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FPSC-COMMISSION CLERK

12/18/2008

Upon receipt of the claim, the goal is to achieve initial contact with the customer within two business days. When initial contact is made with the claimant, the claims representative will let the claimant know if the claim is being accepted for payment or declined, if possible. When a claim is accepted for payment, the claimant will receive instruction on the information needed to support any claims payment, and how to get that information to the claims department.

Once all paperwork has been received from the customer and/or vendor, Gulf's goal for the claims representative is to have payment in the mail, or available for customer pickup, within ten business days. Each representative also has a goal to complete 80 percent of all damage claims within 60 days. If there has been no contact with the customer within 60 days, a letter will be sent to the customer informing them that the claim will be closed due to lack of contact. The customer is instructed to contact the company in order to have their claim reopened.

**What recent changes have been made to Gulf's property damage claims process?**

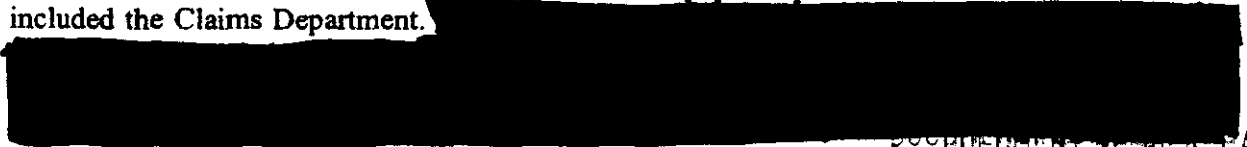
Gulf has implemented several recent changes to its customer property damage claims department. In 2005, Gulf elected to no longer use a customer claim form as part of the reporting procedure. Claims representatives, instead of the customer, were responsible for filling out the form, and Gulf determined this redundancy was easily eliminated by inputting the information directly into its system. Customers now provide information on damaged equipment either over the phone, or by faxing or mailing the information to the claims representative, who directly inputs the information into the claim system.

In August, 2006, Gulf changed the internal structure of the Claims Department to have all of the claims representatives report directly to the Claims Manager. Prior to this time, the claims representatives reported to the local Customer Service Manager. Gulf recognized that the previous organization was creating inconsistencies in the claims payment process. Now that the claims representatives report directly to the Claims Manager, claims are reviewed to ensure decisions and payments are consistent with the current policies and procedures and are fair to both the customers and the company.

In 2007, Gulf instituted a new payment processing system, the El Paso Check Request System that now goes directly to Accounts Payable for processing. This change impacted Gulf operations as a whole, not just the Claims Department. In June, 2008, Gulf stopped the use of procurement cards as a means to acquire smaller items for customers to settle their claims. All payments must now go through the El Paso system for accounting purposes. Gulf still allows use of the procurement card to make payments in rare circumstances, such as when a customer's essential equipment (air conditioner, refrigerator, etc.) is damaged and no authorized vendor is currently available. The representative may authorize payment to an outside vendor to get the equipment repaired.

In mid-2008, Gulf's Risk Management Group participated in an internal audit which included the Claims Department.

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**Does Gulf's property damage claims process comply with established Florida Public Service Commission rules and regulations?**

Gulf's process for handling customer property damage claims is not in compliance with Rule 25-6.019(2), Florida Administrative Code, Notification of Accidents. As stated in the Rule,

*Each utility shall report to the Commission within 30 days of any malfunction of or accident involving any part of the electrical system, fire, or explosion, that:*

*(a) Involves damage to the property of others for an amount in excess of \$5,000, or,*

*(b) Cause significant damage, in the judgment of the utility, to the utility's facilities.*

Gulf provided a list of 62 claims for over \$5,000 since 2003. However, none of these claims had been reported to the PSC during that period. During the review, discussions between appropriate FPSC staff and Gulf clarified these reporting requirements. Gulf has agreed to provide a retroactive listing of all reports meeting the above listed requirements for the period. Staff notes that the *Gulf Power Company Claims Procedures Manual* does not include information relating to the reporting requirements of Rule 25-6.019(2). A revision to Gulf's procedures could provide a useful control.

