

MEMORANDUM

January 3, 1996

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FPSC-RECORDS/REPORTING

TO: DIVISION OF RECORDS AND REPORTING
FROM: DIVISION OF LEGAL SERVICES (ERSTLING) *RVE*
RE: DOCKET NO. 951433-EI - PETITION FOR APPROVAL OF SPECIAL
ACCOUNTING TREATMENT OF EXPENDITURES RELATED TO HURRICANE
ERIN AND HURRICANE OPAL BY GULF POWER COMPANY

0023-For

Attached is an Order Granting Approval of Special Accounting Treatment of Expenditures Related to Hurricane Erin and Hurricane Opal to be issued in the above-referenced docket. (Number of pages in Order - 7)

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Attachment
cc: Division of Electric and Gas
I:951433OR.SLE

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition For Approval of) DOCKET NO. 951433-EI
Special Accounting Treatment of) ORDER NO. PSC-96-0023-FOF-EI
Expenditures Related to) ISSUED: January 8, 1996
Hurricane Erin and Hurricane)
Opal by Gulf Power Company)
_____)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
J. TERRY DEASON
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING APPROVAL OF SPECIAL ACCOUNTING TREATMENT
OF EXPENDITURES RELATED TO HURRICANE ERIN AND HURRICANE OPAL

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

CASE BACKGROUND

By Order No. 9628, issued September 23, 1982, the Commission permitted Gulf Power Company (Gulf or the Company) to raise its annual accrual to the Accumulated Provision for Property Insurance account from \$809,717 to \$1,200,000 before taxes.

Due to the financial impact of Hurricane Erin and Hurricane Opal, on November 17, 1995, Gulf filed a petition to increase its annual accrual from \$1.2 million to \$3.5 million beginning in 1996; and to amortize approximately \$9 million of hurricane-related expenditures to the accumulated provision account over the five-year period of 1996-2000. Additionally, the Company requested that it be allowed to apply any earnings over a 12.75% return on equity (ROE) for calendar year 1995 to the accumulated provision account and that this petition be brought before the Commission for

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disposition on or before December 19, 1995, prior to the closing of its books for 1995.

DECISION

As of August 2, 1995, Gulf had a balance of approximately \$12 million in its accumulated provision account. On August 3, Hurricane Erin inflicted \$11 million in costs chargeable against the accumulated provision account. On October 4, Gulf's service area was struck by Hurricane Opal resulting in additional damages of approximately \$9 million chargeable against the accumulated provision account.

Gulf's petition basically addresses relief for the 1995 hurricane-related expenses of approximately \$9 million in excess of the accumulated provision account balance to avoid the effect on earnings that would otherwise result. Gulf has proposed increasing the annual accrual to the Accumulated Provision for Property Insurance account from \$1.2 million to \$3.5 million.

Based on current information, we are uncertain that an annual accrual of \$3.5 million is the appropriate amount. It is evident that the accumulated provision account needs to be re-established and increasing the annual accrual amount should facilitate growth in the accumulated provision account. There is, however, no basis for determining the reasonableness of the proposed \$3.5 million annual accrual amount. Therefore, we order Gulf to submit a study which addresses the appropriate accumulated provision account balance and the appropriate annual accrual amount. The study should include the impact of random storm events, their intensities and paths, on the accumulated provision account balance and the annual accrual amount. The study shall be filed six months from the date of this Order.

Until the study is submitted and reviewed, we find it appropriate for Gulf to increase its annual accrual by \$2.3 million to \$3.5 million. This increase is subject to adjustment pending the Commission's findings based upon review of the submitted study.

Gulf has requested that its revised accrual to the accumulated provision account be effective January 1, 1996. Although we recognize that the Company's choice of the January 1, 1996, effective date is predicated upon its already formulated budget for calendar year 1996, we believe that it is more appropriate to revise the accrual amount effective October 1, 1995.

Gulf stated in its petition that without timely administrative relief, it would be required to charge approximately \$9 million of

Hurricane Opal related expenditures to expense in 1995. Instead, Gulf requests permission to defer approximately \$9 million to be amortized to the accumulated provision account over the five year period of 1996-2000. We find Gulf's determination of the proper treatment of these expenditures to be incorrect.

The Company is not required to expense the \$9 million in 1995 because the Commission Rule 25-6.0143(4)(b), Florida Administrative Code, entitled "Use of Accumulated Provision Accounts 228.1, 228.2, and 228.4" states that:

...Charges shall be made to accumulated provision accounts regardless of the balance in those accounts.

