

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition of Florida) DOCKET NO. 930867-EI
Power Corporation for) ORDER NO. PSC-93-1522-FOF-EI
authorization to implement a) ISSUED: 10/15/93
self-insurance program for storm)
damage to its T&D Lines and to)
increase annual storm damage)
expenses.)
_____)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK
JULIA L. JOHNSON
LUIS J. LAUREDO

NOTICE OF PROPOSED AGENCY ACTION

ORDER GRANTING REQUEST TO SELF-INSURE

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 adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code, within 14 days of the date of issuance of this order.

On September 1, 1993, Florida Power Corporation (FPC) petitioned to implement a self-insurance program for storm damage to its transmission and distribution facilities (T&D lines) in the event of hurricane, tornado, or other damage due to natural disasters. FPC also petitioned to increase annual storm damage expense from \$100,000 to \$3 million, to replace commercial insurance, which FPC asserts is no longer adequate or available on reasonable terms. FPC requested that a decision be made on an expedited basis, because its current insurance coverage expires on November 1, 1993.

To facilitate an expedited procedure, Mr. John Scardino, Vice President and Controller of FPC, filed testimony concurrently with the Company's Petition. Mr. Scardino testified that, through August 31, 1993, T&D lines were insured to \$85 million on a per occurrence basis, subject to a deductible of \$10 million. On

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September 1, 1993, \$15 million of this coverage expired, and the remaining \$70 million will expire on November 1, 1993.

Mr. Scardino stated that FPC is experiencing difficulty in renewing its insurance program for T&D lines. The Company solicited quotations from current carriers, prospective carriers in the United States and London, and Line Insurance Company, a mutual that the utility industry organized several months ago to offer T&D coverage to electric utilities on a risk sharing basis. Mr. Scardino further testified:

In summary, average rates per dollar of coverage ranged from 6% - 16% representing an increase of 500 - 1500% over current rates. Deductibles ranged from \$10 - \$100 million representing an increase of as much as 900% over our current program. In addition to the annual premium the Line Insurance mutual quote includes an up front capital contribution plus a potential retroactive premium. All quotes received were for coverage on an aggregate annual basis versus the present per occurrence basis. (Pages 6-7)

Therefore, we have concluded that a self-insurance approach is the most reasonable and prudent at this time. Additional facts supporting this conclusion are as follows:

- a) FPC's average annual storm loss history is \$.7 million using a 20 year period and \$1.4 million over the most recent 10 years...
- b) Current deductibles for firm quotes being offered are 10 to 15 times our annual average loss experience for the most recent 10 year period.
- c) Current pricing, notwithstanding high deductibles, is 6 to 15 times that of a year ago (9/1/92).
- d) Current average pricing is over 3.5 times our annual average loss experience for the most recent 10 year period. (Pages 7-8)

FPC believes that a limited industry mutual program would require that they share risks disproportionate to their actual storm experience. FPC proposes to accrue funds to its Storm and Property Reserve, rather than pay premiums to an insurance company.

Although some level of "traditional" insurance coverage is currently available, it does not appear to be adequate in price or amount.

On an ongoing basis, we will require FPC to evaluate alternative plans to provide protection against the risks associated with storm damage to its transmission and distribution system. FPC shall file with the Commission an annual report addressing: 1) its efforts to obtain traditional insurance for this risk; 2) the status of the proposed industry-wide program and any decision made to participate or not to participate in that program; 3) an update of its evaluation of the company's exposure and the adequacy of the reserve; and 4) its assessment of the feasibility and cost effectiveness of a risk sharing plan among the investor-owned electric utilities in Florida.

We find that the concept of self-insurance for T&D Lines is reasonable for FPC at this time. In light of the high cost and inadequate amount of T&D insurance available to FPC, we believe that the company should have the discretion to self-insure, but we stress the importance of constant reevaluation by FPC as the insurance climate in Florida changes.

We also believe that FPC should increase its annual contribution to its Storm and Property Insurance Reserve. FPC is now collecting \$1 million annually in base rates for T&D property damage. This consists of 1993 annual storm damage expense of \$.1 million and property insurance premiums associated with T&D coverage of \$.9 million. The Company has requested an additional \$2 million, for a total annual storm damage expense of \$3 million.

FPC estimates that \$3 million is adequate to begin rebuilding a storm damage reserve, based on the 20-year history of actual storm damage incurred by the Company. The reserve would be used to cover storm damage experience for all losses not covered by insurance, including T&D lines and deductibles associated with other property insurance. Mr. Scardino predicted a reserve balance of \$.1 million on December 31, 1993.

Exhibit JS-1, Part C, attached to the testimony of John Scardino, presents a summary of storm damage experience for the period 1973-1993. The reserve balance remained at \$1,643,000 from 1981 to 1985, when it was completely wiped out by \$4,440,000 in storm damage from hurricanes Elena and Kate. The reserve was

rebuilt to \$4,244,000 by 1992, and was then depleted by the October 1992 tornadoes followed by the March 1993 "storm of the century."