Gulf's plan for inspecting and maintaining its plant facilities is important to customer damage claims because the frequency and quality of company inspections may impact the overall condition of facilities and the quality of service provided. Rule 25-6.036, Florida Administrative Code, Inspection of Plant, states:

*Each utility shall adopt a program of inspection of its electric plant in order to determine the necessity for replacement and repair. The frequency of the various inspection shall be based on the utility's experience and accepted good practice. Each utility shall keep sufficient records to give evidence of compliance with its inspection program.*

Gulf has an inspection program for its above-ground equipment that allows the company to proactively check for potential serviceability and safety issues and to make replacements or repairs as needed. Gulf's distribution maintenance plan for overhead service lines includes conducting regular tree trimming activities on its feeder and lateral lines to minimize tree and limb damage, along with regular inspections and routine maintenance on its substations to assure they are in good operational condition.

Gulf states there is no reliable, cost-effective way to inspect underground wires. Underground wire inspections are handled through routine daily field maintenance operations.

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repairable, or the repair cost is greater than the current value of the item, Gulf will pay to have the item replaced. The claims representative uses the provided model and serial number for the item to determine its current value. While the depreciation tables used are based on the type of equipment and its expected useful life, Gulf will not deduct more than 50 percent of the item's value regardless of how old the item is.

**3.4 Claims Sample Analysis**

**Is Gulf timely, consistent, fair, and compliant with its procedures for handling customer property damage claims?**

Due to a change in 2006 to Gulf's policies and procedures that significantly changed the organizational structure of the claims department, staff chose to conduct an analysis of a limited judgment sampling of claims filed from June 2006 through August 2008. Audit staff evaluated 24 claim files to assess the handling process. Through the sample analysis, audit staff sought to formulate an overall opinion of the company's claims process based on four categories: timeliness, consistency, fairness, and compliance with the company's own established guidelines.

**Timeliness**

In review of Gulf's claims handling timeliness, audit staff compared the goals and objectives highlighted in the *Risk Management Claims and Litigation Team Goals and Objectives* to the actual results that were documented in the customer claim file. Claims Representatives were reviewed on the timeframe for the initial customer contact, submission of customer payment request, and the completion of the claim investigation. Also in consideration was if the claim was closed within 60 days if there was no response from the customer.

Audit staff's review of this sample indicated failures in documenting key dates involved in the claim. Of the 24 claims sampled, 16 claims (66 percent) contained dates that could not support a finding that indicates the claims were being completed in a timely manner. Key areas of the claims report that were often omitted were the closed date, transaction information, and the date of customer or vendor payments.

As noted, in mid-2008, Gulf's Risk Management Group participated in an internal audit which included the Claims Department.

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Audit staff observed that the lack of entering information into the Riskmaster system at the time the event occurred leads to inaccurate and incomplete reporting of key facts. The timeline of key events of the claim investigation cannot be followed or reconstructed based on the information that is being entered into the claim file. Gulf's policies and procedures identify the Riskmaster system as the company's means of documenting and tracking claims.

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### Consistency

Audit staff's analysis of the consistency in handling the sampled claims included adherence to the *Gulf Power Company Claims Procedure Manual*, adherence to the pay/deny matrix as identified in the *Riskmaster Damage Claim Codes*, uniform application of depreciation and valuation methods, and consistent use of the case information. To the extent possible, audit staff attempted to determine whether like cases were treated similarly and whether consistent use was made of company guidelines and processes.

Audit staff observed in its sample analysis that Gulf is consistent when determining liability for a property damage claim and the results are consistent with its pay/deny matrix. It appears claims receive consistent handling by the various representatives.

The sample included 15 claims that were paid, and 4 claims that were denied payment. The claims that were paid were consistent with the pay/deny matrix along with two of the four denied claims. The denied claims involved damage codes that are not paid by Gulf, in these cases unknown cause and tornado/hurricane. The other two denied claims could not be determined by audit staff due to no cause code used, and no notes that describe the elements of the claim. The remaining five claims appeared to be eligible for reimbursement under the pay/deny matrix, but were closed as "no action/information only."

