

VOTE SHEET

JULY 19, 2005

RE: Docket No. 041291-EI - Petition for authority to recover prudently incurred storm restoration costs related to 2004 storm season that exceed storm reserve balance, by Florida Power & Light Company.

Issue 1: What is the legal effect, if any, of FPL's 1993 storm cost study and Order No. PSC-95-0264-FOF-EI entered in Docket No. 930405-EI on the decisions to be made in this docket?

Recommendation: The methodology proposed in FPL's 1993 storm cost study does not represent the standard by which the Commission must determine which costs are appropriately charged to FPL's storm damage reserve. In Order No. PSC-95-0264-FOF-EI, the Commission did not expressly approve the methodology proposed in FPL's study and made no finding that the methodology was "reasonable" or "appropriate" or otherwise should be used as the continuing standard for charging costs to the storm reserve.

**APPROVED**

COMMISSIONERS ASSIGNED: All Commissioners

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

*[Handwritten signatures: Lynn Edg, Mike Bradley, [unclear], J. Terry Deason]*

*[Handwritten signature: J. Terry Deason]*

REMARKS/DISSENTING COMMENTS:

*Commissioner Deason dissented on Issue 15a*

DOCUMENT NUMBER-DATE

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Issue 2: Is the methodology in Order No. PSC-95-0264-FOF-EI, issued in Docket No. 930405-EI, for booking costs to the Storm Damage Reserve the appropriate methodology to be used in this docket?

Recommendation: No. A modified incremental cost approach is the appropriate methodology to be used in this docket for booking costs to the Storm Damage Reserve.

**APPROVED**

Issue 3: Were the costs that FPL has booked to the Storm Damage Reserve consistent with the methodology in the study filed on October 1, 1993, by the Company in Docket No. 930405-EI?

Recommendation: Yes. The costs that FPL has booked to the Storm Damage Reserve appear to be consistent with the methodology in the study filed on October 1, 1993, in Docket No. 930405-EI.

**APPROVED**

Issue 4: Has FPL quantified the appropriate amount of non-management employee labor payroll expense that should be charged to the storm reserve? If not, what adjustments should be made?

Recommendation: No. FPL's non-management employee labor expense should be adjusted to reflect only the incremental costs above its budgeted levels for the year end 2004. To prevent FPL from collecting twice through rates for its employee regular pay, the Commission should disallow \$10.9 million of the amount FPL charged to the storm reserve.

NON-MANAGEMENT EMPLOYEE LABOR EXPENSE

FPL Requested Charge to Storm Reserve	\$45,389,456
Staff Recommended Charge to Storm Reserve	<u>\$34,489,456</u>
Staff Recommended Adjustment	<u>\$10,900,000</u>

**APPROVED**

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Issue 5: Has FPL properly treated payroll expense associated with managerial employees when determining the costs that should be charged to the storm reserve? If not, what adjustments should be made?

Recommendation: No. FPL's managerial employee payroll expense should be adjusted to reflect only the incremental costs above its budgeted levels for the year end 2004. To prevent FPL from collecting twice for its employee regular pay, the Commission should disallow \$21.1 million of the amount FPL charged to the storm reserve.

MANAGERIAL EMPLOYEE PAYROLL EXPENSE

FPL Requested Charge to Storm Reserve	\$62,196,295
Staff Recommended Charge to Storm Reserve	<u>\$41,096,295</u>
Staff Recommended Adjustment	<u>\$21,100,000</u>

**APPROVED**

Issue 6: At what point in time should FPL stop charging costs related to the 2004 storm season to the storm reserve?

Recommendation: FPL should stop charging costs to the storm reserve no later than July 31, 2005, for restoration work related to the 2004 storm season. In addition, the follow-up project cost in question must be demonstrated to be related to the 2004 storm damages and a staff audit of the follow-up projects is necessary to ensure that FPL followed its stated procedures differentiating the regular and storm-repair work orders and that FPL followed the cost accounting methodology approved in this proceeding.

**APPROVED**

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Issue 7: Has FPL charged to the storm reserve appropriate amounts relating to employee training for storm restoration work? If not, what adjustments should be made?

Recommendation: Yes. FPL has not charged any employee training costs to the storm reserve. No adjustment is necessary.

**APPROVED**

Issue 8: Has FPL properly quantified the costs of tree trimming that should be charged to the storm reserve? If not, what adjustments should be made?

Recommendation: No. The costs of tree trimming included in the storm reserve should be reduced by \$1 million.

