State of Florida



Jublic Service Commission

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090042-EI

DATE:	October 1, 2010
TO:	Ann Cole, Commission Clerk, Office of Commission Clerk
FROM:	Robert L. Fisher, Government Analyst II, Office of Auditing and Performance Analysis
RE:	Gulf Power Request to Extend Confidential Classification of information produced in connection with a Review of Customer Property Damage Claims of Florida's Four Major Investor-Owned Electric Utilities (PA-08-08)

Please place the attached disks, which include the redacted and non-redacted versions of the Review of Customer Property Damage Claims of Florida's Four Major Investor-Owned Electric Utilities, in Docket 090042-EI. Portions of these disks are confidential pursuant to Commission Order No. PSC-09-0162-CFO-EI, issued March 20, 2009. Gulf Power has requested an 18 month extension of that order, and staff is filing its electronic version of the report not previously provided to the Clerk's Office. These disks should be returned to the Office of Auditing and Performance Analysis after eighteen months, unless Gulf Power requests an additional extension of confidential classification.

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Customer Property
Damage Claims

of

Florida's Four Major Investor-Owned Electric Utilities

By Authority of The State of Florida Public Service Commission Division of Regulatory Compliance Bureau of Performance Analysis

Review of

Customer Property Damage Claims of Florida's Four Major Investor-Owned Electric Utilities

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Geoff Cryan Regulatory Analyst II

December 2008

By Authority of
The State of Florida
Public Service Commission
Division of Regulatory Compliance
Bureau of Performance Analysis

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1.0 Executive Summary

1.1 Purpose and Objectives

In July 1999, the Bureau of Regulatory Review, now known as the Bureau of Performance Analysis, completed a review of customer property damage claims processes at the four major investor-owned electric utilities in Florida. At the request of the Division of Economic Regulation, this Review of Customer Property Damage Claims was conducted as a follow-up of the 1999 review to update the Commission's information regarding customer damage claims handling procedures.

The primary objective of this review was to document and evaluate the policies, procedures, and methodologies used by each of the companies to resolve customer property damage claims. The review also examined whether the utilities provided prompt, fair, and consistent handling of damage claims submitted by the customer, and it examined how well the utilities comply with applicable Florida Public Service Commission (Commission or FPSC) rules in processing customer's property damage claims.

1.2 Scope

This review examines the customer damage claims handling process for the four major investor-owned electric utilities in Florida, during the period 2003 though August 2008. The scope of this review focused on each company's:

- Policies and Procedures
- Goals and Objectives
- Compliance With Commission Rules
- Claims Review and Evaluation Process
- Internal Audit Frequency and Findings
- Customer Education
- Damage Prevention Programs
- Claims Trending and Analysis

Effective property damage claims handling ensures that the company has thoroughly investigated all possible causes of the damage claim and has fairly assessed its liability for the customer's damage. However, efficient and effective handling of claims does not necessarily mean that a decision favoring the customer is always the outcome. The efficient and effective handling of a customer damage claim should provide a fair and equitable claim resolution for both the customer and the company. Timeliness of completing the process is also important to both the customer and company. The customer wants to receive a prompt evaluation and claim decision to repair or replace damaged equipment. The company also wants to resolve any potential liability that may exist and restore the customer's damaged equipment.

1.3 Methodology

The information compiled in this report was gathered via company responses to staff document requests and interviews of key personnel involved in the claims process at each company. Staff also examined samples of each company's claim files to evaluate whether customer claims are handled timely, fairly, consistently, and in compliance with company policies and procedures. Based on the interviews with key employees and reviews of the company's claim files, audit staff assessed the company's overall timeliness of claims processing, consistency of claims handling, fairness to the customer and company, and compliance with company policies and procedures. Audit staff's observations and overall opinion of each company are summarized below, and discussed in greater detail within chapters 2.0 through 5.0.

1.4 Background and Perspective

Customer property damage claims occur when a customer's premise or property is damaged due to an electrical event. These events may be caused by a number of factors affecting the utility's electrical system. Electric companies have control over company workmanship, system design, equipment installation, system maintenance, and quality of electrical service. However, the utility has no control over tornadoes, storms, lightning, and other conditions that may impact the companies' systems and the customer's equipment. Additionally, some customer property damage may be caused by lightning or other surges entering the customer's premise through the equipment of other utilities, such as cable or telephone lines that may be improperly grounded. Determining the true cause of a customer's property damage is not always a straightforward process.

Each company has filed a continuity of service tariff with the Florida Public Service Commission that establishes the fact that companies cannot provided 100 percent continuous service to its customers. Rule 26-6.044(2), Florida Administrative Code, Continuity of Service, requires that utilities are to keep records of their system reliability and continuity of service data, customer's service interruption notifications, and other data for a period of at least ten years. The rule states that each company is to capture the date, time, and cause of each outage event and report these annually to the FPSC. Paragraph (3) of the rule also requires that the companies should make all reasonable efforts to prevent interruptions and attempt to restore service within the shortest time possible. The fact that an outage occurs does not automatically create a liability on the utility. Instead, the particular circumstances of each customer property damage case must be carefully examined and assessed.

In some cases, the circumstances may establish liability, while in other cases the company may be absolved from any liability to compensate the customer. The determination hinges largely on determining possible responsibility for damage by the utility. In the interest of requiring the regulated utility to provide safe, reliable, and satisfactory service, this area of company operations is of concern to the FPSC.

Exhibit 1 provides 2007 comparable claims statistics for each company. The data shows the number of customers served, the number of claims filed and paid, the percent of claims paid and the average amount paid by each company for 2007 customer damage claims.

	20	07 Claim Statistics	;	
	FPL	Gulf	PEF	TEC
Customers	4,509,000	419,000		668,000
Amount Paid	\$2,060,000	\$380,000	THE RESIDENCE OF	\$1,050,000
Claims Filed	9,061	701		1,224
Claims Paid	3,046	311		596
Percent Paid	33.6%	44.4%		48.7%
Average Paid	\$676	\$1,221	BAR (555)	\$1,761

EXHIBIT 1

Sources: Document Requests 1-3, 2-2

When comparing claim statistics for 2007, FPL leads the amount paid, claims filed and claims paid comparison, which is logical given it has the largest customer base. However, TEC, with a much smaller customer base, follows FPL in the total amount of dollars paid in claims. TEC also has the highest percent of claims paid and the highest average paid per claim. Conversely, PEF's average paid per claim, and percent of claims paid was companies in 2007.

Appendix A also provides a Survey of 2008 Claims Payment Policies for each company. The survey compares the company's pay/deny decisions in similar claims situations. As shown in the survey, TEC pays in some situations the other companies do not, and PEF does not pay in some situations where other companies do make payment. While the companies are generally similar in pay/deny decisions TEC and PEF differences are discussed in greater detail in sections 4.0 and 5.0 of the report.

1.5 Conclusion

Overall, during the period reviewed of 2003 through 2008, the utilities paid between 31 and 48 percent of the claims submitted. Staff believes that the utilities conducted timely, consistent, and fair property damage claim investigations. Staff also identified several key areas where additional company effort is needed to improve the claims process. Listed below are staff's recommendations in these key areas of property damage claims activity.

1.5.1 Florida Power and Light

- FPL should comply with the PSC reporting requirements for Rule 25-6.019(2), Florida Administrative Code, regarding reporting of property damage exceeding \$5,000.
- FPL should formally document its claims policies, procedures, goals, and objectives.

- FPL should improve its claims documentation practices in order to provide consistent and complete information.
- ◆ FPL should require the use of the *Statement of Claimant* form for all claims, and make the form available in Spanish.

1.5.2 Gulf Power Company

- Gulf should comply with the PSC reporting requirements for Rule 25-6.019(2), Florida Administrative Code, regarding reporting of property damage exceeding \$5,000.
- Gulf should comply with the company's policies and procedures when determining the value of damaged property.
- Gulf should comply with the company's policies and procedures and should improve its accuracy, consistency, and completeness of documentation of claim information.
- Gulf should require customers to sign a form to verify damaged property and acknowledge the claim to be true and correct.

1.5.3 Progress Energy Florida

- ◆ PEF should comply with the PSC reporting requirements for Rule 25-6.019(2), Florida Administrative Code, regarding reporting of property damage exceeding \$5,000.
- PEF should formally document its claims policies and procedures.
- PEF should review its pay/deny policy and consider whether its customer damage claims payment rate is reasonable and fair.
- PEF should improve the quality of its claims file documentation.

1.5.4 Tampa Electric Company

- ◆ TEC should comply with the PSC reporting requirements for Rule 25-6.019(2), Florida Administrative Code, regarding reporting of property damage exceeding \$5,000.
- ◆ TEC should evaluate its cause code Equipment Breakdown, Failure, to possibly sub-divide the code into additional categories.
- TEC should improve the quality of its claims file documentation.



2.0 Florida Power & Light Company

Florida Power and Light Company (FPL), headquartered in Juno Beach, is the largest investor-owned electric utility in Florida. The company is one of two principle subsidiaries of FPL Group, serving approximately 4.5 million customers along the eastern seaboard and southern portions of Florida. During the period from January 2003 through August 2008, on average, FPL received 8,754 customer property damage claims per year, which represented less than two-tenths of one percent of FPL's total customer base.

2.1 Policies and Procedures

Does FPL have clearly defined policies and procedures for handling customer property damage claims?

Within FPL, there are three business units that handle customer property damage claims; Distribution, Customer Service, and Legal. The circumstances of each event are evaluated, and the claim is assigned to the relevant investigating unit. While all three departments handle customer property damage claims involving an electrical event, the Distribution Claims Department is the primary focus of this review.

FPL states its policies and procedures for customer property damage claims are highlighted in its *Process for Public Claims* flowchart (**Appendix B**), *Property Damage Claims Cause Codes* (detailed later in this chapter), and *Care Center Process for Claims* guidelines. These resources are available to personnel throughout the claim investigation process and are designed to promote uniform handling of claims.

The primary resource of the investigating agent for distribution system claims is the company's *Process for Public Claims*. This flowchart details the steps for property damage claim investigations, directing the agent through the different phases of the investigation through its conclusion. However, the company does not have written policies to formalize its corporate doctrine. The flowchart does not address the use of corporate insurance, documentation of claim information, customer release requirements, or acceptable methods to calculate depreciation or settlement to the customer.

What are FPL's customer property damage claims goals and objectives?

Like its policies and procedures, FPL does not have a formal written set of goals and objectives for the company's claim process. FPL monitors and evaluates individual agent performance using an agent Year-to-Date Summary that highlights performance measurements as claims are investigated. This summary tracks the agents' performance in customer service and investigative milestones as damage claims progress. Agents are not evaluated by how many claims they approve or deny, but are gauged on the completeness of their work and meeting timelines, such as contacting the customer within 72 hours of receiving the complaint.

Each agent begins the year with 100 points and points are deducted if performance measurements are not met, or avoidable errors are made when investigating a customer complaint. For instance, if a payment to a customer is not properly filed by the agent within seven days of receiving all required paperwork from the customer, the agent would have two points deducted from his or her total. A customer complaint to the Public Service Commission where the agent is found to have made an improper action or decision will result in a 15 point deduction from the total. Agents can also earn points by positive feedback from customers. Generally, a customer accolade will result in two points being added to their total. This point system, involving numerous categories, is tracked throughout the year. Coaching opportunities with the agent's manager are completed if the agent's performance is found to be decreasing or insufficient.

What recent changes have been made to FPL's property damage claims process?

During the timeframe of this review, from January 2003 through August 2008, there have been no major changes to FPL's customer property damage claims process. The last changes occurred in 2002, when FPL implemented several updates to its pay/deny matrix. FPL no longer pays for underground cable failures unless there has been a prior history of the wire failing. If there is a history of a prior failure in an underground wire, FPL may pay the customer's claim. This policy is also true for transformer failures. If there is a history of the transformer failing, the customer claim will be paid. FPL stated it reserves the right to fix a problem on the first occurrence, and pay on future occurrences should the repair fail, as any prior diagnostic testing that can be done would have provided only a snapshot of the condition of the equipment. It should be noted that this condition exists throughout the industry because there is no known reliable and cost-effective means of testing underground wires or the internal parts of a sealed transformer.

FPL has also updated its policy on Momentary Power Interruptions (MPIs). Prior to 2002, a customer would have to experience three verifiable MPIs within a six-month period prior to FPL accepting liability for a claim. Now the customer must experience ten MPIs within a one-month period that are investigated individually to determine company liability.

Does FPL's property damage claims process comply with established Florida Public Service Commission rules and regulations?

FPL's process for handling customer property damage claims is not fully in compliance with Rule 25-6.019(2), Florida Administrative Code, Notification of Accidents. As stated in the Rule,

Each utility shall report to the Commission within 30 days of any malfunction of or accident involving any part of the electrical system, fire, or explosion, that:

- (a) Involves damage to the property of others for an amount in excess of \$5,000, or,
- (b) Cause significant damage, in the judgment of the utility, to the utility's facilities.

FPL has a process in place that complies with the reporting requirements for Rule 25-019(2). When an agent receives a claim of \$5,000 or more, he or she will fill out an internal form and send it to FPL's Legal Department which has the responsibility for notifying the PSC. The company has submitted some claims to the PSC that meet the requirements set forth by the above rule; however, it has not fulfilled the requirements entirely. FPL has reported 56 of the 188 claims that were greater than the \$5,000 reporting threshold during the period from January 2003 through August 2008. It is apparent that at some point in FPL's reporting procedures that the process breaks down, and the reports are not being sent to the FPSC as required. During this review, discussions between the appropriate FPSC staff and FPL clarified these reporting requirements, which will be beneficial in future reporting.

FPL's plan for inspecting and maintaining its plant facilities is important to customer damage claims because the frequency and quality of company inspections may impact the overall condition of facilities and the quality of service provided. Rule 25-6.036, Florida Administrative Code, Inspection of Plant, states:

Each utility shall adopt a program of inspection of its electric plant in order to determine the necessity for replacement and repair. The frequency of the various inspections shall be based on the utility's experience and accepted good practice. Each utility shall keep sufficient records to give evidence of compliance with its inspection program.

FPL states its inspection programs for its above-ground equipment allows the company to proactively check for potential serviceability and safety issues and to make repairs or replacements as needed. Along with visual inspection and testing of equipment, FPL has included Thermovision into its overhead distribution testing repertoire. This infrared technology allows a technician to visually identify overhead equipment that is overheating and could potentially cause a failure. This proactive testing of overhead facilities is primarily used by FPL to inspect equipment for potential faults.

FPL states there is no reliable, cost-effective way to inspect underground wires. Underground wire inspections are handled through routine daily field maintenance operations. Understandably, FPL customers often experience a failure before the company knows there is a condition in the underground cable to repair or replace. Once a wire failure has been identified, the necessary repair is completed, and the wire is placed back into service. FPL states it reserves the right to repair the cable on the first event and pay for any further failures should they occur.

2.2 Disposition of Claims

What recent customer property damage claim trends are observable for FPL for the years 2003 through 2007?

