initiate, at a future date, an interim surcharge of an unspecified amount upon 30 days notice to its customers without further Commission review or approval.

In its responses to Staff Data Requests, Gulf and the parties clarified what information would be included in the notice to customers. The notice would include the reason for the interim surcharge (identification of the storm(s) and the estimated costs being recovered), the authority under which the interim surcharge is being implemented (reference to the approved Stipulation and Commission order), the interim surcharge by rate schedule, and the effective dates of the interim surcharge.

At the May 26, 2006 meeting with the parties, staff expressed its concerns regarding the implementation of the 80 percent interim surcharge, especially the automatic implementation of potentially numerous and concurrent surcharges as well as the perpetual nature of the approval being sought. Gulf filed a letter, dated June 1, 2006, that clarified the parties' intent concerning the implementation and operation of Paragraph 4 and presented an alternative to the pre-approval procedure for the 80 percent interim surcharge for the Commission's consideration.

Gulf provided the following clarifications and modifications regarding the implementation of the 80 percent interim surcharge in Paragraph 4:

At the outset, we wish to confirm the representations and statements of intent set forth in our letter dated May 24, 2006 containing Gulf's Responses to Staff Data Requests, subject to any further clarification or modification specifically expressed in this letter. With regard to the interim surcharge provisions of the Stipulation, it is the intent of all parties that Gulf be permitted (but not obligated) to seek authority from the Commission to implement an interim surcharge on an expedited basis whenever the threshold conditions set forth in the Stipulation are satisfied and subject to certain limitations as clarified below. Under the terms of the Stipulation, such an interim surcharge will be collected "subject to refund" during the period from its implementation until the Commission makes a final determination on Gulf's subsequent petition for a "final" or non-interim surcharge based on the same storm restoration activities that gave rise to the request for interim relief. The amount of the interim surcharge will be based on the recovery of a specified amount (over a period of not less than 24 months and not greater than 36 months) that does not exceed 80% of Gulf's estimated incremental costs for storm-recovery activities that are consistent with the criteria and guidelines contained in Exhibit A to the Ivan

Storm Costs Stipulation and Settlement Agreement approved by the Commission in Order No. PSC-05-0250-PAA-EI. For purposes of calculating the interim surcharge, Gulf is entitled to utilize estimates of its incremental incurred costs prepared by Gulf in good faith in accordance with the foregoing criteria and guidelines. In its subsequent petition for a "final" or non-interim surcharge, Gulf is not restricted by the Stipulation with regard to the methodology it may propose for identification of recoverable costs and may seek costs that do not meet the criteria and guidelines agreed to for interim purposes, nor is Gulf limited in any way by the estimates prepared for use in calculating the interim surcharge amount. Likewise, in regards to the proceedings on Gulf's subsequent petition, the other counterparties to the Stipulation retain all rights to contest the collection of any amounts sought by Gulf.

Finally, the counterparties to the Stipulation recognize a need to address an ambiguity that exists regarding the duration of the agreement regarding expedited implementation of an interim surcharge. Towards that end, the counterparties agree that their agreement to the provisions of paragraph 4 regarding the possible implementation of an interim surcharge shall remain in effect until the earliest of: (1) the effective date of new permanent base rates for Gulf as set by the Commission; (2) the issuance of storm recovery bonds pursuant to a financing order entered by the Commission; or (3) eight years after the Commission's acceptance and approval of the Stipulation and Settlement Agreement as a comprehensive settlement of all issues raised in Docket No. 060154-EI. By this letter, all of the counterparties to the Stipulation request that the Commission acknowledge and incorporate this provision for an expiration date in any order issued by the Commission accepting and approving the Stipulation and Settlement Agreement. In this regard, it is important to consider that the proposed settlement set forth in the Stipulation (including, specifically, the agreement to provisions for possible expedited implementation of an interim surcharge to address future storm-activity costs) is in lieu of the requested issuance of storm recovery bonds to be repaid over a period eight years that would have resulted in an immediate restoration of a positive balance in Gulf's property insurance reserve of approximately \$80 million.

(Gulf's June 1, 2006 clarification letter, pp. 2, 3-4)

Staff notes that Section 366.04, Florida Statutes, provides that the Commission has the jurisdiction to regulate and supervise each public utility with respect to its rates and service. Section 366.05, Florida Statutes, provides that the Commission has the power to prescribe fair and reasonable rates and charges by public utilities. Section 366.06, Florida Statutes, provides that a public utility shall not charge any rate not on file with the Commission, and that all applications for changes in rates shall be made to the Commission in writing under its rules and regulations. Furthermore, the Commission shall have the authority to determine and fix fair, just, and reasonable rates that may be charged by any public utility for its service.

Paragraph 4 of the Stipulation essentially delegates to Gulf the Commission's statutory authority for authorizing a change in rates. In staff's opinion, the parties have agreed to a stipulation provision that requires that the Commission abdicate its legislative mandate to set rates in a manner consistent with its statutes and rules. Paragraph 4 of the Stipulation would permit Gulf to automatically implement, at its sole discretion and upon notice to customers, an unspecified amount in interim charges, with no opportunity for the Commission to set limits on the amount, duration, or nature of those charges, except as provided by the Stipulation. Gulf, at its own option, can choose to implement, or not implement, the interim surcharge whenever it accumulates in excess of \$10 million in storm-recovery costs within a calendar year. Under this scenario, Gulf could implement multiple surcharges within a single calendar year that would run concurrently. The provision is silent regarding the offsetting of storm-recovery costs by any positive balance in the storm reserve before seeking recovery of accumulated costs. In its responses to the Staff Data Request, Gulf stated that it intends to defer implementation of an interim surcharge as long as a positive balance exists in the storm reserve. It should also be noted that this automatic interim surcharge provision, as originally filed, has no expiration date and would operate in perpetuity.