Upon reviewing the sample claims, audit staff did see inconsistencies with documenting the claims. The quantity and quality of information varied through every claim. Audit staff observed multiple claims within the sample that did not have cause codes assigned, but a decision was still reached as to whether or not the claim would be paid. Two of these claims were denied with no notes entered into the system other than "No problem on Gulf's end, claim denied" and no mention of what the claim was about. Most of the claims contained handwritten notes that were never entered into the Riskmaster system. For a few of the claims, the handwritten notes were illegible. Audit staff also notes that not all claims packets contained the same information and often details were left out of the report, such as how the representative arrived at a dollar figure to offer as a payment allowance.

Audit staff believes that accurate and consistent documentation is essential to properly recording property damage claims. The lack of proper documentation does not allow for an outside auditor, or the company's claims manager, to review the claim and arrive at an accurate understanding of the process flow of the claim. While it is understood that the claims representatives use other internal systems through the course of the investigation process, all information relevant to the claim should also be transferred to a single location, such as Riskmaster, to accurately document the investigation and the representative's decision.

### Fairness

When determining the fairness of the company's property damage claims process, audit staff reviewed all claims to check for uniformity in the decision process. Audit staff also interpreted fair resolution to mean the methods for determining the value of the damaged item were fair to both the customer and the company. Claims that were denied were reviewed to

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evaluate the claims representatives determination of liability when compared to the company's pay/deny matrix.

For smaller items (clock radios, phones, etc.), televisions that are 27 inches or smaller, countertop microwaves, and most VCR/DVD players, Gulf does not require a diagnostic evaluation unless they are new/high-end models. Large screen televisions, appliances, computers, and high-end items do require a diagnostic evaluation and will be repaired rather than replaced if repair is cost effective. For smaller items and evaluated items that cannot be repaired, the company will pay the actual depreciated value of the item to the customer using the same valuation/depreciation tables that are used by all the insurance companies.

Within the sample, 15 claims indicated the company's policy and procedures manual were not being used. Claims representatives gathered the items' information, such as model number, and sometimes serial number, but did not collect the items' ages. The representative often used a retail website to find a similar item and issued payment or authorized purchase at the price of the new item with no depreciation used. Audit staff also noted several instances when the claims representative offered an allowance to the customer to settle the claim, but included no documentation to describe how that amount was calculated.

The one claim where a depreciation table was used included two items that actually met the requirements of needing a diagnostic examination first. No examination was performed and the depreciation table was used with what may appear to be an inflated purchase price provided by the customer. With no supporting documentation within the claim paperwork indicating why such high values were used, the customer may have been paid more than necessary for compensation.

Audit staff observed practices in collecting damaged item information that may have exposed the company to fraudulent claims. Customers called or faxed information to the representatives without any verification that the items actually existed. For smaller claims, it may not be cost effective to verify each item. However, for a list of items totaling thousands of dollars, the company should require verification that the customer owns the items even if a visit to the customer's premises is required. At least one such instance was observed where no verification was performed. Similarly, at least one customer told the representative that they had thrown the damaged item away prior to filing the claim or allowing the item to be evaluated, but still received reimbursement.

Audit staff believes the company should consider the use of a claims form that the customer must sign to both verify the items they are reporting damaged, and acknowledge that knowingly filing a false claim is unlawful. Audit staff also believes that all depreciation and methods used to determine settlement should be documented in detail in the Riskmaster system.

**Compliance** <sup>A</sup>

Audit staff's review of Gulf's compliance in claims handling included whether claims activities were handled according to company policies, procedures, and guidelines. <sup>B</sup>

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The manual does highlight the standards the company requires its claims representatives to follow when investigating a property damage

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Audit staff believes that accurate and consistent documentation is essential to properly recording property damage claims. The lack of proper documentation does not allow for an outside auditor, or the company's claims manager, to review the claim and arrive at an accurate understanding of the process flow of the claim. Gulf's policies and procedures identify the Riskmaster system as the means Gulf uses to document and track claims.

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[REDACTED] Staff believes that entering all information that is relevant to the claim into the Riskmaster system should improve management's ability to track claims and identify areas that should be further addressed.

Audit staff believes that Gulf should require customers to sign a form that verifies damaged property and acknowledges the claim to be true and correct. Claims representatives are frequently receiving this information from the customer without verification that the items even exist. Without this form, Gulf does not have a control in place to reduce the potential for fraud in either claim reporting, or payment of the claim.

