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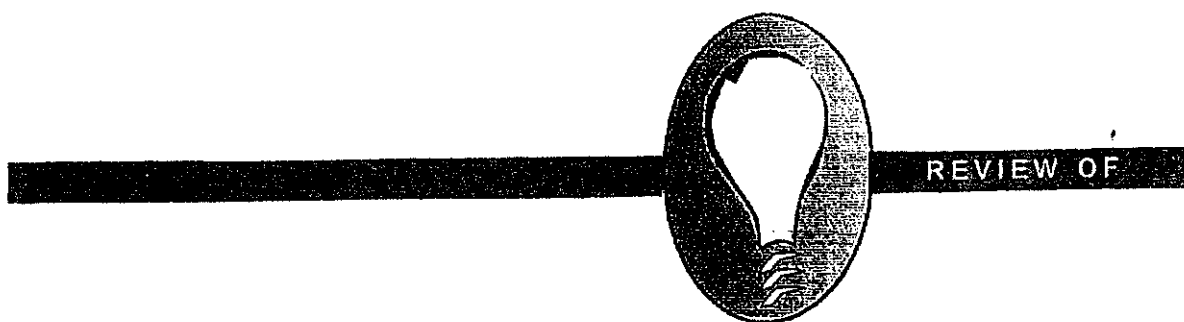
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DECEMBER 2008



CONFIDENTIAL

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

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

CONFIDENTIAL DRAFT  
12/18/2008

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

**R. Lynn Fisher  
Government Analyst II**

**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

PA-08-08-003

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## 1.0 EXECUTIVE SUMMARY

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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

1.2 Scope

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

- ◆
- ◆ Goals and Objectives
- ◆ Compliance With Commission Rules
- ◆
- ◆ Internal Audit Frequency and Findings
- ◆ Customer Education
- ◆ Damage Prevention Programs
- ◆

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.



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### 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,

Based on the interviews with key employees and reviews of the company's claim files, audit staff assessed

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 provide 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.

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

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	FPL	Gulf	PEF	TEC
Customers	4,500,000			
Claims Filed				
Percent Paid				

EXHIBIT 1 Sources: Document Requests 1-3, 2-2

13 When comparing claim statistics for 2007, [redacted] leads the amount paid, claims filed and  
14 claims paid comparison, [redacted]  
15 [redacted], follows [redacted] in the total amount of dollars paid in claims.  
16 [redacted] also has the highest percent of claims paid and the highest average paid per claim.  
17 Conversely, [redacted] average paid per claim, and percent of claims paid was the lowest of the four  
18 companies in 2007.

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24 [redacted]

### 25 1.5 Conclusion

26 Overall, during the period reviewed of 2003 through 2008, the utilities paid between [redacted]  
27 and [redacted] percent of the claims submitted. Staff believes that the utilities conducted timely,  
28 consistent, and fair property damage claim investigations. Staff also identified several key areas  
29 where additional company effort is needed [redacted] Listed below are  
30 staff's recommendations in these key areas of property damage claims activity.

#### 31 1.5.1 Florida Power and Light

- 32 ♦ FPL should comply with the PSC reporting requirements for Rule 25-6.019(2),  
33 Florida Administrative Code, regarding reporting of property damage exceeding  
34 \$5,000.
- 35 ♦ [redacted]

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[REDACTED]

1.5.2 Gulf Power Company

- ◆ [REDACTED]
- ◆ [REDACTED]
- ◆ [REDACTED]
- ◆ [REDACTED]

1.5.3 Progress Energy Florida

- ◆ [REDACTED]
- ◆ [REDACTED]
- ◆ [REDACTED]
- ◆ [REDACTED]

1.5.4 Tampa Electric Company

- ◆ [REDACTED]
- ◆ [REDACTED]
- ◆ [REDACTED]

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**2.0 FLORIDA POWER & LIGHT COMPANY**

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## 2.0 Florida Power & Light Company

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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 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 [REDACTED] customer property damage claims per year, which represented less than [REDACTED] of FPL's total customer base.

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### 2.1 Policies and Procedures

[REDACTED]

