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FPSC - COMMISSION CLERK

FPL.

February 15, 2022

Adam Teitzman, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

RE: FPL's Provision for Property Insurance Report for FPL and the former Gulf Power Company

Dear Mr. Teitzman:

Enclosed for filing on behalf of both Florida Power & Light Company ("FPL" or the "Company") and the former Gulf Power Company ("Gulf") please find FPL'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 FPL's and Gulf's efforts to obtain commercial insurance for their Transmission & Distribution ("T&D") facilities and any other programs that were considered. The attached report, which requires the provision of information for the previous calendar year, is divided into two sections. The first section addresses FPL information, while the second section addresses information related to Gulf. In addition, enclosed as Attachments 1 and 2 to the report are FPL's and Gulf's, respectively, summary schedules of the amounts recorded in Account 228.1 as of December 31, 2021.

On January 1, 2021, FPL and Gulf legally merged, with FPL as the surviving entity. However, during 2021, FPL and Gulf operated as separate ratemaking entities. Effective January 1, 2022, Gulf no longer exists as a separate ratemaking entity. However, because the information included in the attached reports is relevant to time frames when FPL and Gulf existed as separate ratemaking entities, the documents continue to separately refer to FPL and Gulf with respect to the entity whose information is being submitted.

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

Sincerely,

Inna Weintraub

Inna Weintraub
Director, Regulatory Strategy & Analysis

Enclosures

cc: Andrew L. Maurey, Director, Division of Accounting and Finance
Bart Fletcher, Chief, Bureau of Surveillance & Rate Filings

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

For a number of years following Hurricane Andrew in 1992, the costliest natural disaster at its time, 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 with the exception of Hurricane Irma). At this time, the Company believes the products and programs 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 claims.

This activity continued through 2008. 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 (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 purchased a limited amount of insurance based on modeled results for the 2007-2009 storm seasons.

FPL discussed the potential of T&D insurance coverage with its United States, London, and European underwriters during the annual meetings in April 2019. Similar meetings were held online via WebEx in 2020, with no change in the status of T&D insurance coverage. No incumbent underwriter on FPL's property insurance program expressed interest in affording T&D coverage for FPL's Florida transmission and distribution assets, nor did any potential new underwriters.

2021 Update

The southeast coastal utilities did not convene to discuss the current status of T&D insurance in 2021. Many advised via email that they continued to not purchase T&D insurance and felt meetings would not be necessary because there had not been a change in status since 2017. In 2021, FPL's Risk Management department contacted two member companies that have Atlantic and Gulf operational exposures in Florida. Both confirmed they still do not purchase T&D coverage. FPL's Risk Management department also confirmed this understanding with its broker who expressed the same view of the appetite for this risk in the insurance market. FPL will continue to monitor insurance market conditions. If a viable, cost-effective T&D coverage becomes available in the insurance marketplace, the Company will further explore that opportunity.

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

On December 15, 2016, the Commission approved a settlement agreement that resolved FPL's 2016 base rate proceeding (Order No. PSC-2016-0560-AS-EI, Docket No. 20160021-EI) and adopted the storm cost recovery mechanism ("SCRM") from FPL's 2012 base rate settlement agreement. Per the agreement, FPL would be allowed to recover incremental storm costs over a 12-month recovery period, as long as the costs incurred exceeded the then current balance in the Storm Reserve and the costs allocated to residential customers did not exceed $4.00/1,000 kWh per month. The 2016 settlement agreement became effective on the first billing cycle of January 2017 and had a minimum term extending through the last billing cycle in December 2020. Thereafter, in Order No. PSC-2019-0225-FOF-EI, Docket No. 20180046-El, the Commission confirmed that the 2016 settlement agreement would remain in effect until modified by the Commission.

Under the 2016 SCRM, in the event that storm costs would cause the monthly charge to residential customers to exceed the level specified in the 2016 settlement agreement, any additional costs could be recovered in subsequent year(s), as determined by the Commission. In addition, FPL reserved the right to petition the Commission to increase the initial 12-month recovery beyond the $4.00/1,000 kWh in the event FPL incurred storm damage in excess of $800 million in any given calendar year.

FPL's Storm Reserve went into a deficit position due to the charges against the reserve for eligible, incremental storm restoration costs associated with Hurricane Matthew in late 2016. As a result, on December 29, 2016, FPL petitioned the Commission (Docket No. 20160251-EI) for recovery of the deficit and replenishment of the Storm Reserve to $117.1 million, together with the incremental storm restoration costs related to Hurricane Matthew. FPL's request sought relief pursuant to the SCRM approved by the Commission in Order No. PSC-2013-0023-S-EI, Docket No. 20120015-EI. Following recovery of costs related to Hurricane Matthew restoration and the Commission's approval of a negotiated settlement, the Storm Reserve was replenished to $117.1 million.

