

State of Florida



Public Service Commission
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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

COMMISSION
CLERK

APR - 8 AM 9:55

RECEIVED-PSC

DATE: April 8, 2004

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Slemkewicz) ^{IS}
Office of the General Counsel (Rodan) ^{JAR} ^{MCB for MAH} ^{JQJ}

RE: Docket No. 040218-EI – Petition for authority to increase annual accrual rate for Account No. 228.2 - Accumulated Provision for Injuries and Damages, by Gulf Power Company.

AGENDA: 04/20/04 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\040218.RCM.DOC

Case Background

On March 11, 2004, Gulf Power Company (Gulf) filed a petition for authorization to increase the annual accrual rate for Account No. 228.2 - Accumulated Provision for Injuries and Damages. This request was filed pursuant to Rule 25-6.0143(4)(a), Florida Administrative Code, which requires a utility to petition the Commission for such a change. In addition, Gulf has requested that it be allowed the flexibility to supplement the annual accrual as its earnings permit.

DOCUMENT NUMBER - DATE

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Discussion of Issues

Issue 1: Should the Commission grant Gulf Power Company's request to increase the annual accrual to its injuries and damages reserve from \$1.2 million to \$1.6 million, effective January 1, 2004?

Recommendation: Yes. The Commission should authorize Gulf Power Company to increase its annual injuries and damages reserve accrual from \$1.2 million to \$1.6 million, effective January 1, 2004. (Slemkewicz)

Staff Analysis: Gulf's current annual injuries and damages reserve accrual of \$1.2 million was authorized in Order No. 10557, issued February 1, 1982, in Docket No. 810136-EU, In Re: Petition of Gulf Power Company for an increase in its rates and charges. That order also eliminated the \$1 million reserve cap or ceiling that had previously been in existence. In its most recent rate case in Docket No. 010949-EI, In Re: Request for rate increase by Gulf Power Company, Gulf did not seek an increase in its injuries and damages reserve accrual because it believed that the current \$1.2 million accrual would be sufficient to maintain an adequate reserve balance. As illustrated in Gulf's petition, however, the reserve balance has declined from \$1.8 million at the end of 1999 to \$81,601 at the end of 2003.

The purpose of the Accumulated Provision for Injuries and Damages, Account 228.2, is to meet the probable liability, not covered by insurance, for deaths or injuries to employees or others and for damages to property not owned by the utility. Gulf has not submitted any study with its petition that would indicate what would be either an appropriate annual accrual amount or an appropriate reserve level target. However, Gulf's recent actual experience appears to demonstrate that the current \$1.2 million accrual is not adequate to maintain a reasonable reserve level. Based on this actual experience and the 22 year interval since the current \$1.2 million annual accrual was established, it is staff's opinion that Gulf's request to increase its current annual accrual by \$400,000 appears to be reasonable. Therefore, staff recommends that the accrual to Gulf's injuries and damages reserve should be increased to \$1.6 million annually. Staff also recommends that an effective date of January 1, 2004 is reasonable and should be approved.

Issue 2: Should the Commission approve Gulf Power Company's request to allow it the flexibility to supplement its annual accrual to the injuries and damages reserve as earnings permit?

Recommendation: Yes, the Commission should allow Gulf Power Company the flexibility to supplement its annual accrual to its injuries and damages reserve as earnings permit to maintain a calendar year end balance of no greater than \$2 million. The \$2 million is not a cap/ceiling on the injuries and damages reserve. (Slemkewicz)

Staff Analysis: Gulf has requested that it be allowed the flexibility to supplement the annual accrual to its injuries and damages reserve as its earnings permit. Gulf currently has this type of flexibility regarding the annual accrual to its storm damage reserve. However, the storm damage reserve has an established target level range. Once that target level is achieved, Gulf can no longer supplement its accrual above the authorized annual accrual amount last approved by the Commission. In this case, however, the injuries and damages reserve has neither a target level nor a cap/ceiling. Theoretically, Gulf could supplement its annual accrual by any amount that it deemed reasonable or desirable regardless of the existing adequacy of the reserve.

In staff's opinion, Gulf should be allowed some flexibility to supplement its annual accrual, but not without some limitation. There is no empirical evidence that would indicate what the "ideal" or target level should be for the injuries and damages reserve. Based on an evaluation of the amount of the actual charges against the reserve, a year end balance of \$2 million would appear to provide Gulf with an adequate reserve cushion. This \$2 million limitation does not cap the injuries and damages reserve at that level nor does it affect the amount of the normal authorized annual accrual. In other words, Gulf will continue to make its annual accrual regardless of the actual level of the reserve. The purpose of the limitation is to provide a reasonable limit on Gulf's flexibility to supplement its annual accrual.

The following hypothetical table illustrates how the recommended supplemental accrual limitation would be applied:

Year	Beginning Balance	Annual Accrual	Charges	Year End Balance	Maximum Supplemental Accrual	Adjusted Year End Balance
1	\$100,000	\$1,600,000	(\$1,900,000)	(\$200,000)	\$2,200,000	\$2,000,000
2	\$2,000,000	\$1,600,000	(\$1,950,000)	\$1,650,000	\$350,000	\$2,000,000
3	\$2,000,000	\$1,600,000	(\$1,400,000)	\$2,200,000	-0-	\$2,200,000

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Issue 3: Should this docket be closed?

Recommendation: Yes. If no timely protest is filed by a substantially affected person, a Consummating Order should be issued upon the expiration of the protest period and the docket should be closed. (Rodan)

Staff Analysis: If there are no timely protests filed by a substantially affected person, a Consummating Order should be issued upon the expiration of the protest period and the docket should be closed.