Exhibit 2 shows the numbers of customer property damage claims filed and paid during the period 2003 through 2007. Over the period, FPL received an average of 8,754 property damage claims per year, and paid an average of 3,507 (40 percent) of the total claims received each year. The remaining 60 percent of unpaid claims were for reasons that include:

- The claim was denied payment when no fault was found on FPL's equipment
- The customer failed to pursue the claim by submitting repair estimates or receipts to FPL
- The claim was pending further investigation
- The claim was in litigation

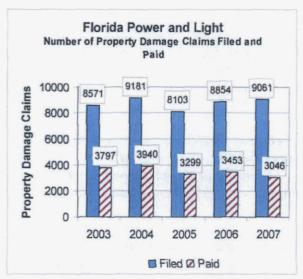


EXHIBIT 2

Source: FPL's Response to Document Request 1-3

Exhibit 3 shows the annual percentage of customer property damage claims paid during the period. FPL paid 44.3 percent of the total claims that were pursued by customers in 2003. The percentage of claims paid has decreased in small increments every year through 2007 when FPL paid 33.6 percent. While there has been no change to FPL's pay/deny matrix during this timeframe, there has been an increase in reported property damage claims in categories that FPL traditionally does not pay. For instance, the number of claims that were categorized as

Additionally, the category where FPL's liability for the property damage has also increased. The

number of claims in this category increased

from 252 in 2003 to 688 in 2007. FPL does not pay claims in situations where

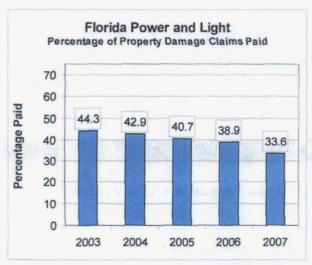


EXHIBIT 3

Source: FPL's Response to Document Request 1-3

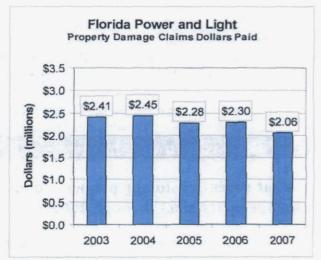


EXHIBIT 4

Source: FPL's Response to Document Request 1-3

Exhibit 4 shows the total dollars FPL paid in property damage claims over the period of 2003 through 2007. During this time, the company paid out an average of \$2.3 million per year. When compared to the number of claims paid each year in **Exhibit 2**, the company's average payment per property damage claim for this period was \$658.

Exhibit 5 shows the ten most frequent causes (from highest to lowest) for customer property damage claims filed against FPL in 2007. Of FPL's current cause codes, these top ten causes accounted for 82 percent of the total claims filed in 2007. As shown, the greatest number of customer property damage claims filed were the result of

Exhibit 5 also shows the number of claims paid for each leading cause. For 2007, FPL paid 2,318 of the 7,469 filed claims (31 percent). It should be noted that five of the leading categories are causes that, due to their nature, are nearly always excluded from payment. For example, 1,051 claims were categorized as Those types of claims hinge on

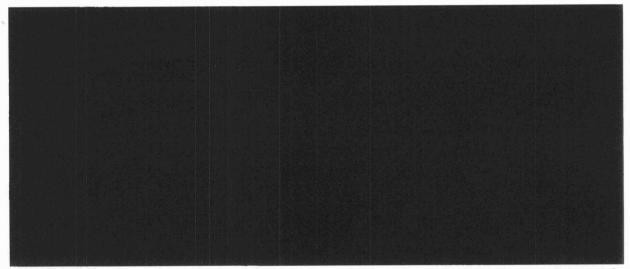


EXHIBIT 5

Source: FPL's Response to Document Request 1-3

the assumption that FPL should provide 100 percent service availability with no interruptions at all. However, by its *Continuity of Service Tariff*, the company points out that it is relieved from liability for property damages. The tariff states: "The company shall use reasonable diligence at all times to provide continuous service at the agreed normal voltage, and shall not be liable to the customer for complete or partial failure or interruption of service, or for fluctuations in voltage, resulting from causes beyond its control or through the ordinary negligence of its employees, servants, or agents." Also, Acts of Nature are excluded from consideration since FPL deems those cases to be beyond the company's control.

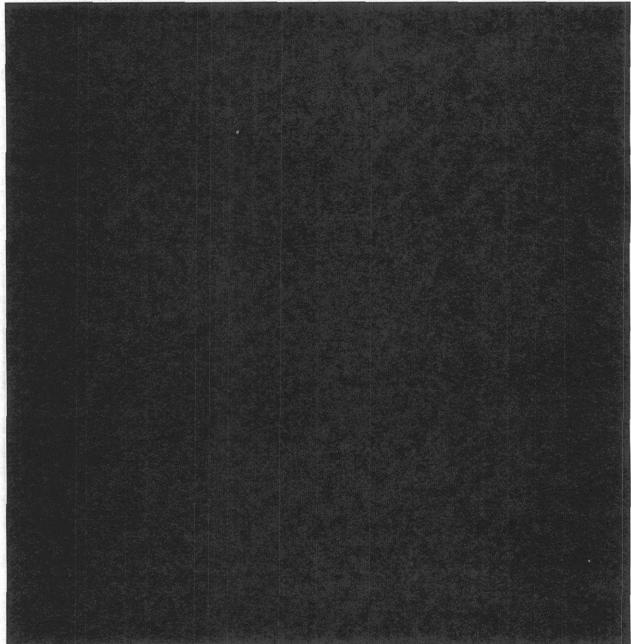


EXHIBIT 6

Source: FPL's Response to Document Request 1-4

Exhibit 6 depicts the 32 cause code categories used by FPL when investigating and tracking claims. Claims for each cause code are indicated as being either paid or denied under normal conditions. The last changes to the cause codes came in 2002 when FPL eliminated from the list, and it added codes that would more accurately detail the cause of the damage, as well as payment policy.

2.3 Claims Handling

How does a customer file a property damage claim with FPL?

A customer may file a property damage claim with FPL by U.S. Mail, e-mail, notifying a work crew member, or by calling the Customer Care Center. Any of these methods of contact should result in a claims agent calling to speak with the customer within three business days. If the initial contact with FPL indicates that essential equipment (such as a refrigerator or air conditioner) has been damaged, the agent will respond to the customer within two hours if the claim was filed before 4:00 p.m. If the claim was filed after 4:00 p.m., the agent will contact the customer the next business day.

The most widely used method of notifying FPL of a property damage claim is calling the Customer Care Center and speaking with a representative. The representative will collect basic information to determine whether the customer has experienced a loss or property damage. If damage has occurred, the representative will conference the customer to an account supervisor who will research the system to see if a cause is readily discernable. While account supervisors cannot negotiate any settlement or complete an investigation, they are allowed to inform the customer if the reason for their loss is due to circumstances that FPL is not responsible for and will not pay, i.e. a vehicle hitting a pole. If a customer is notified of circumstances of this kind, and still wishes to pursue the matter further, a claim is issued and referred to the Claims Department for handling. If it is determined that FPL may be liable, or the customer opts to pursue the issue, the customer will be contacted by a claims agent within the next three business days, unless the claim is identified as essential, as described above.

How does FPL investigate a customer's property damage claim?

Once a claim is created, a claims agent will be assigned the new claim in FPL's Work Management System (WMS) called STORMS. The agent will review the information and prepare a customer folder. The agent then conducts a preliminary investigation of internal systems, such as the Trouble Call Management System (TCMS). The TCMS stores trouble ticket data that details problems that were reported, the time each was reported, the type of repair or maintenance performed, and when service was restored. The agent can also research information in the Data Warehouse for archived data, or in the Account Maintenance System (AMS). AMS tracks which system equipment the customer is linked to and gives information on transformer loading/overloading. Weather reports such as Wonderground.com and FPL's lightning tracking system are also included in the investigation. If the preliminary investigation indicates that FPL is liable for the damages, the agent informs the customer. If liability cannot yet be determined, the agent can further investigate by interviewing work crews and subject matter experts available within FPL. The agent may also request a Recording Volt Meter (RVM) be installed at the customer's residence to monitor voltage and/or record any MPIs.

If FPL accepts liability for a claim, how does it reimburse the customer for damages?

Under FPL's claims handling process, agents are allowed to settle claims for up to without any documentation required from the customer (e.g. receipts, repair estimates), and up to with the required documentation. All claims that exceed are transferred to the Legal Department for further processing and may require additional documentation.

The agent assigned to the claim will make contact with the customer and explain the claims process, along with what information the customer will need to submit to FPL. As specified in the *Process for Public Claims* flowchart, the *Statement of Claimant* form may be mailed which gives the customer an opportunity to document what happened and provide a list of any damaged property. The form also provides FPL with a statement that the customer acknowledges the claim to be true and that filing a false claim is a violation of state law. FPL does not have the *Statement of Claimant* form available to its customers in Spanish.

For claims that require repair estimates or work to be completed, the customer may select either a licensed vendor of their choice or one from FPL's list of authorized vendors. If a vendor is selected from FPL's list, the claims payment is made directly to the vendor. If an authorized vendor is not available in the customer's area, the customer may select a licensed repair technician and FPL will reimburse the customer once the repair paperwork is received.

Once the customer presents all the required documentation to settle the claim, FPL will reimburse the customer for costs incurred repairing the equipment. If an item is deemed irreparable, or the repair cost is greater than the current value of the item, FPL will pay for replacement at current value minus any accrued depreciation. The agent uses the model and serial number for the item to determine its current value. While depreciation tables used are based on the type of equipment and expected useful life, FPL applies the tables to the benefit of the customer. Generally, there is no depreciation deducted for the first two years. After two years, FPL will deduct 10 percent every year, up to 80 percent. Therefore, FPL will pay at least 20 percent of the item's value regardless of how old the item is.

If the customer's original claim remains open for 90 days without FPL receiving the required documentation, the claim will be closed as "no action." Often in these cases the customer has chosen to not pursue the claim, or has elected to file it on their homeowner's insurance policy. However some customers cannot afford to pay for estimates and repairs and then wait for FPL to issue a reimbursement check. FPL does have a program in place to assist a customer who is unable to pay for charges in advance. Agents are able to work with outside vendors, or authorize express shipping of a partial payment, to assist customers that are not able to pay for the estimate or repair.

2.4 Claims Sample Analysis

Is FPL timely, consistent, fair, and compliant with its procedures for handling customer property damage claims?

Using FPL's database of claims filed from January 2003 through August 2008, audit staff conducted an analysis of a statistically significant, random sample of claim files to determine if the processing and payment of the claims were completed uniformly and fairly for both the customer and the company. Audit staff selected 89 claims and analyzed each to formulate an overall opinion of the company's claims process based on four categories: timeliness, consistency, fairness, and compliance with the company's own established guidelines. This sample size provides a 90 percent confidence level with a margin of error of plus or minus 3 percent.

Timeliness

In review of FPL's claims handling timeliness, audit staff compared the goals and objectives highlighted in the agents *Year-to-date Summary* to the actual results that were documented in the customer claim file. Agents were reviewed on the time intervals for the initial customer contact, submission of customer payment request, and the completion of the claim investigation.

FPL's process requires agents to call the customer and attempt to make first contact within three business days. Audit staff observed that of the 89 claims in the sample, 84 customers (94 percent) were documented to have been contacted within 3 business days. It was also noted that if an agent had not logged a contact by the second business day, STORMS (WMS) alerts the agent that the customer needs to be contacted.

Once an agent receives all required documentation from the customer, any resulting payment request for customer reimbursement should be submitted and payment completed within seven days. The sample reviewed by staff showed 22 property damage claims that were approved for payment. Of these 22 claims, 18 (82 percent) were documented to show settlement to the customer within the seven-day timeframe. The remaining four claims were paid to the customer; however, there was no documentation indicating the payment was made within seven days to the customer.

The final timeliness performance measurement guideline is that an agent must either complete or close the investigation as "No Action" prior to 90 days. Fifty-nine claims within this sample were closed as "No Action" due to customer action or inaction that included: failing to provide the required documentation; not returning the agent's calls; or throwing away damaged equipment prior to the claim investigation. A claim that is closed as "No Action" may be reopened if the customer contacts the agent and supplies the required documentation. The remaining 30 claims were completed within 90 days and either closed as paid, denied, or forwarded to the Legal Department for further investigation or pending litigation.

Audit staff finds that FPL does complete its claims investigations in a timely manner. Claims are generally investigated and closed in accordance to FPL's goal of being within 90 days from the time the agent receives the claim.

Consistency

Audit staff's analysis of the consistency in handling the sampled claims included adherence to the *Process for Public Claims* flowchart, adherence to the pay/deny matrix, uniform application of depreciation and valuation methods, and consistent use of the case information. To the extent possible, audit staff attempted to determine whether like cases were treated similarly and whether consistent use was made of company guidelines and processes.

Of the 74 claims in the sample that were eligible to be paid, 45 claims (61 percent) indicated in the notes that a *Statement of Claimant* form had been mailed to the customer, as is specified in the *Process for Public Claims* flowchart. The *Statement of Claimant* form provides FPL with a written account of the customer's description and timeframe of the incident, along with details of any property the customer is claiming to have been damaged. The form also provides the company with a signed acknowledgement that the customer understands that knowingly filing a false claim is a violation of law, punishable under Florida Statutes. There were 22 claims within the sampling where all of the required documentation was returned to the agent and reimbursement was sent to the customer. The remaining 59 claims that were eligible for payment, but closed as "no action," were due to the customer not returning the *Statement of Claimant* form, not submitting a required estimate or repair invoice, throwing away damaged items prior to making the claim, or the customer electing to pursue the claim through homeowner's insurance.

Audit staff found that FPL's claims agents were consistent in determining the value of damaged property by using its established depreciation tables, paying based on invoices and estimates, or a combination of the two. This sample also contained five claims that were denied payment. All five claims were consistent with the pay/deny matrix as damage codes that are not paid by FPL, such as company liability in question and damage to three-phase equipment. The same is true for the remaining 74 claims as they were all eligible for reimbursement under the pay/deny matrix. Of the remaining ten claims, three were sent to the Legal Department for further investigation, and seven were withdrawn by the customer due to either no damage to report, or their appliances were repaired under separate warranty.

Staff finds the documentation practices of the Claims Department to be inconsistent and incomplete. The claims within this sample frequently lacked key information such as details of conversations with customers, and reasons for closing the claim with the action used. On two occasions, the customer detail screen was not filled out which omits information such as the claim code, contact information and claim disposition. The lack of proper documentation does not allow for an auditor, or the claim agent's manager, to review the claim and reconstruct the process flow of the claim.

Fairness

Audit staff's review of FPL's fairness in claims handling included whether claims were considered and treated equally, claims decisions were fair and equitable, customer equipment was fairly valued and depreciated, customers were fairly notified of the claims decision, and whether claimants received fair payment of the claim.

The five Claims that were denied in this sample were for reasons that were previously indicated on the pay/deny matrix, such as a business' three-phase equipment was damaged which is not a payable claim at any time. Of the 59 claims closed as "No Action," 13 were found to be due to customer actions that were outside FPL's responsibility, such as a customer wanting to claim a damaged computer that had been thrown away and was no longer available to be inspected by a licensed technician.

Audit staff believes FPL's methods for determining the value of the damaged item, and the decision-making process is generally fair to both the customer and the company.

Compliance

Audit staff's review of FPL's compliance in claims handling included whether claims activities were handled according to company policies, procedures, and guidelines. Staff's sample of 89 claims files showed that 54 (61 percent) included documentation to support that the claim was compliant with the company's policies, procedures, and guidelines for claims handling. Staff identified 35 situations (39 percent) where it was unable to fully identify the handling of a claim to be compliant due to incomplete documentation.

As noted earlier in this review, FPL does not have a formal written policy and procedure manual. The Claims Department uses the *Process for Public Claims* flowchart along with screen prompts throughout its Work Management System for instruction. While staff cannot say FPL is out of compliance with the policies and procedures implied in the flowchart, it can say that documented policies and procedures will help correct inconsistencies in claims handling.

2.5 Customer Education and Protection Plans

What efforts does FPL make to inform customers of the property damage claims process?

