State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: February 15, 2017

TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

FROM: Curtis M. Mouring, Public Utilities Supervisor, Division of Accounting & Finance

RE: Correspondence to filed in the Undocketed file.

Please file the attached letter in the Undocketed file (170000). This document should be described as "FPL letter regarding T&D Insurance."

FPL.

February 15, 2017

Mr. Andrew L. Maurey
Director, Division of Accounting & Finance
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

RE: Accumulated Provision for Property Insurance

Dear Mr. Maurey:

Enclosed for filing please find Florida Power & Light Company's report, as required by Rule 25-6.0143(1)(m), Florida Administrative Code, Use of Accumulated Provision Accounts 228.1, 228.2, and 228.4, reflecting the Company's efforts to obtain reasonably priced Transmission & Distribution insurance coverage. Also enclosed for filing as Attachment 1 to the report is a summary schedule of the amounts recorded in Account 228.1 as of December 31, 2016.

Please contact me if you have any questions regarding this filing.

Sincerely,

Korel M. Dubin

Korel M. Dubin
Director, Regulatory Affairs

Enclosures
cc: Bart Fletcher – Chief, Bureau of Surveillance & Rate Filings
Curt Mouring – Public Utilities Supervisor

FLORIDA POWER & LIGHT COMPANY
Period Ending December 31, 2016

Update on Efforts to Obtain Commercial Insurance for Transmission and Distribution (T&D) Facilities

For a number of years following Hurricane Andrew in 1992, T&D insurance was totally unavailable. By 1999, the Company was able to obtain a very limited amount of T&D insurance (from $20 to $88 million in 1999 through 2001). In the years since September 11, 2001, there was a general unwillingness in the insurance markets to write T&D insurance coverage. In late 2006, a group of southeastern storm exposed utilities (including four in Florida) began efforts to develop an industry insurance program (see below). Through those efforts, it appears that there may be a limited potential for some commercial T&D coverage with very high deductibles (for the Company, in excess of $750 million per occurrence for above ground distribution only, which exceeds the actual storm restoration damage incurred from any one storm in our history). At this time, the Company believes the products potentially available in the commercial market do not provide sufficient value to customers to warrant the cost. The company will continue to work to develop commercial insurance alternatives to improve the possibility that eventually, reasonably priced coverage that represents good value to the Company and its customers will become available.

Status of an Industry-Wide T&D Insurance Program and the Feasibility and Cost-Effectiveness of a Risk Sharing Plan among Investor Owned Electric Utilities in Florida

In 2006, the four Florida investor owned utilities (IOUs), in conjunction with other IOUs with hurricane exposed transmission and distribution facilities in the Gulf and Atlantic coastal regions, initiated a project to investigate a feasible risk financing alternative to cover transmission and distribution 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 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 elected to explore coverage solely for overhead distribution assets. 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.

In May 2007, the Florida IOUs made a presentation on their progress to date to a Florida Public Service Commission ("Commission") 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 were numerous hurdles to the 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.

This activity continued through 2008, and the four Florida IOUs continued to participate while several of the other IOUs dropped out of the group. 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 and 2008 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.

The group periodically maintained communication in 2009, meeting as a group once in February. No members were able to support the buying group concept in 2009. One member of the group outside of Florida has purchased a limited amount of insurance based on modeled results for the 2007-2009 storm seasons.

2016 Update:

FPL discussed T&D insurance with its domestic, London and European insurers on the Company's operating property insurance program during underwriting renewal meetings in April. No incumbents on the FPL property insurance program were interested in providing T&D insurance for FPL's Florida transmission and distribution assets. In addition, the southeast coastal utilities convened to discuss the current status of T&D insurance in July 2016. There continued to be no members purchasing T&D insurance.

On January 12, 2017, AEGIS (an electric & gas utility insurance mutual) hosted a conference call with member utilities to discuss the current state of the T&D insurance market. The participating utilities included the FL IOUs and other utilities, 9 companies in total. AEGIS was exploring the potential for a small amount of T&D insurance capacity (up to $100 million), but at a rate the participants did not find reasonable. One participant agreed to additional discussion on the potential product, but made no commitment to purchase, as they have an approved method of recovery from their commission utilizing surcharge or securitization for storm costs.

The Company will continue to monitor insurance market conditions and to seek T&D insurance that will provide value to its customers at a reasonable cost, and will periodically communicate with the remaining members of the IOU group with Atlantic and Gulf hurricane exposure.

Update on the Evaluation of the Company's Exposure to a Hurricane and the Adequacy of the Storm Reserve

In December 2012, the Commission approved a settlement agreement that resolved all outstanding issues related to FPL's 2012 base rate proceeding (Order No. PSC-13-0023-S-EI, Docket No. 120015-EI). Per the agreement, FPL would be allowed to recover incremental storm costs over a 12 month recovery period, as long as the costs incurred exceed the then current balance in the Storm Reserve and the costs allocated to residential customers do not exceed $4.00/1,000 kWh. In the event that storm costs would cause the charge to residential customers to exceed that level, any additional costs may be recovered in subsequent year(s), as determined by the Commission. In addition, FPL reserves the right to petition the Commission to increase the initial 12 month recovery beyond the $4.00/1,000 kWh in the event FPL incurs storm damage in excess of $800 million.