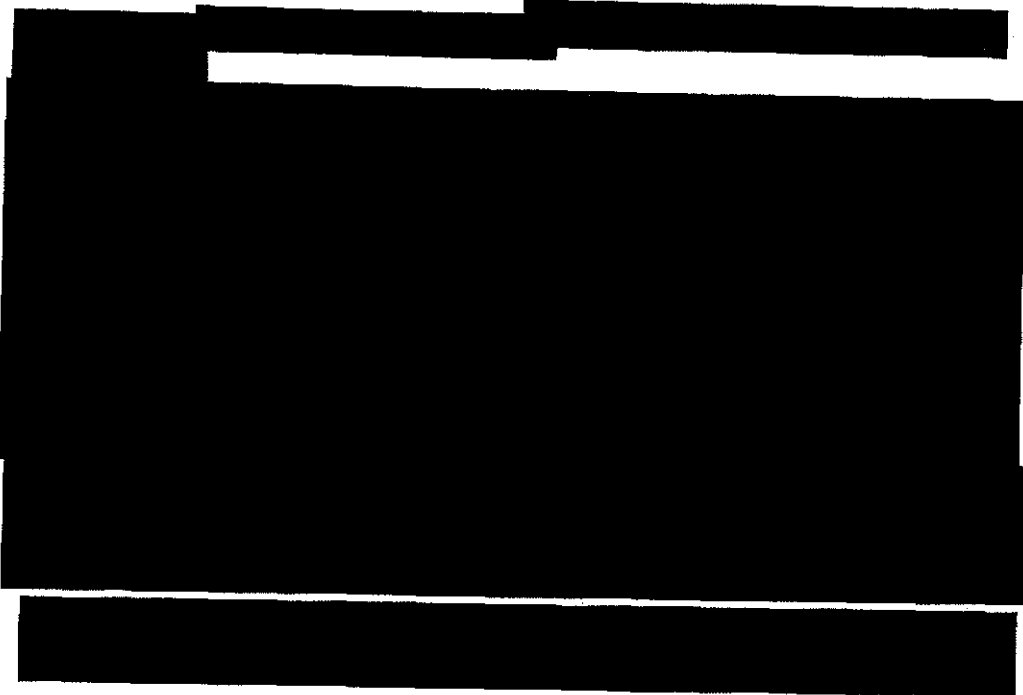
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[REDACTED] FPL monitors and evaluates individual agent performance using an agent *Year-to-Date Summary* that highlights performance measurements as claims are investigated. This summary tracks the agents' performance in customer service and [REDACTED] 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 [REDACTED]

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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. [REDACTED] seven days [REDACTED] 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.

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[REDACTED] 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.

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

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

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

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

## 23 2.2 Disposition of Claims

24 [REDACTED]  
25 [REDACTED]

26 Exhibit 2 shows the numbers of customer property damage claims filed and paid during  
27 the period 2003 through 2007. Over the period, FPL received an average of [REDACTED]  
28 [REDACTED] and paid an average of [REDACTED] of the total claims received  
29 each year. The remaining [REDACTED] of unpaid claims were for reasons that include:  
30 [REDACTED]  
31 [REDACTED]  
32 [REDACTED]  
33 [REDACTED]  
34 [REDACTED]

Chart A

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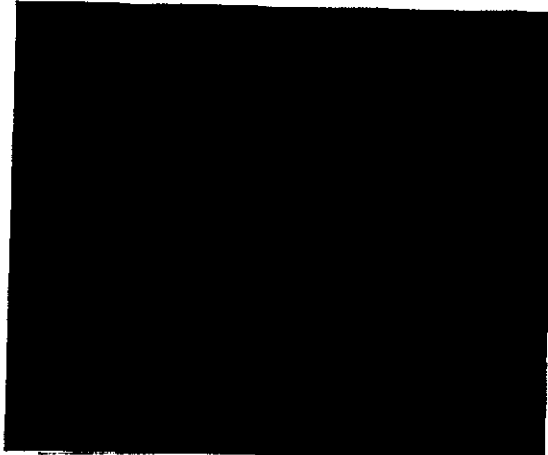


Exhibit 3 shows the annual percentage of customer property damage claims paid during the period. FPL paid [redacted] of the total claims that were pursued by customers in 2003. The percentage of claims paid has [redacted] in small increments every year through 2007 when FPL paid [redacted]



For instance, the number of claims that were categorized as an [redacted] was [redacted] in 2003, and [redacted] in 2007. Additionally, the category where [redacted]

EXHIBIT 2

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

has also [redacted]. The number of claims in this category [redacted] from [redacted] in 2003 to [redacted] in 2007.

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 [redacted] 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 [redacted]