Though FPL does not have any property damage claims education materials for customers, FPL does have materials used to educate customers on power outages and/or power quality issues. These materials include power backup systems, selecting power protection equipment, identifying potential power problems, and basic troubleshooting tips if you believe you may have a power problem in your home. These resources are available to customers in printed form, in both English and Spanish, as well as on FPL's internet web-site. Information about the property damage claims process is available to the customer through the Customer Care Center, and when speaking to an agent when filing a property damage claim.

What programs are available through FPL to prevent potential damage to the customer's appliances and equipment?

FPL offers damage prevention programs to its customers through its affiliate, FPL Energy Services. FPL Energy Services offers a surge protection plan called SurgeShield. SurgeShield protects the customers in two ways. First, a heavy-duty surge protector can be installed on a customer's meter. This device helps protect larger appliances, such as the air conditioner, refrigerator, and stove from large power surges. This is coupled with smaller surge protectors that are plugged into the wall outlet to defend against smaller surges that may not engage the larger device at the meter, but are large enough to effect more sensitive equipment, such as a stereo or computer. This program is monitored by FPL and the additional charge is included on the FPL bill. If a customer experiences equipment damage while under the protection of SurgeShield, they may still contact FPL to file a claim. The claims agent conducts the investigation to determine whether an open neutral caused the damage. If this is the case, the agent would proceed with the investigation. If the damage was by any other cause the customer is forwarded to SurgeShield representatives to begin the claims process, as SurgeShield is a separate entity from the utility itself.

FPL customers also have access to the Power Surge Protection Program which is an insurance policy available through FPL Energy Services, and is underwritten by American Bankers Insurance Company of Florida. The Power Surge Protection Program allows customers to purchase coverage in amounts ranging from \$5 per month for \$2,000 coverage through \$25 per month for \$10,000 coverage. A customer enrolled in this plan can be reimbursed for up to the amount of their purchased coverage in the event of a covered loss. The purchase of the Power Surge Program is an additional coverage option and does not eliminate the customer from recovering additional losses from FPL if the damages are greater than the purchased coverage. For example, if the customer has \$3,000 in damage, but only \$2,000 in Power Surge Protection, they would first settle with the insurance plan and then present a Letter of Settlement to the claims department. The customers claim would then be investigated as described above, only the settled amount from the Power Surge Protection would be deducted from the reimbursable losses paid by FPL, if FPL is found to be liable for the damage.

2.6 Conclusion

Overall, during the period reviewed, staff believes FPL provided its customers timely, consistent, and fair property damage claim investigations. Staff has identified several areas that offer an opportunity for FPL to further improve its claims handling efforts. From the information gathered, on-site interviews conducted, and the sample analysis results, staff developed the following recommendations:

- FPL should comply with the PSC reporting requirements for Rule 25-6.019(2), Florida Administrative Code, regarding reporting of property damage exceeding \$5,000.
- FPL should formally document its claims policies, procedures, goals, and objectives.

- FPL should improve its claims documentation practices in order to provide consistent and complete information.
- FPL should require the use of the *Statement of Claimant* form for all claims, and make the form available in Spanish.

FPL does have a policy in place that accounts for FPSC reporting requirements. When an agent receives a claim of \$5,000 or more, he or she will fill out an internal form and send it to FPL's Legal Department which has responsibility of notifying the FPSC. While FPL has submitted claims to the PSC that meet the requirements set forth by Rule 25-6.019(2), it has not fulfilled the requirements entirely for all applicable claims.

FPL does not have a formal written policy and procedure manual. The Claims Department uses the *Process for Public Claims* flowchart, *Property Damage Cause Codes*, and *Care Center Process for Public Claims* along with screen prompts throughout its Work Management System. The company also gauges an agent's performance using the Agent Year-to-Date Summary. These tools together provide a good basic day-to-day guideline for an Agent and Manager to follow while investigating claims. It is staff's opinion that FPL should document its policies and procedures as part of the Power Systems Departmental Policy. Written policies and procedures are also essential to the company should it ever find itself in a position where it needs to defend them.

The documentation practices of the Claims Department is inconsistent and incomplete. The lack of documentation of key claim information does not allow for accurate recollection of claim details, such as conversations with customers, actions taken throughout the investigation, and methodology employed to determine the outcome of a claim.

FPL does not make the *Statement of Claimant* form available to its customers in Spanish. It was observed by audit staff on at least one occasion where a Spanish interpreter was required to speak with the customer, but an English form was sent to the customer. While FPL states the *Statement of Claimant* form is not always a required document to proceed with the property damage claim, it is often mailed to customers as part of the claim investigation process. Staff notes that FPL should supply all forms that are provided to customers to complete a property damage claim in Spanish, and possibly other languages, to assist its non-English speaking customers.

Under FPL's claims handling process, agents are allowed to settle claims for up to without any documentation required from the customer, and up to with the required documentation. Once a claim has been filed and FPL accepts liability, the customer must get repair or replacement estimates on the damaged equipment, and submit that paperwork along with a completed *Statement of Claimant* form. FPL currently has authorized venders in some areas that can perform an estimate and complete repairs at no cost to the customer. The vendor will directly bill FPL for payment.



3.0 Gulf Power Company

Gulf Power Company (Gulf), headquartered in Pensacola, is an investor-owned utility with all of its common stock owned by Atlanta-based Southern Company. The company serves approximately 419,000 customers in the Florida panhandle, with its service territory extending west from the Apalachicola River to the Alabama state line. Gulf serves an additional 15,000 customers through wholesale delivery of electricity to one investor-owned utility and one municipality. During the period from 2003 through 2007, on average, Gulf received 853 customer property damage claims per year, which represents two-tenths of one percent of Gulf's total customer base.

3.1 Policies and Procedures

Does Gulf have clearly defined policies and procedures for handling customer property damage claims?

Gulf provided a copy of its *Gulf Power Company Claims Procedures Manual*, dated July 2008. The intent of the manual is "to direct the most timely and accurate collection of information needed to render an informed decision in the management of potential claims both against and on behalf of Gulf Power Company."

The Claims Procedures Manual provides a foundation for the claims representative to understand the process of handling customers' property damage claims, as well as a clear definition of what is expected throughout the claim investigation. Management also has the ability to compare the representative's work to determine compliance and accuracy, and identify any needs for further training or coaching.

The claims manual covers such topics as Company Insurance, Claims Payment Concepts, Public Liability Claims, Payment of Customer Property Damage Claims, Contractor Claims, Initial Investigation, and an Investigation Responsibilities General Checklist. The information provided within the claim manual, when used in conjunction with the Gulf Power Claims Process Flowchart, as shown in **Appendix C**, gives the claims representative a clear understanding of his or her duties and responsibilities to the company and the customer.

What are Gulf's customer property damage claims goals and objectives?

The goal of the Claims and Litigation Team is to protect the company from losses resulting from third-party liability exposure and damage claims which are not legitimate, and to settle and authorize payment on claims which are reasonable and just. According to Gulf, each issue or incident is handled individually to ensure that an equitable solution is reached. The company states that the goal is to process each customer claim received in a timely and consistent manner, while following all rules relating to customer confidentiality, and offering a high level of customer service to claimants.

Upon receipt of the claim, the goal is to achieve initial contact with the customer within two business days. When initial contact is made with the claimant, the claims representative will let the claimant know if the claim is being accepted for payment or declined, if possible. When a claim is accepted for payment, the claimant will receive instruction on the information needed to support any claims payment, and how to get that information to the claims department.

Once all paperwork has been received from the customer and/or vendor, Gulf's goal for the claims representative is to have payment in the mail, or available for customer pickup, within ten business days. Each representative also has a goal to complete 80 percent of all damage claims within 60 days. If there has been no contact with the customer within 60 days, a letter will be sent to the customer informing them that the claim will be closed due to lack of contact. The customer is instructed to contact the company in order to have their claim reopened.

What recent changes have been made to Gulf's property damage claims process?

Gulf has implemented several recent changes to its customer property damage claims department. In 2005, Gulf elected to no longer use a customer claim form as part of the reporting procedure. Claims representatives, instead of the customer, were responsible for filling out the form, and Gulf determined this redundancy was easily eliminated by inputting the information directly into its system. Customers now provide information on damaged equipment either over the phone, or by faxing or mailing the information to the claims representative, who directly inputs the information into the claim system.

In August, 2006, Gulf changed the internal structure of the Claims Department to have all of the claims representatives report directly to the Claims Manager. Prior to this time, the claims representatives reported to the local Customer Service Manager. Gulf recognized that the previous organization was creating inconsistencies in the claims payment process. Now that the claims representatives report directly to the Claims Manager, claims are reviewed to ensure decisions and payments are consistent with the current policies and procedures and are fair to both the customers and the company.

In 2007, Gulf instituted a new payment processing system, the El Paso Check Request System that now goes directly to Accounts Payable for processing. This change impacted Gulf operations as a whole, not just the Claims Department. In June, 2008, Gulf stopped the use of procurement cards as a means to acquire smaller items for customers to settle their claims. All payments must now go through the El Paso system for accounting purposes. Gulf still allows use of the procurement card to make payments in rare circumstances, such as when a customer's essential equipment (air conditioner, refrigerator, etc.) is damaged and no authorized vendor is currently available. The representative may authorize payment to an outside vendor to get the equipment repaired.

In mid-2008, Gulf's Risk Management Group participated in an internal audit which included the Claims Department.

Does Gulf's property damage claims process comply with established Florida Public Service Commission rules and regulations?

Gulf's process for handling customer property damage claims is not in compliance with Rule 25-6.019(2), Florida Administrative Code, Notification of Accidents. As stated in the Rule,

Each utility shall report to the Commission within 30 days of any malfunction of or accident involving any part of the electrical system, fire, or explosion, that:

- (a) Involves damage to the property of others for an amount in excess of \$5,000, or,
- (b) Cause significant damage, in the judgment of the utility, to the utility's facilities.

Gulf provided a list of 62 claims for over \$5,000 since 2003. However, none of these claims had been reported to the PSC during that period. During the review, discussions between appropriate FPSC staff and Gulf clarified these reporting requirements. Gulf has agreed to provide a retroactive listing of all reports meeting the above listed requirements for the period. Staff notes that the *Gulf Power Company Claims Procedures Manual* does not include information relating to the reporting requirements of Rule 25-6.019(2). A revision to Gulf's procedures could provide a useful control.

Gulf's plan for inspecting and maintaining its plant facilities is important to customer damage claims because the frequency and quality of company inspections may impact the overall condition of facilities and the quality of service provided. Rule 25-6.036, Florida Administrative Code, Inspection of Plant, states:

Each utility shall adopt a program of inspection of its electric plant in order to determine the necessity for replacement and repair. The frequency of the various inspection shall be based on the utility's experience and accepted good practice. Each utility shall keep sufficient records to give evidence of compliance with its inspection program.

Gulf has an inspection program for its above-ground equipment that allows the company to proactively check for potential serviceability and safety issues and to make replacements or repairs as needed. Gulf's distribution maintenance plan for overhead service lines includes conducting regular tree trimming activities on its feeder and lateral lines to minimize tree and limb damage, along with regular inspections and routine maintenance on its substations to assure they are in good operational condition.

Gulf states there is no reliable, cost-effective way to inspect underground wires. Underground wire inspections are handled through routine daily field maintenance operations.

Understandably, Gulf customers often experience a failure before the company knows there is a condition in the underground cable to repair or replace. Once a wire failure has been identified, the necessary repair is completed and the wire is placed back into service.

3.2 Disposition of Claims

What recent customer property damage claims trends are observable for Gulf for the years 2003 through 2007?

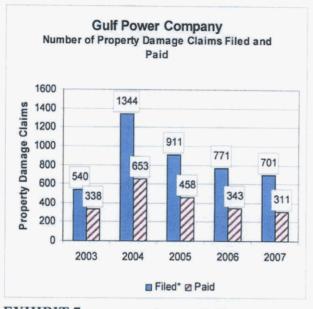
Exhibit 7 shows the number of customer property damage claims filed and paid during the period of 2003 through 2007. Over the five-year period shown, Gulf received an average of 853 property damage claims per year. In 2004, the company received 1,344 claims, which is an increase of 149 percent over the previous year. It is noted that Gulf's increase can be attributed to significant abnormal storm activity during this time.

For the period of 2003 through 2007, the company paid an average of 421 (49 percent) of the total claims received each year. Most of the 51 percent of the claims that remained unpaid were due to the following causes:

- The claim was denied payment when no fault was found on Gulf's equipment.
- The customer failed to pursue the claim by submitting repair estimates or receipts to Gulf.
- The claim was pending further investigation.
- The claim was in litigation.

As shown in **Exhibit 8**, during 2003 Gulf paid 62.6 percent of the total claims that were pursued by customers. The percentage of claims paid has decreased in the following years to the current low of 44.4 percent in 2007. During this period, staff did observe an increase to the number of claims reported in categories that are traditionally not paid due to circumstances that are outside the company's control. These claim codes include: lightning, other parties at fault, customers' trees interfering with the wiring, and customer equipment failure.

Due to customer inaction, some claims are not paid even after Gulf accepts liability. If a customer's claim is accepted, the customer must obtain repair or replacement estimates on the damaged equipment and then submit that paperwork to the company for reimbursement. If the company has not received any contact from the customer within 60 days, the claim will be closed as "No Action/Info Only" with no payment made. The claim can be reopened, but only after the required customer documentation is received by Gulf.



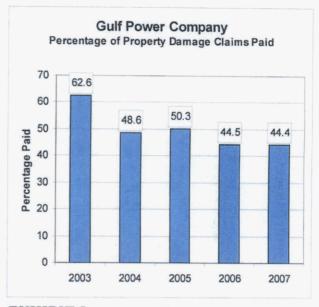


EXHIBIT 7

Source: Gulf's response to Document Request 1-3

EXHIBIT 8

Source: Gulf's response to Document Request 1-3

Exhibit 9 shows the total dollars Gulf paid in property damage claims over the period of 2003 through 2007. During this time, the company paid out an average of just over one-half million dollars per year. When compared to the number of claims paid each year in **Exhibit 7**, the company's average payment per property damage claim is \$1,245.

Exhibit 10 shows the ten most frequent causes, from highest to lowest, for customer property damage claims filed against Gulf in 2007. Of Gulf's current cause codes, these ten accounted for 68 percent of the total claims filed in 2007. As shown, by far the greatest number of customer property damages filed were the result of open neutrals (160), followed by lightning (59), transformer failure (48), meter socket failure (42), and customer equipment failure (41).

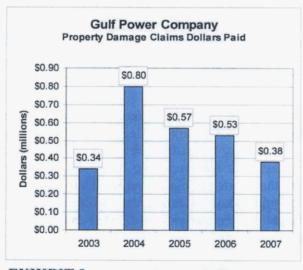


EXHIBIT 9

Source: Gulf's response to Document Request 1-3

Exhibit 10 also shows the number of claims paid in 2007 for each leading cause. In total, Gulf paid 227 (47 percent) of the 478 claims filed. It should be noted that five of the leading categories are causes that, due to their nature, are nearly always denied. These types of claims hinge on the assumption that Gulf should provide 100 percent availability with no interruptions at all. However, by its Continuity of Service Tariff, the company notes that it is relieved from the liability for property damages. The tariff states, "The company will exercise reasonable diligence and care to furnish and deliver a regular and uninterrupted supply of electrical energy." The tariff further establishes that in cases where the supply should be varied in frequency or voltage due to circumstances

beyond the control of the company, Gulf shall not be liable for any injury, loss, damage, or expense to the customer or to any other person, but it shall restore service as quickly as possible.

