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TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF LEGAL SERVICES (ERSTLING) RVE

RE: DOCKET NO. 951433-EI - PETITION FOR APPROVAL OF SPECIAL ACCOUNTING TREATMENT OF EXPENDITURES RELATED TO HURRICANE ERIN AND HURRICANE OPAL BY GULF POWER COMPANY.

PSC-96-1334-FOF-EI

Attached is a NOTICE OF PROPOSED AGENCY ACTION ORDER APPROVING ACCOUNTING TREATMENT OF STORM RELATED DAMAGE to be issued in the above-referenced docket. (Number of pages in Order - 5)

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Attachment
cc: Division of Electric and Gas (R. Bass, Breman)
Division of Auditing and Financial Analysis (J. Bass, L. Romig, Maurey)
I:951433OR.SLE

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for approval of special accounting treatment of expenditures related to Hurricane Erin and Hurricane Opal by Gulf Power Company	DOCKET NO. 951433-EI ORDER NO. PSC-96-1334-FOF-EI ISSUED: November 5, 1996

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 ACCOUNTING TREATMENT OF STORM RELATED DAMAGE

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.

CASE BACKGROUND

On November 17, 1995, Gulf Power Company (Gulf or the Company) filed a petition to increase the annual accrual for storm damage from $1.2 million to $3.5 million beginning in 1996 and to amortize approximately $9 million of hurricane-related expenditures to the accumulated provision account over the five-year period of 1996-2000. Additionally, the Company requested that it be allowed to apply any earnings over a 12.75% return on equity (ROE) for calendar year 1995 to the accumulated provision account. Gulf also requested that the Commission rule on its petition on or before December 19, 1995, before the closing of its books for 1995.

In Order No. PSC-96-0023-FOF-EI the Commission resolved all issues except for the annual accrual amount for storm damage because we found no basis for determining the reasonableness of the proposed $3.5 million accrual amount. Instead, we ordered Gulf to prepare and submit for review a storm damage study. Pending our receipt and review of the study, Gulf was allowed an annual accrual amount of $3.5 million.

In its study, Gulf was required to address the impact of random storm events. The Company was to evaluate the potential affects on the accumulated provision account balance as a result of storms of varying intensities and paths. Gulf filed the study June 13, 1996.

DECISION

Gulf's analysis of the annual accrual amount is based on a report prepared by independent consultants, M&M Protection Consultants (M&M) titled *Transmission and Distribution Study for Hurricanes*. M&M used a probabilistic model with three different tests to estimate a range of possible damage to transmission and distribution (T&D) facilities. The first test was an estimate of damage costs to current T&D facilities due to the strongest hurricane on record that affected Gulf's service area. The second test was an estimate of T&D damage costs due to a worst case scenario. The third test was an estimate of the average annual damage costs to T&D facilities. All test results presented by M&M are based on a 90 percent probability that the estimated damages will not be exceeded. M&M estimates that Gulf can expect $25.1 million in T&D damages due to a recurrence of the strongest storm on record and $106.9 million due to a worst case scenario. Gulf projects the long-term average T&D damage to be $1.3 million annually.

Key criteria such as location of facilities, current replacement costs, design standards, storm paths, and a 120-year history of tropical storms were incorporated into the probabilistic model. While we may not necessarily agree with all of the assumptions, the study provides sufficient insight into Gulf's exposure to T&D storm damage losses for determining the reasonableness of Gulf's annual accrual amount and the appropriate accumulated provision account balance.

Our primary concern is that the accrual amount be sufficient to cover annual damages and promote growth in the Accumulated Provision for Property Insurance account balance. Although, the study recommended an increase in the annual accrual of $0.4 million, Gulf did not request said increase. Assuming Gulf's estimate of $1.3 million in annual losses is accurate, then an annual accrual amount of $3.5 million will be adequate to cover those losses and provide for reasonable increases to the Accumulated Provision for Property Insurance account balance. An adjustment $0.4 million is of such small magnitude as to infer a degree of accuracy in predicting weather that does not yet exist. Therefore, we find Gulf's proposal to leave the annual accrual at the $3.5 million level to be appropriate at this time.

The *Transmission and Distribution Study for Hurricanes* recommends the Accumulated Provision for Property Insurance account have a balance between $20.1 and $28.8 million and that the balance could be achieved over 10 years with a $3.9 million annual accrual. However, the target account balance was based on assuming only 80 percent of the actual damages were charged to the account with the remaining 20 percent capitalized. We find this assumption to be inappropriate for purposes of determining a target balance level. Instead, all damages should be assumed to be charged to the Accumulated Provision for Property Insurance account. Therefore, based on Gulf's study, the appropriate target level for the Accumulated Provision for Property Insurance account is between $25.1 and $36 million. The only impact this change has is to increase the number of years required to achieve the target account balance by approximately three to seven years. This is not a material change.

The study shall not be used as the basis for determining specific charges to the Accumulated Provision for Property Insurance account. Determining the prudence of any particular future charge against the Accumulated Provision for Property Insurance account is premature because of the unpredictable nature of any given storm. If there is a storm, Gulf shall bear the burden of showing that specific charges against the Accumulated Provision for Property Insurance account are prudent and reasonable.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Gulf Power Company's study *Transmission and Distribution Study for Hurricanes* adequately addresses the appropriate accumulated provision account balance and the annual accrual amount as required in Order No. PSC-96-0023-FOF-EI. It is further

ORDERED that the annual accrual amount shall remain at $3.5 million. It is further

ORDERED that the appropriate target level for the Accumulated Provision for Property Insurance account is between $25.1 and $36 million. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" 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 5th day of November, 1996.

Blanca S. Bayó

BLANCA S. BAYÓ, Director
Division of Records and Reporting

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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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on November 26, 1996.

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.