Following the replenishment of FPL's Storm Reserve, FPL incurred a significant amount of incremental storm costs associated with Hurricanes Irma, Dorian, Isaias, and Elsa, and Tropical Storms Eta and Fred, between 2017 and 2021. However, the Company made a determination not to charge these costs to the Storm Reserve or seek recovery through a surcharge to customers. Instead, FPL charged the incremental costs to operations and maintenance expense, as permitted by Rule 25-6.0143(1)(h), F.A.C. FPL filed its final storm costs and sought a prudence review for Hurricane Isaias and Tropical Storm Eta costs in 2021 in Docket No. 20210178-EI, which are pending Commission review.

The 2016 settlement agreement remained in effect until December 31, 2021. However, on December 2, 2021, the Commission approved a settlement agreement that resolved FPL's 2021 base rate proceeding pursuant to Order No. PSC-2021-0446-S-EI (the "2021 settlement agreement"). The 2021 settlement agreement adopted the SCRM from the 2012 and 2016 settlement agreements. The 2021 settlement agreement became effective on the first billing cycle of January 2022 and has a minimum term extending through the last billing cycle in December 2025.

Based on prior storm event experiences, FPL's Storm Reserve remains inadequate to cover the potential damage associated with Major Hurricanes (Category 3 and higher) or many lower level storms (depending on their size and location). In addition, according to the Company's Storm Damage Self-Insurance Reserve Study filed in January 2021, there is a 99.8% probability that the Storm Reserve would have inadequate funds to cover storm damage in one or more years over the next five-year period.

<u>Status of Efforts to Obtain Commercial T&D Insurance</u>

Post Hurricane Andrew (1992), insurance providers no longer offered physical damage coverage for the T&D system. As a result, T&D lines are excluded from Gulf's property insurance policy. FPL, on Gulf's behalf, discussed the potential of T&D insurance coverage with the U.S., London, and European underwriters during the annual meetings in April 2019. Similar meetings were held online via WebEx in 2020, with no change in the status of T&D insurance coverage. No incumbent underwriter on Gulf's property insurance program expressed interest in affording T&D coverage for Gulf's Florida T&D assets, nor did any potential new underwriters.

<u>2021 Update</u>

The southeast coastal utilities did not convene to discuss the current status of T&D insurance in 2021. Many advised via email that they continued to not purchase T&D insurance and felt meetings would not be necessary because there had not been a change in status since 2017. In 2021, FPL's Risk Management department contacted two member companies that have Atlantic and Gulf Coast operational exposures in Florida. Both confirmed they still do not purchase T&D coverage. FPL's Risk Management department also confirmed this understanding with its broker who expressed the same view of the appetite for this risk in the insurance market. If a viable, cost-effective T&D coverage becomes available in the insurance marketplace, the Company will further explore that opportunity.

<u>Update on the Evaluation of the Gulf's Exposure to a Hurricane and the Adequacy of the Storm Reserve</u>

On May 16, 2017, the Commission approved a settlement agreement that resolved Gulf's 2016 base rate proceeding (Order No. PSC-2017-0178-S-EI, Docket No. 20160186-EI). The 2017 settlement agreement adopted the SCRM from the 2013 settlement agreement, which was approved by the Commission in Order No. PSC-2013-0670-S-EI, Docket No. 20130140-EI. The SCRM allowed Gulf to recover incremental storm costs over a 12-month recovery period, as long as the costs incurred exceeded the then current balance in the Storm Reserve and the costs allocated to residential customers did 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 could be recovered in subsequent year(s), as determined by the Commission. In addition, Gulf reserved the right to petition the Commission to increase the initial 12-month recovery beyond the $4.00/1,000 kWh in the event Gulf incurred storm damage in excess of $100 million in any given calendar year.

The 2017 settlement agreement became effective on the first billing cycle of July 2017. However, on January 1, 2021, FPL and Gulf legally merged, with FPL as the surviving entity, and on December 2, 2021, the Commission approved a settlement agreement that resolved FPL's 2021 base rate proceeding (Order No. PSC-2021-0446-S-EI). The 2021 settlement agreement set consolidated base rates and adopted the storm recovery mechanism from FPL's 2016 settlement agreement.

In 2018, Gulf's Storm Reserve went into a deficit position due to incremental costs incurred for Hurricane Michael. Gulf implemented a storm surcharge to recover the incremental storm costs for Hurricane Michael from July 2019 to October 2023. Gulf also currently has a charge in effect to recover interim incremental costs associated with Hurricane Sally. In 2021, Gulf filed its final storm costs for Hurricane Sally in Docket No. 20200241-EI which, if approved, should allow for full recovery of Hurricane Sally storm costs no later than October 2024. In 2021 Gulf also filed a request for a storm surcharge to recover incremental storm costs associated with Hurricane Zeta in Docket No. 20210179-EI. If approved, the Hurricane Zeta storm surcharge will commence once the recovery of the Hurricane Sally storm surcharge is complete. In addition, as reflected on Attachment 2, Gulf charged incremental storm costs to the Storm Reserve in 2021, including those associated with Tropical Storm Fred. At the end of December 31, 2021, Gulf's Storm Reserve remained in a deficit position.