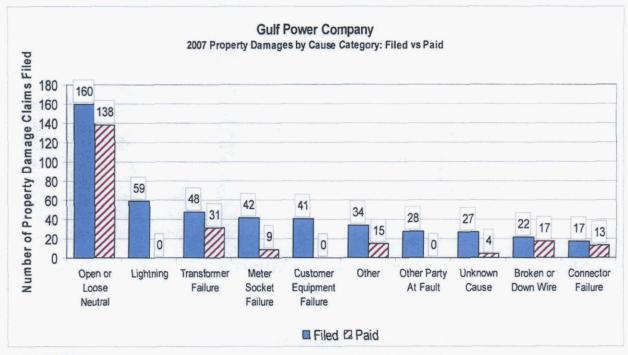


EXHIBIT 10

Source: Gulf's Response to Document Request 1-3

3.3 Claims Handling

How does a customer file a property damage claim with Gulf?

Gulf considers a claim to be filed when a customer calls into the Customer Call Center to report a claim, calls or walks into any office to report a damage claim, e-mails the company, or sends in written notification of a claim. Claims can also be forwarded by Gulf work crews that have spotted potential damage in the field, even in cases where the customer may not yet be aware of the damage. Gulf will try to contact the customer and let them know what the crew found. If the customer wishes to file a claim, the Claims Representative can assist them at that time.

Typically, a claim is initiated by the customer calling into the Customer Call Center, once the customer believes a problem exists. The call center representative collects basic information from the customer and identifies the call as a property damage claim. The call center representative forwards the call to the appropriate claims representative based on where the customer experienced the damage. After receiving the claim, the claims representative attempts to make contact with the customer within two business days. During the initial contact, the claims representative will research the Trouble Call Management System (TCMS) and attempt to let the customer know whether Gulf is accepting liability or denying the claim. Reasons for denial at this point would include: a confirmed lightning strike in the area, a vehicle striking a pole resulting in the outage, or damage caused by an animal. If the cause is not determined at the initial contact, or if the company is accepting liability, the customer will be notified that further

investigation is required. At this time, the customer will be provided information on what documentation will be required to complete the claim.

How does Gulf investigate a customer's property damage claim?

Once assigned a claim, the claims representative opens a new file in Gulf's Risk Management Information System (RMIS) called Riskmaster. The representative then conducts a preliminary investigation utilizing internal systems, such as the Customer Information System (CSS) and the Trouble Call Management System (TCMS). The TCMS stores trouble ticket data that details problems reported, the time of the report, the type of repair or maintenance performed, and when service was restored. The representative can also research weather reports to identify potential storm damage which include tracking the time and location of lightning strikes. The representative also has access to all Gulf employees, including maintenance teams and subject matter experts who can assist them in determining the cause of the damage.

If the preliminary investigation indicates company liability for the damages, the representative contacts and informs the customer of the outcome. If the representative requires additional information to determine liability, they may also request that a Recording Volt Meter (RVM) be installed at the customer's residence to monitor and record Momentary Power Interruptions (MPIs).

If Gulf accepts liability for a claim, how does it reimburse the customer for damages?

Under Gulf's claims handling procedures, representatives are allowed to negotiate and settle claims for up to \$5,000. All claims that are settled with a payment to the customer are reviewed by the Claims Manager before payment is issued. Any claim settlement greater than \$5,000 must also be reviewed by the Corporate Services General Manager.

For claims requiring repair estimates and/or work to be completed, the customer may select a vendor of their choice or one from Gulf's list of authorized vendors. If a vendor is selected from Gulf's list, the claims payment is made directly to the vendor. If the customer chooses a vendor that is not on Gulf's list, the company will reimburse the customer for any reasonable evaluation/diagnostic fees, once the paid invoice is submitted to Gulf. In rare instances, Gulf utilizes a procurement card that allows the claims representative to authorize payment to an outside vendor if an authorized vendor is not available to the customer. While the company states that the procurement card is not a preferred method of settling a claim, it does provide an option to assist a customer who does not have the resources to pay for estimates and repairs up front.

Once the customer presents all the required documentation to settle the claim, Gulf will reimburse the customer for costs incurred repairing their equipment. If an item is deemed non-repairable, or the repair cost is greater than the current value of the item, Gulf will pay to have the item replaced. The claims representative uses the provided model and serial number for the item to determine its current value. While the depreciation tables used are based on the type of equipment and its expected useful life, Gulf will not deduct more than 50 percent of the item's value regardless of how old the item is.

3.4 Claims Sample Analysis

Is Gulf timely, consistent, fair, and compliant with its procedures for handling customer property damage claims?

Due to a change in 2006 to Gulf's policies and procedures that significantly changed the organizational structure of the claims department, staff chose to conduct an analysis of a limited judgment sampling of claims filed from June 2006 through August 2008. Audit staff evaluated 24 claim files to assess the handling process. Through the sample analysis, audit staff sought to formulate an overall opinion of the company's claims process based on four categories: timeliness, consistency, fairness, and compliance with the company's own established guidelines.

Timeliness

In review of Gulf's claims handling timeliness, audit staff compared the goals and objectives highlighted in the *Risk Management Claims and Litigation Team Goals and Objectives* to the actual results that were documented in the customer claim file. Claims Representatives were reviewed on the timeframe for the initial customer contact, submission of customer payment request, and the completion of the claim investigation. Also in consideration was if the claim was closed within 60 days if there was no response from the customer.

Audit staff's review of this sample indicated failures in documenting key dates involved in the claim. Of the 24 claims sampled, 16 claims (66 percent) contained dates that could not support a finding that indicates the claims were being completed in a timely manner. Key areas of the claims report that were often omitted were the closed date, transaction information, and the date of customer or vendor payments.

As noted, in mid-2008, Gulf's Ri- which included the Claims Department.	sk Management Group participated in an internal audit

Audit staff observed that the lack of entering information into the Riskmaster system at the time the event occurred leads to inaccurate and incomplete reporting of key facts. The timeline of key events of the claim investigation cannot be followed or reconstructed based on the information that is being entered into the claim file. Gulf's policies and procedures identify the Riskmaster system as the company's means of documenting and tracking claims.

Consistency

Audit staff's analysis of the consistency in handling the sampled claims included adherence to the *Gulf Power Company Claims Procedure Manual*, adherence to the pay/deny matrix as identified in the *Riskmaster Damage Claim Codes*, uniform application of depreciation and valuation methods, and consistent use of the case information. To the extent possible, audit staff attempted to determine whether like cases were treated similarly and whether consistent use was made of company guidelines and processes.

Audit staff observed in its sample analysis that Gulf is consistent when determining liability for a property damage claim and the results are consistent with its pay/deny matrix. It appears claims receive consistent handling by the various representatives.

The sample included 15 claims that were paid, and 4 claims that were denied payment. The claims that were paid were consistent with the pay/deny matrix along with two of the four denied claims. The denied claims involved damage codes that are not paid by Gulf, in these cases unknown cause and tornado/hurricane. The other two denied claims could not be determined by audit staff due to no cause code used, and no notes that describe the elements of the claim. The remaining five claims appeared to be eligible for reimbursement under the pay/deny matrix, but were closed as "no action/information only."

Upon reviewing the sample claims, audit staff did see inconsistencies with documenting the claims. The quantity and quality of information varied through every claim. Audit staff observed multiple claims within the sample that did not have cause codes assigned, but a decision was still reached as to whether or not the claim would be paid. Two of these claims were denied with no notes entered into the system other than "No problem on Gulf's end, claim denied" and no mention of what the claim was about. Most of the claims contained handwritten notes that were never entered into the Riskmaster system. For a few of the claims, the handwritten notes were illegible. Audit staff also notes that not all claims packets contained the same information and often details were left out of the report, such as how the representative arrived at a dollar figure to offer as a payment allowance.

Audit staff believes that accurate and consistent documentation is essential to properly recording property damage claims. The lack of proper documentation does not allow for an outside auditor, or the company's claims manager, to review the claim and arrive at an accurate understanding of the process flow of the claim. While it is understood that the claims representatives use other internal systems through the course of the investigation process, all information relevant to the claim should also be transferred to a single location, such as Riskmaster, to accurately document the investigation and the representative's decision.

Fairness

When determining the fairness of the company's property damage claims process, audit staff reviewed all claims to check for uniformity in the decision process. Audit staff also interpreted fair resolution to mean the methods for determining the value of the damaged item were fair to both the customer and the company. Claims that were denied were reviewed to evaluate the claims representatives determination of liability when compared to the company's pay/deny matrix.

For smaller items (clock radios, phones, etc.), televisions that are 27 inches or smaller, countertop microwaves, and most VCR/DVD players, Gulf does not require a diagnostic

evaluation unless they are new/high-end models. Large screen televisions, appliances, computers, and high-end items do require a diagnostic evaluation and will be repaired rather than replaced if repair is cost effective. For smaller items and evaluated items that cannot be repaired, the company will pay the actual depreciated value of the item to the customer using the same valuation/depreciation tables that are used by all the insurance companies.

Within the sample, 15 claims indicated the company's policy and procedures manual were not being used. Claims representatives gathered the items' information, such as model number, and sometimes serial number, but did not collect the items' ages. The representative often used a retail website to find a similar item and issued payment or authorized purchase at the price of the new item with no depreciation used. Audit staff also noted several instances when the claims representative offered an allowance to the customer to settle the claim, but included no documentation to describe how that amount was calculated.

The one claim where a depreciation table was used included two items that actually met the requirements of needing a diagnostic examination first. No examination was performed and the depreciation table was used with what may appear to be an inflated purchase price provided by the customer. With no supporting documentation within the claim paperwork indicating why such high values were used, the customer may have been paid more than necessary for compensation.

Audit staff observed practices in collecting damaged item information that may have exposed the company to fraudulent claims. Customers called or faxed information to the representatives without any verification that the items actually existed. For smaller claims, it may not be cost effective to verify each item. However, for a list of items totaling thousands of dollars, the company should require verification that the customer owns the items even if a visit to the customer's premises is required. At least one such instance was observed where no verification was performed. Similarly, at least one customer told the representative that they had thrown the damaged item away prior to filing the claim or allowing the item to be evaluated, but still received reimbursement.

Audit staff believes the company should consider the use of a claims form that the customer must sign to both verify the items they are reporting damaged, and acknowledge that knowingly filing a false claim is unlawful. Audit staff also believes that all depreciation and methods used to determine settlement should be documented in detail in the Riskmaster system.

Compliance

Audit staff's review of Gulf's compliance in claims handling included whether claims activities were handled according to company policies, procedures, and guidelines.

The manual does highlight the standards the company requires its claims representatives to follow when investigating a property damage claim. Gulf also has a pay/deny matrix that is categorized to allow accurate identification and tracking of causes of property damage and types of equipment failure.

Audit staff's sample analysis indicated that claims representatives are using the pay/deny matrix properly and arriving at conclusions that are fair to both the customers and the company. However, of the 15 claims within the sample that were paid, staff concluded 10 claims (66 percent) contained property valuations that were not in compliance with Gulf's policies and

procedures either by the method used to determine the amount paid, or a lack of supporting documentation to support how the representative determined the amount. Audit staff believes that entering all information that is relevant to the claim into the Riskmaster system could improve management's ability to track claims and identify areas that should be further addressed.

3.5 Customer Education and Protection Plans

What efforts does Gulf make to inform customers of the property damage claims process?

Though Gulf does not have any property damage claims education materials for customers, the company does use written materials to inform customers on power outages and/or power quality issues through its Premium Surge Protection brochures for both commercial and residential customers. This information is also available online at www.Gulfpower.com. Information about the property damage claims process is available to the customer through the Customer Call Center, and when speaking to a claims representative when filing a property damage claim.

What programs are available through Gulf to prevent potential damage to the customer's appliances and equipment?

Gulf offers customers a surge protection plan called Premium Surge. Premium Surge protects the customer by using three surge devices that are installed at the customer's home. These surge protectors are placed at the electric, phone, and cable/satellite entry points, and they are designed to divert surges into the ground and away from the home's internal wiring. This program is backed by Tesco, the equipment manufacturer, and is warranted for up to \$50,000 repair or replacement per incident or \$5,000 per item. The installation fee, a one-time charge of \$24.99 and monthly fees of \$9.99 per month are added to the customer's bill.

If the customer should experience property damage while covered by Premium Surge, they are to contact Tesco to submit a claim. Gulf does not handle claims on homes covered by the Premium Surge equipment. Premium Surge is only offered through Gulf and is not an entity of Gulf Power or Southern Company. While Premium Surge is a protection plan designed to cover all the appliances within a household, Tesco does not warranty certain equipment, to include:

- Medical, healthcare and life support equipment,
- Real property and fixtures,
- Equipment or appliances in or associated with detached buildings or fixtures, including, but not limited to, garages,
- Personal property which, in Tesco's reasonable discretion, does not constitute ordinary in-home electronic equipment or mechanical appliances,

- In-home electronic equipment or mechanical appliances which, in Tesco's reasonable discretion, deem to be used primarily for commercial purposes or extraordinary home office/business purposes,
- Products, materials, data, or information used or stored on or in in-home electronic equipment or mechanical appliances.

3.6 Conclusion

Overall, during the period reviewed, staff believes Gulf provided its customers timely, consistent, and fair property damage claim investigations. Staff has identified several areas that offer an opportunity for Gulf to further improve its claims handling efforts. From the information gathered, on-site interviews conducted, and the sample analysis results, staff developed the following recommendations:

- Gulf should comply with the PSC reporting requirements for Rule 25-6.019(2), Florida Administrative Code, regarding reporting of property damage exceeding \$5,000.
- Gulf should comply with the company's policies and procedures when determining the value of damaged property.
- Gulf should comply with the company's policies and procedures and should improve its accuracy, consistency, and completeness of documentation of claim information.
- Gulf should require customers to sign a form to verify damaged property and acknowledge the claim to be true and correct.

Over the period covered in this review, Gulf has implemented several changes to its customer property damage claims department. Staff believes these changes, which are highlighted throughout this chapter, are appropriate and improve the claims process.

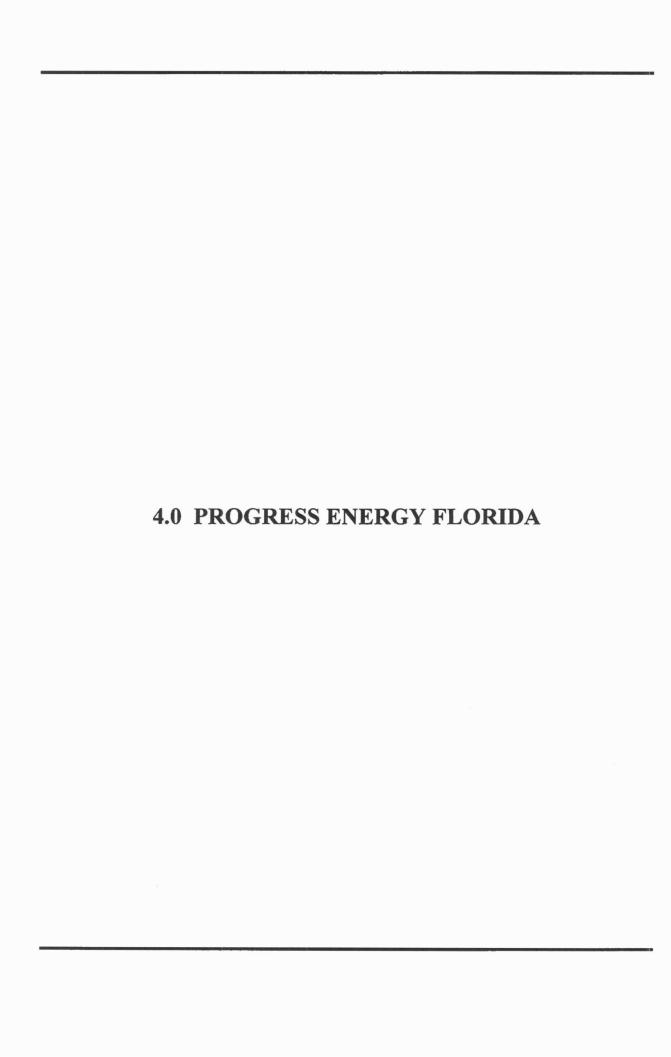
At the time of this review, Gulf was not complying with Rule 25-6.019(2). Discussions between FPSC staff and Gulf clarified these reporting requirements, and Gulf has agreed to provide a listing of all reports meeting the above listed requirements retroactive from 2003 through 2008 to date.

