BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 080677-EI
FLORIDA POWER & LIGHT COMPANY

IN RE: PETITION FOR RATE INCREASE BY FLORIDA POWER & LIGHT COMPANY

TESTIMONY & EXHIBITS OF:

STEVEN P. HARRIS

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF STEVEN P. HARRIS

DOCKET NO. 080677-EI

Q. Please state your name and business address.

A. My name is Steven P. Harris. My business address is ABSG Consulting, Inc. (ABS Consulting), 475 14th Street, Oakland, California 94612.

Q. By whom are you employed and what is your position?

A. I am a Vice President with ABS Consulting, an affiliated company of EQECAT, Inc., both of which are subsidiaries of the ABS Group of Companies, Inc. Together these two companies are leading global providers of catastrophic risk management services, including software and consulting to major insurers, reinsurers, corporations, governments and other financial institutions. In addition, these companies develop and license catastrophic underwriting, pricing, risk management and risk transfer models that are used extensively in the insurance industry. The companies provide the financial, insurance and brokerage communities with a science and technology-based source of independent quantitative risk information.

Q. Please describe your educational background and business experience.

A. I hold Bachelors and Masters Degrees in engineering from the University of California at Berkeley. I am a licensed civil engineer in the State of California. Over the past 26 years, I have conducted and supervised independent risk and financial studies for public utilities, insurance companies and other entities both regulated and unregulated. My areas of expertise include natural hazard risk analysis, operational risk analysis, risk profiling and financial analysis, insurance loss analysis, loss prevention and control, business continuity planning and risk transfer.

A significant portion of my consulting experience has involved the performance of multi-hazard risk studies including earthquake, ice storm and windstorm perils for electric, water and telephone utility companies as well as insurance companies.

I have performed or supervised hurricane, tropical storm loss and/or reserve performance analyses for utilities including Florida Power & Light Company ("FPL" or the "Company"), Progress Energy, Tampa Electric, Gulf Power Company, South Carolina Gas and Electric Company, CenterPoint Energy, Mississippi Power Company, Alabama Power Company, and others.

Additionally, for energy companies that have assets in a wide array of geographic locations, I have performed or supervised multi-peril analyses for all natural hazards, including earthquakes, windstorms and ice storms.

Q. Are you sponsoring exhibits in this case?

A. Yes. I am sponsoring the following exhibits:

- SPH-1 – Storm Loss Analysis and Reserve Performance Analysis

- SPH-2 – FPL Distribution Asset Concentration by County and Hurricane Strikes by County 1900-2007
- SPH-3 – Category 3 Hurricane Landfalls and Mean Damage to T&D Compared to $150 Million Annual Accrual Case

Q. Are you sponsoring or co-sponsoring any Minimum Filing Requirements in this case?

A. No.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the results of ABS Consulting's independent analyses of risk of uninsured loss to FPL assets. Exhibit SPH-1 presents the result of two analyses: the Storm Loss Analysis and the Reserve Performance Analysis.

Q. Please briefly describe these studies performed for the Company.

A. ABS Consulting performed two studies relative to FPL's reserve established pursuant to Account 228.1 – Accumulated Provision for Property Insurance: the Storm Loss Analysis (the "Loss Analysis") and the Reserve Performance Analysis (the "Performance Analysis"). The Loss Analysis is a probabilistic storm analysis that uses proprietary software to develop an estimate of the uninsured expected annual loss from windstorms to which FPL is exposed. The Performance Analysis is a dynamic financial simulation analysis that evaluates the performance of the reserve in terms of its expected balance and the likelihood of having a negative balance over a five-year period, given the potential uninsured losses determined from the Loss Analysis at various annual accrual levels.

Q. Please summarize the results of your analyses.

A. The Loss Analysis concluded that the total expected annual loss to FPL's system from all hurricane and tropical storms is estimated to be $153.3 million. The Performance Analysis demonstrated that, assuming any negative reserve balances would be recovered over a period of two years, an accrual level of $150 million would result in an expected reserve balance of $382 million and a probability of having a negative balance of 33 percent at the end of the five-year simulation time horizon. Based on a $150 million annual accrual and recovery of any reserve deficit over a two-year period, there is a 42 percent chance that the reserve fund balance could be greater than $650 million at the end of five years.

LOSS ANALYSIS

Q. Please describe the Loss Analysis.

A. The Loss Analysis estimates how large and how often possible hurricane and tropical storm losses will be. Hurricanes and tropical storms are low frequency and high severity events. Actuarial analysis is not possible due to their infrequent nature but potentially extreme damage. The risk of damage to FPL's Transmission and Distribution (T&D) assets and costs to restore service is determined by:

- The values and location of the assets at risk;
- The likelihood and intensity of possible storms that affect these assets, or "storm hazard"; and
- The susceptibility to damage and cost to repair and restore service when damaged.

The Loss Analysis determined the expected annual loss from windstorms to FPL's T&D system and other storm-related costs. Windstorm losses include costs associated with service restoration and repair of FPL's T&D system as a result of hurricanes, tropical storms and winter storms. Other storm-related costs include estimates for the pre-positioning of personnel and equipment (staging) in anticipation of storm restoration activities, windstorm insurance deductibles attributable to non-T&D assets, and potential retrospective assessments associated with FPL's insurance of its nuclear facilities.

Q. Please describe the computer software used to perform the Loss Analysis.

A. The Loss Analysis is performed using the EQECAT proprietary probabilistic computer storm analysis model USWIND™. The model simulates thousands of possible years of storm losses using the known science to estimate the expected annual damage to FPL's T&D assets. USWIND is one of only four models evaluated and determined acceptable by the Florida Commission on Hurricane Loss Projection Methodology (FCHLPM) for projecting hurricane loss costs.

Probabilistic annual damage and loss are computed using the results of over 100,000 random variable storms. Annual damage and loss estimates are developed for each individual site and aggregated to overall portfolio damage and loss amounts. The storm database used by USWIND is a combination of historical and random variable storms. The version of USWIND currently accepted by the FCHLPM includes hurricanes affecting Florida during the period 1900 through 2007. The model utilizes the National Hurricane Center HURDAT file starting at 1900. The file is compiled through June 1, 2007, to which data has been added for the 2007 hurricane season.

Q. Does USWIND take into account hurricane frequency and severity?

A. Yes, it does. The analysis is based on hurricane frequency and severity distributions developed from the entire 107-year historical record.

Q. Do the storm frequency assumptions include the possibility of having multiple hurricane landfalls within Florida in any given year?

A. Yes. The current version of USWIND does include the possibility of having multiple hurricane landfalls within Florida in any given year, including the impact of such landfalls on aggregate losses, consistent with the 2004 hurricane season.

Q. What were the results of the Loss Analysis?

A. I concluded that the total expected annual loss to FPL's system from hurricanes and tropical windstorms is estimated to be $153.3 million.

Q. What does this expected annual loss estimate represent?

A. The expected annual loss estimate represents the average annual cost associated with damage to T&D assets, insurance deductibles for damage to other assets, and service restoration activities resulting from windstorms over a long period of time.

Q. Your 2005 study estimated an expected annual loss of $73.7 million. Please explain why you now estimate the expected annual loss to be $153.3 million.

A. The significant increase in the expected annual loss over the results reported in our 2005 study for FPL's T&D assets is the result of two factors: a large increase in the values at risk, and changes to the modeled Florida hurricane hazard. Of these two, the predominant factor has been the increase in replacement values for FPL's T&D assets. The replacement values in the 2005 study were $11.8 billion versus the current $20.2 billion. This represents more than a 70 percent increase in the value of assets at risk. This increase in replacement values is due to both cost escalation of all existing assets, as well as additions of assets into service. The second but significantly smaller factor causing the loss estimate to increase from the 2005 study is the incorporation of the hurricane storm data for the very active 2004 through 2007 hurricane seasons.

Exhibit SPH-2 of this testimony illustrates both the assets at risk and the storm hazard for FPL's T&D system. The highest concentrations and total values of

FPL assets at risk are located in Dade, Broward and Palm Beach Counties. These asset concentrations coincide with the highest hurricane hazard in Florida, as shown by the numbers of hurricane landfalls by County in Exhibit SPH-2. This coincidence of both high values of assets at risk and high hurricane hazard creates a high risk exposure for FPL's T&D system.

Q. Did your calculation of the expected annual loss take into account potential reductions in storm damage due to the infrastructure storm hardening that FPL has begun to implement?

A. No. The calculation of the expected annual loss is based on the T&D system prior to implementation of the storm hardening activities. However, FPL has supplied me information on the reduction in expected annual loss that it believes may be achieved as a result of the hardening projects it will complete by the end of 2010. FPL estimated that the average annual reduction could range up to about $6.7 million. Subtracting $6.7 million from the expected annual loss of $153.3 million results in a net expected annual loss of $146.6 million. The range from $146.6 million to $153.3 million represents a reasonable spectrum of the expected annual loss net of storm hardening benefits, based on the information FPL supplied.

Q. Is the Loss Analysis performed for FPL the same type of analysis performed for insurance companies to price an insurance premium?

A. Yes. The natural hazards loss modeling and analysis would be similar for an insurance company, electric utility or other entity. Insurers rely on simulation modeling for the purpose of estimating likely damage. Computer modeling is the most reliable basis for estimating hurricane losses and is the current standard of care and method utilized by insurance and re-insurance companies to estimate hurricane loss exposures for underwriting, and aggregation of their business. The expected annual loss is also known as the "Pure Premium" which, when insurance is available, is the insurance premium needed to provide an insurer with just enough revenues to cover the expected losses. Insurance companies add their expenses and profit margin to the Pure Premium to develop the premium charged to customers.

PERFORMANCE ANALYSIS

Q. Please summarize the Performance Analysis.

A. ABS Consulting performed a dynamic financial simulation analysis of the impact of the estimated windstorm losses on FPL's reserve for specified levels of annual funding. The starting assumption for the Performance Analysis was a reserve balance of $215 million. This conservatively reflects the initial reserve replenishment amount per Financing Order No. PSC-06-0464-FOF-EI, adjusted for earnings and securitization costs. It does not reflect charges against the reserve since this replenishment occurred. The Performance Analysis performed 10,000 simulations of storm losses within FPL's service territory, each covering a five-year period, to determine the effect of the charges for loss on the reserve. Monte Carlo simulations were used to generate loss samples consistent with the expected $153.3 million annual Loss

Analysis results. The analysis provides the expected balance of the reserve in each year of the simulation accounting for the annual accrual, investment income, expenses, and losses using a financial model.

Q. What is a Monte Carlo simulation?

A. Monte Carlo analysis is a technique used to model multiple storm seasons and simulate variable storm losses consistent with the results of the Loss Analysis. Because storm seasons and losses are highly variable, 10,000 five-year simulations are performed to estimate the performance of the reserve with various accrual levels.

Q. Are the results of the Loss Analysis incorporated in the Performance Analysis?

A. Yes. Both the likelihoods and amounts of uninsured annual losses determined in the Loss Analysis are used to simulate losses in each of the five years in the Performance Analysis in order to determine the likelihood of the reserve having a negative balance.

Q. Were the 2004 through 2007 storm seasons included in the Performance Analysis?

A. Yes. The costs of FPL storm restoration activities from the 2004 through 2007 storm seasons are reflected in the Loss Analysis and are included in the expected annual losses. These results are inputs to the Performance Analysis. Each year of the five-year Performance Analysis uses these projected losses to simulate the cost of annual storm restoration from the reserve. These costs reflect past FPL storm restoration experience including those from the most recent seasons.

Q. Please describe the assumptions that were included in the Performance Analysis.

A. All computations were performed with the FPL provided initial reserve balance of $215 million. Further, all results are shown in constant 2008 dollars. Investment earnings were assumed to grow at a rate of 3.45 percent, and negative reserve balances were assumed to be financed with an unlimited line of credit costing four percent. Also, the analysis performed included certain assumptions regarding loss exposures. These include assumptions regarding future FPL system growth, and future increased cost for system restoration due to inflation.

Q. Please describe the assumptions regarding future inflation and FPL system growth.

A. The analysis assumed that FPL's system asset values and therefore storm losses would increase by five percent per year in each year of the reserve performance simulations. This growth in system values and storm losses in the analysis reflects both increases in existing asset values due to cost inflation as well as future growth of the FPL customer base with the addition of new system assets.