Gulf has stated that the automatic interim surcharge, included in its original Stipulation, is necessary to allay financial community concerns related to Gulf's decision to forego seeking the \$70 million replenishment of the storm reserve. Gulf's concern is the delay between the incurrence of the costs and the subsequent recovery of those costs.

It is staff's belief that a mechanism for seeking interim relief for the recovery of storm-recovery costs already exists. Gulf, as well as any other investor-owned electric utility, can petition the Commission to implement a storm cost recovery surcharge on an interim basis pending the review and final disposition of the storm-recovery costs. On November 19, 2004, FPL filed a petition to implement a storm surcharge subject to refund in Docket No. 041291-EI, In re: Petition for authority to recover prudently incurred storm restoration costs related to 2004 storm season that exceed storm reserve balance, by Florida Power & Light Company. Staff issued its recommendation on December 21, 2004, for consideration at the January 4, 2005 Agenda Conference. The decision to implement the interim surcharge was delayed until the January 18, 2005, Agenda Conference due to the intervenors' questioning of the Commission's authority to approve the interim surcharge. It was determined that the Commission did have the authority to approve the implementation of the interim surcharge. FPL was subsequently authorized to implement the interim surcharge effective February 17, 2005 by Order No. PSC-05-0187-PCO-EI, issued February 17, 2005.

Although it took approximately 90 days from the time that FPL filed its petition until the interim surcharge went into effect, the decision was delayed 14 days in order to resolve the questions regarding the Commission's authority. Absent that delay, the interim surcharge could have become effective in approximately 76 days. In addition, staff's initial recommendation was delayed by the necessity to respond to the various challenges to the Commission's authority. Thus, the Commission already has a vehicle available to offer Gulf the expedited interim relief it seeks, without abdicating its rate-setting authority. Upon a timely interim request by Gulf, staff would make every effort to expedite the Commission's consideration of a requested interim surcharge.

Date: June 8, 2006

Staff recommends that the Commission not approve Paragraph 4 of the Stipulation regarding the implementation of a pre-approved automatic 80 percent interim surcharge as originally filed. The clarifications concerning the 80 percent interim surcharge have been previously discussed. However, staff recommends approval of Gulf's alternative also made in its June 1, 2006, letter:

In order to give effect to the foregoing, Gulf hereby modifies its responses to Staff Data Request items 3, 4 and 5 in our letter of May 24, 2006 to provide the following additional alternative for the Commission's consideration during its deliberations regarding whether to accept and approve the Stipulation and Settlement Agreement as requested in the joint petition submitted on May 11, 2006. As an alternative to the "pre-approval" tariff concept outlined in the May 24 letter, if it is the Commission's preference, Gulf commits that it will file a streamlined formal request for each proposed implementation of an interim surcharge under the Stipulation at the time it seeks authority to implement an interim surcharge. This streamlined formal request will contain the surcharge rate schedule(s) that will be added to the Company's Tariff for Retail Service upon the Commission's approval of Gulf's request to implement an interim surcharge under the Stipulation, a description of the factual basis for implementing the interim surcharge (i.e. information demonstrating that the threshold conditions exist and the calculation of the surcharge amount is consistent with the terms of the Stipulation), and a proposed schedule for filing a subsequent petition for either the "final" or non-interim surcharge or the entry of a financing order pursuant to Section 366.8260 of the Florida Statutes (2005). Under this alternative, in order to give effect to the intent of the parties for an expedited initiation of an interim surcharge that is subject to refund, it is hoped that the Commission and its Staff would expedite their review and consideration of the request for interim relief in recognition that full review will be available on Gulf's subsequent request for "final" or non-interim relief. If the Commission concludes that Gulf's request for interim relief is consistent with the Stipulation, it would then enter an order authorizing implementation of the interim surcharge, subject to refund, following the notice to Gulf's customers described in paragraph 4 of the Stipulation. Under either the pre-approval tariff scenario or the streamlined formal request and review scenario, the Commission would be approving interim relief and reserving for subsequent proceedings the full and complete opportunity to review Gulf's request for "final" or non-interim relief.

(Gulf's June 1, 2006 clarification letter, p. 3)

Staff does recommend approval of Paragraph 4 as modified by the clarifications and the alternative proposal included in Gulf's June 1, 2006 letter. These include the following provisions:

- Gulf will submit a streamlined formal request for each proposed implementation of an interim surcharge under the Stipulation rather than the proposed pre-approval procedure.

- The duration of the agreement regarding the expedited implementation of an interim surcharge will expire at the earliest of: (1) the effective date of new base rates set by the Commission; (2) the issuance of storm recovery bonds pursuant to a financing order entered by the Commission; or (3) eight years after the Commission's acceptance and approval of the Stipulation.

CONCLUSION: In staff's opinion, all of the provisions of the Stipulation, except for Paragraph 4 as originally filed, are a reasonable resolution of the issues regarding the impacts of Hurricane Dennis and Hurricane Katrina on Gulf's storm reserve. Staff believes that Paragraph 4, as originally filed, concerning the 80 percent interim surcharge is unnecessary and would effectively deprive the Commission of its statutory authority to review and authorize any change in Gulf's rates and charges.

However, the clarifications and the alternative presented in Gulf's June 1, 2006 letter concerning the 80 percent interim surcharge in Paragraph 4 resolve staff's concerns regarding the operation and implementation of the 80 percent interim surcharge. Therefore, staff recommends that the Commission approve the Stipulation with Paragraph 4 modified by the clarifications and the alternative presented in Gulf's June 1, 2006, letter.

