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GULF POWER
A SOUTHERN COMPANY

February 15, 2010

Mr. Marshall Willis, Acting Director
Division of Economic Regulation
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0850

100000-OT

Dear Mr. Willis:

Re: Gulf Power Company's Status Report on
Its Industry-Wide T&D Program

Pursuant to Rule 25-6.0143 (1) (m) F.A.C., Gulf Power Company files this report providing information concerning efforts to obtain commercial insurance for transmission and distribution (T&D) facilities and a summary of amounts recorded in Account 228.1.

1. <u>**Status of the Proposed Industry-Wide T&D Program**</u> – As Gulf Power has reported in the past, in 2006, the four Florida investor-owned utilities (IOUs), in conjunction with other IOUs with hurricane-exposed T&D facilities in the Gulf and Atlantic coastal regions, initiated a project to investigate a feasible risk financing alternative to cover T&D storm damage. The option of developing an industry mutual insurance company and/or risk purchasing group was appealing to the group. After initial discussions, the focus became to seek mutual coverage for overhead distribution assets only, with premium cost, deductibles and loss payments based on modeled events. Modeled loss coverage was considered the most likely approach to attract insurance market interest. In an effort to simplify the model and to encourage group participation, the members also elected to explore coverage solely for above-ground distribution lines. In addition, it became clear that the market would only be willing to supply coverage for more infrequent storms, those in the once in 75 year frequency category and above, hence the coverage focus was for catastrophic storms with a high deductible/self-insured retention.

This activity continued through 2008, and the four Florida IOUs continued to participate as several of the other IOUs dropped out of the group. In May 2007, the Florida IOUs made a presentation on their progress to date at a Florida PSC staff workshop and then later provided the staff answers to some informal questions.

Possible risk financing alternatives explored by the group have included: group captives (a/k/a industry mutual) insurance, commercial insurance, capital market solutions and public/private insurance pools for natural catastrophes.

There have been numerous hurdles to success of the project, including: understanding of coastal wind and flood exposures, developing an acceptable loss forecasting model, subjective perceptions and acknowledged limitations of predictive models, gaining participants' confidence in the equity of the underwriting model and cost allocations, seeking market underwriting of the risk, attempting to finance a "frequency of severity" risk profile, assembling a critical mass portfolio of companies willing to pool risk, size of premiums and exposure to retrospective calls.

The Florida IOUs and other participants in the group hired outside experts to model their respective overhead distribution risks and aggregate scenarios were modeled. One member of the group (i.e. a non-Florida member) elected to seek insurance coverage from the insurance market on a stand-alone basis using modeled results and was successful for the 2007, 2008 and 2009 storm seasons. Some other members dropped from the group and at least one of those solicited the market on their own as well.

As the group lost membership and became smaller, the idea of a mutual company became untenable and the focus shifted to a buying group concept. However, even though it became more clear that the insurance market was becoming receptive to providing catastrophic insurance, the cost was still high. Gulf is particularly concerned about the high attachment point relative to the cost and is reviewing its methodology for developing and reporting distribution values. These values are key inputs to the forecasting model and drive both the premiums and attachment points. As of January 2010, the group is still communicating; however, none of the other group members (other than the non-Florida member mentioned above) are considering moving forward to seek coverage for the 2010 storm season.

2. **<u>Status of Other Efforts to Obtain Commercial T&D Insurance</u>** – The property insurance markets remain very restrictive, especially for Gulf of Mexico and Atlantic coastal locations, as a result of the 2004 and 2005 hurricane losses. Traditional commercial insurance coverage for storm-related damage to T&D facilities is not available under reasonable terms and conditions on a stand-alone basis.

Mr. Marshall Willis, Acting Director
Division of Economic Regulation
Florida Public Service Commission
February 15, 2010
Page three

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3. **Summary of Amounts Recorded in Account 228.1 in 2009**

	Debits	**Credits**	
Property Insurance Reserve Accrual		3,500,000.00	
Revenues Collected through Storm Cost Recovery Surcharge		10,792,785.29	
Hurricane Gustav	5,436.30		
Hurricane Ike		53,811.22	
Tropical Storm Ida	95,323,88		
			Net for 2009
Total for 2008	**100,760.18**	**14,346,596.51**	**(14,245,836.33)**

Please let me know if there are questions regarding the above information.

Sincerely,

Susan D. Ritenour

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cc.: Ms. Ann Cole, Commission Clerk
Florida Public Service Commission