Q. Please summarize the results of the Performance Analysis.

A. Reserve performance can be viewed in terms of the expected balance of the reserve and the likelihood of insolvency occurring in any year of the five-year periods. Based on the simulated loss distributions, there is some likelihood of the reserve having a negative balance for each of the annual accrual levels analyzed. Higher accrual levels will result in a lower probability of the reserve having a negative balance, and will have a higher probability of a positive reserve balance at the end of the five-year simulation period. If the annual accrual levels are smaller, there is a much greater chance of having a negative balance.

Q. **Do you feel FPL's selection of a $650 million target level for the reserve is adequate?**

A. Based on the current value of FPL's T&D assets, a reserve balance of $650 million would be adequate to cover uninsured losses during most, but not all, storm seasons.

Q. **Did you analyze a range of annual accrual levels in your evaluation?**

A. Yes. My evaluation included analyses of the likelihood of the reserve having a negative balance at the annual accrual level of $150 million, as well as at a $100 million and $175 million annual accrual level.

Q. **What is the likelihood of reserve having a negative balance at an annual accrual level of $150 million?**

A. At the annual accrual level of $150 million, the likelihood of having a negative balance occurring in any year over a five-year period is 33 percent. At an annual accrual level of $150 million, it is projected that the reserve would have an expected balance of $138 million at the end of five years, without recovery of any negative reserve balances as they occur. With recovery of any negative storm reserve balances over a two-year period, the reserve balance is projected to be $382 million at the end of five years.

Q. What did your evaluation show with respect to $100 million and $175 million accruals?

A. At an annual accrual level of $100 million, the expected balance of the reserve at the end of five years would decline from the initial $215 million to $135 million with recovery of negative storm balances over a two-year period, and negative ($117 million) without such recovery. There would be a 42 percent probability of a negative balance at the end of the five-year simulation time horizon with and without recovery of negative balances respectively. Based on a $100 million annual accrual and recovery of any reserve deficits over a two-year period, there is also only a six percent chance that the reserve fund balance could be greater than $650 million at the end of five years.

At an annual accrual level of $175 million, the expected balance of the reserve at the end of five years would be $475 million with recovery of negative storm balances over a two-year period, and $266 million without such recovery. There would be a 30 percent probability of a negative balance at the end of the five-year simulation time horizon with and without recovery of negative balances respectively. Based on a $175 million annual accrual and recovery of any reserve deficits over a two-year period, there is also a 56 percent chance that the reserve fund balance could be greater than $650 million at the end of five years.

Q. FPL is requesting an accrual of $150 million. What is the likelihood of reaching the $650 million target level for the reserve during the five-year period?

A. The ABS Consulting reserve Performance Analysis estimates that an annual accrual level of $150 million and two-year recovery of negative storm reserve balances would result in a 42 percent probability of reaching or exceeding the reserve target level of $650 million. Without recovery of negative storm reserve balances, an annual accrual of $150 million would result in a 41 percent probability of reaching or exceeding the reserve target level of $650 million.

Q. What is your conclusion with respect to the $150 million annual level of accrual selected by FPL?

A. A $150 million dollar annual accrual is a reasonable level intended to achieve over time a $650 million reserve balance, as well as reducing the risk of exhausting the reserve. My analysis indicates that, with an expected annual loss of $153.3 million, an annual accrual of $150 million and the ability to recover any negative reserve balances over a two-year period, the balance of the reserve at the end of five years would grow from the initial $215 million to an expected balance of $382 million. Keep in mind, however, that actual events will dictate the amount of the reserve balance over time. For example, there is a 33 percent chance that storm losses will create a deficit in the reserve in any year of the five-year period. Additionally, there is a 42 percent chance that the balance of the reserve may exceed $650 million at the end of the five year period.

An illustration of the level of protection afforded by the $150 million accrual is provided in Exhibit SPH-3. Exhibit SPH-3 shows a comparison of the expected reserve balance results for the $150 million accrual case selected by FPL with the potential mean damage from Category 3 storms making landfall at various locations along the Florida coast. The exhibit shows that the initial balance of $215 million affords protection against some but not all of these single Category 3 landfalls in FPL's service territory. The Performance Analysis case with recovery of negative reserve balances over a two year period results in a $382 million balance at the end of five years and provides adequate funds for many Category 3 storms, but not for the most severe events affecting Dade, Broward and Palm Beach Counties. The case without recovery of negative balances results in a $138 million balance at the end of five years and can fund significantly fewer of the Category 3 hurricane landfalls.

Q. Does this conclude your direct testimony?

A. Yes.

ABS Consulting

Florida Power & Light

Storm Loss and Reserve Performance Analysis

February
2009

FPL

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Risk Profile

The following is a summary description of storm risk profile performed for Florida Power & Light (FPL) by ABS Consulting. This document is based on FPL data and is intended to be used solely, by FPL, for estimation of potential future storm losses and probabilities.

INSURED	**Florida Power & Light**	
ASSETS	Transmission and Distribution (T&D) System consisting of: Transmission towers, and conductors; Distribution poles, transformers, conductors, lighting and other miscellaneous assets. General property and NEIL insured property.	
LOCATION	All T&D assets located within State of Florida	
ASSET VALUE	Normal T&D replacement value is estimated to be approximately \$20.2 billion, of which approximately 18% is transmission and 82% is distribution.	
LOSS PERILS	Hurricanes, Category 1 to 5, and Tropical Storms losses to T&D. Deductible losses to insured general property and NEIL insured property from hurricanes.	
EXPECTED ANNUAL LOSS	\$153.3 million	
5% AGGREGATE DAMAGE EXCEEDANCE VALUE	\$683 million	
1% AGGREGATE DAMAGE EXCEEDANCE VALUE	\$2,028 million	
	Reserve Performance	
Reserve Analysis Cases \$215 m initial balance	**Expected balance at 5 years**	**Probability of negative balance within 5 years**
\$100 million Annual Accrual	(\$117 million)	42%
\$150 million Annual Accrual	\$138 million	33%
\$175 million Annual Accrual	\$266 million	30%

1. Storm Loss Analysis

FPL's T&D systems and other property assets are exposed to and in the past have sustained damage from storms. The exposure of these assets to storm damage is described and potential losses are quantified in this report. Loss analyses were performed by ABS Consulting, using a computer model simulation program USWIND ™developed by EQECAT, an ABS Group Company. All results which are presented here have been calculated using USWIND, and the asset portfolio data provided by FPL.

The hurricane exposure is analyzed from probabilistic approach, which considers the full range of potential storm characteristics and corresponding losses. Probabilistic analyses identify the probability of damage exceeding a specific dollar amount. Damage to T&D assets is defined as the cost associated with repair and/or replacement of T&D assets necessary to promptly restore service in a post hurricane environment. This cost is typically larger than the costs associated with scheduled repair and replacement.

Probabilistic Annual Damage & Loss is computed using the results of over 100,000 random variable storms. Annual damage and loss estimates are developed for each individual site and aggregated to overall portfolio damage and loss amounts. Damage is defined as the cost associated with repair and/or replacement of T&D assets necessary to promptly restore service in a post-storm environment. This cost is typically larger than the costs associated with scheduled repair and replacement programs.

Factors considered in the analyses of the T&D assets include the location of FPL's overhead and underground T&D assets, the probability of storms of different intensities and/or landfall points impacting those assets, the vulnerability of those assets to storm damage, and the costs to repair assets and restore electrical service.

FPL's non-T&D assets consist of fossil and nuclear power plants, buildings, substations and other miscellaneous assets and are also exposed to storm perils. These assets are covered by insurance policies with deductible retentions. The deductible exposures for these portfolios of assets were modeled to determine their loss expectancies and impacts on the reserve. Other non-recovered cost from storm staging were also modeled.

Loss Estimation Methodology

The basic components of the hurricane risk analysis include:

- **Assets at risk:** define and locate
- **Storm hazard**: apply probabilistic storm model for the region
- **Asset vulnerabilities:** severity (wind speed) versus damage
- **Portfolio Analysis:** probabilistic analysis - damage/loss

These analysis components are summarized herein.

2. Assets at Risk

2.1 Transmission and Distribution Assets

FPL's T&D System assets consist of:

- Transmission towers, and conductors,
- Distribution poles, transformers,
- Conductors, lighting and
- Other miscellaneous assets.

The total normal replacement value of these assets is approximately $20.2 billion, 18% of which is transmission and 82% distribution. Normal replacement value is the cost of replacing the assets under normal non-catastrophe conditions.

FPL's T&D assets are distributed unevenly across their Florida service territory, encompassing a large portion of the State. These assets are geo-located located in the USWIND™ Storm model by latitude and longitude to capture the spatial distribution and concentration of these assets at risk.

Table 2-1 shows the distribution values within Florida for the counties that make up 92% of the total, indicating a concentration of values in the southern portion of the state. Figure 2-1 shows a map of FPL's transmission structures while Figure 2-2 shows a map of the distribution values indicating a similar concentration of values in south Florida Counties.

2.2 Non-Transmission and Distribution Assets

FPL's non-T&D assets consist of fossil and nuclear power plants, buildings, substations and other miscellaneous assets. The total replacement value of these assets is approximately $30 billion.

The FPL general and nuclear plant asset (non-T&D) portfolio is insured for storm losses under two insurance policies, with two per-occurrence deductibles. The deductible amounts represent self-insured retentions by FPL and are modeled as exposures to the reserve. Nuclear Electric Insurance Ltd. (NEIL) provides power plant property insurance for Turkey Point Units 1 through 4 and St. Lucie Units 1 and 2. The policy has a deductible of $10 million per occurrence/per site with coinsurance of 10% of the claim above that deductible. The balance of FPL's general plant assets, buildings, fossil power plants and substations are insured and have an aggregate per-occurrence deductible of $25 million.

Table 2-3 below, shows the replacement values and the distribution of values between transmission, distribution, general plant, and nuclear plant assets.

Table 2-1-
Distribution Replacement Values by County, Largest Counties

DISTRIBUTION COUNTY	2008 Asset Value
Dade	$4,304,369,834
Palm Beach	$3,061,099,330
Broward	$2,610,321,143
Brevard	$911,659,656
Lee	$721,100,921
Sarasota	$693,055,167
Volusia	$584,870,148
St Lucie	$518,890,514
Collier	$449,725,596
Manatee	$433,038,006
Martin	$364,605,705
Charlotte	$337,414,463
St Johns	$233,098,294
Other Counties	$1,270,606,032
TOTALS	**$16,493,854,808**

Table 2-2

Transmission Asset Replacement Value

TRANSMISSION	2008 Asset Value
TOTALS	**$3,658,138,339**

Table 2-3

FPL Asset Replacement Values

	$(Thousands)	%
Distribution	$ 16,493,854	33%
Transmission	$ 3,658,138	7%
General Plant	$20,138,897	40%
Nuclear Power Plants	$ 9,840,000	20%
TOTAL	$50,130,890	100%

