

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition to implement a) DOCKET NO. 930405-EI
self-insurance mechanism for) ORDER NO. PSC-95-0264-FOF-EI
storm damage to transmission and) ISSUED: February 27, 1995
distribution system and to)
resume and increase annual)
contribution to storm and)
property insurance reserve fund)
by FLORIDA POWER & LIGHT)
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 APPROVING STORM DAMAGE STUDY AND
ADJUSTMENTS TO SELF INSURANCE MECHANISM

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 April 19, 1993, Florida Power & Light Company (FPL) filed its petition to implement a self-insurance mechanism for storm damage to its transmission and distribution (T&D) system and to resume and increase its annual contributions to its Storm and Property Insurance Reserve Fund (Storm Fund). Because FPL's current T&D insurance expired on May 31, 1993, FPL requested consideration of its request on an emergency basis. Pursuant to notice, a hearing on FPL's petition was held on May 17, 1993.

In Order No. PSC-93-0918-FOF-EI, issued June 17, 1993, we found that FPL should implement a self-insurance approach. In addition, we found that FPL should have the discretion to

establish a line of credit for storm damage liquidity; however, we found that the amount of the line of credit should not be subject to pre-approval by the Commission nor should the amounts contributed to the Storm Fund be reduced by the commitment fees for any dedicated lines of credit. We also required FPL to submit a study detailing the appropriate amount that should be annually accrued to the reserve and the costs it intends to charge to the Storm Fund. Additionally, the study was to include information concerning the treatment of all Hurricane Andrew related T&D damages under existing policy. Until the appropriate amount was determined, an annual accrual of \$7.1 million, net-of-tax, to the Storm Fund was set with the understanding that the amount beginning June 1, 1993, may be trued-up depending upon our findings resulting from the submitted study.

FPL submitted its study October 1, 1993. Over the past year, there have been several meetings regarding the study and related issues. These efforts have resulted in an agreement between the parties and staff on the appropriate level of annual contribution to the Storm Fund.

INCREASE IN STORM DAMAGE ACCRUAL

FPL's analysis of the annual accrual amount is based on the results of a statistical model which estimates the impact to the balance of the Storm Fund due to various accrual amounts and special customer assessments. For modeling purposes, a special customer assessment was defined as the amount required to return the Storm Fund to the target level over a five year period. The Storm Fund target was \$75,000,000 which was the approximate fund balance at the time of the study analysis. The amount of storm damage in a given year was indexed to an estimate of the long term average annual damage level of \$20,300,000 but allowed to fluctuate above or below it.

The model was then used to simulate the Storm Fund balance over 33 years under four policies. The analysis of these policies provides insight to various self insurance approaches. FPL recommended Policy III while staff believes the study supports a compromise between Policies II and III.

Policy I sets the annual accrual equal to the long term annual average, assumes no special assessments and future losses exceeding the annual accrual are drawn from the Storm Fund. FPL's analysis suggests this policy is the most volatile with relatively high potential for large positive or negative balances. However, negative fund balances will result if the

estimate is lower than the cumulative effect of actual damages. For example, if this policy were in place at the time of Hurricane Andrew, the \$270,000,000 in T&D damages would have depleted the Storm Fund and FPL would have petitioned for relief. Therefore, this policy is not appropriate because it is not sufficiently robust to address the risks to FPL and its customers. Any error in estimating annual storm damage level and frequency of storms would tend to have a dramatic impact on the Storm Fund balance. A high degree of confidence in the accuracy of weather forecasting is required to justify a substantial increase in the annual accrual amount. Staff believes this degree of precision in weather forecasting does not exist. Absent a rate case setting, implementing this policy also creates equity issues.

Policy II sets the annual accrual equal to the long term annual average and provides for special assessments to maintain the Storm Fund. FPL's analysis suggests this policy is the most likely to cause the Storm Fund to increase over time. Any errors in under estimating annual storm losses would be addressed through special assessments and, therefore, the Storm Fund is expected to remain solvent. However, this policy only addresses relief for FPL and suffers in similar areas as Policy I with regard to weather forecasting and inter-generational equity issues.

Policy III sets the annual accrual to the current amount of \$7,100,000 and provides for special assessments to maintain the Storm Fund. FPL's analysis suggests this policy is the most likely to have an equal probability in having a positive Storm Fund balance as a negative fund balance in any given year. This means that the Storm Fund balance is not expected to increase or decrease but remain relatively constant over time. The difference between the accrual amount and cumulative storm losses are addressed through special assessments. However, this policy tends to place the burden of self insurance on FPL's customers through special assessments. This is because the accrual amount is only 35 percent of FPL's estimated long term average of annual storm damages and eventually special assessments are expected to exceed the accrual amount. Staff believes that both FPL and its customers would be better insured if the accrual amount were increased such that the Storm Fund is likely to grow which in turn would decrease dependence on special assessments to address unpredictable weather events.

Policy IV assumes no annual accrual and provides for special assessments to maintain the fund. Staff agrees that this

policy is a "pay-as-you-go" policy which relies on the Commission approving FPL's petitions for relief and spreading the costs over FPL's large customer base. This policy is not a viable alternative but helps to understand the interactions between an accrual amount, special assessments and the fund balance. As stated in the study, Attachment 3, page 6,

"...This policy illustrates that the amount chosen for annual accrual can be relatively arbitrary so long as it is within a range low enough so as not to result in unbounded growth in expected future Storm Reserve balances, and if it is combined with a mechanism to address insolvency."