Docket No. 060154-EI

Date: June 8, 2006

Issue 2: If the Commission approves the extension of the Ivan Deficit Cost Recovery Surcharge, should Gulf file a revision to tariff sheet No. 6.25?

Recommendation: Yes. (Draper)

Staff Analysis: The current storm recovery surcharge is shown on tariff sheet No. 6.25 and is called the Ivan Deficit Cost Recovery Surcharge. The tariff includes language stating that the purpose of the Ivan Deficit Cost Recovery Surcharge is to recover costs associated with the stipulated Hurricane Ivan expenses. If the Commission approves the Stipulation including the provision to extend the current surcharge until the last billing cycle in June 2009, Gulf should file a revised tariff sheet for administrative approval by staff to rename the surcharge, restate its purpose, and to allow for the extension of the surcharge until June 2009.

Docket No. 060154-EI

Date: June 8, 2006

Issue 3: Should this docket be closed?

Recommendation: If the Commission does not approve the Stipulation as discussed in Issue 1, the docket should remain open, and new dates for the remaining discovery period, Prehearing Conference, Hearing, and post-hearing activities, which have been tolled for the Commission's consideration of the Stipulation, should be established by the Prehearing Officer. If the Stipulation is approved, the docket should be closed once staff has received and approved the revised tariff sheet discussed in Issue 2. (Brubaker)

Staff Analysis: If the Commission does not approve the Stipulation as discussed in Issue 1, the docket should remain open, and new dates for the remaining discovery period, Prehearing Conference, Hearing, and post-hearing activities, which have been tolled for the Commission's consideration of the Stipulation, should be established by the Prehearing Officer. If the Stipulation is approved, the docket should be closed once staff has received and approved the revised tariff sheet discussed in Issue 2.

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Gulf Power Company's petition for a)	
financing order pursuant to Section 366.8260)	Docket No.: 060154-EI
of the Florida Statutes (2005) relating to)	Date filed: May 11, 2006
storm-recovery financing.)	
)	

**JOINT PETITION FOR APPROVAL OF STIPULATION AND SETTLEMENT
AND MOTION TO TOLL PROCEEDINGS**

The Citizens of the State of Florida, through the Office of Public Counsel ("OPC"), the Florida Industrial Power Users Group ("FIPUG"), the Florida Retail Federation ("FRF"), the AARP and Gulf Power Company ("Gulf Power", "Gulf", or "the Company"), (collectively, the "Parties") through their respective undersigned counsel, hereby jointly petition the Florida Public Service Commission ("Commission") for entry of a final order approving the attached Stipulation and Settlement Agreement as the full and complete resolution of any and all matters and issues raised in this proceeding relating to Gulf's requested recovery of incurred costs for storm-recovery activities associated with Hurricane Dennis and Hurricane Katrina ("2005 Storm Costs") and the replenishment of Gulf's depleted property insurance reserve. In support of this joint petition and motion, the Parties hereby state the following:

1. The Parties have been engaged in negotiations for the purpose of reaching a comprehensive stipulation in settlement of all issues raised in this proceeding including the manner and amount of recovery of Gulf's incurred 2005 storm costs related to Hurricane Dennis and Hurricane Katrina and the replenishment of Gulf's depleted property insurance reserve and thereby avoiding the need for expensive, time consuming litigation of these issues in hearings before the Commission. These negotiations have

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culminated in the execution of the attached Stipulation and Settlement Agreement (Attachment A).

2. The Stipulation and Settlement Agreement provides for an extension of Gulf's storm cost recovery surcharge currently being collected on all customers' bills (and otherwise scheduled to expire immediately following the last billing cycle of March 2007) such that the current surcharge applicable under Rate Schedule STORM would continue through the last billing cycle in June 2009. The additional funds resulting from the extended collection of this surcharge (net of interest on the unrecovered balance) will first be credited to the unrecovered balance of the stipulated storm-recovery costs associated with Hurricane Ivan until these costs have been fully recovered and thereafter be credited to Gulf's Accumulated Provision for Property Insurance, Account No. 228.1 (for purposes of this joint petition and the Stipulation and Settlement Agreement referred to as the "Reserve") for recovery of the jurisdictional portion of the storm-recovery costs associated with Hurricane Dennis and Hurricane Katrina of \$53.3 million charged to the Reserve. To the extent that the revenues received by Gulf through the agreed extension of the existing surcharge exceed the storm-recovery costs associated with Hurricane Dennis and Hurricane Katrina, such excess shall be credited to the Reserve. The annual accrual to the Reserve of \$3.5 million included in base rate revenues and Gulf's limited discretionary authority to make additional accruals to the Reserve are not altered by this Agreement and shall continue as previously approved by the Commission.

3. Effective January 1, 2006, Gulf shall calculate interest on the after-tax balance of the deficiency in the Reserve on a monthly basis as more fully described in paragraph 2 of the Stipulation and Settlement Agreement. Once the deficiency balance has been

eliminated, Gulf shall accrue interest on the funded portion of the Reserve as more fully described in paragraph 3 of the Stipulation and Settlement Agreement with such accrued interest credited to the Reserve.

4. The Stipulation and Settlement Agreement includes provisions that for future storms, in the event that Gulf incurs cumulative costs for storm-recovery activities in excess of \$10 million during any calendar year, Gulf shall be able to collect, upon thirty days notice to its customers and subject to refund, an interim surcharge for 80% of the claimed costs for storm-recovery activities determined as more fully described in paragraph 4 of the Stipulation and Settlement Agreement. Gulf may also petition the Commission to similarly recover the remaining 20% also subject to refund.