FPL Requested Charge to Storm Reserve	\$89,435,466
Staff Recommended Charge to Storm Reserve	<u>\$88,435,466</u>
Staff Recommended Adjustment	\$ <u>1,000,000</u>

**APPROVED**

Issue 9: Has FPL properly quantified the costs of company-owned fleet vehicles that should be charged to the storm reserve? If not, what adjustments should be made?

Recommendation: No. The costs of company-owned fleet vehicles charged to the storm reserve should be reduced by \$5,261,887.

FPL Requested Charge to Storm Reserve	\$8,088,117
Staff Recommended Charge to Storm Reserve	<u>\$2,826,230</u>
Staff Recommended Adjustment	<u>\$5,261,887</u>

**APPROVED**

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Issue 10: Has FPL properly determined the costs of call center activities that should be charged to the storm reserve? If not, what adjustments should be made?

Recommendation: Yes. Only incremental costs of call center activities were charged to the storm reserve. No adjustment is necessary.

**APPROVED**

Issue 11: Has FPL appropriately charged to the storm reserve any amounts related to advertising expense or public relations expense for the storms? If not, what adjustments should be made?

Recommendation: No. The Commission should disallow \$1,552,410 of the amount FPL charged to the storm reserve. This amount represents the difference between the advertising expense that was incurred and the amount that was originally budgeted for 2004. Further, in the future, FPL should exclude budgeted advertising and public relations expense from its storm reserve.

ADVERTISING/PUBLIC RELATIONS EXPENSE

FPL Requested Charge to Storm Reserve	\$1,703,454
Staff Recommended Charge to Storm Reserve	\$151,044
Staff Recommended Adjustment	<u>\$1,552,410</u>

**APPROVED**

Issue 12: Has uncollectible expense been appropriately charged to the storm reserve? If not, what adjustments should be made?

Recommendation: FPL has not charged any uncollectible expense to the storm reserve. If the Commission follows the utility's Actual Restoration Cost Approach, no adjustment should be made. However, if the Commission follows the Modified Incremental Cost Approach recommended by staff, uncollectible expense is addressed in Issue 15.

**APPROVED**

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Issue 13: Of the costs that FPL has charged or proposes to charge to the storm reserve, should any portion(s) instead be booked as capital costs associated with its retirement (including cost of removal) and replacement of plant items affected by the 2004 storms? If so, what adjustments should be made?

Recommendation: Yes. FPL should charge the normal cost of replacements, approximately \$58 million, to rate base as plant in service. FPL should also charge the normal cost of removal, approximately \$12.2 million, to the cost of removal reserve. In addition, the \$21.7 million classified as Contributions in Aid of Construction (CIAC) should not be charged against the storm reserve.

	<u>Plant in Service</u>	<u>Cost of Removal</u>	<u>CIAC</u>
Requested by Company	\$58,000,000	\$12,200,000	\$21,700,000
Recommended by Staff	_____0	_____0	_____0
Adjustment	(\$ <u>58,000,000</u> )	(\$ <u>12,200,000</u> )	(\$ <u>21,700,000</u> )

**APPROVED**

*with understanding concerning  
balancing of books as discussed  
at the conference*

Issue 14: Has FPL appropriately quantified the costs of materials and supplies used during storm restoration that should be charged to the storm reserve? If not, what adjustments should be made?

Recommendation: Yes. FPL has properly quantified the costs of materials and supplies used during restoration that should be charged to the storm reserve. Therefore, no adjustment is necessary.

**APPROVED**

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Issue 15: If the Commission does not apply, in this docket, the methodology applied by FPL for charging expenses to the storm reserve pursuant to the study filed on October 1, 1993 by the Company and addressed by the Commission in Order No. PSC-95-0264-FOF-EI in Docket No. 930405-EI, should the Commission take into account:

- a) Revenues lost by the Company due to the disruption of customer service during the 2004 storm season or the absence of customers after the storms;
- b) Overtime incurred by Company personnel in work areas not directly affected by the storm due to loss of some personnel to storm assignments (backfill work);
- c) Costs associated with work which must be postponed due to the urgency of the storm restoration and accomplished after the restoration was completed (catch-up work);
- d) Uncollectible accounts receivable write-offs directly related to the storms; and
- e) Incremental contractor, outside professional services and temporary labor costs due to work postponed due to the urgency of the storm restoration and accomplished after the restoration was completed.

