

Steel Hector & Davis

Tallahassee, Florida

Bonnie E. Davis
(904) 222-2300

February 28, 1991

Mr. Steve Tribble
Director
Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399

910257-EI

RE: In re: Petition by Florida Power
& Light Company to Discontinue Annual
Contribution to its Storm and Property
Insurance Reserve Fund

Dear Mr. Tribble:

Enclosed for filing are the original and fifteen copies of
Florida Power & Light Company's Petition to Discontinue Annual
Contribution to its Storm and Property Insurance Reserve Fund.

Very truly yours,




Bonnie E. Davis

BED:do
Enclosures

cc: Mr. J. D. Jenkins
Mr. J. L. Slemkewicz
Mr. W. D. Talbott

RECEIVED & FILED


FPSC BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

Tallahassee Office
215 South Monroe
Suite 601
Tallahassee, FL 32301-1804
(904) 222-2300
Fax: (904) 222-8410

4000 Southeast Financial Center
Miami, FL 33131-2398
(305) 577-2800
Fax: (305) 358-1418

515 North Flagler Drive
1200 Northridge Centre 1
West Palm Beach, FL 33401-4307
(407) 650-7200
Fax: (407) 655-1509

440 Royal Palm Way
Palm Beach, FL 33480
(407) 650-7200

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Florida Power)
& Light Company to discontinue annual)
contribution to its Storm and Property)
Insurance Reserve Fund)

Docket No. 910257-EI

Filed: 2-28-91

PETITION

Florida Power and Light Company (FPL), pursuant to the provisions of Rule 25-22.036 (4) and Rule 25-6.0143, Florida Administrative Code, and Section 366.05(1) Florida Statutes (Supp. 1990) hereby petitions for approval to discontinue the annual cash contribution to the Storm and Property Insurance Reserve Fund (the Reserve), to discontinue the related charge to operating expenses, and to discontinue reinvestment of the Fund's earnings in the Fund.

FPL requests the following specific findings:

- (1) that in December 1990 the Storm and Property Insurance Reserve (the Reserve) attained the level prescribed by the Commission in Order No. 10306 of \$79,000,000 on a pre-tax basis;
- (2) that the target pre-tax equivalent level of \$79,000,000 continues to be reasonable and prudent for the purposes for which it was established;
- (3) that the charge to operating expenses of \$3,000,000 established in Order No. 10306 and the related annual cash contribution to the Fund be discontinued effective January 1, 1991;
- (4) that reinvestment of the Fund's earnings in the Fund be discontinued effective January 1, 1991 and that such earnings be used to offset the utility's operating expenses.

FPL requests that the Commission use its proposed agency action procedures in connection with this Petition and publish its Notice of Proposed Agency Action in the Florida Administrative Weekly as provided by Rule 25-22.029(3), Florida Administrative Code.

Any documents required to be served in this docket should be furnished to:

Matthew M. Childs, P.A.
Steel Hector & Davis
215 South Monroe
Suite 601
Tallahassee, Florida 32301

W. G. Walker, III
Florida Power & Light Company
P.O. Box 029100
Miami, Florida 33102

FPL is a public utility subject to the jurisdiction of the Florida Public Service Commission (the Commission) pursuant to Chapter 366, Florida Statutes (Supp. 1990). FPL's general offices are located at 9250 West Flagler Street, Miami, Florida 33174.

FPL is not aware of the existence of any disputed issue of material fact in connection with this Petition.

In support of this Petition FPL states the following:

1. The Reserve was established in 1947 and has been funded since 1958. Its' purpose is to provide coverage for uninsured property losses resulting from storm damage and for retrospective insurance premium assessments arising from the Price-Anderson Act and FPL's nuclear insurance carriers in the event of a nuclear incident at any one of the covered utilities. In FPL's 1981 rate case (Docket No. 810002-EU) the Commission established a pre-tax target level for the Reserve of \$79,000,000, and authorized a \$3,000,000 annual charge to operating expenses to fund the Reserve as well as the reinvestment of the Fund's earnings in the Fund.

2. As of December 31, 1990, the Reserve had a pre-tax equivalent value of \$79,600,000, after reflecting pending charges to the Reserve that FPL plans to make in the near future due to damage caused by Tropical Storms Klaus and Marco in October 1990. The damage costs are currently being reviewed before they are charged to the Reserve. The assets of the Fund are primarily invested in marketable securities. Attachment A appended to this Petition shows the pre-tax equivalent balance of the Reserve as of December 31, 1990. Pursuant to Rule 25-6.0143 (4)(a), Florida Administrative Code, FPL seeks authorization to discontinue the charge to operating expenses and the related cash contribution to the Fund and the reinvestment of the Fund's earnings. Both the discontinuation of the charge to operating expenses and the after-tax earnings of the Fund would serve to offset the utility's operating expenses.

3. The current per-tax target level of the Reserve of \$79,000,000 is reasonable and prudent based on current conditions. Although it is difficult to predict the potential level of property damage in the event of a major hurricane or tropical storm, and the continued availability of storm damage insurance, the current level of property insurance, in combination with the Fund, is reasonably adequate to cover possible losses which could be sustained from a severe hurricane affecting FPL's service territory. Unless storm damage insurance coverage becomes unavailable or reduced, and the Fund is fully or partially depleted due to storm damage or retrospective nuclear insurance premium calls, is likely to remain adequate for the foreseeable

future. Attachment B provides a detail of FPL's storm damage insurance coverage as of December 31, 1990. Attachment C shows FPL's analysis of the adequacy of the Reserve for uninsured property losses resulting from storm damage, based on current conditions.