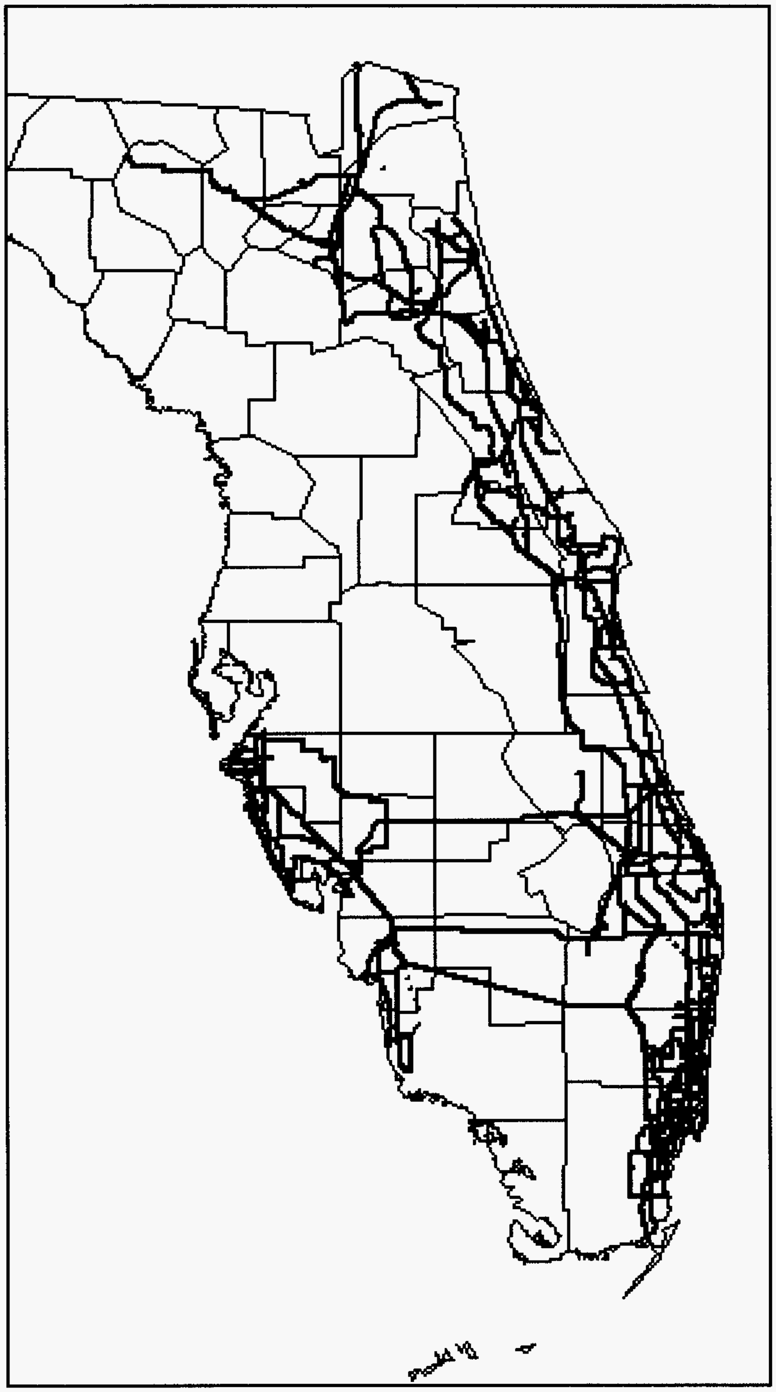


Figure 2-1: FPL Transmission Structures

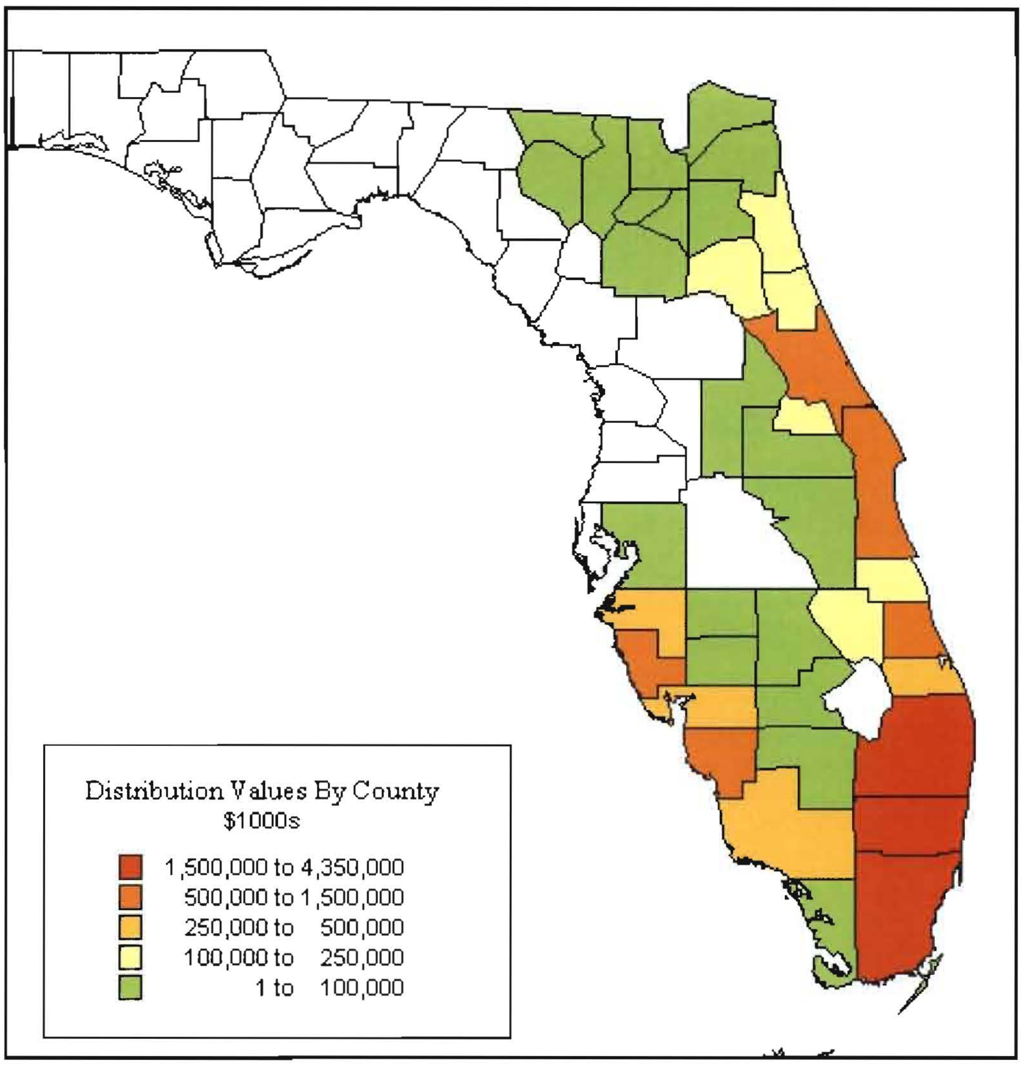


Figure 2-2: FPL Overhead Distribution Values

3. Windstorm Hazard in Florida

The historical record for hurricanes on the Gulf and Atlantic coasts of the United States consists of approximately 100 years for which reasonably accurate information is available. For example, since 1900, there have been over 60 hurricanes of Saffir-Simpson Intensity (SSI) 1 or greater (see Table 3-1 for description of the Saffir-Simpson Intensity scale) which have made landfall in the state of Florida. Going back further, written descriptions of storms are available, but it becomes increasingly difficult to estimate actual storm intensities and track locations in a reliable manner consistent with the later data. For this reason all hypothetical storms used in this analysis, as well as their corresponding frequencies, have been based only on hurricanes that have occurred since 1900.

Since the historical record is too sparse to simply extrapolate future hurricane landfall probabilities, a series of hypothetical storms was generated in the USWIND™ probabilistic storm data base, essentially "filling in" the gaps in the historical data. This provides an estimate of future potential storm locations (landfall), track, severity and frequency consistent with the observed historical data.

EQECAT developed its hurricane model (Reference 1), using the National Oceanic and Atmospheric Administration (NOAA) model as the base, to determine individual risk wind speeds. The NOAA model was designed to model only a few specific types of storms. While the eye of the hurricane follows the selected track, the EQECAT model uses up to a dozen different storm parameters to estimate wind speeds at all distances away from the eye. The version of USWIND currently certified by the Florida Commission on Hurricane Loss Projection Methodology (FCHLPM) is based in part on the FCHLPM's Official Storm Set, which includes hurricanes affecting Florida during the period 1900 through 2007.

The hurricane intensities used for the analyses conform to basic NOAA information regarding hurricane intensity recurrence relationships corresponding to locations along the coast. Much of FPL's service territory includes the coastal area where many of these hurricanes have made landfall.

Table 3-1

**THE SAFFIR-SIMPSON INTENSITY SCALE
(NOTE THAT WINDSPEEDS GIVEN ARE 1-MINUTE SUSTAINED)**

SSI	Central Pressure (mb)	Maximum Sustained Winds (mph)	Storm-Surge Height (ft)	Damage
1	≥ 980	74-95	4-5	Damage mainly to trees, shrubbery, and unanchored mobile homes
2	965-979	96-110	6-8	Some trees blown down; major damage to exposed mobile homes; some damage to roofs of buildings
3	945-964	111-130	9-12	Foliage removed from trees; large trees blown down; mobile homes destroyed; some structural damage to small buildings
4	920-944	131-155	13-18	All signs blown down; extensive damage to roofs, windows, and doors; complete destruction of mobile homes; flooding inland as far as 6 mi.; major damage to lower floors of structures near shore
5	< 920	> 155	> 18	Severe damage to windows and doors; extensive damage to roofs of homes and industrial buildings; small buildings overturned and blown away; major damage to lower floors of all structures less than 15 ft. above sea level within 500m of shore

3.2 Tropical Storm Hazard

In addition to storms strong enough to be classified as hurricanes, Florida is exposed to the threat of tropical storms (one-minute sustained wind speeds between 39 and 74 mph). The frequency of tropical storms in Florida is approximately equal to that of hurricanes (note that the wind speed range associated with hurricanes is much wider, i.e. 74 mph to well over 155 mph).

EQECAT's tropical storm model was developed using methods very similar to those used to develop the hurricane model, generating a series of hypothetical storms representing the full range of tropical storms in terms of landfall location and track, severity, and frequency consistent with the observed historical data.

3.3 Winter Storm Hazard

On average, about 15 mid-latitude storms a year bring high winds to Florida, mainly during the winter. Most of these storms have winds only in the 40 to 50 mph gust range and thus have little effect. The more severe events, however, can cause losses on the same scale as a tropical storm or weak hurricane.

In assessing this hazard, historical windstorm data for the past 45 years was obtained from the National Climatic Data Center. This data included gust wind speed observations for over 600 storms, at a network of over 300 stations.

4. Asset Vulnerabilities

Aerial T&D lines and structures have suffered damage in past hurricanes, tropical storms and winter storms. Damage patterns tend to be most severe in coastal areas. Damage to inland aerial lifelines tends to be less severe with greater contributions to damage from wind-borne debris. The types of wind-borne debris can include tree and tree limbs, and roofing materials as well as structure debris at higher wind speeds.

FPL aerial T&D structures are designed to sustain design-level hurricane winds. These design criteria specify design wind speeds for both T&D structures. Design criteria for transmission structures are microzoned, or segmented, into geographic areas that correspond to the expected wind hazard for the area. Distribution poles, on the other hand, are assumed to have one design standard for the entire service territory.

Vulnerability of T&D assets are based upon wind speeds and FPL provided storm cost data from hurricanes since 1992. Storm cost data has included consideration for Florida Public Service Commission Rule 25-6.0143 – Use of Accumulated Provision Accounts 228.1, 228.2 and 228.4 for historical storms from the 2004 through 2008 hurricane seasons. Other vulnerabilities were developed using FPL-provided data on hurricane, tropical storm, and winter storm damage data, FPL design standards, and engineering judgments of the relative performance of the structures and material types.

Vulnerabilities of non-T&D assets are modeled using standard classes of commercial buildings and specialized utility infrastructure vulnerabilities in USWIND.

5. Summary of Portfolio Analysis

ABS analyzed the FPL portfolio of T&D assets and other non-T&D assets subject to a suite of probabilistic storms using the proprietary computer program, USWIND. The probabilistic storm analyses provide non-exceedance probabilities over a range of loss levels while the scenario landfall storm series provides a damage distribution for selected storms at landfalls within the areas of FPL's highest asset concentrations.

5.1 Storm Probabilistic Analysis

The probabilistic loss analysis is performed using USWIND. The hurricane hazard uses the USWIND probabilistic database which models the coastline in 10 mile segments and models more than 1,500 hypothetical storms for each segment. The net result is a stochastic storm database of more than 500,000 events that represents possible hurricanes affecting the eastern United States, along both the Gulf and the Atlantic coasts. Each hurricane in the database has been defined by associating a central pressure with a unique storm track. In addition, each hurricane is assigned an annual frequency of occurrence, which depends on the storm track location and the storm intensity as measured by central pressure.

Tropical storms are modeled using a set of approximately 250,000 and additional events, representing the full range of potential storms affecting the Gulf and Atlantic coasts of the United States. As in the stochastic hurricane database, each tropical storm in the database has been defined by associating a central pressure with a unique storm track. In addition, each tropical storm is assigned an annual frequency of occurrence, which depends on the storm track location and the storm intensity as measured by central pressure. Loss expectancies from winter storms are based on the results from prior analyses adjusted for current asset valuation of distribution assets at risk. This exposure is included in estimates of the Expected Annual Losses below, but have not been included in the reserve performance analysis due to the small value.

For each location in the portfolio, the wind speed is calculated, and based on the type of asset, the degree of damage is estimated. The result for each asset location is an estimate of the mean damage.

5.2 Other Reserve Exposures

In addition to T&D storm losses and non-T&D deductible exposures discussed above, FPL's reserve may be called upon for payment of uninsured losses resulting from other causes. These include

- Storm staging costs
- Retrospective insurance assessment from industry nuclear accidents and
- Losses in excess of insurance coverage from nuclear accidents at FPL plants.