Chart B

Chart C



EXHIBIT 3

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

EXHIBIT 4

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

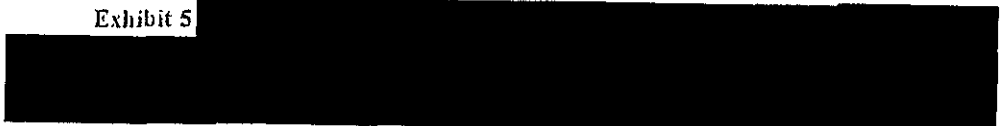


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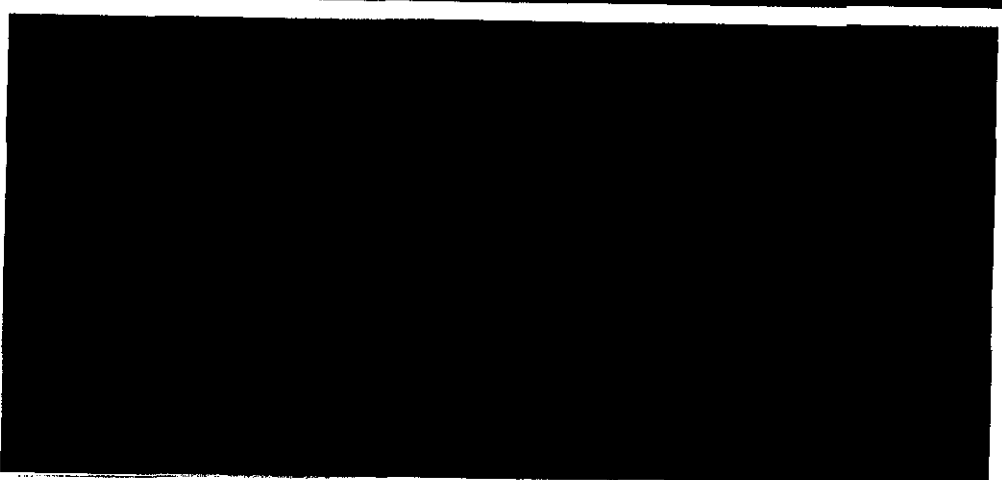
Exhibit 5



Exhibit 5



CHANGE A



**EXHIBIT 5**

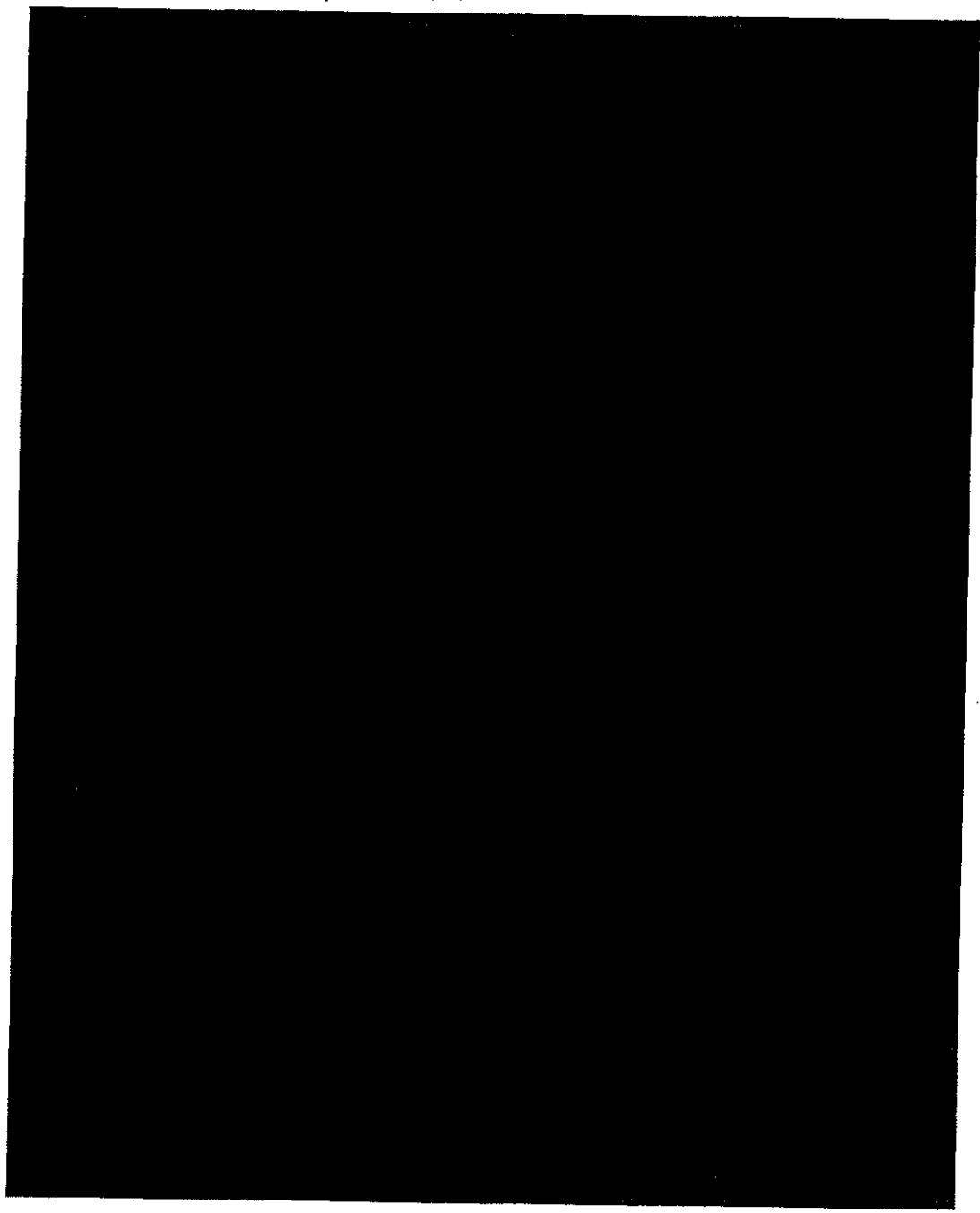
*Source: FPL's Response to Document Request 1-3*