4. FPL has determined that it could be subject to retrospective insurance premium assessments of up to \$313,000,000 in the event of a nuclear incident at any one of the covered utilities: maximum amounts of \$61,000,000 by FPL's nuclear insurance carriers and \$252,000,000 under the Price-Anderson Act could be assessed. The nuclear insurance companies have the right to make retrospective assessments in the event of a nuclear incident at any of the covered utilities; however, given the current level of funding available to them, an assessment is unlikely for the first nuclear incident. FPL has therefore concluded that there is no need at this time to continue to build a reserve for this eventuality. However, in view of FPL's ongoing exposure to retrospective assessments, the Reserve should continue to be available for this purpose.

5. In the event the pre-tax level of the Reserve becomes inadequate, FPL will petition the Commission for authority to reinstate the annual charge to operating expenses, the related cash contribution to the Fund and the reinvestment of the Fund's earnings in the Fund. In addition, in the event FPL incurs storm damage losses or retrospective nuclear insurance premium calls in

excess of those covered by the Reserve and available insurance, FPL will seek the Commission's approval to amortize such costs over a period of five years.

WHEREFORE, FPL requests findings by the Commission that the current pre-tax level of the Storm and Property Insurance Reserve of \$79,000,000 has been achieved, that this level is currently reasonable and prudent for the purposes for which the Reserve was established; that the annual charge to operating expenses of \$3,000,000 established in Order No. 10306 and the related annual cash contribution to the Fund be discontinued effective January 1, 1991; and that reinvestment of the Fund's earnings in the Fund be discontinued effective January 1, 1991 and that such earnings be used to offset the utility's operating expenses.

Respectfully submitted,

STEEL HECTOR & DAVIS
215 South Monroe Street
Suite 601
Tallahassee, Florida 32301-1804
Attorneys for Florida Power
& Light Company

By: Bonnie E. Davis
Bonnie E. Davis
Matthew M. Childs, P.A.

ATTACHMENT A

**STORM AND PROPERTY INSURANCE RESERVE
As of December 31, 1990**

	<u>(000)</u>
RESERVE BALANCE PER BOOKS AS OF DECEMBER 31, 1990	\$62,172
Projected damage payments: Tropical Storms Klaus & Marco (December 1990)	(1,248)
Tax effect of net of tax amounts recorded to the reserve in prior years, (net of tax deficiencies resulting from the TRA of 1986)	<u>18,721</u>
Adjusted Reserve Balance to reflect the pretax equivalent amount at December 31, 1990	<u>\$79,645</u>

ATTACHMENT B**STORM DAMAGE INSURANCE COVERAGE**
As of December 31, 1990

TYPE OF PROPERTY	TYPE OF DAMAGE	COVERAGE (\$ millions)	DEDUCTIBLE (\$ millions)
T&D	Hurricane and tropical storm property damage and flooding Excess Flooding ¹	Primary policy: \$350 per storm. Excess policy: \$80 per storm	\$20 per storm
Non-nuclear power plants, general facilities	Hurricane and tropical storm property damage other than flooding ¹ (wind, fire, etc.)	\$9,000	\$0.5 - 1 per storm ²
Nuclear power plants	Hurricane and tropical storm property damage, flooding	\$2,185	\$1 per storm

¹ Flood coverage for non-nuclear power plants and general facilities available under T&D Excess Flooding policy.

² \$1 million: Martin, Manatee, Port Everglades
\$0.5 million: Putnam, Fort Lauderdale, Sanford
If 2 or more plants in different categories are damaged, pay the higher \$1 million deductible.

ATTACHMENT C

ANALYSIS OF THE ADEQUACY OF THE STORM AND PROPERTY INSURANCE RESERVE

The process of estimating how much damage FPL would sustain, even in a hurricane of a given strength, is subject to great uncertainty. However, depending on the severity of a major hurricane and its path, damage could be several hundred million dollars. Based on the current storm damage insurance coverage for Transmission and Distribution* property and the current pre-tax Reserve balance, FPL would be able to cover up to \$509 million in storm damages in the event of one severe hurricane, as follows:

	<u>Damage</u>	<u>Covered by the Reserve</u>
<u>Damages That Can Be Covered By the Reserve (\$ millions):</u>		
Deductible covered by FPL	\$ 20	\$ 20
T&D Damage covered by Insurance	350	0
T&D Damage covered by Excess Flood Coverage	80	0
T&D Damage covered by FPL	<u>59</u>	<u>59</u>
TOTAL DAMAGE	<u>\$509</u>	
TOTAL DAMAGE COVERED BY THE RESERVE		<u>\$79</u>

Therefore, it was determined that the target Fund balance of \$79 million continues to be reasonable and prudent for the purpose for which it was established. The adequacy of the Reserve, however, is subject to continuous evaluation as insurance coverage conditions change and as new relevant potential cost data becomes available. This would include loss of insurance coverage and full or partial depletion of the Fund resulting from storm damage or retrospective nuclear insurance premium calls.

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- * The analysis considers only Transmission and Distribution property because the uninsured portion of the potential loss is significantly larger when compared to the coverage available for other FPL property (see Attachment B).