Staging Costs for Non-Landfalling Storms

FPL monitors hurricane forecasts and arranges for the pre-positioning of personnel and equipment, "staging", in anticipation of post hurricane storm restoration activities. These decisions are made in advance of hurricane landfall. On occasion, these staging decisions are taken and actual hurricane landfall occurs outside FPL's service territory. The central issue with staging costs is the probability that hurricane forecasts (where and at what intensity) may differ from actual hurricane landfalls.

A model for staging costs was developed using staging cost and decision information provided by FPL. The input parameters to the model are: forecasted landfall location (milepost), forecasted intensity (wind speed), actual landfall location (milepost), and actual intensity (wind speed). Staging costs are only calculated for situations in which the forecasted landfall is within FPL's service territory, and the actual landfall is not within FPL's service territory. For these situations, the staging costs are determined on the basis of the forecasted landfall location and intensity, based on staging cost information provided by FPL. For all other situations, the staging cost is assumed to be zero. The expected annual loss from staging is estimated to be $3.5 million per year.

Nuclear Exposures

FPL reserve exposures due to property damage and third party liabilities could arise from two sources:

- Nuclear accidents at FPL's four nuclear units located at Turkey Point and at St. Lucie and
- Nuclear accidents at plants in nuclear mutual insurance pools

Reserve obligations could result from these exposures as a result of mutual insurance obligation retrospective assessments ("Retros") or as a result of low probability events and losses in excess of insurance coverage. Potential financial exposures to the reserve were developed using nuclear industry studies that provide the frequency and severity of nuclear accidents. Estimates of the frequency and the expected annual losses from these events are very low in comparison with storm related exposures. These exposures are included in estimates of the Expected Annual Losses below, but have not been included in the performance analysis of reserve due to their small amounts.

Given the annual frequency and the portfolio loss for each asset class and peril, a probabilistic database of losses is developed. Using this database, various loss non-exceedance distributions are generated. The expected annual loss to FPL's reserve from these sources are shown below:

Table 5-1

Expected Annual Losses to Reserve

Expected Annual Losses	$ (Millions)	Comments
T&D Assets - Hurricane Peril and Tropical Storms	134.7	SSI 1 through 5 Sustained wind speeds of 39-74 Mph
Non T&D General Property Deductibles-Hurricane	9.8	Losses arising from payment of deductibles on insurance policies
NEIL Plant Deductibles - Hurricane	3.9	Losses arising from payment of deductibles on insurance policies
Storm Staging Costs	4.9	FPL Pre-storm mobilization
Distribution Assets - Winter Storms[1]	2	Gust wind speeds of 40-50 Mph
Retrospective Assessments from industry nuclear accidents [1]	1	Property and third-party liability assessments from mutual insurers
Losses in excess of insurance from FPL nuclear accidents [1]	1	Property losses to FPL nuclear plants in excess of insurance
Totals	$157.3	

Note 1: These losses are not included in the reserve performance analysis.

Aggregate Storm Damage Exceedance

Aggregate storm damage exceedance calculations are developed by keeping a running total of damage from ***all possible events*** in a given time period. At the end of each time period, the aggregate damage for all events is then determined by probabilistically summing the damage distribution from each event, taking into account the event frequency. The process considers the probability of having zero events, one event, two events, etc. during the time period.

A series of probabilistic analyses were performed, using the vulnerability curves derived for FPL assets and the computer program USWIND. A summary of the analysis is presented in Table 5-2, which shows the aggregate damage (i.e. deductible is "0") exceedance probability layers between zero and over $2,000 million.

For each damage layer shown, the probability of damage exceeding a specified value is shown. For example, the probability of damage exceeding $1,000 million in one year is 3.0%. The analysis calculates the probability of direct T&D damage, deductible losses and storm staging costs from all storms and aggregates the total, resulting in increasing exceedance probabilities.

Table 5-2

FPL
AGGREGATE DAMAGE EXCEEDANCE PROBABILITIES

Damage Layer ($x1,000)	**1 Year Exceedance Probability**
> 500	78.2%
100,000	30.5%
200,000	18.0%
300,000	11.8%
400,000	8.59%
500,000	6.90%
600,000	5.60%
700,000	4.67%
800,000	4.04%
900,000	3.44%
1,000,000	3.00%
1,100,000	2.74%
1,200,000	2.44%
1,300,000	2.10%
1,400,000	1.88%
1,500,000	1.69%
1,600,000	1.53%
1,700,000	1.39%
1,800,000	1.28%
1,900,000	1.19%
2,000,000	1.03%

6. Hurricane Landfall Analyses for SSI Ranges

In order to provide further insight into FPL's risk profile, the full set of stochastic hurricane events were analyzed by landfall for five storm intensities, SSI 1 through 5. The storm series landfall locations begin in the areas of highest asset concentration, storm frequency and severity in south Florida. The landfall locations are at mile posts 1430 through 1770. Figure 6-1 illustrates the landfall locations. These mile posts extend north from Dade County at approximately 10 mile intervals.

The full set of stochastic storms within each SSI category was analyzed on FPL's T&D portfolio. For each milepost and SSI category, the frequency-weighted average damage was computed from all stochastic storms making landfall within 10 nautical miles of a given milepost and within that SSI category. Figures 6-2 through 6-6 provide these results graphically.