5. Gulf shall calculate and collect interest on the claimed costs for storm-recovery activities by applying the 30-day commercial paper rate on the average unrecovered balance of the storm reserve as more fully described in paragraph 5 of the Stipulation and Settlement Agreement.

6. In order to preserve the status quo of the Parties in the pending litigation and avoid the Parties' time and expense associated with meeting the remaining requirements of the Order Establishing Procedure, Order No. PSC-06-0152-PCO-EI, pending the Commission's consideration of this joint petition and the associated Stipulation and Settlement Agreement, the Parties hereby move that the Prehearing Officer immediately toll the remaining 11 days of discovery period established pursuant to said order and further suspend the obligations of any of the Parties to file and/or serve any further responses to pending discovery requests, prehearing statements, and any rebuttal testimony/exhibits. In the event the Commission has not approved the Stipulation and

Settlement Agreement attached hereto within the timeframe set forth in paragraph 9 of the Stipulation and Settlement Agreement, the Parties request that the Prehearing Officer enter an order establishing a new date for filing prehearing statements and rebuttal testimony/exhibits, authorizing the recommencement of the remaining 11 days of the discovery period and establishing new dates for the prehearing conference and technical hearing. After the remaining 11 days of the discovery period is recommenced, the Parties will respond to any and all outstanding discovery requests within the time frame remaining for such response at the time that the discovery period was suspended.

CONCLUSION

The Parties represent that the Stipulation and Settlement Agreement fairly and reasonably balances the various positions of the parties and serves the best interests of the customers they represent and the public interest in general. The Stipulation and Settlement Agreement is fully consistent with and supportive of this Commission's long standing policy of encouraging the settlement of contested proceedings in a manner that benefits the ratepayers of utilities subject to the Commission's regulatory jurisdiction and that avoids the need for costly, time consuming and inefficient litigation of matters before the Commission. Additionally, tolling the obligations of the Parties that exist pursuant to the existing Order Establishing Procedure will serve the interests of administrative efficiency and will conserve the Commission's and the Parties' funds and personnel resources during the period that the Stipulation and Settlement Agreement is under Commission consideration for approval. For these reasons, the Parties respectfully suggest that the prehearing officer should immediately grant the Parties motion to toll the

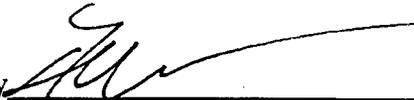
proceedings as requested by the Parties and the Commission should approve the
Stipulation and Settlement Agreement attached to this petition.

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WHEREFORE, the Parties respectfully request that the prehearing officer immediately grant the Parties' joint motion to toll the proceedings and that the Commission undertake its review of the Stipulation and Settlement Agreement and act upon this petition for its approval at the earliest practicable date in order to allow for the orderly implementation of the Agreement and to provide certainty to the parties and their respective constituents and customers with respect to the outcome of this proceeding.

Respectfully Submitted,

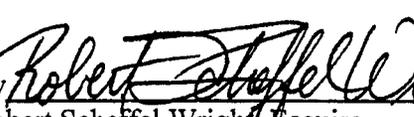
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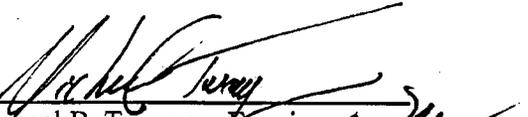
Florida Industrial Power Users Group

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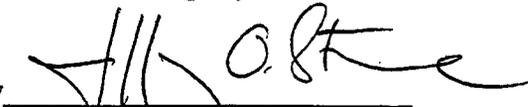
Florida Retail Federation

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AARP

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Gulf Power Company

By 
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Gulf Power Company's petition for a)
financing order pursuant to Section 366.8260) Docket No.: 060154-EI
of the Florida Statutes (2005) relating to)
storm-recovery financing.)
_____)

STIPULATION AND SETTLEMENT AGREEMENT

WHEREAS, as a result of Hurricane Ivan during the 2004 hurricane season, Gulf Power Company ("Gulf Power", "Gulf", or "the Company") depleted its Accumulated Provision for Property Insurance, Account No. 228.1 (for purposes of this Agreement referred to as the "property insurance reserve" or the "Reserve") and, as a result of Hurricane Dennis and Hurricane Katrina during the 2005 hurricane season, the resulting 2004 deficit in Gulf's property insurance reserve increased even further; and

WHEREAS, pursuant to PSC Order No. PSC-05-0250-PAA-EI issued March 4, 2005 in Docket No. 050093-EI, the Florida Public Service Commission (the "Commission") approved a Stipulation and Settlement regarding the Company's 2004 storm costs and authorized Gulf to recover approximately \$51.4 million (jurisdictional, excluding interest and revenue taxes), in 2004 storm costs through a surcharge on customers' bills commencing in April 2005 and concluding in March 2007; and

WHEREAS, on February 22, 2006 the Company initiated a proceeding before the Commission in this docket seeking either (a) a financing order pursuant to Section 366.8260 of the Florida Statutes to securitize through the issuance of storm-recovery bonds: (i) the remaining balance of the stipulated recovery amount of Gulf's storm-recovery costs associated with Hurricane Ivan; (ii) Gulf's storm-recovery costs associated with Hurricanes Dennis and Katrina; and (iii) the addition of approximately \$70 million

to Gulf's property insurance reserve; or (b) two additional surcharges designed to recover (i) Gulf's storm-recovery costs associated with Hurricanes Dennis and Katrina; and (ii) the addition of approximately \$70 million to Gulf's property insurance reserve; and