Staff's review of FPL's study indicates that an increase above the current \$7,100,000 annual accrual is needed because the fund should be expected to grow due to the unpredictable nature of weather and to reduce dependence on a relief mechanism such as a special customer assessment. On page 6 of the study, FPL indicates that at least \$9,000,000 in annual accrual is required to achieve some fund growth if there are any special assessments. Staff's concerns were addressed in various meetings and discussions on this matter and related issues with FPL, OPC and FIPUG. As a result of this dialogue, FPL sent to staff a proposed agreement (Attachment A) on December 20, 1994, to increase the storm damage accrual to \$10,100,000 annually effective January 1, 1994. We find that the proposed agreement should be approved; however, the accrual amount and solvency of the Storm Fund should be reviewed and appropriately adjusted subject to Modified Minimum Filing Requirements or other rate proceeding.

STORM DAMAGE STUDY

FPL's study provided sufficient analysis to indicate the appropriate annual amount that should be contributed to the storm damage reserve fund at this time.

In addition, the study addressed the issues raised in the order concerning the types of expenses that would be charged to the reserve. However, we have the authority to review any expenses charged to the reserve for reasonableness and prudence. FPL stated that it would use the actual restoration cost approach for determining the appropriate amounts to be charged to the reserve. This methodology is consistent with the manner in which replacement cost insurance works.

In accounting for the restoration and replacement costs to plant, the gross original cost of the replaced plant should be retired by a credit to the plant accounts and a debit to the depreciation reserve. Then, a credit would be made to the plant accounts so that the replacement gross plant would be reduced by the available balance of the storm reserve until it is equal to the value of the plant it replaced. In addition, the depreciation reserve would be credited with an amount equal to the gross cost of the replaced plant. This would restore the plant accounts and depreciation reserve to their original values prior to the damage caused by the storm. In the event that the storm reserve is not sufficient to cover the credits to the plant accounts and the depreciation reserve, the utility would need to seek recovery through a petition to this Commission.

FPL also provided a summary of the treatment of the costs to restore its facilities damaged by Hurricane Andrew. As noted on page 7 of the study, FPL had not submitted its full claim at the time that the study was filed.

We are considering the appropriateness of opening a rulemaking proceeding to establish uniform guidelines for determining when the storm damage reserve should be charged and what costs should be charged to it.

TROPICAL STORM GORDON COSTS

By letter dated December 30, 1994 (Attachment B), FPL requested that it be allowed to expense, in 1994, approximately \$4.5 million of costs to repair storm damage and restore service due to Tropical Storm Gordon. Rule 25-6.0143(1)(b), F.A.C., requires that charges be made to the Accumulated Provision for Property Insurance (Storm Fund) account for all occurrences in accordance with the schedule of risks to be covered which are not covered by insurance. FPL is effectively requesting a waiver of this rule in order to expense the storm damage costs related to Tropical Storm Gordon.

We have expressed our concern that the accrual amount for storm damage needs to be increased above its current level in order for the Storm Fund to grow and thereby reduce FPL's dependence on a relief mechanism such as a special customer assessment. If FPL's request is approved, the Storm Fund will be \$4.5 million greater than it would be otherwise.

Based on the November 30, 1994 earnings surveillance report, FPL was earning 12.25% return on equity (ROE). This is within the company's authorized ROE range of 11.0% to 13.0%. The reported earned ROE of 12.25% includes the expense of Tropical Storm Gordon. Expensing the costs of Tropical Storm Gordon resulted in a reduction in reported earnings of approximately .07% ROE. We do not believe this significantly impacts FPL's earnings.

Approval of FPL's request will have no negative impact on its customers. Since FPL does not appear to be overearning during 1994, no refund for 1994 is likely. Approval of FPL's request may have a beneficial impact on its customers in the future. Expensing the costs of Tropical Storm Gordon results in a greater Storm Fund balance that may avoid or reduce the need for a special assessment in the case of a major storm.

FPL's request to expense the \$4.5 million cost of Tropical Storm Gordon in 1994 is therefore approved.

Based on the foregoing, it is

ORDERED that the request of Florida Power & Light Company to increase its annual storm damage accrual to \$10,100,000, effective January 1, 1994, is hereby granted. The storm damage fund shall continue to be funded on a net-of-tax basis. It is further

ORDERED that the storm damage study submitted by Florida Power & Light Company is hereby found to be adequate. It is further

ORDERED that the request of Florida Power & Light Company to expense the \$4.5 million cost of Tropical Storm Gordon rather than withdrawing it from the storm damage fund is hereby granted. It is further

ORDERED that this Order shall become final and effective and this docket shall be closed unless an appropriate petition for formal proceedings 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 27th
day of February, 1995.

/s/ Blanca S. Bayó

BLANCA S. BAYÓ, Director
Division of Records and Reporting

This is a facsimile copy. A signed copy of the order may be
obtained by calling 1-904-488-8371.

(S E A L)

MAP

DISSENT

Commissioner Kiesling dissents on the issue of Tropical Storm
Gordon Costs. Commissioner Kiesling would deny Florida Power &
Light Company's request to expense the \$4.5 million in storm costs
and would order the costs withdrawn from storm damage reserves.

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

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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, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on March 20, 1995.

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 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.