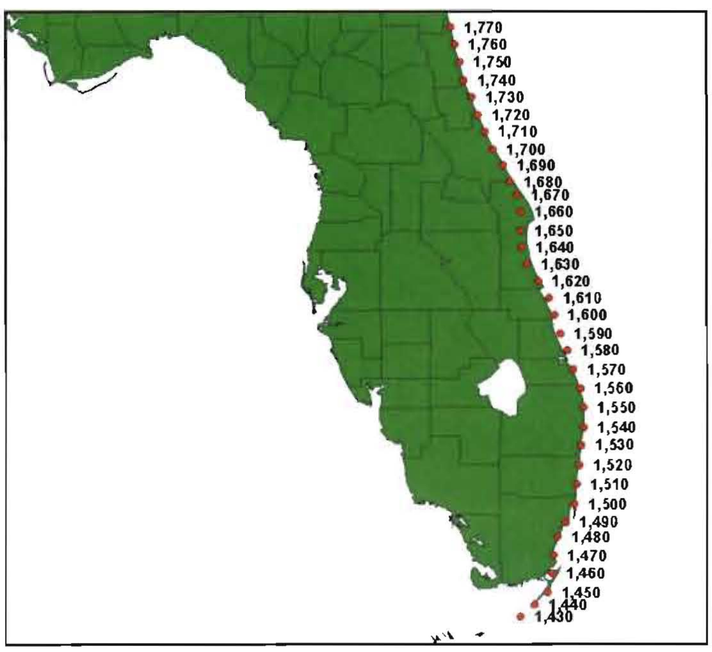


Figure 6-1: Storm Landfall Mile Posts

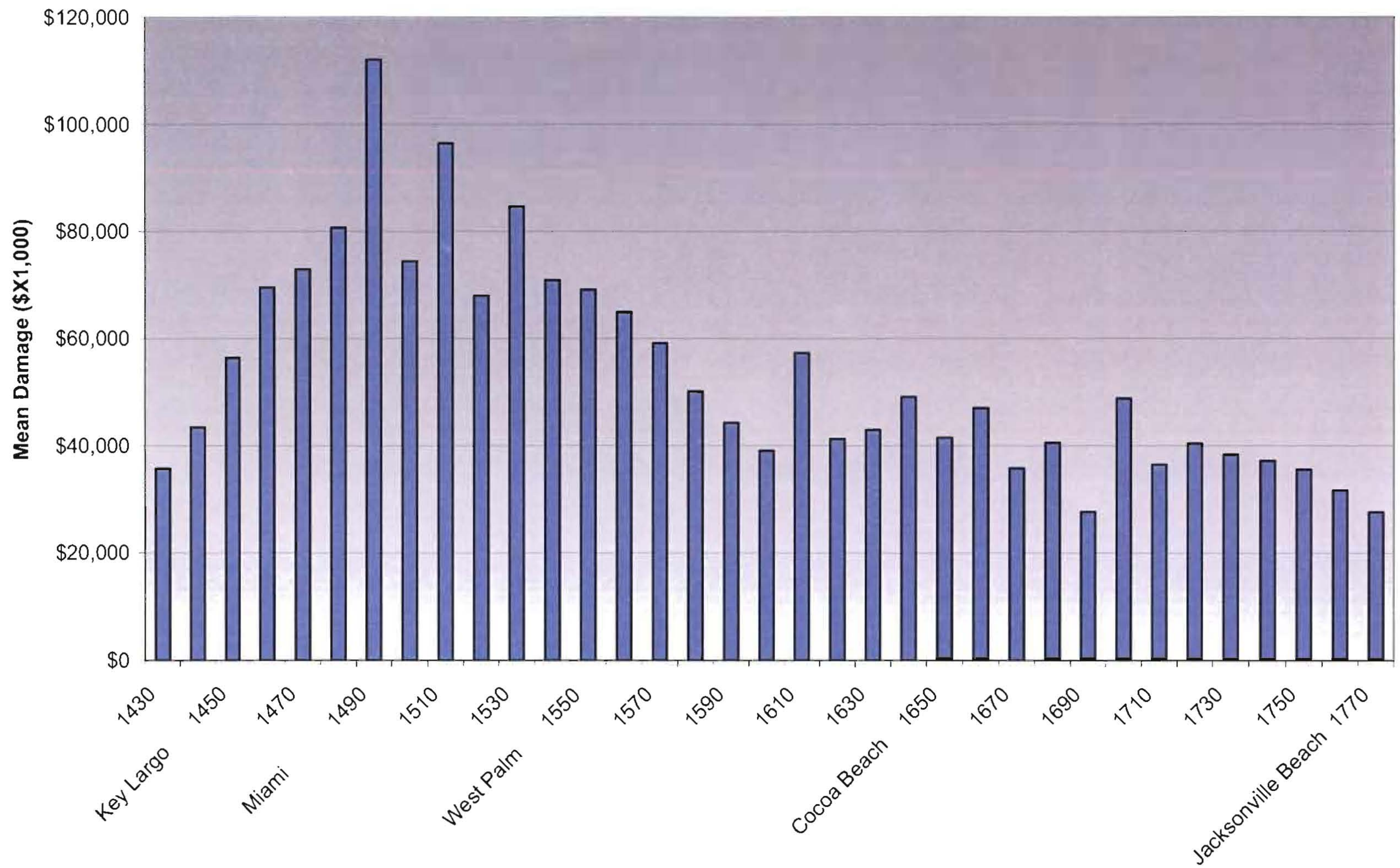


Figure 6-2: Frequency Weighted Average T&D Damage from SSI 1 Landfalls

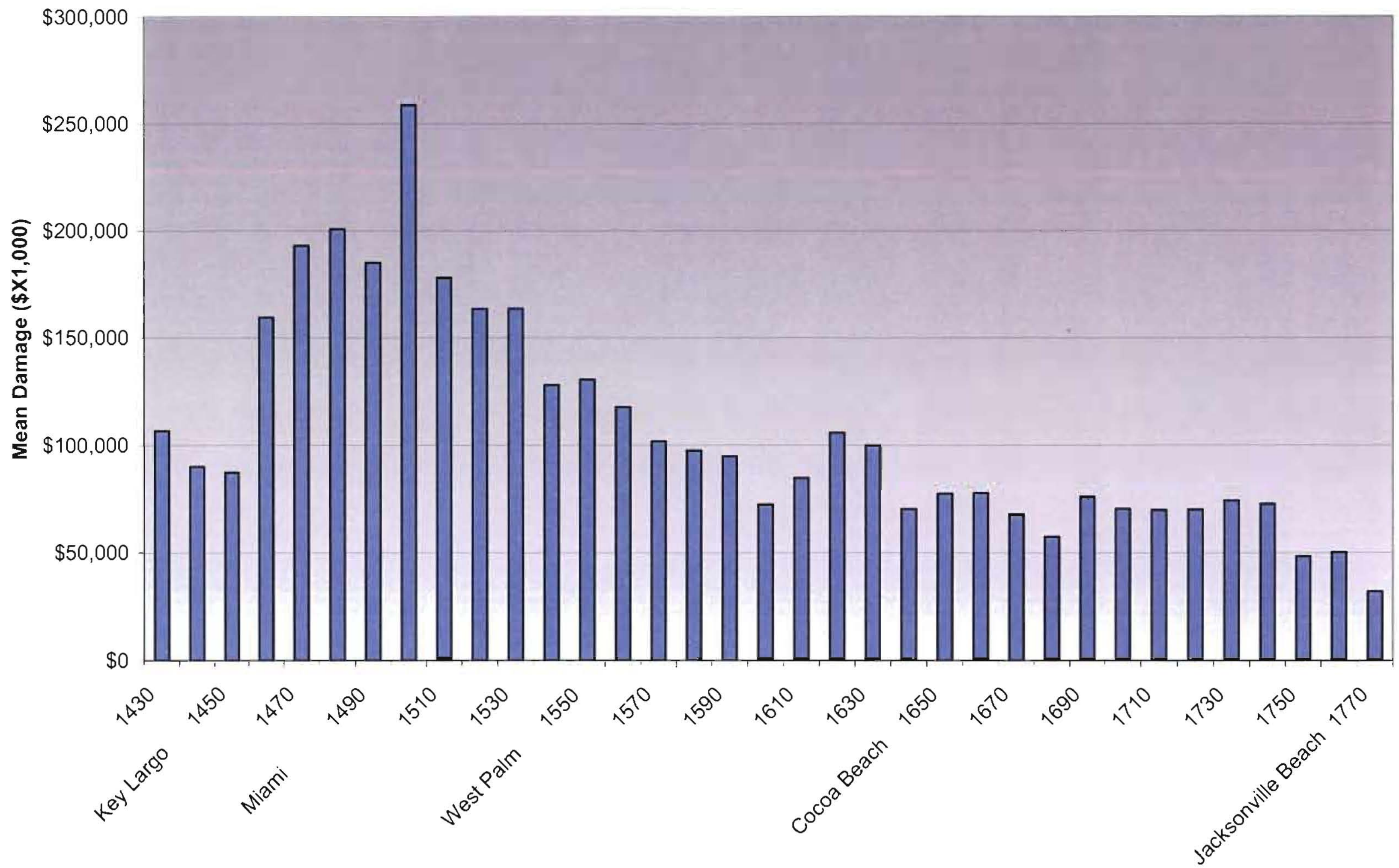


Figure 6-3: Frequency Weighted Average T&D Damage from SSI 2 Landfalls

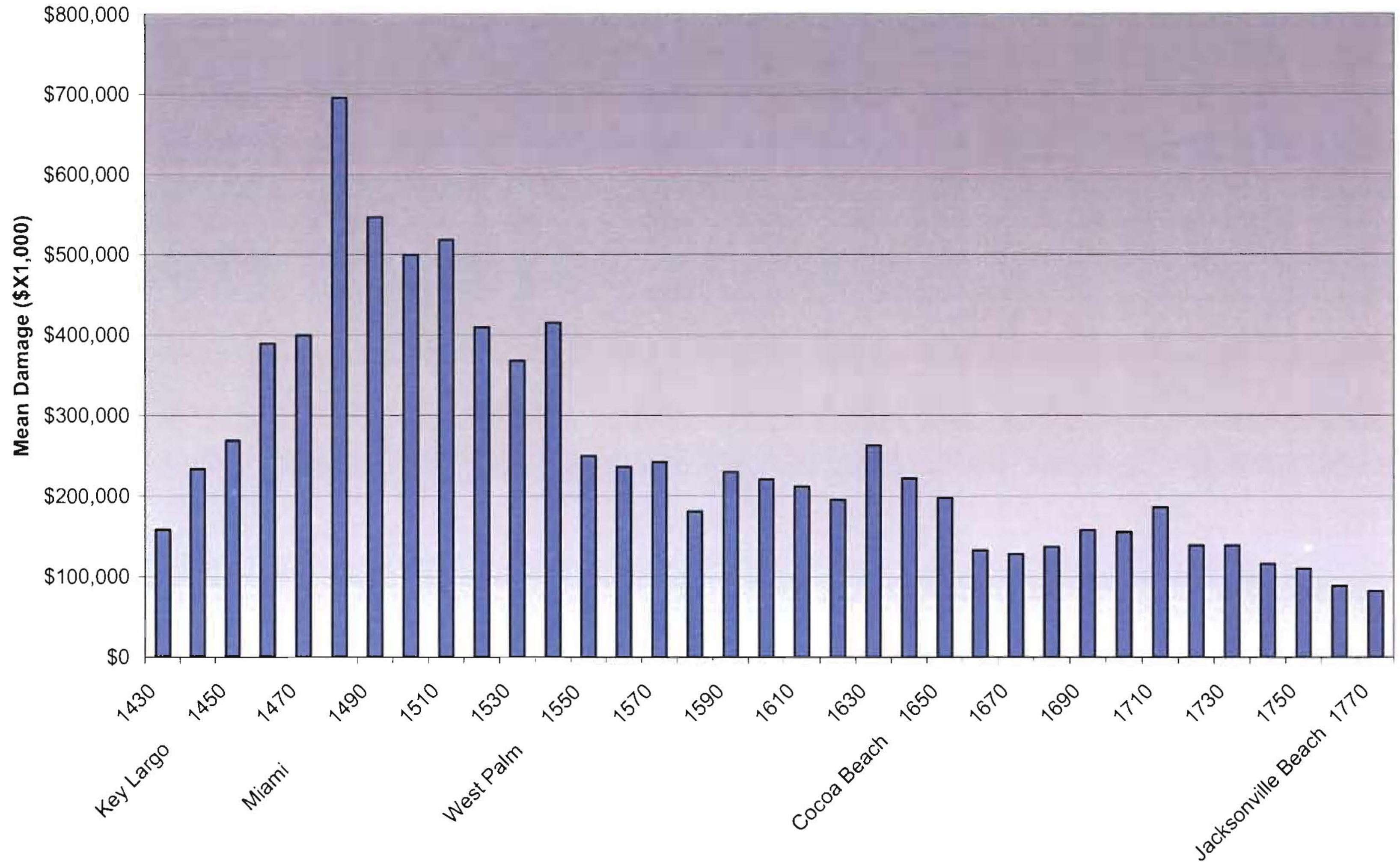


Figure 6-4: Frequency Weighted Average T&D Damage from SSI 3 Landfalls

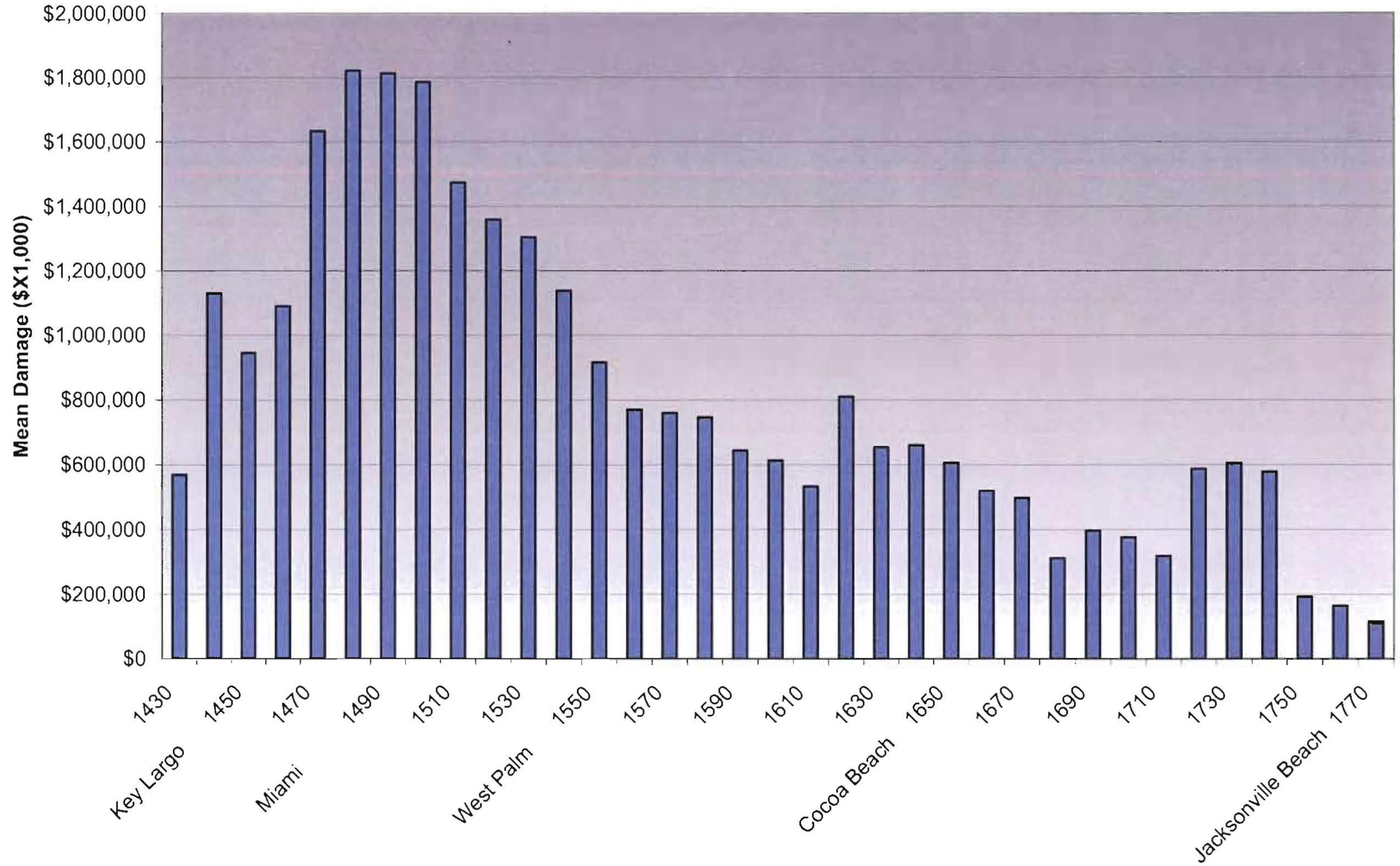


Figure 6-5: Frequency Weighted Average T&D Damage from SSI 4 Landfalls

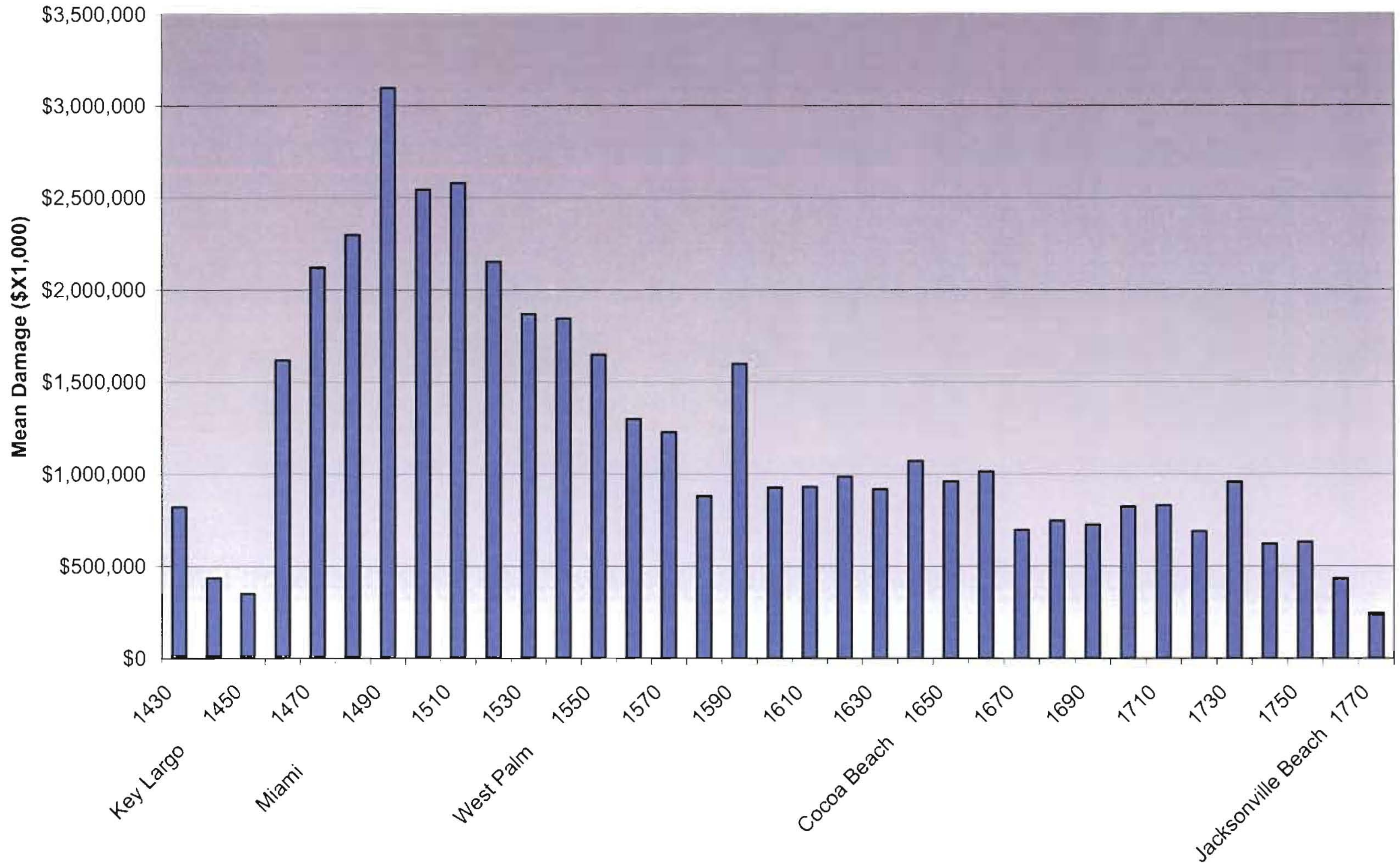


Figure 6-6: Frequency Weighted Average T&D Damage from SSI 5 Landfalls

7. Reserve Performance Analysis

A probabilistic analysis of losses from storms was performed to determine their potential impact on FPL's reserve. The analysis included T&D losses, and insurance deductibles paid on non-T&D assets and storm staging costs. The expected annual loss analyzed in the reserve performance is $153.3 million, as described in the Loss Analysis Section.

The expected annual loss estimate represents the average annual cost associated with repair of hurricane damage and service restoration over a long period of time.

Analysis

The reserve performance analysis consisted of performing 10,000 iterations of hurricane loss simulations within the FPL service territory, each covering a 5-year period, to determine the effect of the charges for losses on the FPL reserve. Monte Carlo simulations were used to generate loss samples for the analysis. The analysis provides an estimate of the reserve assets in each year of the simulation, accounting for the annual accrual, investment income, expenses, and losses using a financial model.

Assumptions

The analysis performed included the following assumptions

- All computations were performed on an after tax basis.
- All results are shown in constant 2008 dollars.
- Asset values and storm losses were assumed to increase by 5% per year.

- Investment earnings were assumed to grow at an after tax rate of 3.45%.
- Negative reserve balances are assumed to be financed with an unlimited line of credit costing 4% after tax.

Analysis Results

The annual accrual cases of $100 million, $150 million, $175 million were analyzed with two assumptions for years in a simulation where the reserve balances becomes negative due to storm losses. The first assumes that the negative balances are recovered through a normal rate process, but are not recovered by the reserve. The second assumes that the negative balances are returned to the reserve through special assessments over a two year period. The two cases analyzed are:

1. No reserve fund recovery of negative balances occurs, and
2. Recovery of negative reserve fund balances occurs over two years.

In years when storm losses exceed the reserve fund balance, the fund has a negative balance. In cases where no recovery of these negative balances was assumed, the deficit was covered by borrowing funds (at a rate of 4.5%) and the annual year accruals are the only sources to pay down this debt and restore the fund to positive balances. The second cases analyzed assumes that in any year that the reserve became negative, the deficit is recovered by the reserve with special assessments over the following five-year period.

The analysis results for each of the accrual trials analyzed are shown in Figures 7-1 through 7-6 below. These results show the mean (expected) reserve fund balance as well as the 5th and 95th percentiles. All 10,000 Monte Carlo simulations assume an initial reserve balance of $215 million.

The mean values of these simulation results are shown in Table 7-1. The 95th percentile upper and 5th percentile lower bounds of the cases are shown and noted with their probability of hurricane losses exceeding this fund value. For the case with a $100 million annual accrual and no recoveries of negative balances, the mean reserve balance is negative ($117 million) and has about a 42% probability of losses less than zero in the five year time interval. The reserve has a 7% probability of having a balance greater than $650 million at the end of the five year simulation.

Similarly, for the case $175 million accrual case, the mean reserve balance is $266 million and has about a 30% probability of losses less than zero in the five year time interval. The reserve has a 55% probability of having a balance greater than $650 million at the end of the five year simulation.

Similar results are presented for cases with recoveries of negative balances over a two year period.

Table 8-1
FPL
RESERVE PERFORMANCE ANALYSIS RESULTS

Annual Accrual ($m)	Recovery of Deficits	Mean Reserve Balance ($m)	5th%ile Reserve Balance ($m)	95th%ile Reserve Balance ($m)	Probability Balance<$0	Probability Balance>$650m
$100	No Recovery	($117)	($2,220)	$673	42%	7%
$150	No Recovery	$138	($1,938)	$931	33%	41%
$175	No Recovery	$266	($1,812)	$1,065	30%	55%
$100	2 Year Recovery	$135	($828)	$666	42%	6%
$150	2 Year Recovery	$382	($602)	$930	33%	42%
$175	2 Year Recovery	$475	($602)	$1,063	30%	56%