## Gulf Power Company comments

### Compliance with Rule 25-6.019, Florida Administrative Code

Gulf commits to full compliance with Rule 25-6.019, F.A.C. going forward and has already submitted the claims not previously reported to the FPSC over the period 2003 through 2008. As noted in the report, the reporting requirements have been clarified between Gulf Power Company and FPSC Staff.

There is no requirement included in the Rule to report claims in writing. While there were no claims submitted in writing during the period covered in this review, several of the claims in question were reported to FPSC Staff verbally. Gulf created and is now utilizing a claims reporting form to submit all claims that meet the reporting criteria set forth in the above referenced rule to document the company's compliance with the rule. Effective September 30, 2008 Gulf updated its *Claims Procedure Manual* and desktop procedures to include the FPSC reporting requirements to facilitate compliance with the above referenced rule.

### Determination of damaged property values

One area of misunderstanding in the report findings is Staff's assertion that Gulf does not collect the age of damaged items when determining the value of damaged property. Gulf collects the model number and/or the serial number and utilizes that information to determine the age of the affected property. While Gulf's documentation may not reflect the age of the item in the claim file, Gulf's practice is to use the model and/or serial number to research the age of the item before assessing the value of the damaged property.

Obtaining the model and/or serial numbers from the claimant often reveals inaccuracies with the claimant's information with respect to the reported value or age of the item. The process described above is one of the controls in place to help identify fraudulent claims when a customer may intentionally or inadvertently over-estimate the age or value of a specific item.

### Claims information documentation

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1	Gulf agrees with Staff's recommendations regarding improving the documentation		
2	of claim information. [REDACTED] Gulf's		
3	corrective action plan to address the findings and exceptions of the internal audit was		
4	implemented by the end of September 2008. [REDACTED]		
5	[REDACTED]		
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Staff recommended that Gulf perform a follow-up review to assess the implementation of management's response to the June 2008 internal audit. One component of Gulf's management response was to conduct a follow-up review during the 4<sup>th</sup> quarter of 2008. Currently, internal auditing is conducting a follow-up review of Gulf's corrective action plan to ensure all exceptions and findings of the internal audit are being properly addressed.

**Customer claim verification form**

Beginning with claims filed on January 1, 2009, Gulf is requiring customers to sign a form verifying the claim information provided to Gulf's claims department to be true and correct. The implementation of the verification form was discussed at an industry best-practices conference, leading to management's decision to implement utilization of the form. Gulf's action is consistent with the Staff's recommendation regarding requiring customers to sign and verify their claim information to be accurate.

**Bureau of Performance Analysis Worksheet**  
**Review of Electric Customers Property Damage Claims**

Ref. No.	Question / Task	Standard	Audit Notes
F.	<b>CLAIM PROCESS AUDITS</b>		A <span style="float: right;">B</span>
1.	<p>Review and evaluate company audits of the property damage claims process for the years 2003 through 2008 (to date).</p> <p>Review proposed audits for the property damage claims department through year end 2008.</p>	<p>Regular audits of the property claims department should be completed to ensure compliance with corporate policy and procedure, encourage efficiency, and remain current with industry best practices.</p>	<p>In mid-2008, Gulf's Risk Management Group participated in an internal audit which included the Claims Department.</p> <div style="background-color: black; width: 100%; height: 100px; margin-top: 10px;"></div>
G.	<b>CUSTOMER EDUCATION</b>		
1.	<p>Review and evaluate customer education materials made available to customers for 2006 through 2008 (to date).</p>	<p>Materials should be available in multiple forms of media and easily available.</p> <p>Materials should be easy to understand and available in multiple languages that reflect the companies customer base.</p> <p>Education materials should also describe the damage claims process, including how to initiate a claim.</p> <p>Companies' should consider the use of:</p> <ul style="list-style-type: none"> <li>- Television/radio public service announcements</li> <li>- Flyers/handouts/pamphlets</li> <li>- Bill inserts</li> </ul>	<p>Gulf does not have any property damage claims education materials for customers. The company does have materials used to inform customers on power outages and/or power quality issues through its Premium Surge Protection brochures for both commercial and residential customers. This information is also available online at Gulfpower.com. Information about the property damage claims process is available to the customer through the Customer Call Center, and when speaking to a claims representative when filing a property damage claim.</p>

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