

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for authority to increase annual accrual rate for Account No. 228.2 - Accumulated Provision for Injuries and Damages, by Gulf Power Company.	DOCKET NO. 040218-EI ORDER NO. PSC-04-0453-PAA-EI ISSUED: May 3, 2004
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The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman  
J. TERRY DEASON  
LILA A. JABER  
RUDOLPH "RUDY" BRADLEY  
CHARLES M. DAVIDSON

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING INCREASE IN ANNUAL ACCRUAL RATE FOR ACCOUNT NO.  
228.2 - ACCUMULATED PROVISION FOR INJURIES AND DAMAGES

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.

On March 11, 2004, Gulf Power Company (Gulf) filed a petition for authorization to increase the annual accrual rate for Account No. 228.2 - Accumulated Provision for Injuries and Damages. This request was filed pursuant to Rule 25-6.0143(4)(a), Florida Administrative Code, which requires a utility to petition the Commission for such a change. In addition, Gulf requested that it be allowed the flexibility to supplement the annual accrual as its earnings permit.

Gulf's current annual injuries and damages reserve accrual of \$1.2 million was authorized in Order No. 10557, issued February 1, 1982, in Docket No. 810136-EU, In Re: Petition of Gulf Power Company for an increase in its rates and charges. That order also eliminated the \$1 million reserve cap or ceiling that had previously been in existence. In its most recent rate case in Docket No. 010949-EI, In Re: Request for rate increase by Gulf Power Company, Gulf did not seek an increase in its injuries and damages reserve accrual because it believed that the current \$1.2 million accrual would be sufficient to maintain an adequate reserve balance. As illustrated in Gulf's petition, however, the reserve balance has declined from \$1.8 million at the end of 1999 to \$81,601 at the end of 2003.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

The purpose of the Accumulated Provision for Injuries and Damages, Account 228.2, is to meet the probable liability, not covered by insurance, for deaths or injuries to employees or others and for damages to property not owned by the utility. Gulf did not submit any study with its petition that would indicate what would be either an appropriate annual accrual amount or an appropriate reserve level target. However, Gulf's recent actual experience appears to demonstrate that the current \$1.2 million accrual is not adequate to maintain a reasonable reserve level. Based on this actual experience and the 22 year interval since the current \$1.2 million annual accrual was established, we find that Gulf's request to increase its current annual accrual by \$400,000 appears to be reasonable. Therefore, the accrual to Gulf's injuries and damages reserve shall be increased to \$1.6 million annually. The effective date shall be January 1, 2004.

In addition, Gulf requested that it be allowed the flexibility to supplement the annual accrual to its injuries and damages reserve as its earnings permit. Gulf currently has this type of flexibility regarding the annual accrual to its storm damage reserve. However, the storm damage reserve has an established target level range. Once that target level is achieved, Gulf can no longer supplement its accrual above the authorized annual accrual amount last approved by the Commission. In this case, however, the injuries and damages reserve has neither a target level nor a cap. Theoretically, Gulf could supplement its annual accrual by any amount that it deemed reasonable or desirable regardless of the existing adequacy of the reserve.

We authorize Gulf to have flexibility to supplement its annual accrual, but not without some limitation. There is no empirical evidence that would indicate what the "ideal" or target level should be for the injuries and damages reserve. Based on an evaluation of the amount of the actual charges against the reserve, we find that a year end balance of \$2 million provides Gulf with an adequate reserve cushion. This \$2 million limitation does not cap the injuries and damages reserve at that level nor does it affect the amount of the normal authorized annual accrual. In other words, Gulf will continue to make its annual accrual regardless of the actual level of the reserve. The purpose of the limitation is to provide a reasonable limit on Gulf's flexibility to supplement its annual accrual.

The following hypothetical table illustrates how the supplemental accrual limitation would be applied:

Year	Beginning Balance	Annual Accrual	Charges	Year End Balance	Maximum Supplemental Accrual	Adjusted Year End Balance
1	\$100,000	\$1,600,000	(\$1,900,000)	(\$200,000)	\$2,200,000	\$2,000,000
2	\$2,000,000	\$1,600,000	(\$1,950,000)	\$1,650,000	\$350,000	\$2,000,000
3	\$2,000,000	\$1,600,000	(\$1,400,000)	\$2,200,000	-0-	\$2,200,000

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Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the accrual to Gulf Power Company's Account No. 228.2 shall be increased to \$1.6 million annually. It is further

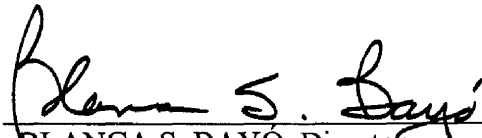
ORDERED that the effective date shall be January 1, 2004. It is further

ORDERED that Gulf Power Company shall have the flexibility to supplement the annual accrual to Account No. 228.2 as its earnings permit, with a limitation of a year end balance of \$2 million. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 3rd day of May, 2004.

  
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BLANCA S. BAYO, Director  
Division of the Commission Clerk  
and Administrative Services

(SEAL)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, 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 will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 24, 2004.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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