WHEREAS, the Office of Public Counsel ("OPC"), the Florida Industrial Power Users Group ("FIPUG"), the Florida Retail Federation ("FRF"), the AARP, and the Company, (hereafter collectively referred to as the "Parties") have undertaken through this Stipulation and Settlement Agreement (the "Agreement") to resolve the issues pending between the parties in this proceeding without the need for litigation;

NOW, THEREFORE, in consideration of the foregoing and the covenants contained herein, the Parties hereby agree and stipulate as follows:

1. Gulf will extend the storm cost recovery surcharge currently being collected on all customers' bills (and otherwise scheduled to expire immediately following the last billing cycle of March 2007) such that the current surcharge applicable under Rate Schedule STORM would continue through the last billing cycle in June 2009. The additional funds resulting from the extended collection of this surcharge (net of interest on the unrecovered balance as set forth in paragraph 2 below) will first be credited to the unrecovered balance of the stipulated storm-recovery costs associated with Hurricane Ivan until these costs have been fully recovered and thereafter be credited to the Reserve for recovery of the jurisdictional portion of the storm-recovery costs associated with Hurricane Dennis and Hurricane Katrina of \$53.3 million charged to the Reserve. To the extent that the revenues received by Gulf through the agreed extension of the existing surcharge exceed the storm-recovery costs associated with Hurricane Dennis and Hurricane Katrina, such excess shall be credited to the Reserve. The annual accrual to

the Reserve of \$3.5 million included in base rate revenues and Gulf's limited discretionary authority to make additional accruals to the Reserve are not altered by this Agreement and shall continue as previously approved by the Commission.

2. Effective January 1, 2006, Gulf shall calculate interest on the after-tax balance of the deficiency in the Reserve on a monthly basis by applying the 30-day commercial paper rate in the following manner: Using a 30-day Dealer Commercial Paper rate equivalent to Gulf's actual rating (e.g. A1/P1) at the time of the calculation, as published by the Federal Reserve at (<http://www.federalreserve.gov/releases/cp/>).

3. The parties agree that Gulf shall accrue earnings on the funded portion of the Reserve equal to the actual amount earned by the Company on the investment in which the funded portion of the Reserve is placed, with such accrued earnings credited to the Reserve. The Parties further agree that their agreement regarding this interest treatment on the storm Reserve shall remain in effect at least until such time as new permanent base rates are set by the Commission, and that the Parties are free to advocate any position regarding interest treatment on Gulf's property insurance reserve in any future base rate proceeding.

4. The Parties agree that for future storms, in the event that Gulf incurs cumulative costs for storm-recovery activities in excess of \$10 million during any calendar year, Gulf shall be able to collect, subject to refund, an interim surcharge for 80% of the claimed costs for storm-recovery activities based on a recovery period of not less than 24 months and not greater than 36 months, upon 30 days notice to Gulf's customers and on the first billing cycle following the thirtieth day after customer

notification is given, while the total claim is being formally evaluated by the Commission in a full hearing, if any such hearing is requested.

5. Gulf shall calculate and collect interest on the claimed costs for storm-recovery activities by applying the 30-day commercial paper rate on the average unrecovered balance of such costs in the following manner: Using a 30-day Dealer Commercial Paper rate equivalent to Gulf's actual rating (e.g. A1/P1) at the time of the calculation, as published by the Federal Reserve at (<http://www.federalreserve.gov/releases/cp/>).

6. Gulf retains all rights to petition the Commission for cost recovery of any future storm damages and to replenish any storm reserve account either through securitization, surcharge, base rate relief or other cost recovery mechanism and nothing in the settlement shall be construed to limit such rights or any other rights as set forth in the Ivan Storm Costs Stipulation and Settlement Agreement or in any way modify the terms of the Ivan Storm Costs Stipulation and Settlement Agreement. Except as otherwise provided in Section 4 above, the other parties to this Agreement retain all rights to contest the collection of any amounts by Gulf.

7. This Stipulation and Settlement Agreement has been entered into in an effort to avoid further unnecessary time and expense associated with the litigation that is pending on Gulf's petition for a financing order in this docket. The Parties acknowledge and accept Gulf's representation that it has charged or will charge the Reserve with only that portion of the costs the Company has incurred for storm-recovery activities associated with Hurricane Dennis and Hurricane Katrina that are consistent with the criteria and guidelines contained in Exhibit A to the Ivan Storm Costs Stipulation and Settlement Agreement approved by the Commission in Order No. 05-0250-PAA-EI. As

further consideration for the compromises set forth in this Agreement, the Parties further agree that with regard to the incremental costs the Company has incurred in support of and otherwise associated with its petition for a financing order in this docket, including but not limited to travel expenses, fees for expert witnesses, etc., Gulf shall limit the amount that it may charge to the Reserve for such incremental costs to 50%.

Notwithstanding the foregoing, Gulf's charges to the reserve for such incremental costs permitted hereunder shall not exceed \$300,000.