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.

*Chart A*

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**2.3 Claims Handling**

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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.

[Redacted]

The most widely used method of notifying FPL of a property damage claim is calling the Customer Care Center and speaking with a representative.

[Redacted]

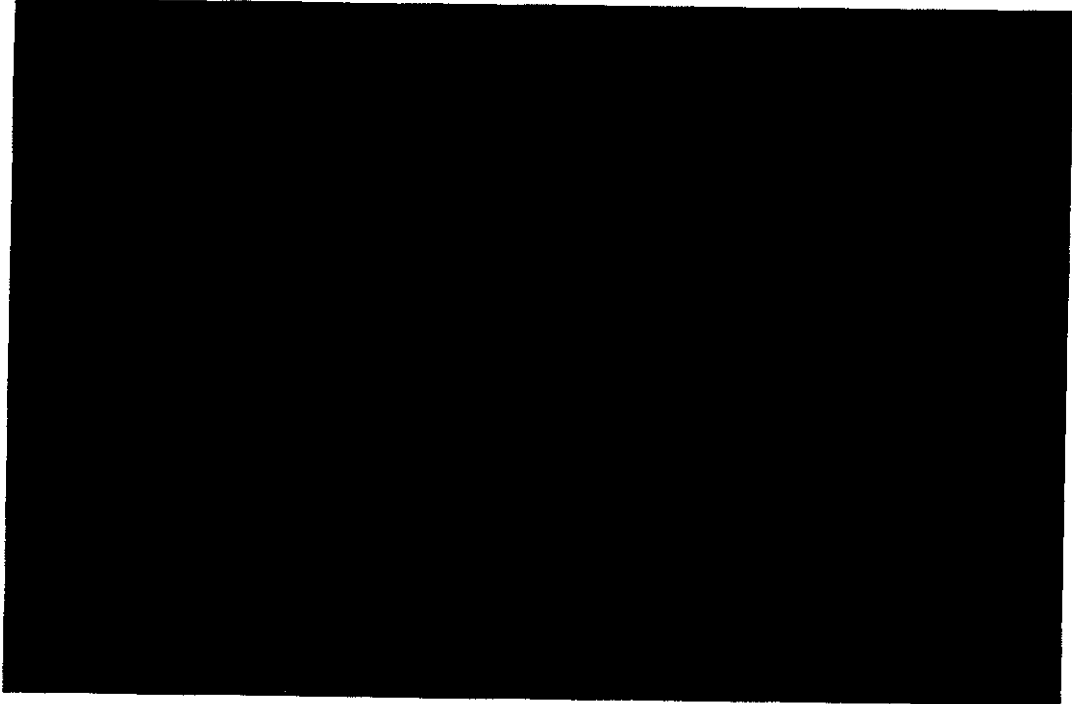
[Redacted]

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

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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.



## 2.4 Claims Sample Analysis

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 [REDACTED] claims and analyzed each [REDACTED] based on four categories: [REDACTED]. 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.

Audit staff observed that of the [REDACTED] claims in the sample, [REDACTED] customers were documented to have been contacted within 3 business days.

The sample reviewed by staff showed [REDACTED] property damage claims that were approved for payment. Of these [REDACTED] claims, [REDACTED] were documented to show settlement to the customer [REDACTED]. The remaining four claims were paid to the customer; however, there was no documentation indicating the payment was made [REDACTED] to the customer.

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. [REDACTED]. The remaining 30 claims were completed [REDACTED] and either closed as paid, denied, or forwarded to the Legal Department for further investigation or pending litigation.

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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 [REDACTED] from the time the agent receives the claim.

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Consistency

[REDACTED]

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Of the [REDACTED] claims in the sample that were eligible to be paid, [REDACTED] claims [REDACTED] indicated in the notes that a *Statement of Claimant* form had been mailed to the customer, [REDACTED]. 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 [REDACTED] claims within the sampling where all of the required documentation was returned to the agent and reimbursement was sent to the customer. The remaining [REDACTED] 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.