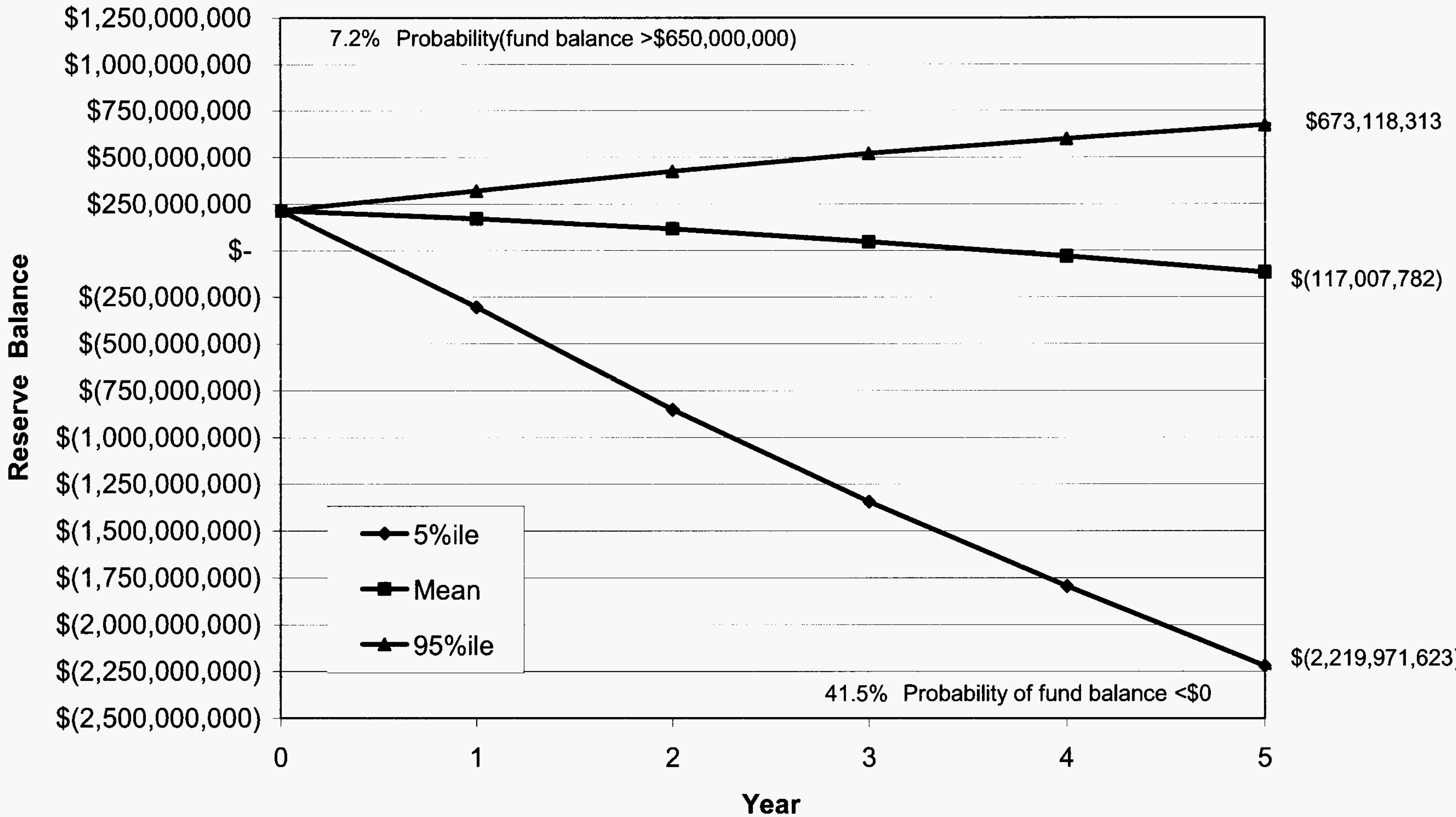


Figure 7-1: Reserve Performance Analyses: $100 million accrual

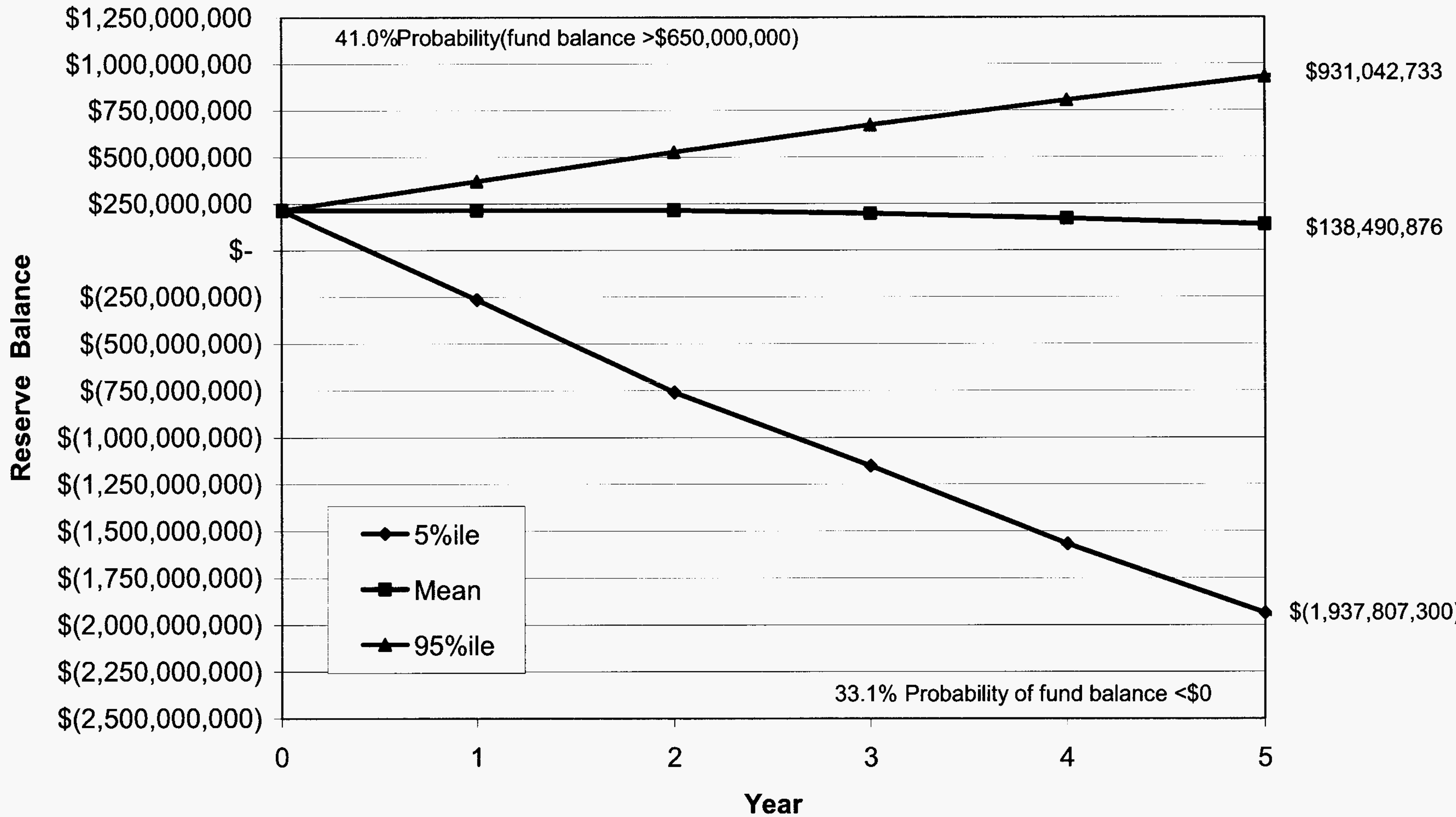


Figure 7-2: Reserve Performance Analyses: $150 million accrual

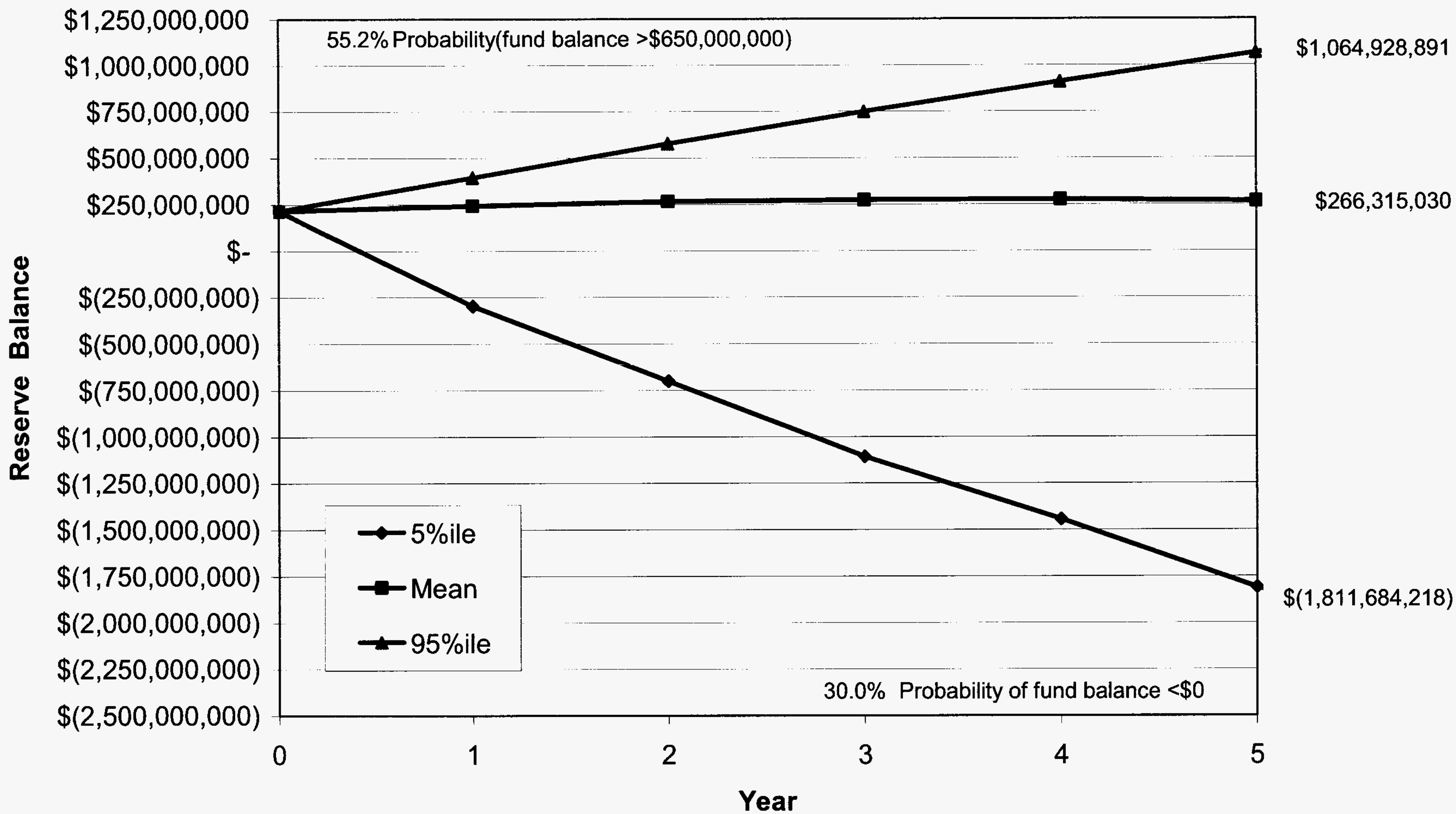


Figure 7-3: Reserve Performance Analyses: $175 million accrual

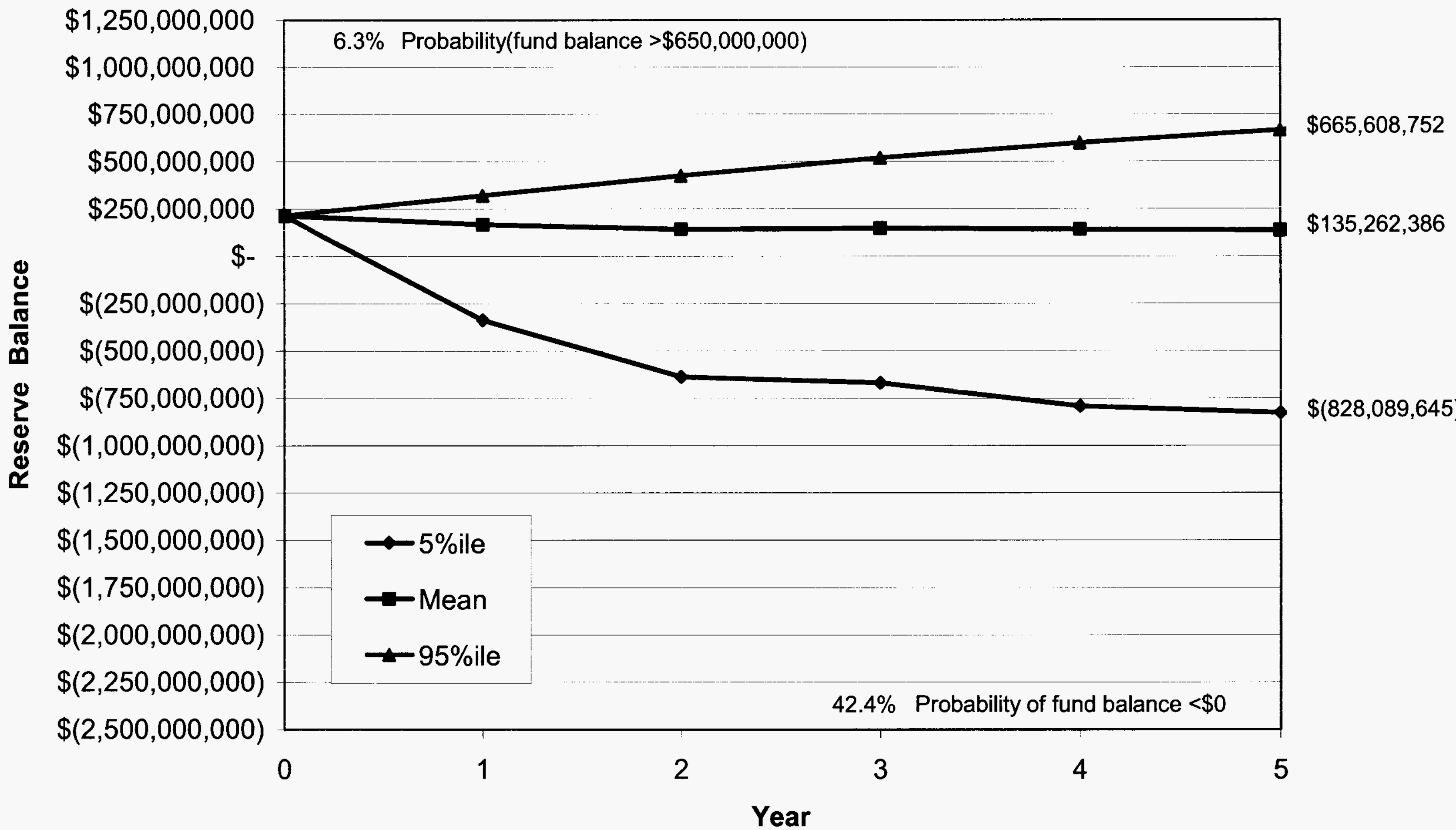


Figure 7-4: Reserve Performance Analyses: $100 million accrual, with 2 year Recovery

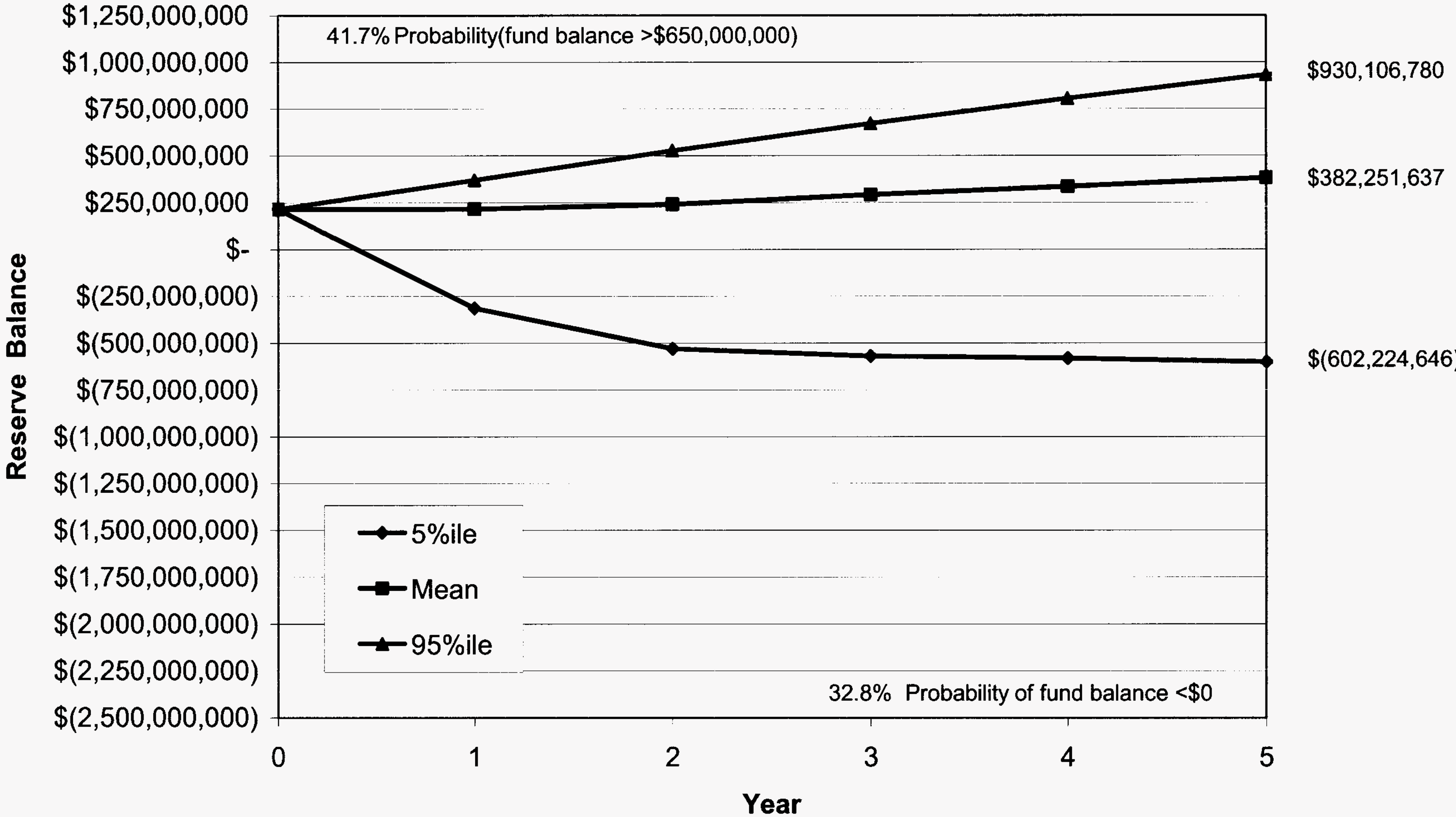


Figure 7-5: Reserve Performance Analyses: $150 million accrual, with 2 year Recovery