Staff believes that claims representatives are utilizing the pay/deny matrix properly and arriving at conclusions of investigations that are fair to both the customers and the company. However, many claims contained property valuation that is not in compliance with Gulf's policies and procedures either by the method used to determine the amount paid to the customer, or a lack of supporting documentation to support how the representative determined the amount.

Audit staff believes that accurate and consistent documentation is essential to properly recording property damage claims. The lack of proper documentation does not allow for an outside auditor, or the company's claims manager, to review the claim and arrive at an accurate understanding of the process flow of the claim. Gulf's policies and procedures identify the Riskmaster system as the means Gulf uses to document and track claims.

Staff believes that entering all information that is relevant to the claim into the Riskmaster system should improve management's ability to track claims and identify areas that should be further addressed.

Audit staff believes that Gulf should require customers to sign a form that verifies damaged property and acknowledges the claim to be true and correct. Claims representatives are frequently receiving this information from the customer without verification that the items even exist. Without this form, Gulf does not have a control in place to reduce the potential for fraud in either claim reporting, or payment of the claim.



4.0 Progress Energy Florida

Progress Energy Florida (PEF) is the second-largest investor-owned electric company in Florida. PEF serves approximately 1.7 million customers, within a 20,000 square mile 35 county service territory, located in the western, central, and Panhandle areas of Florida. PEF's Claims Team is responsible for receiving and processing customer property damage claims and handles approximately 3,800 customer property damage claims annually. This represents about two-tenths of one percent of PEF's total customer base.

4.1 Policies and Procedures

Does PEF have clearly defined policies and procedures for handling customer property damage claims?

Progress Energy Florida does not have a formally documented policies and procedures manual. The company has automated its handling of customer damage claims through the use of STARS. STARS is a risk management information system used to quantify, assess, address, and manage company risks and associated costs. STARS provides prompts and instructions for system users, leading them to the appropriate areas for documenting and processing the customer damage claim.

PEF believes that the use of an automated system allows claims team members to be productive in handling claims within a shorter period with less formal training. Therefore, the company believes a written claims manual would be redundant to the tools it is already using. STARS consolidates the company's relevant risk information, including claims incidents, property data, and risk exposure for management analysis. The claims team uses STARS to document notes regarding claims activities and conversations with the customer and to construct a permanent record of events during the life of the claim.

However, in staff's opinion, STARS does not document and provide instruction for every aspect of the claims process. While many topics can be researched throughout PEF's intranet and computer systems, specific direction on the use of corporate insurance, requirements for documentation of claim information, customer release requirements, and acceptable methods to calculate depreciation for customer settlement should be documented. This and other claims information not within STARS should be provided in written PEF claims procedures.

In addition to the STARS automated claims system, PEF uses documented claims payment scenarios as a means of assisting team members in making more consistent claims decisions. These 32 scenarios provide a template to assist team members in evaluating when a claim should be denied and when it should be further investigated for possible payment. A brief explanation to clarify the scenario's use, and when a pay or non-pay action should be taken, are also provided within the template. A comparative chart, located in **Appendix A**, shows PEF's property damage claim payment policies for various situations or causes in relation to the other three companies within this review.

What are PEF's customer property damage claims goals and objectives?

PEF's claims team's 2008 goals are to close 60 percent of all claims within 10 days of receipt and to close 80 percent within 30 days. Claims that are on hold entirely due to the customer's inactivity are considered pending (neither open nor closed) and are excluded from the total claims amount. PEF's objective is to contact 90 percent of claims customers within one business day after the initial notice from the customer is entered into STARS. Another objective in 2008 is that no claims investigator will have an annual workload more than 5 percent above or below the average workload of the claims team. Finally, PEF's objective for 2008 is that each investigator shall take the required continuing education classes necessary to maintain their Property Claims Adjuster's license.

In addition to the above goals and objectives, the claims team's performance is reviewed regularly by the claims manager. A monthly report is maintained showing the workload statistics for each claims adjuster, the forecast and actual claims volumes, forecast and actual claims costs, monthly average dollars paid, claim dollar amount paid to date, and comparisons of the current and past year. This report and other management tools allow the claims manager to assess the team's performance on a monthly, quarterly, annual and historical basis. The claims manager can also review the number of open claims per claims adjuster by month, 10 and 30 day percentage goals, monthly claim workloads, and claims generated by company operations centers. Together, these reports allow the claims manager to monitor all of the 2008 claims team goals and objectives.

What recent changes have been made to PEF's property damage claims process?

Since 2004, company operations and controls have been reviewed by PEF Internal Auditing to document existing company controls for each business unit and to identify areas of risk within the companies. During this timeframe, PEF Internal Audit began documenting the entire claims process, the controls in place, potential risk areas, and any deficiencies found. The initial claims team review established a control base from which to comply with Sarbanes-Oxley requirements.

Since that time, monthly follow-up reviews have been performed throughout the company, including the claims area, based on continuing business unit risk assessments. Although the company notes a formal internal audit of claims has not been performed during the period 2003 through 2008, PEF Internal Audit believes the monthly Sarbanes-Oxley reviews justify the low risk assessment placed upon the need for a formal claims audit.

PEF Internal Audit believes the continuing Sarbanes-Oxley review and testing process validates the risk assessments. As Sarbanes-Oxley reviews are completed, the company is continually re-assessing business unit controls, identifying potential risks, and re-assessing where to utilize audit resources most effectively.

A key organizational change was made in 2006, when the PEF claims manager for many years retired. The Associate General Counsel became the claims manager, in addition to other legal duties. This change consolidated the claims team under the General Counsel's Office.

Does PEF's property damage claims process comply with established Florida Public Service Commission rules and regulations?

Progress Energy Florida's process for handling customer property damage claims appears to follow company policies and procedures. However, PEF is not in full compliance with Rule 25-6.019(2), Florida Administrative Code, Notification of Accidents. As stated in the Rule,

Each utility shall report to the Commission within 30 days of any malfunction of or accident involving any part of the electrical system, fire, or explosion, that:
(a) Involves damage to the property of others for an amount in excess of \$5,000, or

(b) Cause significant damage, in the judgment of the utility, to the utility's facilities.

Staff's review of claims greater than \$5,000, during the period 2003 through 2008, showed PEF had not met filing requirements. PEF reported four of 56 paid claims greater than \$5,000 during the period. When asked about the company's reporting during the period, company representatives mentioned that there may be some uncertainty of when to send a report, based on the reading of the rule. The company further stated that it did not have "well articulated reporting criteria and controls in place during 2003-2005".

During the review, PEF clarified the reporting requirements with the appropriate FPSC staff, and PEF employees responsible for reporting. PEF states that it is also taking the following corrective actions to improve reporting compliance with Rule 25-6.019(2):

- Retraining all claims investigators regarding the commission rules requiring reporting of claims in excess of \$5,000.
- Requiring that all claims in excess of \$5,000 be approved by a second signature of the claims manager or a senior investigator.
- The claims associate has been trained to flag all payment requests in excess of \$5,000 to ensure compliance.
- ◆ Investigator goals for 2009 will include 100 percent compliance with the reporting of claims greater than \$5,000.
- Retroactive reports for 2006 and 2007 are being submitted to the Commission to bring reporting requirements current through that period.

PEF's plan for inspecting and maintaining its plant facilities is important to customer damage claims because the frequency and quality of company inspections may impact the overall condition of facilities and the quality of service provided. Rule 25-6.036, F.A.C., Inspection of Plant, states:

Each utility shall adopt a program of inspection of its electric plant in order to determine the necessity for replacement and repair. The frequency of the various inspection shall be based on the utility's experience and accepted good practice.

Each utility shall keep sufficient records to give evidence of compliance with its inspection program.

According to PEF representatives, the company has an established distribution maintenance plan for overhead service lines that allows it to assess the need for repair or replacement of overhead facilities. PEF states that it conducts regular review and inspection of its overhead facilities through both routine and planned maintenance activities. For instance, PEF conducts scheduled and hot spot tree trimming activities on its feeders and lateral lines to keep trees and limbs away from those lines. PEF also regularly inspects and completes routine maintenance on its substations, to assure they are in satisfactory operational condition, to reduce system outages, and to prolong the substation's service life. PEF also maintains records of these activities in its work order system as the work is completed and historical records are maintained.

PEF states there is no reliable, cost-effective way to inspect underground wires. Underground wire inspections are handled only through routine daily field maintenance operations. Understandably, PEF customers often experience a failure before the company knows there is a condition in the underground cable to repair or replace. Once a wire failure has been identified, the necessary repair is completed, and the wire is placed back into service.

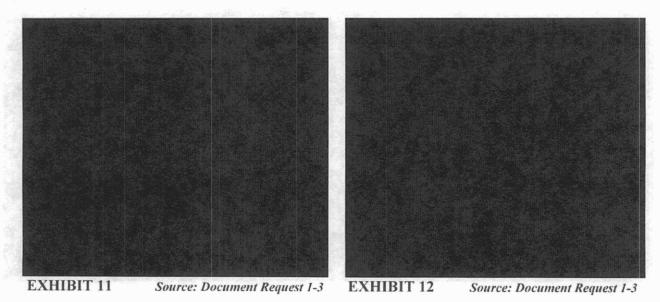
4.2 Disposition of Claims

What recent customer property damage claim trends are observable for PEF for the years 2003 through 2007?

Exhibit 11 shows the number of customer property damage claims filed and paid by the company for the period 2003 through 2007. PEF received 19,129 "A" claims during the period. "A" claims are claims that customers file against the company, as opposed to "B" claims, which are filed by the company against other parties. PEF paid 5,891 of the 19,129 "A" claims received during the period 2003 through 2007.

As shown in the exhibit, 2003 was the highest claim year PEF experienced during the period. The number of TEC property damage claims reported annually has steadily decreased since 2003. To provide additional perspective, the company averaged 3,826 property damage claims filed annually during this period which represents approximately two-tenths of one percent of PEF's total 1.7 million customers served. Thus, the number of claims filed represent a very small percent of the total customers served.





PEF stated that although there is an annually budgeted amount for the claims operation, the company does not base approval or denial of claims on the budgeted amounts. If claims exceed budget, then additional funds for that particular year are requested. On the other hand, if surplus dollars remain at the end of the year, those dollars can be used elsewhere in the company.

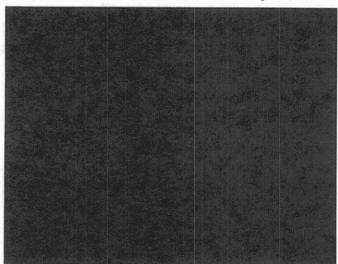


EXHIBIT 13

Source: Document Request 2-2

PEF's Claims Manager stated that the goal is to manage the claims budget so that at the end of the year there would be a zero balance in the budget.

Exhibit 14 shows the ten most frequent causes, from highest to lowest, for customer property damage claims filed against PEF in 2007. Of PEF's current cause codes, these top ten causes accounted for 90 percent of the total claims filed in 2007. As shown, the greatest number of customer property damage claims filed were the result of

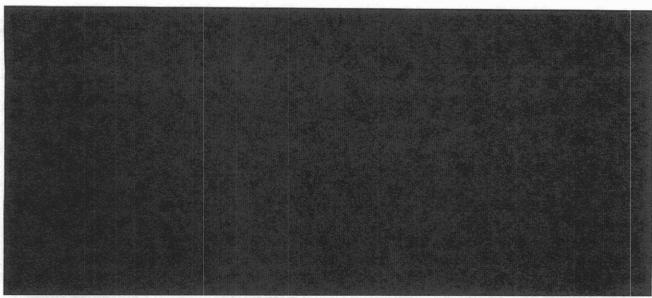


EXHIBIT 14

Source: Document Request 2-2

4.3 Claims Handling

How does a customer file a property damage claim with PEF?

According to the company, PEF customers may file a property damage claim by telephone, mail, or the Internet. Most customer property damage claims begin with a telephone call from the customer. Customers are generally familiar with contacting the company through the Customer Care Call Center or Business Office for any service-related problem.

Customer property damage claims may also be received from PEF's Consumer Affairs department, by e-mail to the claims team, or by a property damage referral from another internal department identifying a potential customer claim situation requiring investigation. Upon occasion, claims are also received by the company through an attorney or agent. Generally, those claims will be negotiated by legal representation or litigated in the court system.

If the property damage claim call comes through the Call Center to a customer service agent, basic claim details are entered into the Customer Service System (CSS) and a property damage claim is constructed. CSS then generates a claim in STARS, where an investigator is assigned the claim.

How does PEF investigate a customer's property damage claim?

After being assigned the claim in STARS, the investigator contacts the customer by the next day. If the investigator is unable to reach the customer by phone, a "call me" letter is mailed to the customer. If the investigator is able to reach a recording or voicemail at the customer location, a message is left for the customer.

Once contacted, the claims detail is gathered from the customer and the investigator refers the claim to the correct internal department, if other than the claims team. For instance, a

claim regarding surge protection devices obtained through PEF would be forwarded to Marketing and Energy Services to handle under the manufacturer's warranty and that department's policies and procedures. If a claim against the company results from its contractor's negligence, the claim will be sent directly to the contractor for resolution. PEF noted that its contracts require PEF to be indemnified from all damages caused by the contractor and its personnel.

If the claim is handled by the claims team, the investigator will conduct an investigation using company systems to gather data about the cause of the damage. The investigator will also contact field personnel involved with the repair work to gather additional information. The investigator will initially try to establish whether there is any company liability for the claim.

If the cause of the claim condition is an act of nature, such as lightning, storm, tornado, or other unpreventable weather-caused events, the claim will be denied. Those types of claims hinge on the assumption that PEF should provide 100 percent service availability with no interruptions at all. However, by its *Continuity of Service Tariff*, the company is relieved from liability for these types of property damages on the basis that the company cannot provide continuous service during such unpreventable acts of nature.

PEF states that its policy for handling customer damage claims is that it pays all customer damage claims caused by failures due to "the culpable actions of its employees". For instance, if an overhead or underground facility fails due to identified human performance error on the part of PEF, the claim will be paid.

When an overhead or underground secondary cable fails within the first two years of service and the cause is unknown, PEF's claims payment guidelines state that the claim is paid. The company states that its reasoning is that generally, a line that is damaged during installation or has a manufacturing defect will fail within the first two years after installation. If, due to an improperly prepared splice, a line fails and causes damage to the customer's equipment, PEF would consider this to be a workmanship issue and would pay for the customer property damage. If a similar failure is experienced within weeks of the first repair, PEF would again consider the failure to be a workmanship issue and would pay for the customer property damage.

In the case of a first or second underground repair, where no workmanship or other PEF culpability is found, and no company negligence exists, a damage claim would not be paid unless the cable was less than two years old. However, PEF will presume "culpability" if underground facilities fail for a third time. The company believes the third repair indicates the end of the facility's useful life and a potential failure by PEF to identify this condition when making the second repair. PEF believes that only after two repair attempts should it be concluded that the company is to blame for the failure of and damage caused by its underground facilities, where no workmanship or other PEF culpability is found.