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[REDACTED] This sample also contained [REDACTED] claims that were denied payment. [REDACTED]

Of the remaining [REDACTED] claims, three were sent to the Legal Department for further investigation, and [REDACTED] were withdrawn by the customer due to either no damage to report, or their appliances were repaired under separate warranty.

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[REDACTED] The claims within this sample frequently lacked key information such as when, or if, a *Statement of Claimant* form was mailed. [REDACTED] On two occasions, the customer detail screen was not filled out which omits information such as the claim code, contact information and claim disposition. [REDACTED]

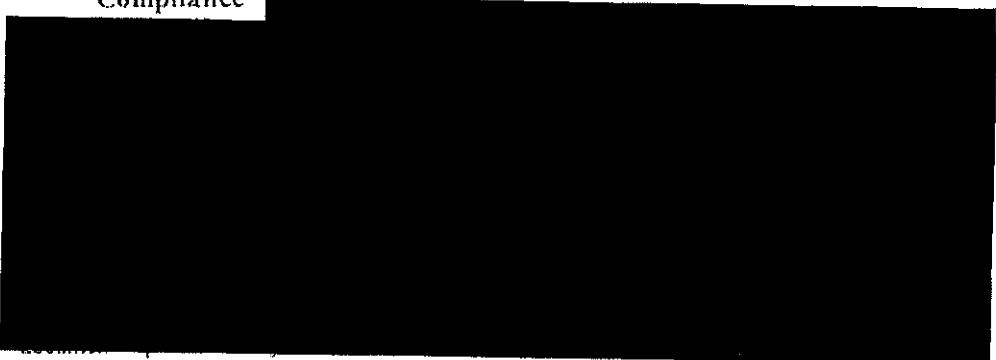
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**Fairness**

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.



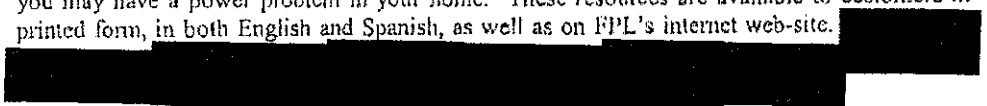
**Compliance**



**2.5 Customer Education and Protection Plans**



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.



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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.

[REDACTED]

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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.

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**2.6 Conclusion**

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Overall, during the period reviewed, staff believes FPL provided its customers timely, consistent, and fair property damage claim investigations. [REDACTED] From the information gathered, on-site interviews conducted, and the sample analysis results, staff developed the following recommendations:

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- ◆ 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.
- ◆ [REDACTED]



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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.



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.



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,



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.



that FPL should supply all forms that are necessary for customers to complete a property damage claim in Spanish, and possibly other languages, to assist its non-English speaking customers.



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 vendors 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.

In areas where a vendor is not available, the customer must arrange to get the estimate and repairs and pay the costs upfront to be later reimbursed by FPL. This could present a hardship for a customer who has sustained a loss, FPL has accepted liability, but the customer cannot afford to pay first and wait for reimbursement. Staff believes FPL should evaluate its current policy on customer reimbursement to include a program to assist its customers in the event an authorized vendor is not available.