We are concerned that \$3 million might not be adequate. FPC shall submit a study (similar to that required of FPL in Order No. PSC-93-0918-FOF-EI), evaluating the amount that should be annually accrued to the reserve. This study shall be filed three months from the date of the vote in this docket. FPC's study shall provide information concerning the treatment of T&D damages under its existing policy, a listing of the type of storm-related expenses FPC intends to draw from the reserve fund, and what type of accounting entries will be made for each item. Until the appropriate amount is determined, FPC shall accrue storm damage expense at the \$3 million level beginning November 1, 1993, with the understanding that this amount may be trued-up, depending upon our findings based upon the study.

We also believe that FPC should continue use of an unfunded Storm and Property Insurance Reserve. FPC witness Scardino testified that an unfunded reserve is preferred because "the costs of establishing and maintaining a fund are not justified when compared to the expected balance of the fund." According to Mr. Scardino, "the purpose of a funded reserve is to assure that liquid funds are available to immediately initiate the repair of damage to quickly restore safe and reliable electric service. A dedicated line of credit will provide the same certainty of availability of funds."

We agree. Given the size of FPC's capital structure, a potential \$100 million increase in debt will not affect the Company's financial risk. Therefore, we find that an unfunded method shall be used for FPC's Storm and Property Insurance Reserve.

Mr. Scardino proposes that, in the event that actual experience from storm damage exceeds the reserve balance at any given point in time, the excess costs should be deferred through the creation of a regulatory asset to be recovered from the customers over a five year period through a mechanism to be determined by this Commission.

This Commission already has a rule in place to govern the use of Account 228.1, Accumulated Provision for Property Insurance. Rule 25-6.0143(4)(b), Florida Administrative Code, provides that, "...each and every loss or cost which is covered by the account

shall be charged to that account and shall not be charged directly to expenses. Charges shall be made to accumulated provision accounts regardless of the balance in those accounts."

If FPC experiences significant storm related damage, it can petition for appropriate regulatory action. In the past, this Commission has allowed recovery of prudent expenses and has allowed amortization of storm damage expense. Extraordinary events such as hurricanes have not caused utilities to earn less than a fair rate of return. FPC shall be allowed to defer storm damage loss over the amount in the reserve until we act on any petition filed by the company.

No prior approval will be given for the recovery of costs to repair and restore T&D facilities in excess of the Reserve balance. However, we will expeditiously review any petition for deferral, amortization or recovery of prudently incurred costs in excess of the reserve.

FPC is requesting approval for a dedicated line of credit to assure that funds will be available to initiate the necessary repairs and restore reliable electric service as soon as possible after storm damage. According to FPC witness Scardino, an amount of \$100 million is requested based on the industry's actual storm damage experience, the estimated cost of repairs based on the company's investment in T&D lines, and the level of insurance coverage historically held by the company.

We believe that FPC should be able to secure a dedicated line of credit for the purpose of financing storm damage expenses and deductibles associated with other property insurance. We will not, however, pre-approve any specific amount for FPC's line of credit. Although a \$100 million line of credit appears to be reasonable at this time, it may not be appropriate. FPC's liquidity, T&D inventory, and T&D investment will vary through time. The lines of credit needed in the future may change. It is FPC's responsibility to determine lines of credit that will be needed for storm damage recovery. FPC should carefully consider the amount of liquidity needed to cover potential costs.

This docket shall be held open until FPC has filed its study and we have determined the appropriate annual storm damage expense to be accrued to the reserve.

It is therefore,

ORDERED by the Florida Public Service Commission that the request to implement a self insurance program for storm damage to its transmission and distribution facilities, filed by Florida Power Corporation on September 1, 1993, is hereby granted to the extent set forth in the body of this order. It is further

ORDERED that Florida Power Corporation shall evaluate alternative plans to provide protection against the risks associated with storm damage to its transmission and distribution system, and shall file with the Commission, within one year from the issuance of this Order, and annually thereafter a report addressing: 1) its efforts to obtain traditional insurance for this risk; 2) the status of the proposed industry-wide program on any decision made to participate or not to participate in that program; 3) an update of its evaluation of the Company's exposure and the adequacy of the reserve; and 4) its assessment of the feasibility and cost effectiveness of a risk sharing plan among the investor-owned electric utilities in Florida. It is further

ORDERED that Florida Power Corporation shall submit a study by January 12, 1994, as described within the body of this Order evaluating the amount that should be annually accrued to its reserve. It is further

ORDERED that this docket shall remain open pending evaluation of the aforesaid studies to be filed by Florida Power Corporation. It is further

ORDERED that this Order shall become final unless an appropriate petition for formal proceeding is received by the Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date indicated in the Notice of Further Proceedings or Judicial Review.

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By ORDER of the Florida Public Service Commission, this 15th
day of October, 1993.

STEVE TRIBBLE, Director
Division of Records and Reporting

by: Kay Jeyan
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 at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on October 29, 1993.

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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.

If this order becomes final and effective on the date described above, any party adversely 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.