Claim denials are made to the customer by phone or mailed, if direct contact cannot be made. If the customer is not satisfied with the company's decision, a second opinion can be requested. The Claims Committee, consisting of Senior Claims Administrators, completes a claims review of any claims escalated for further review to examine whether the investigator considered all relevant information and came to a sound decision. If the customer is not satisfied after the first appeal, the claim will proceed to the second level of appeal, the Claims Manager.

If the Claims Manager reviews and upholds the decision, the customer can take the company to the FPSC or civil court for further appeal.

When the investigator determines company liability exists, a request is made for documentation of damages from the customer. This request can be by phone or letter depending on whether the customer is readily available. PEF notes that until the liability for an event is established, there is no reason to begin gathering detailed customer damage information. After the request for documentation is made, the investigator receives the information by phone or mail. Should the customer fail to respond after 30 days, the file will be closed as inactive. The claim can be reopened, once the customer initiates contact with the company. Once the customer provides the necessary documentation of items damaged, model and age of the damaged items, any repair costs already incurred, and any miscellaneous expenses related to the claim, the investigator can begin the adjustment process.

If PEF accepts liability for a claim, how does it reimburse the customer for damages?

From the information provided by the customer, the investigator determines the value of the damaged equipment. The investigator uses one of several methods of assessing the equipment's value. If the customer's equipment is repairable, PEF will pay to have the needed repairs completed. If the equipment is not repairable, PEF determines the used equipment value or the depreciated value of new equipment to replace the damaged equipment. PEF's policy is not to depreciate the damaged equipment value below ten percent.

The investigator determines the current value of the non-repairable equipment and provides the company's proposed claim settlement amount. If the customer approves the settlement amount, a check is requested from PEF accounting and mailed to the customer. If the customer does not approve the settlement amount, an appeals process can be initiated to come to a negotiated agreement. The customer endorsement on the back of the settlement check is evidence of the completion of the claim. In some instances, claims with large dollar amounts and complexity require a more formal release document. However, these situations are not numerous.

4.4 Claims Sample Analysis

Is PEF timely, consistent, fair and compliant with its procedures for handling customer property damage claims?

Using PEF's database of claims filed from January 2003 through August 2008, audit staff conducted analysis on a statistically significant random sample of claim files to determine if the processing and payment of the claims were performed uniformly and fairly to both the customer and the company. Audit staff selected 90 claims and analyzed each one to formulate an overall opinion of the company's claims process based on four categories: timeliness, consistency, fairness, and compliance with the company's own established guidelines. This sample size provides a 90 percent confidence level with a margin of error of plus or minus 3 percent.

Timeliness

In review of PEF's claims handling timeliness, staff considered the company's initial customer contact, providing necessary documents for customer input, investigating the claim, notifying the customer of the claim decision, handling of "no customer activity" claims, and closing claims files in a timely manner.

In considering timeliness, staff found that 80 of the 90 claims files (88.9 percent) examined were handled in a timely manner, exceeding

Five claims were delayed when the customer failed to take action, and they were included within the 80 timely claims.

Ten claims found to be untimely were characterized by claims completion timeframes between 46 and 247 days. Three of the claims were completed between 37 and 64 days, two were completed between 77 and 78 days, two were completed in 112 days, and one claim took 247 days to complete. Four of the claims were tree-trimming related, one was due to a failed transformer, one was reopened three different times before resolving the claim, and one claim was the result of the company not converting temporary service to permanent service in a timely manner.

Consistency

Staff's review of PEF's consistency in claims handling included whether the claim processing effort was generally consistent in claims documentation, treatment of customer claims requests, use of the company pay/deny claims matrix, use of depreciation methodology, notification of the claims decision, and payment of claims.

Staff found that 76 of the 90 claims (84.4 percent) were consistent in PEF's review, documentation, treatment, decision-making and payment of claims. The 14 claims (15.6 percent) found to be inconsistent were characterized by seven denied claims that were paid in other instances with similar conditions and cause codes, but they were not paid in those instances. Three claims were closed as "inactive" in less than the normal 30 days allowed. Three claims were insufficient in file documentation to allow staff to determine consistency in claims handling methodology and treatment. Within the seven denied claims, three involved underground causes and two were related to "tree trimming" causes. Overall, staff's sample results show that PEF was generally consistent in handling claims during the period from January 2003 through August 2008.

Fairness

Staff's review of PEF's fairness in claims handling evaluated whether claims were considered and treated equally, claims decisions were fair and equitable, customer equipment was fairly valued and depreciated, and whether customers were fairly notified of the claims decision.

Staff found that 78 of the 90 claims reviewed (86.7 percent) were fairly handled. In 12 instances (13.3 percent), staff believes PEF did not fairly handle the claims. Characteristic of these 12 claims were ten of the same claims that staff identified as inconsistent. Examples of claims unfairly completed included several denied claims that were paid in other instances with similar conditions and cause codes, a claim was identified as "no activity" and closed within two days, and numerous claims where a lack of documentation made it difficult for staff to determine

fairness. Staff's sample results show that PEF generally provided fair handling, evaluation, and payment of claims during the period from January 2003 through August 2008.

Compliance

Staff's review of PEF's claims handling compliance considered whether claims were completed according to company policies, procedures, and guidelines. Staff's sample of 90 claim files showed that 73 (81.1 percent) were compliant.

Staff identified seventeen (18.9 percent) situations where the company's handling of claims was not compliant, or the file documentation was insufficient to determine compliance. Included in these claims were eight claims that were also considered to have been handled unfairly. Characteristic of the seventeen claims identified as non-compliant were, several instances where PEF closed claims as inactive the same day, six instances where PEF appeared to deny payment for a cause code paid in other claims, and seven claims where documentation was insufficient to determine compliance with PEF rules. Staff believes PEF's customer damage claims handling was generally compliant with company policies, procedures, and guidelines during the period from January 2003 through August 2008.

4.5 Customer Education and Protection Plans

What efforts does PEF make to inform customers of the property damage claims process?

PEF does not provide public service announcements relating to customer property damage claims. Like the other electric companies reviewed, PEF has not promoted the damage claims program to customers, because the company believes it may encourage fraudulent claims.

PEF promotes its Customer Care numbers on the internet, through billing statements, and through advertisements included with the monthly bill. The company believes most of its customers will call into the company through the Customer Care Centers to seek help in a property damage claim situation. Once the call is received by the care center representatives, a claims call can be readily identified, and it can be easily directed to the claims team. Additionally, PEF field employees involved with customers in potential claims situations are familiar with the Claims Management number and can direct the customer accordingly. Therefore, PEF believes there is no need to advertise its claims program.

What programs are available through PEF to prevent potential damage to the customer's appliances and equipment?

For more than ten years, PEF has offered surge protection devices to its customers, through a non-regulated arm of the company. Market and Energy Services uses a network of contractors to install, maintain, and grant warranties for their meter-based and plug-in surge protection devices, home wiring service, and customer billing payment services in Florida. PEF surge protectors can provide a double layer of defense against electrical surges for home electronics and appliances. However, the company readily admits that no surge protection can protect the customer from a direct lightning hit. The purpose of these devices is to provide the customer with protection that will handle normal surges in power under regular operational conditions.

Contractors are licensed, bonded, and participate in Progress Energy Customer Service Training to assure adherence to company practices. To assure quality workmanship, only master electricians are used by the company. If the surge protector is destroyed by lightning or electrical surge, the unit is replaced immediately upon request to assure the customer remains protected. Defective units are returned to the factory for testing and refurbishment. If the unit can be repaired and returned to service, it is returned to the company for re-stock. Meter-based surge protectors carry a manufacturer's warranty as long as the customer remains on the service. Plug-in protectors carry a ten-year warranty, and the customer retains ownership of those devices.

4.6 Conclusion

Overall, during the period reviewed, staff believes PEF has provided its property damage claims customers timely, consistent, and fair claims service that is in compliance with the company's policies and procedures. Staff has also identified several recommendations that should provide further improvement to the company's claims handling efforts. From the information gathered, on-site interviews conducted, and the sample analysis results, staff developed the recommendations below:

- PEF should comply with the PSC reporting requirements for Rule 25-6.019(2), Florida Administrative Code, regarding reporting of property damage exceeding \$5,000.
- PEF should formally document its claims policies and procedures.
- PEF should review its pay/deny policy and consider whether its customer damage claims payment rate is reasonable and fair.
- PEF should improve the quality of its claims file documentation.

During the review, staff identified that PEF has not reported all instances of customer damages over \$5,000 as required by Rule 25-6.019, Florida Administrative Code, Notification of Accidents. During the period reviewed, PEF was not fully in compliance with reporting events greater than \$5,000 impacting customers. However, during the review, PEF reported that additional controls to rectify the reporting compliance going forward had been implemented. Staff believes PEF's additional controls and continued review of the reporting of claims greater than \$5,000 should bring PEF into compliance with Rule 25-6.019, Florida Administrative Code, Notification of Accidents.

PEF's mechanized claims system STARS provides prompts and instructions for system users, leading them to the appropriate areas for documenting and processing customer damage claims. However, in staff's opinion, STARS does not document and provide instruction for every aspect of the claims process. While many topics can be researched throughout PEF's intranet and computer systems, specific direction on the use of corporate insurance, requirements for documentation of claim information, customer release requirements, and acceptable methods to calculate depreciation for customer settlement should be documented. This and other claims information should be provided in written PEF claims procedures.

Based on its review of PEF's customer property damage claims process, and sampling of claims processed during the period from January 2003 through August 2008, staff believes PEF promptly and fairly receives, evaluates, and pays customer property damage claims submitted by its customers. However, PEF's claims payment level for the period was 9.2 percent lower than FPL, 17.7 percent lower than TEC, and 18.5 percent lower than Gulf Power. PEF's lowest claims payment level of 28.1 percent, in 2007, further suggests that PEF is more restrictive in its pay/deny decisions than are the other three electric investor-owned utilities reviewed (FPL 33.6 percent, TEC 48.7 percent, and Gulf Power 44.4 percent in 2007). Staff believes PEF should review its pay/deny policy and consider whether its customer damage claims payment rate is reasonable and fair.

Staff also identified that PEF claims documentation could provide better understanding of what went on with some claims. Some claims files made only cursory mention of the methodology and support for depreciation of damaged customer equipment. In other cases, used equipment prices were used instead of the depreciated current value. The chosen methodology for depreciating or arriving at a claim offer should be documented and included in the file. In other files, staff noted that PEF did not provide complete notes during the claims period. Gaps in notes leave out important claim information that provides better understanding. Files closed for inactivity the same day as the last contact with the customer leave questions as to PEF's consistent, fair and compliant handling. Staff believes PEF can improve the quality of its claims file documentation through better identification of claims decisions and methodology used to reach the decision, and by including copies of denial letters in the file. Additionally, greater attention to assuring notes are completed throughout the entire claims timeframe will provide better documentation of consistent, fair, and compliant claims handling.



5.0 Tampa Electric Company

Tampa Electric Company (TEC) is the third-largest investor-owned electric company in Florida. The company employs over 2,500 employees to serve approximately 668,000 customers within a 2,000 square mile service territory in west central Florida. TEC Claims Management is responsible for receiving and processing customer property damage claims, and it handles approximately 1,350 TEC customer damage claims annually, which represents about two-tenths of one percent of the total customer base served.

5.1 Policies and Procedures

Does TEC have clearly defined policies and procedures for handling customer property damage claims?

Tampa Electric provided a copy of its property damage claims general liability policies and procedures. The manual instructs claims staff members on topics including claims reporting, investigation and documentation, claim settlement, depreciation, and controls. The claims staff is also instructed on procedures for fulfilling the FPSC reporting requirements.

TEC has recently updated its Claims Procedure Manual to reflect the process and responsibilities for receiving, investigating, evaluating, and resolving company customer damage claims. The update reflects TEC's implementation of its automated handling of customer damage claims through the use of the STARS claims system.

STARS is a risk management information system used throughout the electric utility industry, as a tool to quantify, assess, address, and manage company risks and associated costs. STARS also consolidates the company's relevant risk information including claims, incidents, property data, and risk exposure for management analysis. Claims staff members also use STARS to archive any notes regarding the claims process. This capability provides documentation of activities and conversations with the customer, and it constructs a permanent record of events during the life of the claim. A comparative chart, located in **Appendix A**, shows TEC's property damage claim payment policy for various situations or causes in relation to the other three companies within this review.

What are TEC's customer property damage claims goals and objectives?

TEC has documented annual goals and objectives for the claims organization in the areas of departmental efficiency, client success, and corporate compliance. TEC 2008 goals related to departmental efficiency include:

- Monthly staff meetings to review claims matters
- Updating TEC's Claims Procedure Manual
- Completion of professional training to maintain adjuster's licenses
- Departmental cross-training to better understand other departmental operations
- Maintain the 15 year record of zero non-justified FPSC complaints
- Maintaining monthly key control documents for Sarbanes-Oxley compliance
- Maintaining a record of zero OSHA recordable and zero vehicular accidents

TEC goals related to client success include:

- Meeting periodically with its client groups
- Support company, departmental, and client efforts to control expenses
- Finalize EDI project for medical Workers' Compensation applications

TEC goals related to corporate success include:

- Maintain awareness of changes to Workers' Compensation law, and provide client information, training and compliance support
- Participate in FPSC training for reporting incidents in a timely manner
- Participate in annual FERC training by exempt employees

What recent changes have been made to TEC's property damage claims process?

During the period from January 2003 through August 2008 TEC has automated its claims management process through the use of STARS. The change to STARS has allowed TEC to employ an electronic database of claims information. STARS provides tracking and reporting information for property damage claims, allows claims personnel to document claims activities, and provides managers tools to monitor and evaluate claims trends, employee work load, claims aging, and claims closures. In 2008, TEC updated its Claims Procedure Manual to reflect the STARS automated process for receiving, investigating, evaluating, and resolving company customer damage claims and other duties and responsibilities of TEC Claims Management.

Since 2004, Tampa Electric operations and controls have been reviewed by TEC Energy Internal Auditing to document existing company controls for each business unit and to identify areas of risk within the company. During this timeframe, TEC Energy Internal Auditing completed the initial documentation of the claims management process. Internal Auditing documented the controls in place, potential risk areas, and deficiencies found.

The initial TEC Claims Management review in 2004 established a control base for compliance with Sarbanes-Oxley requirements. Eight risk areas were identified for Claims Management, and the appropriate mitigants were designed to minimize those risks. Since that time, monthly follow-up reviews have been performed throughout different areas of the company, including Claims Management, based on continuing business unit risk assessments. Thus, although the company notes a formal internal audit of TEC Claims Management has not been performed during the period from January 2003 through August 2008, TEC Energy Internal Audit believes the monthly Sarbanes-Oxley reviews satisfy the need for a formal Claims Management audit.

In addition to the monthly Sarbanes-Oxley reviews, an independent external auditor also reviews the tests and results completed by TECO Energy Internal Auditing to confirm quarterly results. The external auditor may also pull additional samples to further confirm results, if deemed necessary.

TEC Energy Internal Auditing believes the continuing Sarbanes-Oxley review and testing process provides validation of its risk assessments. Additionally, Internal Audit believes these reviews allow the company to focus corporate audit resources on higher risk opportunities. As Sarbanes-Oxley reviews are completed, the company is continually re-assessing business unit controls, identifying potential risks, and re-assessing where to use audit resources most effectively.

In 2008 Claims Management changed its on-line claim form to request the customer's home-owner's insurance carrier and policy number. This allows TEC to contact the insurance carrier to verify occasions where double payment could occur and to confirm the applicable policy deductible. The company also included a requirement that the customer will sign an acknowledgement that the claim is true and correct, and that the customer is aware that filing a false claim is a violation of state statute.

