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March 14, 2007

Mr. Larry Harris
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Dear Mr. Harris:

Re: FPSC Docket No. 070011-EI, Proposed Amendment of Rule 25-6.0143, F.A.C., Use of Accumulated Provision Accounts 228.1, 228.2, and 228.4

The attached document includes background information on a group captive. Gulf files this document as support for our inclusion of item (e) 11. (cost of commercial insurance for a utility's transmission and distribution facilities or cost to fund other programs, such as a cooperative risk sharing plan or pooled reserve among other investor-owned utilities) in our specific preliminary comments to Staff's proposed rule amendments filed February 14, 2007, in red-line strikeout format.

Sincerely,

Susan D. Ritenour
bnh

rjm

cc: Blanca Bayo
Cheryl Bulecza-Banks
Michael Cooke
Tim Devlin
Chuck Hill
John Slemkewicz
Marshall Willis
James D. Beasley
Bill Feaster
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Charles Beck
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Javier J. Portuondo
Alex Glenn
John Burnett
Paul Lewis, Jr.
Natalie Smith
John Butler

Group Captive - is an insurance company created by a group of non-insurance companies to provide a vehicle to meet a common insurance need. In a possible scenario that might be used to address a lack of reasonably priced commercially available insurance products for portions of utility property, the group captive could be further defined as an industry mutual insurer, which is jointly owned by its member utilities. For example, the electric and gas utility industry has a very successful track record with industry mutual insurers over several decades and is currently served by three major industry mutual insurers (NEIL, Aegis, EIM). As an example of a new industry sponsored mechanism to meet an insurance need, a possible distribution insurance facility could be created as an offshoot of Aegis.

A key issue with captive insurers is that they are simply conduits for risk -- unless risk is further placed from the captive (e.g. through reinsurance) it remains with the owners. This feature means that there is potential for volatility in the premiums paid by the members of the captive. For example, the claims experience during certain periods may cause the reserves of the captive to fall to the point where a special assessment must be paid by the members. Despite this potential for volatility, there are a number of commercial advantages in using captives to provide a reasonable means of risk management when compared to the conventional insurance market:

- *Broader coverage.* Group captives or industry mutual insurers typically provide broader coverage tailored to the needs of the member insureds. Such is the case with our current industry mutual insurers which provide the broadest coverage available to our industry today.
- *Flexibility.* When the commercial insurance market is soft, the captive can take advantage of the low rates by reinsuring a relatively large proportion of its risks. The low cost of reinsurance allows the captive to build its reserve base. When the market hardens, the captive is able to retain a larger proportion of its risks, and can maintain cover for its member insureds even when commercial insurance is unavailable or prohibitively expensive.
- *Claims management.* The process of making a claim from a third party insurer can be long, costly and at times adversarial. Where the insurer is a captive, the claims handling procedures can be dictated by management, cutting down on the delays and bureaucracy that are often a necessary part of the claims handling procedures of commercial insurers.
- *Underwriting experience benefits.* Captives generally retain a portion of the overall risk and reinsure the remainder. For this reason, when claims experience is better than anticipated, the excess of net premiums over claims is retained by the group. The reinsurance taken out by the captive is tailored to minimize the group's exposure where claims experience is worse than projected.

Examples of the types of risk that a captive can underwrite include property damage, public and products liability, professional indemnity, employee benefits, employers' liability, motor and medical aid expenses. Captives have become an increasingly important component of the risk management and risk financing strategy of many corporations and industries. A number of reasons have driven the growth in the use of captives:

- Heavy and increasing premium costs in almost every line of insurance coverage.
- Difficulties in obtaining cover for certain types of risk or situations where the coverages offered are overly restrictive.
- Differences in coverage in various parts of the world.
- Inflexible insurer rating structures which reflect market trends rather than individual loss experience.
- Insufficient credit for deductibles and/or loss control efforts.