8. The Parties further agree that their respective interests are best served if further activity associated with the present litigation is limited as much as possible during the period extending from the date of this Agreement until such time as the Commission either approves this Agreement as a full, final and complete settlement of all issues in this proceeding or allows this Agreement to expire without approval. It is the desire and intent of the Parties that they be relieved from having to file and/or serve any further responses to discovery requests, prehearing statements or rebuttal testimony/exhibits pending Commission consideration of this Agreement. The Parties further agree that the prehearing conference hearing currently scheduled for May 26, 2006 and the technical hearing currently scheduled for May 31 through June 2, 2006 should not be held for any purpose other than to give effect to and implement the terms of this Agreement. In the event that the Agreement is not approved by the Commission within the timeframe established in paragraph 9 below, the Parties ask that the remaining time in the discovery period be recommenced without extension of its duration by a new Order Establishing Procedure which shall also establish new dates for the prehearing statements, rebuttal testimony/exhibits, prehearing conference and technical hearing in connection with

Gulf's petition for financing order or alternative relief. After the remaining time in the discovery period is recommenced, the Parties will respond to any and all outstanding discovery requests within the time frame remaining for such response at the time that the discovery period was suspended. In order to facilitate this portion of the Agreement, the Parties agree that the time limits specified by Section 366.8260 of the Florida Statutes (2005) for a Commission decision and issuance of a financing order shall be tolled for 60 days from June 22, 2006 (decision) and July 7, 2006 (order), respectively.

9. The provisions of this Agreement are contingent on approval of this Agreement in its entirety by the Commission prior to June 30, 2006 (unless such date is extended by mutual agreement of the Parties, in which case the tolling period for a Commission decision and issuance of a financing order shall be likewise extended). The Parties further agree that they will support this Agreement and will not request or support any order, relief, outcome, or result in conflict with the terms of this Agreement in any administrative or judicial proceeding relating to, reviewing, or challenging the establishment, approval, adoption, or implementation of this Agreement or the subject matter hereof.

10. This Agreement dated as of May 11, 2006 may be executed in counterpart originals, and a facsimile of an original signature shall be deemed an original.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

In Witness Whereof, the Parties evidence their acceptance and agreement with the provisions of this Agreement by their signatures below:

Office of Public Counsel

By 
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Public Counsel
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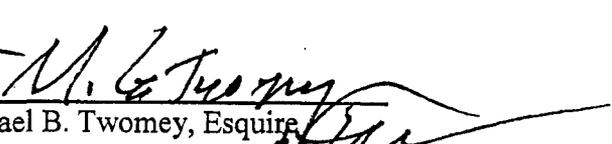
Florida Industrial Power Users Group

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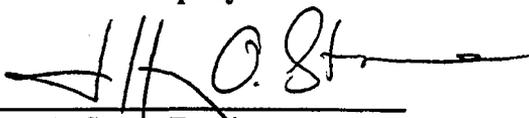
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Gulf Power Company

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DOCKET NO. 060154-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing has been furnished by Hand Delivery to the following parties on this 11th day of May, 2006.

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MATTHEW D. VINSON
JAMES M. WEBER
CHARLES T. WIGGINS
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June 1, 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:

As a result of the meeting with Staff on May 26, 2006, the counterparties to the Stipulation and Settlement Agreement ("Stipulation") filed on May 11, 2006 (specifically, the Office of Public Counsel, the AARP, the Florida Industrial Power Users Group, the Florida Retail Federation and our client, Gulf Power Company) perceived some concerns about certain aspects of the Stipulation among representatives of the Staff. After consultation among the counterparties, we have been authorized to submit this letter as a clarification of intent regarding several matters discussed at the May 26 meeting in an effort to assist Staff in its review and analysis of the Stipulation. To be clear, I have been specifically authorized to inform and represent to the Staff (and to the Commission) that the points of clarification regarding the counterparties' intent set forth in this letter have been agreed to by Gulf Power and 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).

As a preface to the following points of clarification regarding the counterparties' intent, it is important to remember that the Stipulation is in lieu of and a substitute for certain specific conditions that would have been achieved if Gulf's request for a financing order were approved by the Commission and storm recovery bonds were issued as proposed. Specifically, not only would Gulf have a positive balance in its property insurance reserve for

Jennifer Brubaker, Senior Attorney
Docket No. 060154-EI
June 1, 2006
Page 2

the first time since Hurricane Ivan struck Gulf's service area in September 2004, but the resulting reserve balance would be approximately \$80 million. This resulting balance was intended to significantly reduce the likelihood that the reserve would again be deficient during the eight years that the storm recovery bonds would be outstanding. In this regard, the provisions in the Stipulation for a streamlined process that would allow the expedited implementation of an interim surcharge that is collected subject to refund are intended as a reasonable and viable alternative to Gulf's securitization request. Although the interim surcharge would be implemented on an expedited basis through a streamlined process, it would be followed by a full and complete opportunity for the Commission and all interested parties to conduct a thorough review of Gulf's subsequent request for a "final" or non-interim surcharge and the associated costs for storm-recovery activities.

At the outset, we wish to confirm the representations and statements of intent set forth in our letter dated May 24, 2006 containing Gulf's Responses to Staff Data Requests, subject to any further clarification or modification specifically expressed in this letter. With regard to the interim surcharge provisions of the Stipulation, it is the intent of all parties that Gulf be permitted (but not obligated) to seek authority from the Commission to implement an interim surcharge on an expedited basis whenever the threshold conditions¹ set forth in the Stipulation are satisfied and subject to certain limitations as clarified below. Under the terms of the Stipulation, such an interim surcharge will be collected "subject to refund" during the period from its implementation until the Commission makes a final determination on Gulf's subsequent petition for a "final" or non-interim surcharge based on the same storm restoration activities that gave rise to the request for interim relief. The amount of the interim surcharge will be based on the recovery of a specified amount (over a period of not less than 24 months and not greater than 36 months) that does not exceed 80% of Gulf's estimated incremental costs for storm-recovery activities that are consistent with the criteria and guidelines contained in Exhibit A to the Ivan Storm Costs Stipulation and Settlement Agreement approved by the Commission in Order No. PSC-05-0250-PAA-EI. For purposes of calculating the interim surcharge, Gulf is entitled to utilize estimates of its incremental incurred costs prepared by Gulf in good faith in accordance with the foregoing criteria and guidelines. In its subsequent petition for a "final" or non-interim surcharge, Gulf is not restricted by the Stipulation with regard to the methodology it may propose for identification of recoverable costs and may seek costs that do not meet the criteria and guidelines agreed to for interim purposes, nor is Gulf limited in any way by the estimates prepared for use in calculating the interim surcharge amount. Likewise, in regards to the proceedings on Gulf's subsequent petition, the other counterparties to the Stipulation retain all rights to contest the collection of any amounts sought by Gulf.