FPL's Storm Reserve is currently in a deficit position due to the charges against the reserve for eligible storm restoration costs associated with Hurricane Matthew in late 2016. As a result, on December 29, 2016, FPL petitioned the Commission for recovery of the incremental storm restoration costs related to Hurricane Matthew and replenishment of the Storm Reserve to $117.1 million (Docket No. 160251-EI) pursuant to the storm recovery mechanism in approved in Order No. PSC-13-0023-S-EI.

Even after FPL's Storm Reserve is restored to $117.1 million, it will not be adequate to cover the potential damage associated with Major Hurricanes (Category 3 and higher) or many lower level storms (depending on their size and location).

The 2012 settlement agreement expired on December 31, 2016. On December 15, 2016 however, the Commission approved a settlement agreement that resolved FPL's 2016 base rate proceeding (Order No. 16-0560-AS-EI, Docket No. 160021-EI). Under the 2016 settlement agreement, the storm recovery mechanism from the 2012 settlement agreement remains in effect. The 2016 settlement agreement became effective on the first billing cycle of January 2017 and has a minimum term that expires on the last billing cycle in December 2020.

ATTACHMENT 1

Summary Schedule of the Amounts Recorded in Account 228.1
As of December 31, 2016

Florida Power & Light Co.
Account 228.1
As of December 31, 2016

		Account 228.1 Retail Storm Reserve (1)		Account 228.101 FAS 115 Mark-to-Market (2)		Account 228.106 Non-Retail Storm Reserve (3)		Total
Proceeds from Securitization Bond Issuance - Pre-tax (4)	$	(1,048,815,983)	$	-	$	-	$	(1,048,815,983)
Admin & Service Fees Recovered due to Securitization (5)	$	(3,919,942)		-		-		(3,919,942)
Storm Costs:								
2004 Storm Costs (6)	$	100,184,011		-		-		100,184,011
2005 Storm Costs	$	717,342,858		-		-		717,342,858
2006 Storm Costs	$	18,462,866		-		-		18,462,866
2007 Storm Costs	$	1,424,001		-		-		1,424,001
2008 Storm Costs (7)	$	36,482,878		-		27,507		36,510,385
2009 Storm Costs (8)	$	-		-		-		-
2010 Storm Costs (8)	$	-		-		-		-
2011 Storm Costs (9)	$	6,969,191		-		-		6,969,191
2012 Storm Costs (10)	$	82,744,567		-		295,189		83,039,756
2013 Storm Costs (11)	$	2,115,551		-		1,939		2,117,490
2014 Storm Costs (8)	$	-		-		-		-
2015 Storm Costs (13)	$	4,085,970		-		11,795		4,097,765
2016 Storm Costs (14)	$	322,937,599				424,739		323,362,338
	$	**1,292,749,493**	**$**	**-**	**$**	**761,169**	**$**	**1,293,510,662**
Retail Storm Fund Earnings (12)	$	(37,171,080)				-		(37,171,080)
Mark-to-market adjustment in accordance with FAS 115 (2)				-				-
Deficit Balances as of December 31, 2016 (15)	**$**	**202,842,488**	**$**	**-**	**$**	**761,169**	**$**	**203,603,657**

Notes:

(1) Represents activity in storm reserve associated with retail jurisdictional customers.
(2) Represents mark-to-market adjustment in accordance with Accounting Standards Codification 320-10 (FAS 115). The Storm Fund was liquidated in the fourth quarter of 2016 as such there was no mark-to-market balance in this account as of December 31, 2016.
(3) Represents storm damages allocated to non-retail operations using the following jurisdictional factor weighted averages: 0.00475 for 2004, 0.00079 for 2005, 0.00077 for 2006, 0.00754 for 2008, 0.00357 for 2012, 0.00092 for 2013, 0.00265 for 2015, and 0.00131 for 2016.
(4) Issuance authorized by FPSC in Order No. 06-0464-FOF-EI to recover unrecovered 2004 and 2005 storm costs, and to replenish the storm reserve to cover future storm damages associated with retail customers.
(5) Admin and service fees remitted to FPL per servicing agreement and required to be added to the storm fund pursuant to FPSC order noted in Note (4) above. Amounts are collected from retail customers through the Storm Bond Repayment Charge.
(6) Change in balance represents recoveries credited to the 2004 reserve (prior to securitization).
(7) Includes amounts for Tropical Storm Fay previously communicated to the Commission.
(8) No deferrable events happened during 2009, 2010 & 2014.
(9) Includes amounts for Hurricane Irene
(10) Includes amounts for Tropical Storms Beryl, Debby, Isaac and Sandy.
(11) Tropical Storm Andrea
(12) Represents pre-tax earnings reinvested in the Storm Fund prior to liquidation. The Storm Fund was liquidated in the fourth quarter of 2016.
(13) Tropical Storm Erika
(14) Includes amounts for Martin Luther King, Jr. Weekend Tornadic Weather System, Tropical Storm Colin, Hurricane Hermine and Hurricane Matthew.
(15) FPL filed for recovery of a retail deficit balance of $201M plus replenishment of the storm reserve of $117M on December 29, 2016 (Docket No. 160251-EI) using cost estimates as of November 30, 2016. This filing was made pursuant to FPL's 2012 Stipulation and Settlement Agreement approved by the Commission in Order No. PSC-13-0023-EI.