

FLORIDA PUBLIC SERVICE COMMISSION

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M E M O R A N D U M

May 30, 1991

TO : DIRECTOR, DIVISION OF RECORDS & REPORTING

FROM : DIVISION OF ELECTRIC & GAS (ROMIG) *SR JS*
DIVISION OF AUDITING & FINANCIAL ANALYSIS (CAUSSEAU, *ape*
PL dt *TJD*)
DIVISION OF LEGAL SERVICES (BROWN) *MCB* *JDJ*

RE : DOCKET NO. 910257-EI, PETITION OF FLORIDA POWER & LIGHT
COMPANY TO DISCONTINUE ANNUAL CONTRIBUTION TO ITS STORM
AND PROPERTY INSURANCE RESERVE FUND

AGENDA: JUNE 11, 1991 - CONTROVERSIAL - PROPOSED AGENCY ACTION

CRITICAL DATES: NONE

DISCUSSION OF ISSUES

ISSUE 1: Should Florida Power & Light Company's (FPL or Company) Petition to discontinue its annual cash contribution to the Storm and Property Insurance Reserve Fund and the accrual to operating expenses be approved?

RECOMMENDATION: Yes, FPL's Petition should be approved.

STAFF ANALYSIS: The Commission implemented Rule 25-6.0143, Florida Administrative Code, on March 17, 1988, which deals with Reserves for Property Insurance. The rule provides that the level and annual accrual rates shall be evaluated and adjusted as necessary at the time of a rate proceeding, or a utility may petition the Commission for a change in the provision level and accrual outside of a rate case. FPL has filed such a petition in this case.

FPL first established the Reserve for Property Insurance Reserve Fund (the Fund or Reserve for Property Insurance) in 1947, with cash funding in 1958. The initial purpose of the Reserve was to cover losses due to damage caused by storms. In 1977, in Order No. 7843, Docket No. 760727-EU, the Commission allowed the Company to broaden the purpose of the Reserve to cover retrospective

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insurance premium assessments arising from the Price-Anderson Act and FPL's nuclear insurance carriers in the event of a nuclear incident.

Although the order only authorized a Reserve Fund of \$41 million, the Reserve Fund balance was \$62.2 million as of December 31, 1990. Review of the record from Docket No. 810002-EU indicates that the authorized \$41 million Reserve amount equates to \$79 million on a pre-tax basis. FPL switched from net of tax accounting to normalization accounting for the Reserve in 1981. In order for \$79 million to be available for "storm damage," more than \$41 million must now be maintained in the Reserve Fund because of the change in income tax rates from 46% to 34% and the change to normalization accounting. Staff believes both of these adjustments are appropriate. Staff believes the Commission's intent was to have \$79 million available for storm damage. Although Order No. 10306 authorizes a Fund of \$41 million, Staff believes that the balance of \$62.2 million is necessary in the Reserve Fund in order to have \$79 million available for storm damage and other uninsured losses.

The Company stated in its petition that as of December 31, 1990 the Reserve had a pre-tax equivalent value of \$79.6 million after pending charges due to damage caused by two tropical storms in October 1990. In the Company's opinion, the current level of insurance protection, coupled with the Fund, is reasonably adequate to cover possible losses and is likely to remain adequate for the foreseeable future.

The Company also stated in its petition that it could be subject to retrospective insurance premium assessments of up to \$313 million in the event of a nuclear incident. Based on the current level of funding available to the nuclear insurance companies, an assessment for the first nuclear incident is unlikely. The Company has, therefore, concluded that there is no need to build a reserve for this purpose. Staff agrees with the Company's assessment of the sufficiency of the Reserve Fund at its present level.

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ISSUE 2: If FPL's Petition to discontinue its accrual and funding is approved, what is the appropriate effective date?

RECOMMENDATION: The effective date to discontinue its accrual and funding should be January 1, 1991.

STAFF ANALYSIS: FPL has requested in its petition that the annual charge to operating expenses and cash contributions to the Fund be discontinued effective January 1, 1991. FPL has also requested that reinvestment of the Fund's earnings in the Fund should be discontinued January 1, 1991. FPL suggests that the earnings should be used to offset the utility's operating expenses.

It is the Staff's opinion that the Reserve Fund level at December 31, 1990, is reasonable for the purpose for which it was established and approved by prior Commission orders. For this reason, we would recommend that the effective date be January 1, 1991.

ISSUE 3: If FPL's Petition to discontinue its accrual to operating expenses and funding is approved, should the reinvestment in earnings in the Fund also be discontinued and the earnings used to offset operating expenses?

RECOMMENDATION: Yes. The Fund earnings should be used to offset operating expenses, effective January 1, 1991.

STAFF ANALYSIS: Because of the adequacy of the Fund balance, FPL suggests that the reinvestment of the Fund's earnings in the Fund should be discontinued. FPL requests that it be permitted to use the after-tax earnings as a reduction to operating expenses.

This request is consistent with the Commission's decision in Docket No. 74709-EU, Order No. 6591. In that docket, the Commission found that the Fund balance was adequate to provide the protection for which it was intended, the Company should no longer increase the Fund by the earnings of the Fund's investments, and any income should be credited to operating expenses since the ratepayers have provided the accruals for the reserve. Similar treatment was afforded fund earnings of Gulf Power in 1972 (Docket No. 71342-EU).

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Staff recommends that FPL discontinue the reinvestment of the after-tax fund earnings in the Fund and use the earnings as a credit to operating expenses (Account 924 - Property Insurance Expense). In 1990, the after-tax fund earnings were \$4,006,167.

ISSUE 4: Should this docket be closed?

RECOMMENDATION: Yes, if no protest to the PAA Order in this docket is received.

STAFF ANALYSIS: If no protest to the PAA Order is received, this docket should be closed.

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