¹ The threshold condition set forth in the Stipulation as a prior condition to implementation of an interim surcharge is that Gulf must have incurred cumulative costs for storm-recovery activities in excess of \$10 million during the calendar year. In addition, as set forth in the May 24 letter, Gulf's intent (to which it agrees to be bound) is to defer implementation of an interim surcharge as long as a positive balance in the property insurance reserve exists. In other words, both conditions would have to exist before Gulf could seek to implement an interim surcharge as agreed to in the Stipulation.

Jennifer Brubaker, Senior Attorney
Docket No. 060154-EI
June 1, 2006
Page 3

In order to give effect to the foregoing, Gulf hereby modifies its responses to Staff Data Request items 3, 4 and 5 in our letter of May 24, 2006 to provide the following additional alternative for the Commission's consideration during its deliberations regarding whether to accept and approve the Stipulation and Settlement Agreement as requested in the joint petition submitted on May 11, 2006. As an alternative to the "pre-approval" tariff concept outlined in the May 24 letter, if it is the Commission's preference, Gulf commits that it will file a streamlined formal request for each proposed implementation of an interim surcharge under the Stipulation at the time it seeks authority to implement an interim surcharge. This streamlined formal request will contain the surcharge rate schedule(s) that will be added to the Company's Tariff for Retail Service upon the Commission's approval of Gulf's request to implement an interim surcharge under the Stipulation, a description of the factual basis for implementing the interim surcharge (i.e. information demonstrating that the threshold conditions exist and the calculation of the surcharge amount is consistent with the terms of the Stipulation), and a proposed schedule for filing a subsequent petition for either the "final" or non-interim surcharge or the entry of a financing order pursuant to Section 366.8260 of the Florida Statutes (2005). Under this alternative, in order to give effect to the intent of the parties for an expedited initiation of an interim surcharge that is subject to refund, it is hoped that the Commission and its Staff would expedite their review and consideration of the request for interim relief in recognition that full review will be available on Gulf's subsequent request for "final" or non-interim relief. If the Commission concludes that Gulf's request for interim relief is consistent with the Stipulation, it would then enter an order authorizing implementation of the interim surcharge, subject to refund, following the notice to Gulf's customers described in paragraph 4 of the Stipulation. Under either the pre-approval tariff scenario or the streamlined formal request and review scenario, the Commission would be approving interim relief and reserving for subsequent proceedings the full and complete opportunity to review Gulf's request for "final" or non-interim relief.

Finally, the counterparties to the Stipulation recognize a need to address an ambiguity that exists regarding the duration of the agreement regarding expedited implementation of an interim surcharge. Towards that end, the counterparties agree that their agreement to the provisions of paragraph 4 regarding the possible implementation of an interim surcharge shall remain in effect until the earliest of: (1) the effective date of new permanent base rates for Gulf as set by the Commission; (2) the issuance of storm recovery bonds pursuant to a financing order entered by the Commission; or (3) eight years after the Commission's acceptance and approval of the Stipulation and Settlement Agreement as a comprehensive settlement of all issues raised in Docket No. 060154-EI. By this letter, all of the counterparties to the Stipulation request that the Commission acknowledge and incorporate this provision for an expiration date in any order issued by the Commission accepting and approving the Stipulation and Settlement Agreement. In this regard, it is important to consider that the proposed settlement set forth in the Stipulation (including, specifically, the agreement to provisions for possible expedited implementation of an interim surcharge to address future storm-activity costs) is in lieu of the requested issuance of storm recovery bonds to be repaid

Jennifer Brubaker, Senior Attorney
Docket No. 060154-EI
June 1, 2006
Page 4

over a period eight years that would have resulted in an immediate restoration of a positive balance in Gulf's property insurance reserve of approximately \$80 million.

In submitting this letter with the foregoing points of clarification regarding the intent of the counterparties to the Stipulation, all of the counterparties reaffirm their desire that the Commission accept and approve the terms of the Stipulation and Settlement Agreement in its entirety as the full and complete resolution of any and all matters and issues raised in Docket No. 060154-EI relating to Gulf's requested recovery of incurred costs for storm-recovery activities associated with Hurricane Dennis and Hurricane Katrina ("2005 Storm Costs") and the replenishment of Gulf's depleted property insurance reserve. The counterparties further reaffirm their request that the Commission act on their joint petition and take the Stipulation up for consideration at the earliest practicable date in order to allow for the orderly implementation of the Stipulation and to provide certainty to the parties and their respective constituents and customers with respect to the outcome of this proceeding.

On behalf of Gulf Power and all the other counterparties to the Stipulation and Settlement Agreement, I hope that the foregoing points of clarification will be of assistance to the Staff 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, subject to the clarifications contained in this letter. 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
Michael B. Twomey
Robert Scheffel Wright
John W. McWhirter, Jr.
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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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Jennifer Brubaker, Senior Attorney
Docket No. 060154-EI
Gulf's Responses to Staff Data Requests
May 24, 2006
Page 2 of 10

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.

Jennifer Brubaker, Senior Attorney
Docket No. 060154-EI
Gulf's Responses to Staff Data Requests
May 24, 2006
Page 3 of 10

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.