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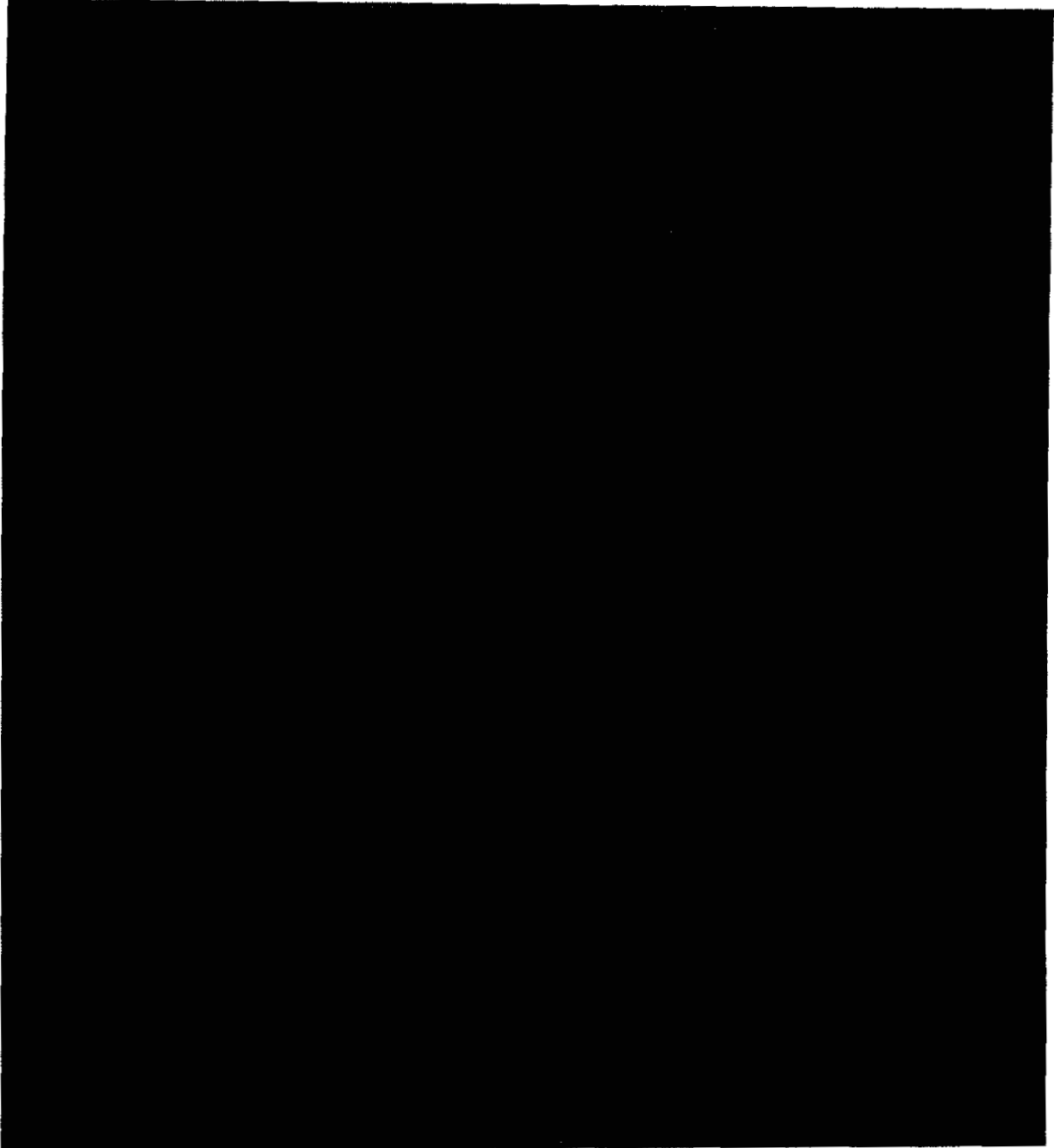
## 7.0 APPENDICES