Primary Recommendation: If the Commission approves staff's recommendation on Issues 1 and 2 and uses a Modified Incremental Cost Approach rather than the Actual Restoration Cost Approach proposed by FPL, lost revenues and uncollectible accounts should be taken into account but not backfill work, catch-up work and expenses associated with contractors and outside services. In taking into account lost revenues, the Commission should not consider lost revenues as indirect costs but should recognize that the normal O&M costs charged to the storm reserve by FPL and removed by staff in previous issues as recovered in base rates, were not recovered in base rates due to lost revenues. Therefore, the Commission should recognize lost revenues by including normal O&M costs that were not recovered in base rates totaling \$33,814,297 and include uncollectible accounts receivable write-offs totaling \$6,000,000 for a total of \$39,814,297. The backfill work, catch-up work and expenses associated with contractors and outside services of \$16,000,000 should not be taken into account. Furthermore, any recoveries of the directly related uncollectible expense should be credited to reduce the amount of unrecovered storm damage costs. Moreover, directly related uncollectible expense will be subject to the cumulative true-up at the end of the recovery period.

	<u>Lost Revenue</u>	<u>Catch-up &amp; Backfill Overtime</u>	<u>Incremental Contractor &amp; Outside Services</u>	<u>Uncollectible Accounts Receivable Write-Offs</u>	<u>TOTAL</u>
Requested by Company	38,200,000	9,000,000	7,000,000	6,000,000	60,200,000
Requested by Staff	33,814,297	0	0	6,000,000	39,814,297
Staff Adjustment	4,385,703	9,000,000	7,000,000	0	20,385,703

( see next page for decisions on Issues 15a through 15e )

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Alternate Staff Recommendation: Alternate staff only disagrees with primary staff on the issue of lost revenues. Alternate staff recommends that the Commission not take into account any of the \$38.2 million of lost revenues.

- 15 a primary approved; Comm. Deason dissented
- Staff's recommendation on 15 b, c, and e was approved
- Staff's recommendation on 15 d was approved

Issue 16: Taking into account any adjustments identified in the preceding issues, what is the appropriate amount of storm-related costs to be charged against the storm reserve?

Recommendation: Based on staff's adjustments recommended in the previous issues, the appropriate amount of storm-related costs to be charged against the storm reserve is \$794,309,025 (\$798,100,000 system).

TOTAL COSTS TO BE CHARGED AGAINST THE STORM RESERVE

Amount Requested	\$890,000,000 (System)
Staff Recommended	<u>\$798,100,000</u> (System)
Difference	<u>(\$91,900,000)</u> (System)

If the Commission approves the alternate staff recommendation on Issue 15, staff's recommended charge to the storm reserve would be \$760,655,346 (\$764,285,703 system).

**APPROVED**

Issue 17: Were the costs FPL has booked to the storm reserve reasonable and prudently incurred?

Recommendation: The Commission should find that the costs listed in Issue 16 as being appropriately charged to the storm reserve are reasonable and prudent. The Commission need not and should not make a finding of reasonableness or prudence for those costs that FPL booked to its storm reserve other than those listed in Issue 16. Such a finding may bind the Commission in a future proceeding concerning recovery of such costs.

**APPROVED**



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Issue 18: Is FPL's objective of safe and rapid restoration of electric service following tropical storms and hurricanes appropriate?

Recommendation: Safe and rapid restoration of electric service following service interruptions is the legal obligation of every monopoly investor-owned electric utility in Florida and is consistent with industry practice. However, because no party has challenged FPL's objectives or efforts to restore service in connection with the extraordinary storm season that affected its service territory in 2004 and the resolution of this issue has no direct bearing on the decisions to be made in this case, the Commission need not address this issue.

**APPROVED**

Issue 19: Does the stipulation of the parties that the Commission approved in Order No. PSC-02-0501-AS-EI affect the amount or timing of storm-related costs that FPL can collect from customers through the proposed surcharge? If so, what is the impact?

Recommendation: The stipulation expressly provides that, in the event there are insufficient funds in FPL's storm reserve, FPL may petition for recovery of prudently incurred costs in excess of the storm reserve. The stipulation does not require that FPL absorb such costs through earnings until its return on equity is reduced to 10% before seeking a change in rates.

**APPROVED**

Issue 20: In the event that the Commission determines the stipulation approved in Order No. PSC-02-0501-AS-EI does not affect the amount of costs that FPL can recover from ratepayers, should the responsibility for those costs be apportioned between FPL and retail ratepayers? If so, how should the costs be apportioned?

Recommendation: No. Staff recommends that FPL be allowed to recover all reasonable and prudently incurred storm damage costs identified and approved by the Commission.

**APPROVED**

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Issue 21: What is the appropriate amount of storm-related costs to be recovered from the customers?

Recommendation: The appropriate amount of storm-related costs to be recovered from the retail customers through a surcharge is \$441,990,525 plus interest and revenue taxes. In addition, FPL's depreciation reserve surplus should not be used to offset any of the \$441,990,525.