Effective January 1, 2022, Gulf no longer exists as a separate ratemaking entity and incremental costs for future storms occurring in Northwest Florida would be eligible for cost recovery through FPL's SCRM approved per the 2021 settlement agreement and Storm Reserve. FPL will continue to monitor insurance market conditions for both peninsular Florida and Northwest Florida. If a viable, cost effective T&D coverage becomes available in the insurance marketplace, FPL will further explore that opportunity.

ATTACHMENT 1

Florida Power & Light Company
Account 228.1 - Accumulated Provision for Property Insurance
As of December 31, 2021

		Account 228.1 Retail Storm Reserve		**Account 228.101 Mark to Market (1)**		**Total**
Balance as of December 31, 2020 - (Reserve)/Deficit	**$**	**(114,548,356)**	**$**	**(604,367)**	**$**	**(115,152,723)**
Prior Period Storm Charge Customer Billing Adjustments (2)		5,034		-		5,034
Retail Storm Fund Earnings (3)		(647,000)		-		(647,000)
Mark-to-market adjustment in accordance with ASC 320-10 (1)		-		724,238		724,238
Subtotal (Credit)	**$**	**(641,966)**	**$**	**724,238**	**$**	**82,272**
Storm Costs Charged to the Storm Reserve:						
2021 Storm Costs (4)		-		-		-
Subtotal 2020 Storm Costs Charged to Storm Reserve	**$**	**-**	**$**	**-**	**$**	**-**
Balance as of December 31, 2021 - (Reserve)/Deficit	**$**	**(115,190,322)**	**$**	**119,871**	**$**	**(115,070,451)**

Notes:

(1) Represents mark-to-market adjustments associated with the related storm fund in accordance with Accounting Standards Codification 320-10.

(2) Represents prior period customer billing adjustments related to the Hurricane Matthew interim storm surcharge which was in effect for 12 months beginning March 1, 2017.

(3) Represents pre-tax earnings reinvested in the Storm Fund.

(4) FPL incurred approximately $54 million in incremental storm restoration costs due to the impacts of Hurricane Elsa ($48 million) and Tropical Storm Fred ($6 million) for which FPL has not charged to the storm reserve nor ~~is~~ seeking recovery through a surcharge. These costs were charged to operations and maintenance expense in 2021.

ATTACHMENT 2

Gulf Power Company
Account 228.1 - Accumulated Provision for Property Insurance
As of December 31, 2021

	Account 228.1 Retail Storm Reserve
Beginning Balance as of December 31, 2020 - (Reserve)/Deficit	**$345,240,925**
Property Insurance Reserve Accrual (1)	(9,985,869)
Proceeds from Hurricane Michael Storm Charge (2)	(64,971,529)
Interest on Unrecovered Hurricane Michael Charge (2)	55,450
Proceeds from Hurricane Sally Storm Charge (3)	(21,292,795)
Interest on Unrecovered Hurricane Sally Charge (3)	102,301
Subtotal (Credit)	**($96,092,442)**
2021 Storm Costs Charged to the Storm Reserve:	
Hurricane Michael	($5,704)
Tropical Storm Nestor	1,707
April Tornados	589,499
Hurricane Sally	(10,699,131)
Hurricane Zeta	(1,871,637)
Tropical Storm Claudette	130,675
Tropical Storm Fred	4,926,452
Subtotal 2021 Storm Costs Charged to Storm Reserve	**($6,928,140)**
Total Storm Reserve Activity for 2021	**($103,020,582)**
Balance as of December 31, 2021 - (Reserve)/Deficit	**$242,220,343**

Notes:

(1) Represents the sum of 1) a $3.5 million annual storm reserve accrual authorized by the FPSC in Order No. PSC-17-0178-S-EI and 2) a $6.5 million discretionary storm reserve accrual authorized by the FPSC in Order No. PSC-06-0601-S-EI.

(2) Gulf Power filed for recovery of a deficit storm reserve balance of $302 million in FPSC Docket No. 20190038-EI, due to charges for Hurricane Michael, plus replenishment of the storm reserve. The Commission approved an interim storm charge for a 60-month period beginning April 2019. On October 8, 2020, the FPSC approved a stipulation and settlement agreement in Order No. PSC-2020-0349-S-EI, which resolved all the issues in the case.

(3) Gulf Power filed for recovery of incremental storm charges associated with Hurricane Sally in FPSC Docket No.20200241-EI. The Commission approved an interim storm charge beginning March 2021 in Order No. PSC-2021-0112-PCO-EI.