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Appendix A

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Appendix A

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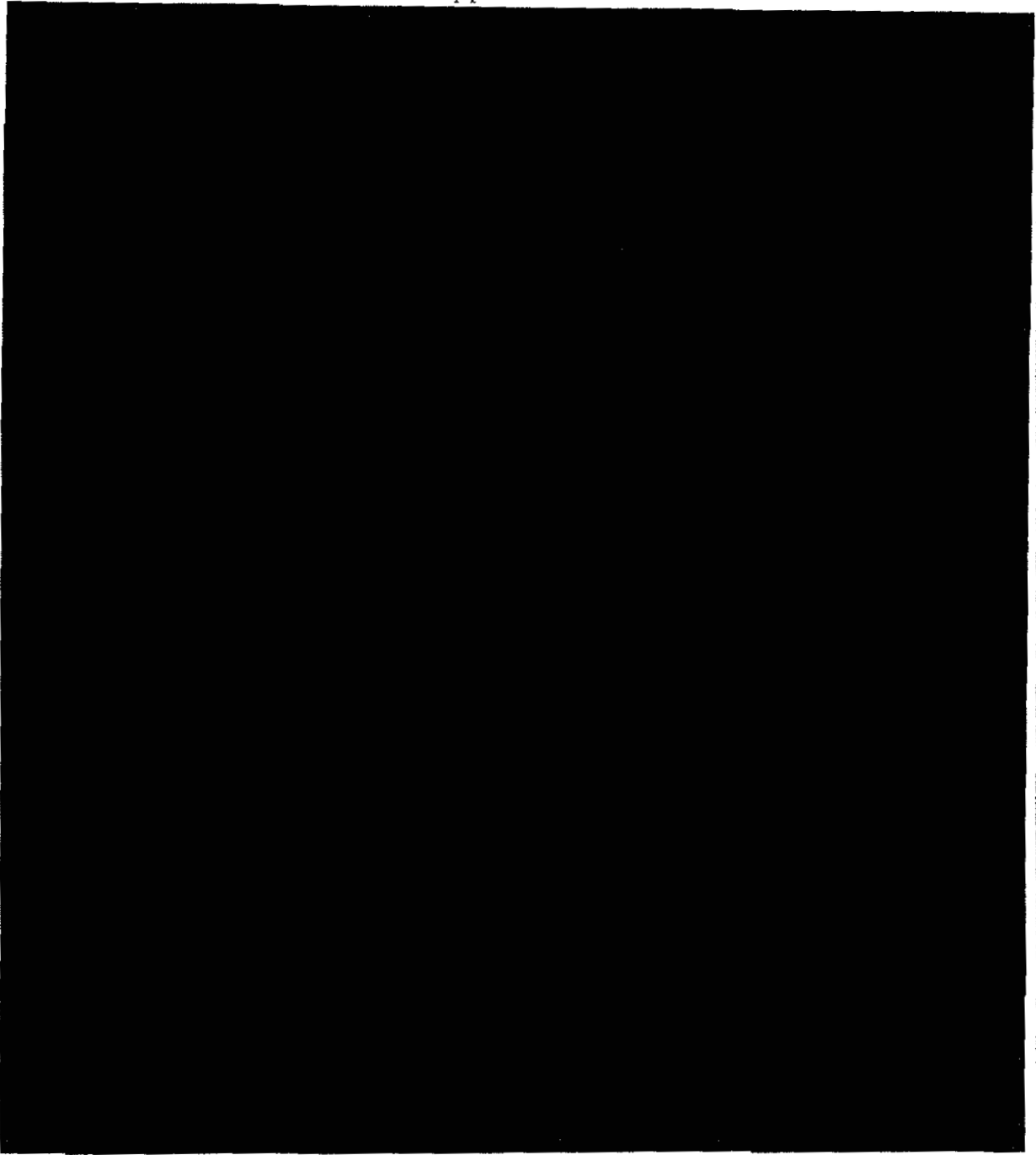
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