

FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center • 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

MEMORANDUM

DECEMBER 7, 1995

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF AUDITING & FINANCIAL ANALYSIS (L. ROMIG, ^{JK}
REVELL) ^{JK} 13
DIVISION OF ELECTRIC & GAS (BASS, BREMAN) ^{JK}
DIVISION OF LEGAL SERVICES (KRSTLING) ^{JK} ROE ^{JK} MGRAT

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

AGENDA: 12/19/95 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\██████████

CASE BACKGROUND

By Order No. 9628, issued September 23, 1982, the Commission permitted Gulf Power Company (Gulf or the Company) to raise its annual accrual to the Accumulated Provision for Property Insurance (accumulated provision account) from \$809,717 to \$1,200,000 before taxes.

On November 17, 1995 Gulf filed a petition to increase the annual accrual 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 and that this petition be brought before the Commission for disposition on or before December 19, 1995, prior to the closing of its books for 1995.

DOCUMENT NUMBER-DATE

12260 DEC-7/95

FPSC-RECORDS/REPORTING

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DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve Gulf's request to increase the annual accrual to the accumulated provision account from \$1.2 million to \$3.5 million?

RECOMMENDATION: Yes. The Commission should approve Gulf's request to increase the annual accrual to the accumulated provision account from \$1.2 million to \$3.5 million, subject to further analysis pending review of a study. A study should be submitted by Gulf six months from the date of the order in this docket. The study should indicate the appropriate amount that should be annually accrued to the accumulated provision account and the appropriate accumulated provision account balance. (BREMAN)

STAFF ANALYSIS: Gulf has proposed increasing the annual accrual from \$1.2 million to \$3.5 million. The components of its proposed increase are:

\$1,200,000	current annual accrual amount
\$1,800,000	based on \$9,000,000 amortized over 5 years
<u>\$ 500,000</u>	amount to increase the accumulated provision account
\$3,500,000	proposed annual accrual amount

Gulf's petition basically addresses relief for the 1995 hurricane-related expenses of approximately \$9 million in excess of the accumulated provision account balance to avoid the effect on earnings that would otherwise result.

Based on current information, Staff is uncertain that an annual accrual of \$3.5 million is the appropriate amount. Clearly, the accumulated provision account needs to be re-established and increasing the annual accrual amount should facilitate growth in the accumulated provision account. However, there is no basis for determining the reasonableness of the proposed \$3.5 million annual accrual amount. Staff recommends that Gulf submit a study which addresses the appropriate accumulated provision account balance and the appropriate annual accrual amount. The study also should include the impact of random storm events, their intensities and paths on the accumulated provision account balance and the annual accrual amount. The study should be filed six months from the date of the order in this docket.

Until the appropriate amount is determined, Gulf should increase its annual accrual by \$2.3 million to \$3.5 million. This is with the understanding that the annual accrual amount may be adjusted depending upon the Commission's findings based upon the submitted study.

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ISSUE 2: Should the Commission approve Gulf's petition to increase the annual accrual effective January 1, 1996?

RECOMMENDATION: No. The effective date of the increase in the annual accrual should be January 1, 1995. (L. ROMIG)

STAFF ANALYSIS: Gulf Power requested that its revised accrual to the accumulated provision account be effective January 1, 1996.

Gulf's current authorized ROE is 12.0% within an authorized zone of 11.0%-13.0%. For calendar year 1995, Gulf has an approved cap on its earnings of 12.75% ROE. Gulf, on March 15, 1995, filed its Forecasted Earnings Surveillance Report projecting its jurisdictional earnings to be 12.15% ROE for the calendar year 1995. On November 20, 1995, in accordance with Rule 25-6.1353, F.A.C., Gulf filed a letter revising its estimated 1995 earnings upwards to 12.68% ROE. Staff recommends that the increased accrual be effective January 1, 1995. With the increased accrual of \$3.5 million, it is projected that the Company will still earn above its authorized ROE midpoint of 12% and an additional \$2.3 million will be restored to the reserve during 1995.

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ISSUE 3: Should the Commission approve Gulf's request to defer approximately \$9 million of hurricane-related expenditures and to amortize them over a five-year period beginning 1996?

RECOMMENDATION: No. The Company's request to defer approximately \$9 million of hurricane-related expenditures and to amortize them over a five year period beginning 1996 should be denied. Instead, the Company should charge the accumulated provision account for all actual hurricane-related expenditures. (L. ROMIG)

STAFF ANALYSIS: As of August 2, 1995, Gulf had a balance of approximately \$12 million in its accumulated provision account. On August 3, Hurricane Erin inflicted \$11 million in costs chargeable against the accumulated provision account. On October 4, Gulf's service area was struck by Hurricane Opal resulting in additional damages of approximately \$9 million chargeable against the accumulated provision account.