Jennifer Brubaker, Senior Attorney
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Gulf's Responses to Staff Data Requests
May 24, 2006
Page 4 of 10

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.

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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.

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

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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.

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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

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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.

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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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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
Michael B. Twomey
Robert Scheffel Wright
John W. McWhirter, Jr.
Timothy J. Perry
Patricia A. Christensen
Ronnie Labrato
Susan D. Ritenour

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

	A	B
<u>Month</u>	<u>Projected Retail KWH</u>	<u>Current Month Revenues (1)</u> 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	<u>2,721,457</u>
Total		<u>60,989,030</u>

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

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What is the accounting for the interest recovery portion of the storm surcharge?

ANSWER:

Revenue is recorded for the entire amount of the surcharge in FERC accounts 440, 442 and 444 when billed. The interest income portion is then reclassified to FERC account 419, interest income, with an offsetting debit to FERC account 456-912, other electric revenues. When computing the amounts owed for various revenue taxes and fees such as the State gross receipts tax and FPSC assessment fees, the balance from the 456-912 account is excluded from the calculation of the revenue base.

The State gross receipts tax is calculated in accordance with the Florida Statute 203.01 2(b) which requires the tax to be imposed on "gross receipts from utility services delivered to a retail customer". The FPSC assessment fee is calculated in accordance with Florida Statute 25-6.0131 (1)(a) which requires the fee to be imposed on "gross operating revenues derived from intrastate business." Therefore the taxes and fees collected are remitted as required.

An example of the accounting entries is shown below:

(1) Bill surcharge to customers.

142	Accounts Receivable	X	
440, 442, 444	Revenue		X

(2) Reclassify interest portion of surcharge to interest income.

456-912	Other Electric Revenues	X	
419	Interest Income		X

(3) Record and pay revenue taxes based on the amounts recorded in accounts 440, 442 and 444.

408	Revenue Taxes	X	
236	Accrued Taxes		X
236	Accrued Taxes	X	
131	Cash		X

Storm-Recovery Costs Related to Hurricanes Dennis and Katrina

	Dennis ^(A)	Katrina ^(B)	Total
<u>Estimated Transmission and Distribution Costs</u>			
1 External Costs including Contractors and Equipment	\$ 41,253,000	\$ 2,056,000	\$ 43,309,000
2 Food, Lodging, Transportation, & Other	9,470,000	375,000	9,845,000
3 Materials	2,777,000	530,000	3,307,000
4 Company - Labor, Payroll Taxes and Benefits	2,647,000	973,000	3,620,000
5 Fuel	912,000	91,000	1,003,000
6 Total Estimated Transmission and Distribution Costs (Lines 1-5)	<u>\$ 67,059,000</u>	<u>\$ 4,025,000</u>	<u>\$ 61,084,000</u>
<u>Estimated Generating Plants and Office Facilities Damages</u>			
7 Crist Plant	2,043,000	-	2,043,000
8 Other Damages to Plants	73,000	237,000	310,000
9 Office Buildings	198,000	30,000	228,000
10 Total Estimated Generating Plants and Office Facilities (Lines 7-9)	<u>\$ 2,314,000</u>	<u>\$ 267,000</u>	<u>\$ 2,581,000</u>
11 Total Estimated Hurricane Dennis & Katrina Costs (Line 6 + Line 10)	<u>\$ 59,373,000</u>	<u>\$ 4,292,000</u>	<u>\$ 63,665,000</u>
12 Less: Estimated Insurance Reimbursement	<u>669,000</u>	<u>261,000</u>	<u>930,000</u>
13 Estimated Costs net of Insurance Reimbursement (Line 11 - Line 12)	<u>\$ 58,704,000</u>	<u>\$ 4,031,000</u>	<u>\$ 62,735,000</u>
14 Less: Company Voluntary Exclusions			
15 Estimated Capital Costs Under Normal Operating Conditions	6,139,000	997,000	7,136,000
16 Estimated Cost of Removal Under Normal Operating Conditions	553,000	75,000	628,000
17 Straight Time Labor Costs	1,028,000	363,000	1,389,000
18 Company-Owned Vehicle Costs	60,000	18,000	78,000
19 Other Normal Operating Costs (C)	105,000	43,000	148,000
20 Total Exclusions from Hurricane Cost Deficit (Lines 15 thru 19)	<u>7,883,000</u>	<u>1,496,000</u>	<u>9,379,000</u>
21 Total Dennis & Katrina Cost Deficit (Line 13 - Line 20)	<u>\$ 50,821,000</u>	<u>\$ 2,535,000</u>	<u>\$ 53,356,000</u>
22 Interest on Reserve Deficiency January 2006 through August 2006 (D)			905,000
23 Total Dennis & Katrina Cost Deficit Including Interest (Line 21 + Line 22)			<u>\$ 54,261,000</u>

^(A) Based upon Transmission & Distribution Known (\$56,211,000) and Estimated (\$848,000) costs.

Based upon Generating Plants & Office Facilities Known (\$1,892,000) and Estimated (\$422,000) costs.

^(B) Based upon Transmission & Distribution Known (\$3,586,000) and Estimated (\$439,000) costs.

Based upon Generating Plants & Office Facilities Known (\$3,000) and Estimated (\$264,000) costs.

^(C) Includes tree trimming costs, Company overtime labor costs, and materials and supplies.

^(D) Interest was included in accordance with Section 366.8280 (1) (n) of the Florida Statutes. Interest was calculated by applying the projected interest rate (based on the short-term bank note being used to temporarily finance the costs of the storms) to the after-tax balance of the reserve deficiency for January 2006 through August 2006.