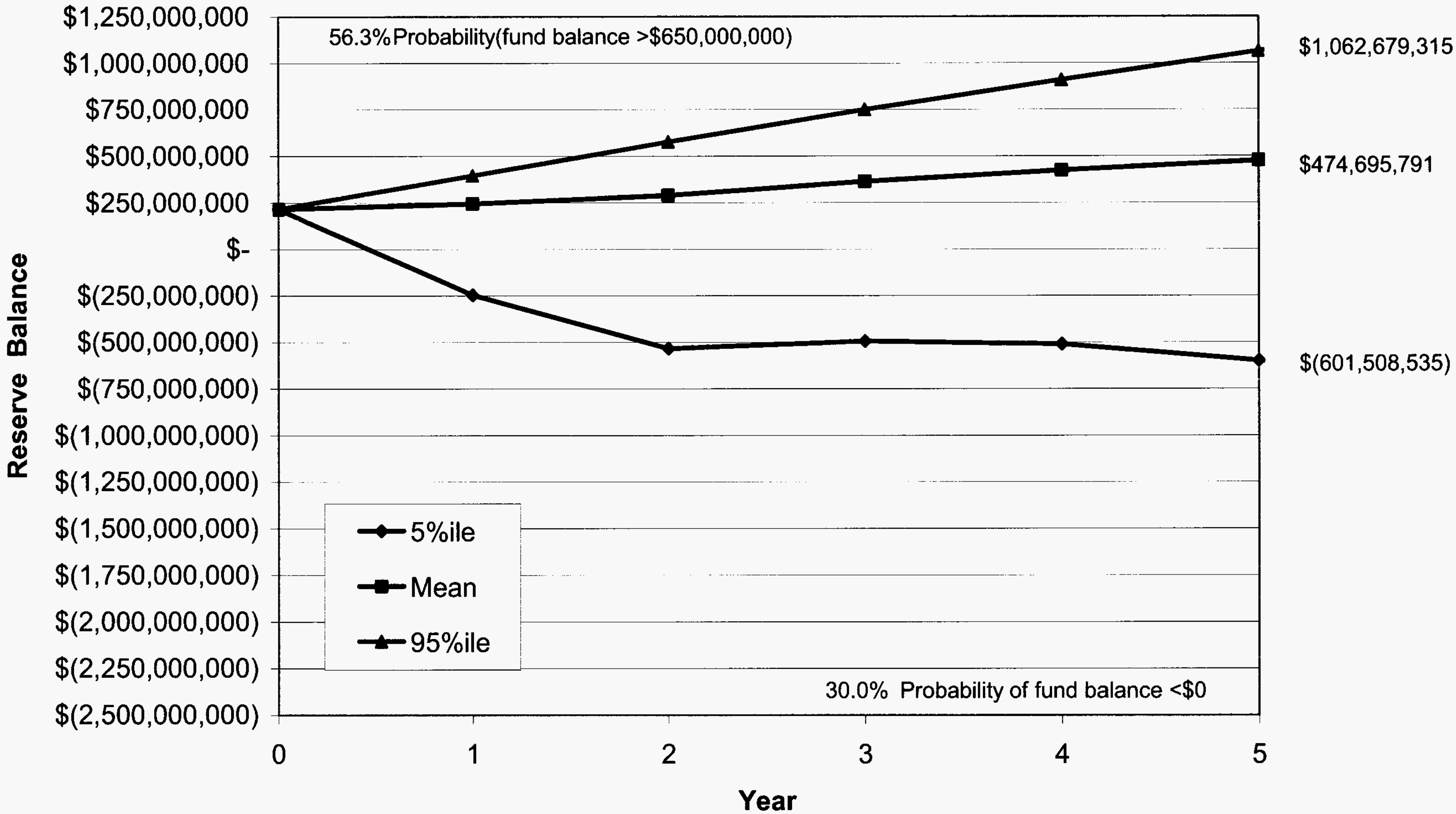
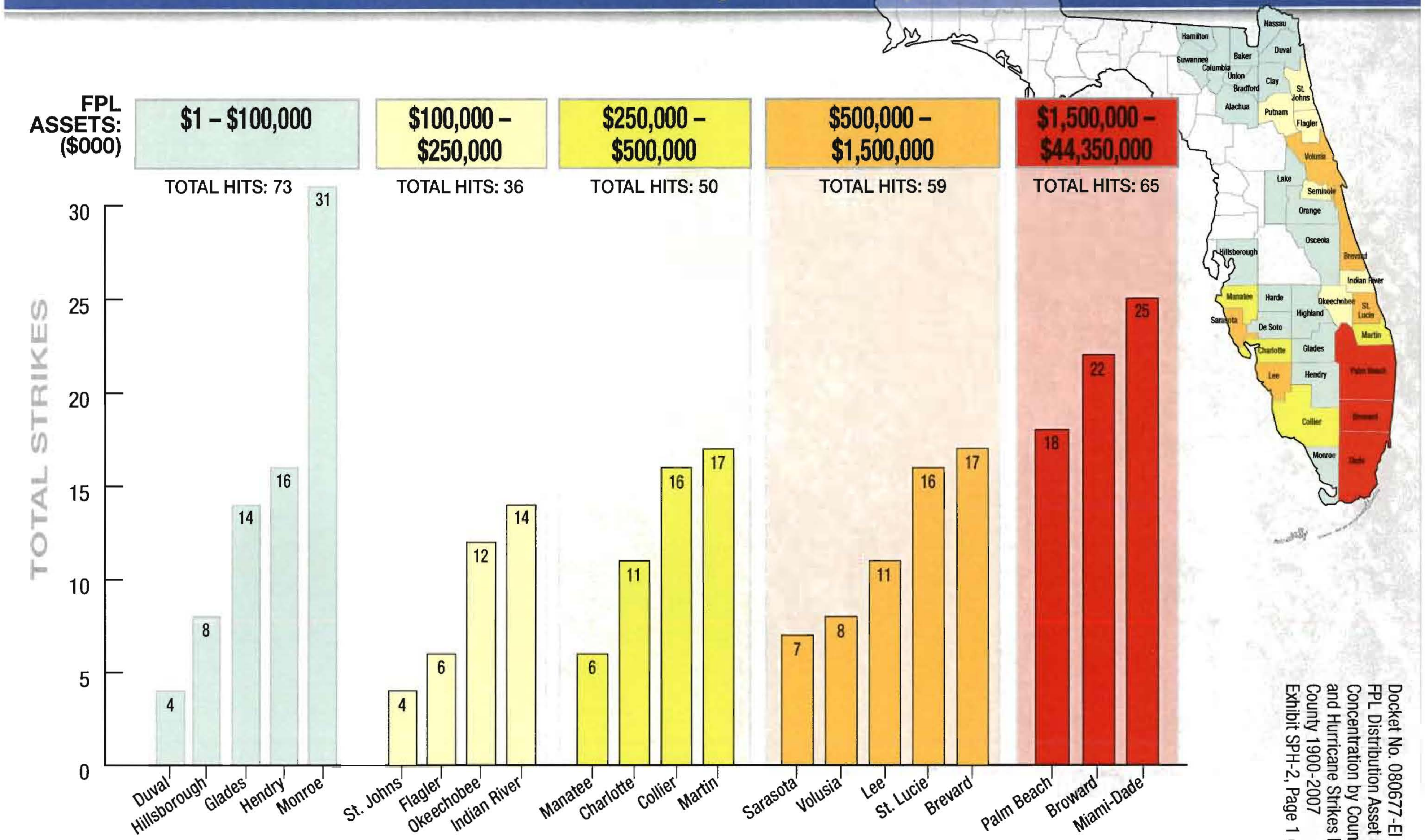


Figure 7-6: Reserve Performance Analyses: $175 million accrual, with 2 year Recovery

8. References

1. ""Florida Commission on Hurricane Loss Projection Methodology", EQECAT, an ABS Group Company, February 2008.

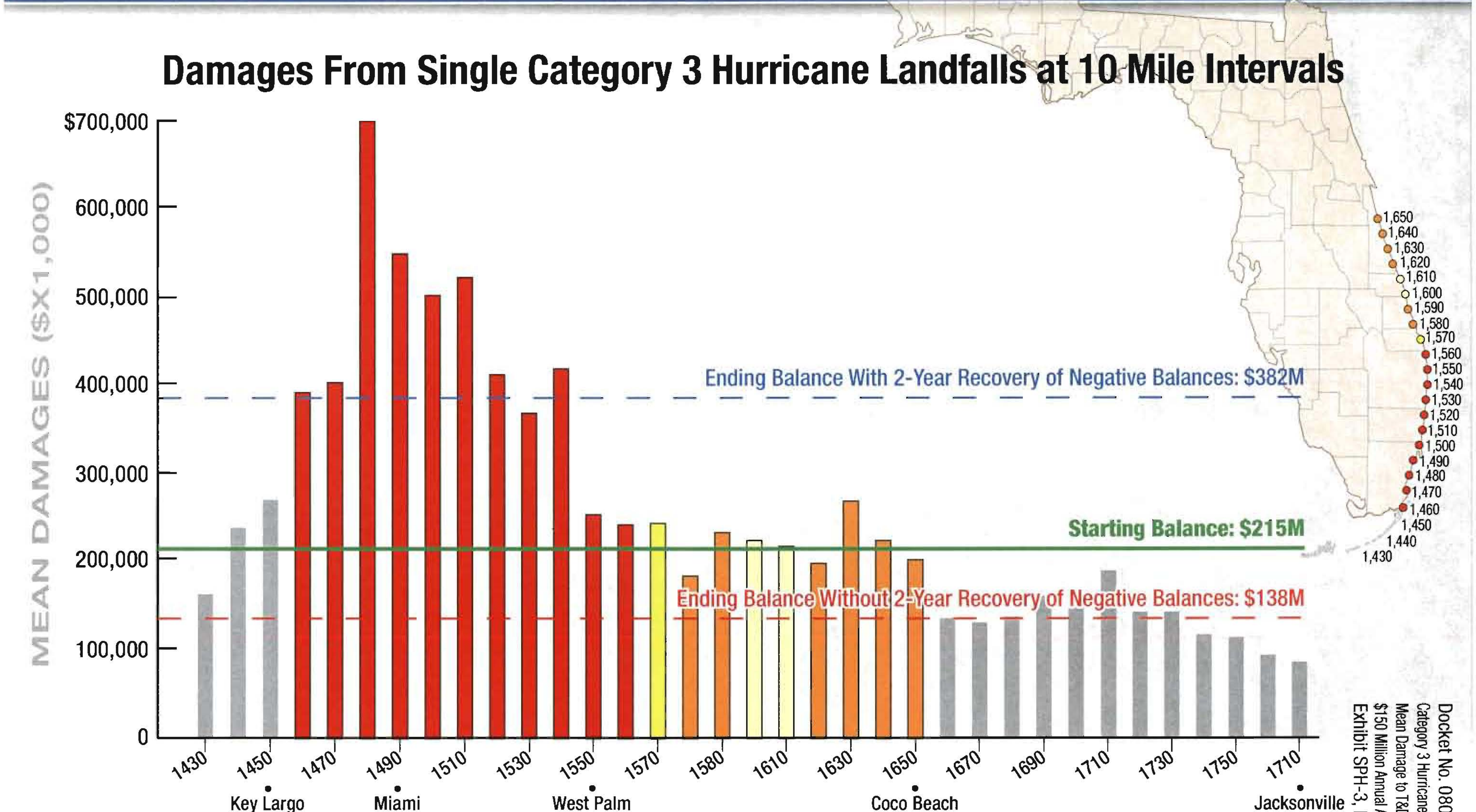
FPL Distribution Asset Concentration by County and Hurricane Strikes by County 1900-2007



Source: NWS NHS 46

Docket No. 080677-EI
FPL Distribution Asset
Concentration by County
and Hurricane Strikes by
County 1900-2007
Exhibit SPH-2, Page 1 of 1

Category 3 Hurricane Landfalls and Mean Damage to T&D Compared to $150 Million Annual Accrual Case



Single Category 3 Hurricane Landfalls at 10 Mile Interval Mileposts and Mean Damage to T&D*
Compared against Starting and Ending Reserve Balances for $150 million Accrual Cases, with and without Recovery of Negative Balances
**Note: Frequency Weighted Average Damage*

Docket No. 080677-EI
Category 3 Hurricane Landfalls and
Mean Damage to T&D Compared to
$150 Million Annual Accrual Case
Exhibit SPH-3, Page 1 of 1