When the Commission considered this rule, we realized that there could be times when charges to the accumulated provision account could exceed the balance in the account, resulting in a negative balance.

Based upon the foregoing, the Company shall charge the accumulated provision account for all actual expenditures related to the hurricanes even if that results in a negative balance to the account. Since the expenses will not be deferred, it is not appropriate to amortize them. Also, by charging the reserve for the expenditures, Gulf's concern about charging the expenditures to expenses in 1995 is eliminated.

By Order No. PSC-95-0985-FOF-EI, dated August 10, 1995, Gulf's proposal to cap 1995 earnings at 12.75%, with any earnings over this amount subject to the Commission's disposition, was approved. The exact disposition of any excess earnings was left to our discretion. In addition, Gulf agreed to petition the Commission no later than April 1, 1996, to determine the specific disposition of any deferred revenues and interest. Gulf stated in its current petition that:

...although it does not presently appear likely that the situation will come to pass, consistent with the Company's proposal approved by Order No. PSC-95-0985-FOF-EI, in Docket No. 950837-EI, it would be the intent of the Company to apply any earnings for calendar year 1995 in excess of 12.75% return on equity (ROE) to the Company's uninsured property damage reserve."

We agree with the Company. If the actual achieved earnings do exceed 12.75%, all excess earnings shall be applied to the accumulated provision account.

The expenses related to the two hurricanes named above have not been reviewed by the Commission. In Order No. PSC-95-0264-FOF-EI, issued February 27, 1995, related to the self-insurance mechanism for Florida Power & Light Company, the Commission stated: "...we have the authority to review any expenses charged to the reserve for reasonableness and prudence." In Order No. PSC-95-0255-FOF-EI, issued February 23, 1995, related to Tampa Electric Company's self-insurance mechanism, the Commission stated: "[:]e retain the right to review the costs and disallow any that are found to be inappropriate."

In accordance with our prior treatment of expenses related to individual utility self-insurance mechanisms, we retain the right to review Gulf's charges to the Accumulated Provision for Property Insurance Account related to these two storms, at any time, for reasonableness and prudence and to disallow any that are found to be inappropriate.

After charging the accumulated provision account for actual hurricane related expenditures, a negative balance will result. Even with the approval of the increase in the annual accrual to \$3.5 million, effective October 1, 1995, the accumulated provision account will have a negative balance until late 1997, assuming no further charges are made due to future storm activity. This obviously is not desirable since the Company is in a self-insurance position. Therefore, we find it appropriate to allow the Company the flexibility to increase its annual accrual to the accumulated provision account when the Company believes it is in a position, from an earnings standpoint, to do so. Once the accumulated provision account balance reaches \$12 million or such other level approved by us, the Company shall not increase its accrual above the annual accrual amount last approved by the Commission.

In addition, the Company shall inform the Division of Auditing and Financial Analysis when a decision is made to increase the annual accrual, and shall provide a statement on its future earnings surveillance report when the adjustment is made to increase the amount charged to expense.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Gulf Power Company's request to increase the annual accrual to the accumulated provision account from \$1.2 million to \$3.5 million is approved effective October 1, 1995. It is further

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ORDERED that Gulf shall submit a storm study, as described in the body of this order, within six months from the date of this order. It is further

ORDERED that Gulf shall be required to expense the approximately \$9 million in damages attributable to Hurricane Opal against the accumulated provision account. It is further

ORDERED that Gulf apply any earnings for calendar year 1995 in excess of 12.75% return on equity to the accumulated provision account. It is further

ORDERED that expenses related to Hurricanes Erin and Opal charged to Gulf's accumulated provision account are subject to Commission review at any time. It is further

ORDERED that Gulf is allowed the flexibility to increase its annual accrual above the \$3.5 million approved above until the accumulated provision account balance reaches \$12 million or such other level approved by this Commission, as discussed in the body of this order. It is further

ORDERED that Gulf shall inform the Division of Auditing and Financial Analysis when a decision is made to increase the annual accrual, and shall provide a statement on its future earnings surveillance report when the adjustment is made to increase the amount charged to expense.

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that in the event this Order becomes final, this Docket shall remain open pending Commission review of Gulf's storm study.

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By ORDER of the Florida Public Service Commission, this 8th
day of January, 1996.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

by: Kay Flynn
Chief, Bureau of Records

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on January 29, 1996.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

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If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.