Gulf stated in its petition that without timely administrative relief, it would be required to charge approximately \$9 million of hurricane-related expenditures to expense in 1995. Gulf is requesting to defer approximately \$9 million to be amortized to the accumulated provision account over the five year period of 1996-2000.

Gulf is incorrect. The Company is not required to expense the \$9 million in 1995 because Commission Rule 25-6.0143(4)(b), Florida Administrative Code (F.A.C.), entitled "Use of Accumulated Provision Accounts 228.1, 228.2, and 228.4" states that:

"...Charges shall be made to accumulated provision accounts regardless of the balance in those accounts."

The Commission, when considering this rule, realized that there could be times when charges to the accumulated provision account could exceed the balance in the account resulting in a negative balance.

Therefore, Staff recommends that the Company be required to charge the accumulated provision account for all actual expenditures related to the hurricanes, resulting in a negative balance to that account. Since the expenses will not be deferred but charged to the accumulated provision account, it would not be appropriate to amortize those expenses. By charging the reserve for the expenditures, rather than deferring them, Gulf's desire to not charge the expenditures to expenses in 1995 is still met.

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ISSUE 4: Should the Commission approve Gulf's request to apply any earnings for calendar year 1995 in excess of 12.75% to the Company's accumulated provision account?

RECOMMENDATION: Yes. (REVELL)

STAFF ANALYSIS: By Order No. PSC-95-0985-POP-EI, dated August 10, 1995, Gulf Power's proposal to cap 1995 earnings at 12.75%, with any earnings over this amount subject to the Commission's disposition, was approved. The exact disposition of any excess earnings was left to the Commission's discretion. In addition, Gulf agreed to petition the Commission no later than April 1, 1996, "to determine the specific disposition of any deferred revenues and interest." Gulf stated in its current petition that: "...although it does not presently appear likely that the situation will come to pass, consistent with the Company's proposal approved by Order No. PSC-95-0985-POP-EI, in Docket No. 950837-EI, it would be the intent of the Company to apply any earnings for calendar year 1995 in excess of 12.75% return on equity (ROE) to the Company's uninsured property damage reserve."

If the actual achieved earnings do exceed 12.75%, all excess earnings shall be applied to the accumulated provision account.

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ISSUE 5: Should the expenses related to Hurricanes Erin and Opal charged to the accumulated provision account be subject to Commission review?

RECOMMENDATION: Yes. (REVELL)

STAFF ANALYSIS: Staff has not reviewed the expenses related to the two hurricanes named above. In Order No. PSC-95-0264-FOF-EI, issued February 27, 1995, related to the self-insurance mechanism for FPL, the Commission stated: "...we have the authority to review any expenses charged to the reserve for reasonableness and prudence." In Order No. PSC-95-0255-FOF-EI, issued February 23, 1995, related to TBCO's self insurance mechanism, the Commission stated: "We retain the right to review the costs and disallow any that are found to be inappropriate."

Therefore, the Commission retains the right to review Gulf's charges to the Accumulated Provision for Property Insurance Account related to these two storms at any time.

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ISSUE 6: Should Gulf be allowed the flexibility to increase its annual accrual above the \$3.5 million accrual recommended in Issue 1, until the accumulated provision account balance reaches \$12 million (the pre-hurricane balance) or such other level approved by the Commission?

RECOMMENDATION: Yes. (L. ROMIG)

STAFF ANALYSIS: After charging the accumulated provision account for actual hurricane-related expenditures, a negative balance will result. This obviously is not desirable since the Company is in a self-insurance position. Therefore, Staff recommends that the Company be given the flexibility to increase its annual accrual to the accumulated provision account when the Company believes it is in a position, from an earnings standpoint, to do so. Once the accumulated provision account balance reaches \$12 million (the pre-hurricane balance) or such other level approved by the Commission, the Company should not increase its accrual above the annual accrual amount last approved by the Commission.

Even with the approval of the increase in the annual accrual to \$3.5 million, effective January 1, 1995, the accumulated provision account will have a negative balance until late 1997. This assumes that no charges are made to the accumulated provision account for storms or other occurrences.

Also, the Company should inform the Division of Auditing and Financial Analysis when a decision is made to increase the annual accrual, and also provide a statement on its future earnings surveillance report when the adjustment is made to increase the amount charged to expense.

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ISSUE 7: Should this docket be closed?

RECOMMENDATION: No. (BREMAN)

STAFF ANALYSIS: This docket should remain open pending Commission review of Gulf's study on the appropriate annual accrual amount.