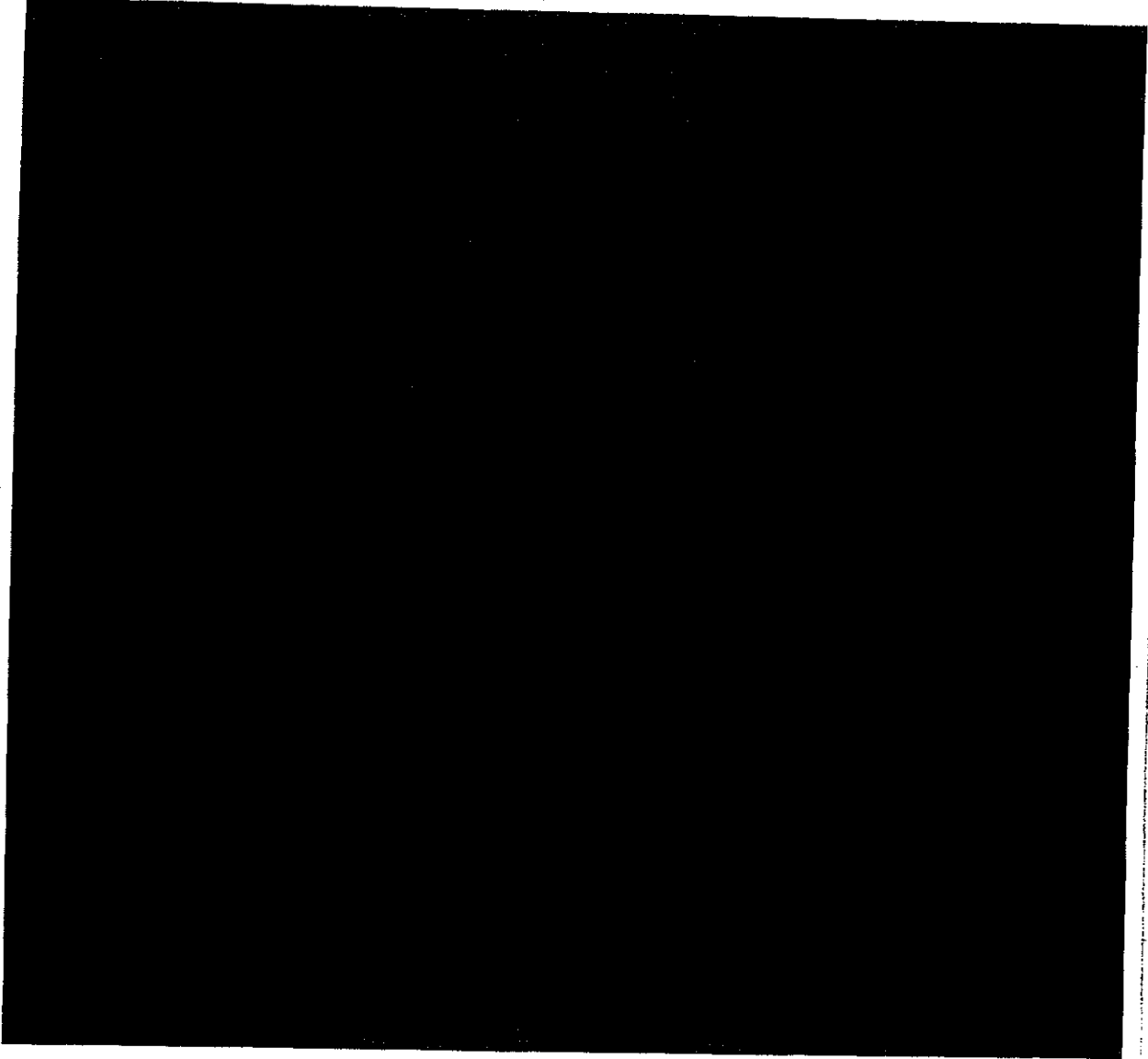
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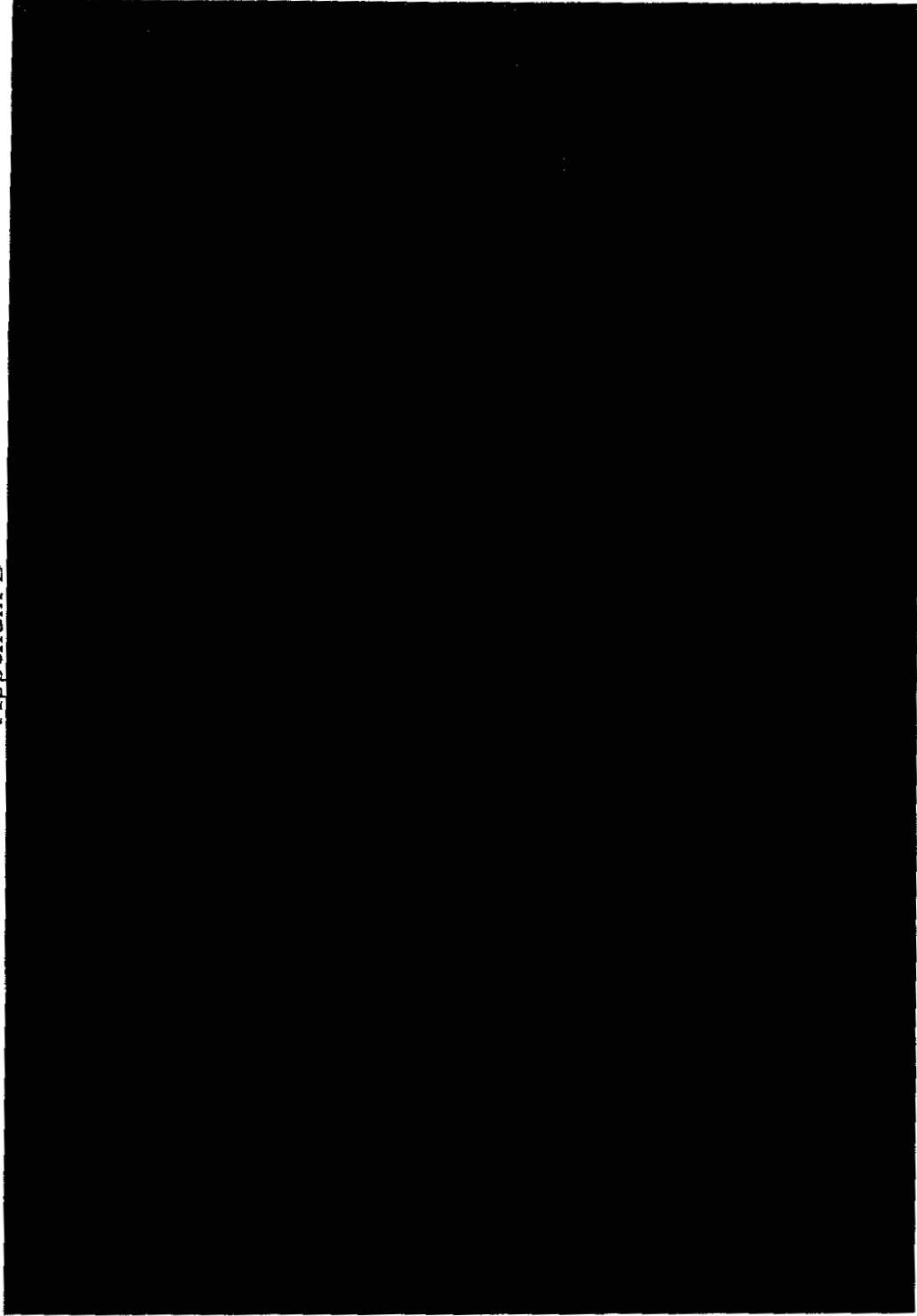
Appendix A

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Appendix B



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