Does TEC's property damage claims process comply with established Florida Public Service Commission rules and regulations?

Tampa Electric Company's process for handling customer property damage claims is generally in compliance with Florida Public Service Commission rules. However, staff believes that during the period 2003 to 2005 TEC did not comply with Rule 25-6.019(2), Florida Administrative Code, Notification of Accidents. As stated in the rule,

Each utility shall report to the Commission within 30 days of any malfunction of or accident involving any part of the electrical system, fire, or explosion, that:

- (a) Involves damage to the property of others for an amount in excess of \$5,000, or,
- (b) Cause significant damage, in the judgment of the utility, to the utility's facilities.

TEC records show that during the period 2003-2005 claims greater than \$5,000 were not fully reported as required by Rule 25-6.019(2), F.A.C.. In April 2005, discussions between the appropriate FPSC staff and TEC clarified these reporting requirements, and missing reports were provided retroactively by the company. Since that time, TEC's reporting of claims greater than \$5,000 has significantly improved, and the company is in compliance with the rule.

TEC's plan for inspecting and maintaining its plant facilities is important to customer damage claims because the frequency and quality of company inspections may impact the overall condition of facilities and the quality of service provided. Rule 25-6.036, F.A.C., Inspection of Plant, states:

Each utility shall adopt a program of inspection of its electric plant in order to determine the necessity for replacement and repair. The frequency of the various inspection shall be based on the utility's experience and accepted good practice. Each utility shall keep sufficient records to give evidence of compliance with its inspection program.

To comply with Rule 25-6.036, TEC states it has an established distribution maintenance plan for overhead service lines that allows it to assess the need for replacement or repairs. For instance, TEC regularly conducts tree trimming activities on its feeder and lateral lines to clear

encroaching trees. TEC also regularly inspects and completes routine maintenance on its substations to assure they are in good operational condition, to reduce system outages, and to prolong the service life of substation components.

Underground cable inspections are handled through routine daily field operations reports. Like other electric utilities, TEC states that its routine daily field operations identify any issues with switchgear, pad mount transformers, and other equipment associated with underground service. Any issues identified are reported to the local operations service area for correction. Once identified, the necessary repair is engineered and placed into service.

Thus, by necessity, TEC customers may experience a failure before the company can become aware of a condition in the underground cable to repair or replace. TEC employees noted that this is not only experienced by TEC, and that the condition is industry-wide. Even with constant inspection, which would be cost prohibitive, faults for both overhead and underground service cannot be prevented in every case. TEC states its payment policy for equipment claims has been that if TEC equipment fails, for other than Acts of God, the company attributes the cause to its failure to maintain the equipment, and it accepts liability for customer damage caused by the failed equipment. If the trouble/repair technician notes that equipment failed due to something other than lightning or a car hit the pole, TEC accepts liability for the damage claim.

TEC states that there is no accurate, cost-effective method of inspecting and testing whether an underground line will possibly fail. TEC also observes that the National Electric Safety Code does not require inspections of underground facilities.

5.2 Disposition of Claims

What recent customer property damage claim trends are observable for TEC for the years 2003 through 2007?

Exhibit 15 shows the number of customer property damage claims filed and paid by the company for the period 2003 through 2007. During the period, TEC received 6,766 claims and paid 3,266 (48 percent) of the claims filed. **Exhibit 16** shows the annual percentage of property damage claims paid from 2003 through 2007. This percentage of claims paid remained fairly consistent during the review period, with TEC paying the highest percentage during 2003 (53.1 percent) and the lowest percentage being in 2004, (44.1 percent).

Exhibit 17 shows the total dollars paid by TEC for property damage claims, during the period 2003 through 2007. During this time, the company paid an average of \$2.3 million per year. When compared with the 653 average annual claims paid, as shown in **Exhibit 15**, the company averaged \$3,522 per claim paid over the period.

Exhibit 18 shows the ten most frequent causes, from highest to lowest, for customer property damage claims filed against TEC in 2007. As shown in this exhibit, the cause code Equipment Breakdown, Failure claims represents 858 of the 1224 total claims (70 percent) filed in 2007.



Tampa Electric Company Percentage of Property Damage Claims Paid 70.0 60.0 53.1 50.0 48.7 46.8 Percentage Paid 50.0 44.1 40.0 30.0 20.0 10.0 0.0 2003 2004 2005 2006 2007

EXHIBIT 15 Source: Document Request 2-3

EXHIBIT 16

Source: Document Request 2-3

In explaining why the Equipment Breakdown, Failure, cause code category was so large, TEC stated that most claims received are related to the failure of TEC's electrical equipment. According to the company, the limited information available from customer claims forms causes



EXHIBIT 17 Source: Document Request 2-3

many claims to be coded as Equipment Breakdown, Failure, unless more specific data is provided during the investigation phase of the claims process. TEC assigns the cause code to claims up front in the process, prior to an investigation. Thus, the final cause of the claim may be different than the originally assigned cause code. TEC also responded that it is possible some open neutrals and other smaller categories of causes might be included within the Equipment Breakdown, Failure cause code. However, according to the company, this is not likely to be known because information initially received from the customer claims form indicates only the general nature of the electrical failure.

Audit staff notes that since a more precise and accurate cause code may be identified during the investigation of the claim, entering a revised cause code at the point of closeout is likely to provide more accurate data for tracking purposes.

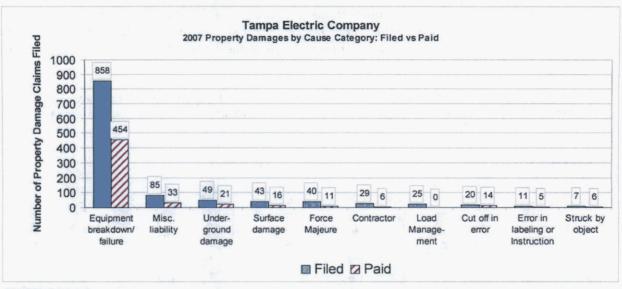


EXHIBIT 18

Source: Document Request 2-3

5.3 Claims Handling

How does a customer file a property damage claim with TEC?

The process for handling TEC customer property damage claims generally begins with a telephone call from the customer. A customer call can be received through TEC's Customer Care unit, or it can be made directly to Claims Management on a subsequent call after receiving the claims number. Customer property damage claims may also be sent by e-mail or forwarded by other company employees in a Property Damage Report, identifying a potential customer claim situation requiring investigation.

If the property damage claim call comes through TEC Customer Care, the representative documents basic customer claim information into the Customer Information System (CIS) and explains to the customer that TEC will mail a claims form for the customer to complete and return to Claims Management. This portion of the process may take from a few days to a few weeks, based on the customer's return of the information. The company notes that the typical time period to receive completed customer documentation is two to three weeks, and that, on average, most claims are closed within one month.

How does TEC investigate a customer's property damage claim?

Once the customer claim form is returned via e-mail, fax, or US mail to TEC Claims Management, the form is input into STARS, and the claims investigator is assigned. Claims investigators call the customer back within five business days to notify the customer that the claim has been assigned, an investigation of the claim is being completed, and that the customer will be notified with the results. The claims investigator then reviews company information systems to locate any outage or other electrical events that occurred at or near the customer's premise. The claims investigator can also review whether maintenance or other scheduled company or contractor work may have been performed in the area and whether those activities

may have possibly affected the customer. If necessary, the claims investigator may go to the customer's location for further review.

From this investigative review, the claims investigator can determine whether or not a system electrical event may have impacted the customer and whether to pay or deny the customer claim. The company notes that it investigates all claims, but it informs the customer that if the damage is caused by an Act of God, such as lightning, the company does not pay.

If the investigator decides that the company will pay the claim, the investigator determines the amount to pay based on the information previously provided on the claims form. The investigator then determines the depreciated and replacement values of the damaged equipment and reaches a settlement amount for the damages. TEC's depreciation policy is to depreciate the customer's equipment no more than 50 percent of its replacement value.

If the investigator decides the company is not liable and cannot justify paying the claim, the claims investigator notifies the customer by mail or telephone call that the claim was denied. When the denial letter goes out to the customer, the claims investigator immediately closes the claim file in STARS. If the customer appeals the decision, there are two levels of management review to appeal the decision. If the claims decision is confirmed by the two levels of company management, and the customer remains dissatisfied, the customer can appeal further to the Florida Public Service Commission, or bring civil suit against the company.

If TEC accepts liability for a claim, how does it reimburse the customer for damages?

Once TEC Claims investigators have completed the claims investigation, determined that there is company liability, reviewed repair and replacement options, presented the customer with a settlement cost for the damaged equipment, and the customer has accepted the settlement amount, a check is requested through the accounting department. The check is mailed to the customer or, if requested, the check can be provided to the claims adjuster and delivered to the customer in person.

The customer endorsement serves as the release mechanism to complete the company's liability for the claim. With claims amounts greater than \$5,000, the company requires a more formal contractual customer release upon settlement of the claim. In those cases, the release is signed by the customer and scanned into the claim file. The original release form is maintained in Claims Management.

5.4 Claims Sample Analysis

Is TEC timely, consistent, fair and compliant with its procedures for handling customer property damage claims?

Using TEC's database of claims filed from January 2003 through August 2008, audit staff analyzed a statistically significant, random sample of claim files to determine if the processing and payment of the claims was performed uniformly and fairly to both the customer and the company. Audit staff selected 104 claims and analyzed each to formulate an overall opinion of the company's claims process based on four categories: timeliness, consistency,

fairness, and compliance with the company's own established guidelines. This sample size provides a 90 percent confidence level with a margin of error of plus or minus three percent.

Timeliness

In reviewing TEC's timeliness of claims handling, staff considered timeliness of the initial customer contact, providing necessary documents for customer input, investigating the claim, notifying the customer of the claim decision, and closing claims files. In considering timeliness, staff did not penalize the company for those instances where the customer's actions delayed resolution of the claim.

Results showed that 92 of the 104 claims (88.5 percent) handled by TEC during the period from January 2003 through August 2008 were handled in a timely manner, meeting the TEC goal of completing most customer damage claims within 30 days. Staff identified 12 claims (11.5 percent) as not being handled in a timely manner. Four of the 12 claims required more than 40 days to complete, five took more than 50 days, and two took more than 90 days to complete. Characteristics of TEC's untimely claims include:

- TEC took 60 days to identify that the problem rested with a contractor and then referred the claimant to the contractor
- ◆ TEC contractors delayed work completion
- ◆ TEC misplaced the customer's list of damaged equipment
- ◆ TEC delayed getting updated information from the customer

Consistency

Staff's review of TEC's consistency in claims handling included whether the claim processing effort was consistent in claims documentation, treatment of customer claims requests, use of the company pay/deny claims matrix, use of depreciation methodology, notification of the claims decision, and payment of claims.

Sample results showed that 94 of the 104 claim files reviewed (90.4 percent) were consistent in their review, documentation, treatment, decision-making, and payment of claims. Staff notes that ten claims (9.6 percent) were either inconsistently handled or documentation was not sufficient to allow staff to fully determine consistency of claims handling. Characteristic of the ten claims not considered consistent were claims closed with checks issued after the close date and claims that had little or no documentation of activities and decision-making.

Fairness

Staff's review of TEC's fairness in claims handling evaluated whether claims were considered and treated equally, claims decisions were fair and equitable, customer equipment was fairly valued and depreciated, and whether customers were fairly notified of the claims decision.

Staff found that 98 of the 104 (94.2 percent) claims reviewed were fairly handled. In six instances (5.8 percent), staff found the claim was not fairly handled, or fairness could not be determined from the file documentation provided. Characteristic of these six instances were

claims where TEC delayed payment of a claim, TEC denied claims involving tree limbs falling across TEC's lines where timely tree trimming had not been performed, and claims where files contained insufficient documentation to assess fairness.

Compliance

Staff's review of TEC's compliance in claims handling considered whether claims activities were handled according to company policies, procedures, and guidelines. Staff's sample of 104 claims files showed that 96 of the claims (92.3 percent) were handled in compliance with the company's policies, procedures, and guidelines for claims handling.

Staff identified eight instances (7.7 percent) where the company's handling of a claim was not compliant, or the file documentation was not sufficient to determine compliance. Characteristic of these eight claims was a delayed payment of the claim, a claim where it is questionable that the customer was sent a claim form, and claims files that contained insufficient documentation to assess compliance.

5.5 Customer Education and Protection Plans

What efforts does TEC make to inform customers of the property damage claims process?

TEC states that it has not advertised or made public service announcements relating to customer property damage claims from January 2006 through August 2008. As with the other electric companies reviewed, TEC has not promoted the damage claims program to customers because the company believes this may encourage fraudulent claims.

TEC promotes its Customer Care telephone numbers on the internet, through billing statements, and through advertisements included with the monthly bill. The company believes that most of its customers know to call into the company through the Customer Care Center to make inquiries involving outages and damage claims. Once the call is received by the Care Center representatives, a claims call can be readily identified, and easily directed to Claims Management. Additionally, TEC field employees involved with customers in potential claims situations are also familiar with the Claims Management number and can direct the customer accordingly. Therefore, TEC believes there is no need to advertise Claims Management to customers.

What programs are available through TEC to prevent potential damage to the customer's appliances and equipment?

TEC states that, since 1996, it has provided an effective meter-based surge protection system for both residential and commercial customers. The company notes that while no surge protector can provide 100 percent protection against lightning, their Zap-Cap Systems and plugin surge protectors can provide a double layer defense for home electronics and appliances. The Zap Cap System is leased by the customer and warranted by the manufacturer for repair or fair market value compensation of damage customer equipment. The plug-in surge protectors are purchased by the customer from TEC. In case of damage to the protectors, the product is returned to the vendor for warranty work or replacement, if still covered by the warranty. The

company implements this program through its non-regulated vendor, and it has used the same vendor the entire time it has offered the service.

5.6 Conclusion

Overall, during the period reviewed, staff believes TEC has provided its property damage claims customers timely, consistent, and fair claims service that is in compliance with the company's policies and procedures. Staff has also identified several recommendations that should provide further improvement to the company's claims handling efforts. From the data gathered through document requests, on-site interviews, and the sampling analysis results, staff developed the recommendations below:

- TEC should comply with the PSC reporting requirements for Rule 25-6.019(2), Florida Administrative Code, regarding reporting of property damage exceeding \$5,000.
- TEC should evaluate its cause code Equipment Breakdown, Failure, to possibly sub-divide the code into additional categories.
- TEC should improve the quality of its claims file documentation.

During the period 2003-2005 TEC did not fully report customer damages over \$5,000 as required by Commission Rule 25-6.019, Notification of Accidents. In April 2005, TEC submitted additional reports to the appropriate FPSC staff and clarified the rule's reporting requirements. Since that time, TEC has significantly improved its reporting of property damage events greater than \$5,000, and the company is in compliance with the rule.

TEC has one claims cause code that is substantially larger than other company claims categories. The claims cause code Equipment Breakdown, Failure represents 70 percent of all claims filed in 2007, and it does not clearly identify what types of equipment breakdown and failures occurred. Staff believes that TEC could evaluate and possibly sub-divide this cause code into additional categories to provide more detailed insight into the largest cause of claims. Staff believes TEC could benefit by further breaking out this cause code for closer review, or by implementing a closeout code that identifies the actual cause of the claim at the closeout rather than up front in the claims process.

During staff's review of TEC's claims for the period from January 2003 through August 2008, staff noted that TEC often provided beneficial documentation of its claims effort. However, staff also found that, in some instances, the actions and decisions of the claims investigator were not well documented. Staff noted these instances in its sample analysis in relation to their impact on determining claims consistency, fairness, and compliance with company rules.