TOTAL COSTS TO BE RECOVERED FROM THE RETAIL CUSTOMERS

Amount Requested	\$533,000,000
Staff Recommended	\$441,990,525
Difference	<u>(\$91,009,475)</u>

If the Commission approves the alternate staff recommendation on Issue 15, staff's recommended surcharge amount would be \$408,336,846, plus interest and revenue taxes.

**APPROVED**

Issue 22: If recovery is allowed, what is the appropriate accounting treatment for the unamortized balance of the storm-related costs subject to future recovery?

Recommendation: The appropriate accounting treatment for the unamortized balance of the storm-related costs subject to future recovery is to record the costs as a regulatory asset in a subaccount of Account 182.1, Extraordinary Property Losses.

**APPROVED**

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Issue 23: Should FPL be authorized to accrue and collect interest on the amount of storm-related costs permitted to be recovered from customers? If so, how should it be calculated?

Recommendation: Staff recommends that FPL be allowed to charge interest at the applicable 30-day commercial paper rate on the unamortized balance of storm damage restoration costs permitted to be recovered from ratepayers. In addition, staff recommends an adjustment be made in the calculation of interest to recognize the storm-related deferred taxes not included in the Company's upcoming rate case. This adjustment reduces the interest carrying charge on the unamortized balance of storm-related costs by approximately \$5.1 million.

**APPROVED**

Issue 24: WITHDRAWN.

**WITHDRAWN**

Issue 25: If the Commission approves recovery of any storm-related costs, how should they be allocated to the rate classes?

Recommendation: Storm-related costs should be allocated to the rate classes using the revised allocation percentages developed in FPL's response to Staff Interrogatory No. 35, Attachment 1, page 1 of 2. (EXH 2) These percentages reflect an allocation that approximates the way the storm damage costs would have been allocated in a base rate proceeding, i.e., based on the amount of damage in each functional area (e.g., transmission, distribution, etc.).

Each rate class's cost responsibility should be based on its actual kWh sales for 2003, adjusted to reflect the remaining 29-month recovery period to calculate a cents-per-kWh recovery factor. FPL should immediately file tariffs containing revised factors that will become effective beginning with cycle 13 billings for the month of September 2005. The factors should be designed to recover the Commission-approved jurisdictional storm cost recovery amount addressed in Issue 21, plus interest and revenue taxes, less the actual/estimated revenues collected between February 17, 2005, and cycle 12 billings for September 2005.

If the Commission determines that FPL's allocation method is appropriate, FPL should nevertheless file revised factors using FPL's allocation percentages, reflecting the Commission-approved recovery amount as described in the previous paragraph.

**APPROVED**

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Issue 26: What is the appropriate recovery period?

Recommendation: The appropriate recovery period, which became effective on an interim basis on February 17, 2005, is three years or less. The recovery period should end with cycle 12 billings for February 2008, unless all approved costs are recovered sooner. If the approved costs are fully recovered prior to February 2008, the recovery period should continue until the next cycle 12 billings, so that all customers are assessed the surcharge for the same number of billing cycles. Within 60 days following expiration of the Commission-approved recovery period, FPL should file with the Commission for approval of the final over- or under-recovery of the 2004 storm damage costs, and a proposed method to true up any final over- or under-recovery.

**APPROVED**

Issue 27: If the Commission approves a storm cost recovery surcharge, should the approved surcharge factors be adjusted annually to reflect actual sales and revenues?

Recommendation: No.

**APPROVED**

Issue 28: If the Commission approves a mechanism for the recovery of storm-related costs from the ratepayers, on what date should it become effective?

Recommendation: The interim surcharge factors became effective on February 17, 2005. If the Commission revises the surcharge factors based on its vote in Issue 25, the revised factors should become effective with cycle 13 billings for September 2005.

**APPROVED**

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Issue 29: What is the appropriate disposition of the revenue collected as an interim storm cost recovery surcharge?

Recommendation: If the Commission authorizes FPL to collect a total amount that is less than that collected on an interim basis, the difference should be refunded to customers with interest. If the Commission authorizes FPL to collect a total amount that is more than that collected on an interim basis, the funds collected under the interim provision should be applied to the total overall amount. Revenues collected on an interim basis, less revenue taxes, should be applied to the amount approved for recovery by the Commission. Further, total revenues will be subject to the cumulative true-up at the end of the recovery period.

**APPROVED**

Issue 30: WITHDRAWN.

**WITHDRAWN**

Issue 31: Should this docket be closed?

Recommendation: Yes. This docket should be closed if no party files a timely appeal of the Commission's final order. At the time of FPL's true-up filing following the recovery period set forth in Issue 26, the Commission may address the true-up in a separate docket.

**MODIFIED**

*The docket will remain open for addressing staff's recommendation on accounting.*