In other files staff noted that TEC did not provide complete notes for the activities during the entire claims open/close period. In some instances, gaps in notes made it difficult to know what happened with a file during the entire claim period. In cases where customers are delaying the claims process by not providing critical documentation, the company should provide better and more consistent file documentation. Files closed for inactivity on the same day, or within a few days of the last activity, raise questions regarding consistent, fair, and compliant handling.

Staff believes TEC can improve the quality of its claims file documentation through better identification of customer delays, better identification of claims decisions and methodology, and in situations of claims denials, by including denial letters documenting the denial in every case. Additionally, greater attention to assuring notes completely document customer and claims investigator actions throughout the entire claim timeframe will provide more consistent, fair, and compliant claims handling.



6.0 Company Comments

A copy of the draft report has been provided to all four companies to review for factual accuracy and to identify any material which might be considered confidential and proprietary. Each company has had the opportunity to file a formal request for confidential classification in accordance with *Rule 25-22.006(3)*, *F.A.C.* In addition, staff has invited the four companies to submit written comments regarding staff's findings to be included in the final report. Below, staff has provided the comments of those companies choosing to submit comments.

6.1 Florida Power & Light Company

FPSC Finding

FPL should comply with the PSC reporting requirements for Rule 25-6.019(2), Florida Administrative Code, regarding reporting of property damage exceeding \$5,000.

FPL Response

In April 2008, FPL's LAW Department instituted changes in its processes to ensure compliance with this rule. Since that time, FPL's LAW Department is not aware of any instance of non-compliance.

FPSC Finding

FPL should improve its claims documentation practices in order to provide consistent and complete information.

FPL Response

FPL disagrees with this finding. After reviewing those claims files identified by the auditors as being deficient, FPL believes that, in all instances, established requirements were satisfied and appropriate documentation existed.

FPSC Finding

FPL should require the use of the *Statement of Claimant* Form for all claims, and make the form available in Spanish.

FPL Response

FPL disagrees with the finding to require the *Statement of Claimant* Form for all claims. Requiring this form for all claims would, for some claims, unnecessarily increase the time and effort of FPL as well as customers to resolve those claims. For instance, certain simple claims can be resolved with a phone call and a copy of a receipt provided by the customer. The requirement of the form, as proposed, for these types of claims would delay payment to the customer. Additionally, requiring this form for claims being denied serves no purpose for FPL or the customer.

FPL will make the form available in Spanish.

6.2 Gulf Power Company

Compliance with Rule 25-6.019, Florida Administrative Code

Gulf commits to full compliance with Rule 25-6.019, F.A.C. going forward and has already submitted the claims not previously reported to the FPSC over the period 2003 through 2008. As noted in the report, the reporting requirements have been clarified between Gulf Power Company and FPSC staff.

There is no requirement included in the Rule to report claims in writing. While there were no claims submitted in writing during the period covered in this review, several of the claims in question were reported to FPSC staff verbally. Gulf created and is now utilizing a claims reporting form to submit all claims that meet the reporting criteria set forth in the above referenced rule to document the company's compliance with the rule. Effective September 30, 2008, Gulf updated its *Claims Procedure Manual* and desktop procedures to include the FPSC reporting requirements to facilitate compliance with the above referenced rule.

Determination of damaged property values

One area of misunderstanding in the report findings is staff's assertion that Gulf does not collect the age of damaged items when determining the value of damage property. Gulf collects the model number and/or the serial number and utilizes that information to determine the age of the affected property. While Gulf's documentation may not reflect the age of the item in the claim file, Gulf's practice is to use the model and/or serial number to research the age of the item before assessing the value of the damaged property.

Obtaining the model and/or serial number from the claimant often reveals inaccuracies with the claimant's information with respect to the reported value or age of the item. The process described above is one of the controls in place to help identify fraudulent claims when a customer may intentionally or inadvertently over-estimate the age or value of a specific item.

Claims information documentation

Gulf's corrective action plan to address the findings and exceptions of the internal audit was implemented by the end of September 2008.

Staff recommended that Gulf perform a follow-up review to assess the implementation of management's response to the June 2008 internal audit. One component of Gulf's management response was to conduct a follow-up review during the 4th quarter of 2008. Currently, internal auditing is conducting a follow-up review of Gulf's corrective action plan to ensure all exceptions and findings of the internal audit are being properly addressed.

Customer claim verification form

Beginning with claims filed on January 1, 2009, Gulf is requiring customers to sign a form verifying the claim information provided to Gulf's claims department to be true and correct. The implementation of the verification form was discussed at an industry best-practices conference, leading to management's decision to implement utilization of the form. Gulf's action is consistent with the staff's recommendation regarding requiring customers to sign and verify their claim information to be accurate.

6.3 Progress Energy Florida

Upon review of the Progress Energy Florida ("PEF") portion of the "DRAFT FPSC Review of Customer Property Damage Claims of the Four Major Investor-Owned Electric Utilities" provided to us on December 19, 2008, PEF submits the following comment. With respect to the number of claims paid by the four investor-owned utilities subject to this audit, PEF believes that differences in data collection procedures between the utilities may be causing PEF's "claims paid" numbers to appear artificially lower than those reported by other utilities. As part of PEF's response to staff's recommendations in the audit report, PEF will investigate this issue and will be prepared to discuss its findings with staff when completed.

With respect to the report's conclusion that PEF's average paid per claim in 2007 was the lowest of the four utilities, PEF investigators are licensed claims adjustors. PEF believes that the audit had an opportunity to review the claims adjustment practices utilized by PEF, and no recommendations suggest these valuation practices fall outside the standards established for the insurance industry. PEF believes that other factors influence the payment per claim, and that no data suggests that PEF does not compensate customers fairly. PEF will investigate this issue and will be prepared to discuss its findings with staff when completed.

6.4 Tampa Electric Company

Tampa Electric recognizes the importance of the Florida Public Service Commission's audit of the company's property damage claims process and appreciates the opportunity to participate in the process. Tampa Electric has reviewed the recommendations made by the Commission staff and offers the following comments specific to each recommendation:

Recommendation 1: TEC should comply with the PSC reporting requirements for Rule 25-6.019(2), Florida Administrative Code, regarding reporting of property damage exceeding \$5,000.

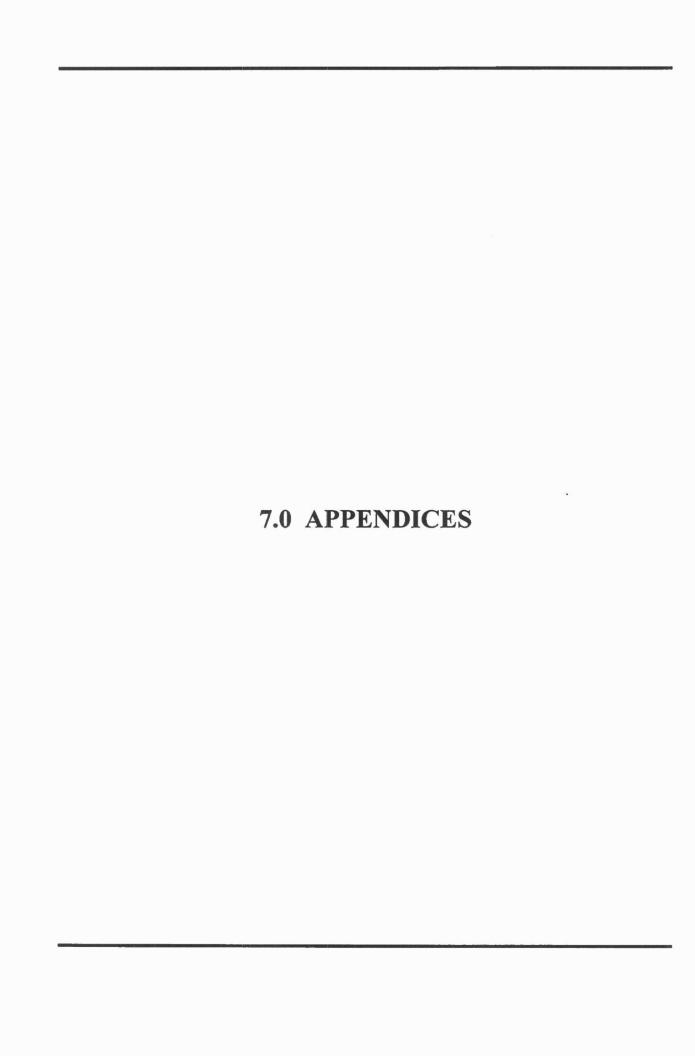
Tampa Electric Comment: During the early stages of the audit period, Tampa Electric was not in compliance. This was brought to the company's attention by the Commission staff during the first quarter 2005. On April 8, 2005, the company submitted to the Commission the appropriate information from the omitted time period and has subsequently demonstrated compliance and timeliness with the reporting requirements of the rule. Tampa Electric personnel responsible for the reporting requirement will periodically review the company's reporting procedures to ensure the company's process continues to meet the requirements of the rule.

Recommendation 2: TEC should evaluate its cause code Equipment Breakdown, Failure, to possibly sub-divide the code into additional categories.

Tampa Electric Comment: Tampa Electric agrees with the Commission Staff that consideration should be given to sub-dividing the cause code Equipment Breakdown, Failure. The company will work with the business areas to delineate the type of electrical equipment failures that cause property damage claims.

Recommendation 3: TEC should improve the quality of its claims file documentation.

Tampa Electric Comment: Although the Commission staff concluded that overall Tampa Electric has provided its damage claims customers with timely, consistent and fair claims service that is in compliance with the company's policies and procedures, Tampa Electric recognizes that in a limited number of cases it is possible to improve documentation within a physical claims file. Therefore, the company plans to improve the timeliness of communications with field personnel to gather appropriate documentation. Additionally, the company will review its diary mechanism to provide a more timely response to the customer and decrease the number of days a file remains active.



Appendix A

Survey of 2008 Claims Payment Policies

Instructions: For each listed damage cause, indicate whether or not a claim would be paid. Also provide any information in company comments that would be considered during the claim investigation to determine if the claim will be paid.

Damage Cause		Claim Paid?		Company Explanation
		Yes*	No*	
1	Acts of God or Nature (lightning, wind, flood)		Gulf TECO	
2	Normal operation of electrical system (e.g. feeder relay)		Gulf TECO	
3	Utility "normal" equipment failure:			PEF:
	Transformer failure	Gulf TECO		FPL:
	Lightning arresters	TECO	Gulf	
	Regulator	TECO	Gulf	
	Hot leg	Gulf TECO		FPL:
	Wire down	Gulf TECO		Gulf: Unless wire pulled down by another party, then would not pay.
	Open neutral	Gulf TECO		PEF:
	Transponder	TECO		Gulf: N/A – We do not use. PEF:
4	Service cut in error	Gulf TECO		
5	Delayed reconnection of service	TECO	Gulf	Gulf: Not unless extreme amount of time occurred due to some error on our part. PEF:

^{*} Note: FPL and PEF requested confidential classification of their responses to the survey.

Appendix A

Damage Cause		Claim Paid?		Company Explanation	
			No*	Company Laplandie	
6.	Failure of utility to maintain equipment:			PEF:	
	Transformer failure	Gulf TECO			
	Lightning arresters	Gulf TECO		PEF:	
	Hot leg	Gulf TECO		PEF:	
	Wire down	Gulf TECO			
	Open neutral	Gulf TECO		PEF:	
	Transponder	TECO		Gulf: N/A – We do not use. PEF:	
	Deteriorated/rotten pole	Gulf TECO		FPL:	
7	Malfunctioning service connection:				
	Due to improper hook-up by utility	Gulf TECO			
	Due to normal wear and tear	Gulf TECO		Gulf: Only on utility side.	
	Due to failure of utility-owned equipment	Gulf TECO		PEF:	
	Due to failure of customer owned equipment		Gulf TECO		
8	Dig-ins to customer's other utilities	Gulf TECO		Gulf: Only if Gulf caused damages and had not done locate ticket. FPL: PEF:	

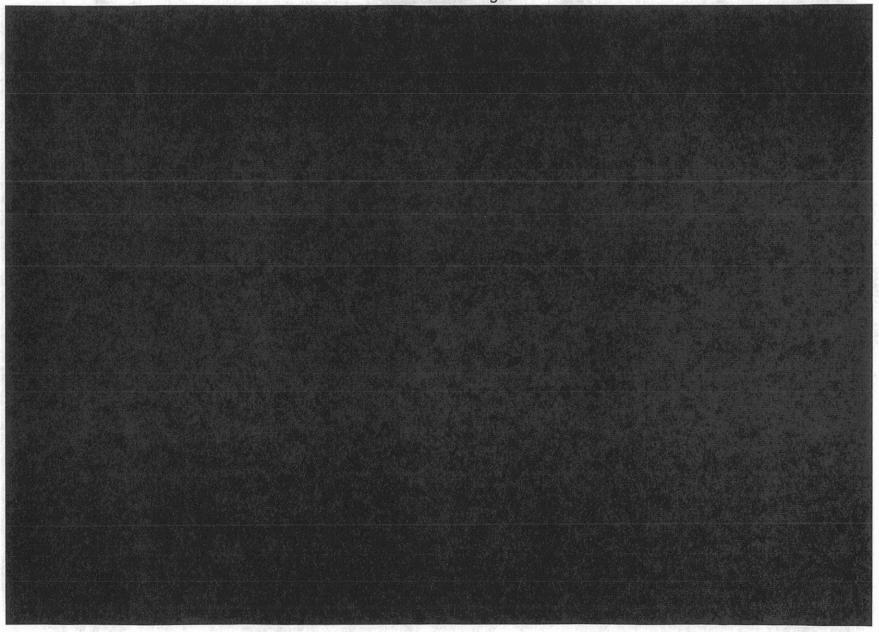
^{*} Note: FPL and PEF requested confidential classification of their responses to the survey.

Appendix A

Damage Cause		Claim Paid?		Company Explanation
			No*	
9	Utility's contractor's error or damage		Gulf TECO	Gulf: Contractors are responsible for handling claims for damages they cause. TECO: If Hold Harmless Agreement is in place. PEF:
10	Customer or customer's contractor error or damage	0	Gulf TECO	
11	Inadequate ground at customer premises:			
	On customer's side of meter		Gulf TECO	
	On utility's side of meter	TECO	Gulf	PEF:
12	Failed surge protector leased or sold by utility to customer	TECO	Gulf	Gulf: Meter Treater – No warranty, Premium Surge – Insurance Product FPL: TECO: With intent to subrogate. PEF:
13	Three phase customer's power surge			PEF:
	Residential	TECO	Gulf	TECO: If caused by utility, Handled according to Tariff 5.3
	Commercial/industrial	TECO	Gulf	TECO: If caused by utility, Handled according to Tariff 5.3
14	Insufficient generation:			
	Due to unforeseen operating event on reporting utility's system	TECO	Gulf	
	Due to lack of sufficient generating capacity on reporting utility's system	TECO	Gulf	
	Due to unforeseen operating event on other than the reporting utility's system	TECO	Gulf	TECO: With intent to subrogate.
	Due to lack of sufficient generating capacity on other than the reporting utility's system	TECO	Gulf	TECO: With intent to subrogate.
15	Verifiable consequential and incidental damages resulting from any claim that is otherwise paid (e.g. food, motel, wage and other non-speculative damages)	TECO	Gulf	Gulf: Normally not paid, but we look at each claim on a case by case basis. FPL: PEF:

^{*} Note: FPL and PEF requested confidential classification of their responses to the survey.

Appendix B Florida Power & Light



APPENDIX B 84

Appendix C

Gulf Power Claims Process Flowchart

