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: May 19, 2005

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Slemkewicz)
Office of the General Counsel (Brubaker)

RE: Docket No. 050225-EI – Joint petition of Office of Public Counsel, Florida Industrial Power Users Group, and Tampa Electric Company for approval of stipulation and settlement as full and complete resolution of any and all matters and issues which might be addressed in connection with matters regarding effects of Hurricanes Charley, Frances, and Jeanne on Tampa Electric Company's Accumulated Provision for Property Insurance, Account No. 228.1.

AGENDA: 05/31/05 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\050225.RCM.DOC
L:\PSC\LIBRARY\FILINGS\05\03184-05.PDF – ATTACHMENT A

Case Background

On April 1, 2005, the Office of Public Counsel (OPC), the Florida Industrial Power Users Group (FIPUG) and Tampa Electric Company (TECO) filed a Joint Petition for Approval of Stipulation and Settlement (Stipulation). The purpose of the Stipulation is to effect a disposition and complete resolution of any and all matters and issues which might be addressed in connection with matters regarding the effects of Hurricanes Charley, Frances, and Jeanne on TECO's Accumulated Provision for Property Insurance, Account No. 228.1. The Stipulation provides that $38,877,284, of the total storm restoration costs of $73,353,366, be classified to the Utility Plant Accounts. The remaining storm restoration costs of $34,476,082 are to be charged against the Property Insurance Reserve balance, which was $42,333,333 on August 1, 2004. After this charge, the Property Insurance Reserve would have a positive balance of $7,857,251 and would continue to grow by the authorized annual accrual of $4 million. TECO is not requesting a surcharge in this docket. This recommendation addresses the merits of the Stipulation. The Stipulation is attached hereto as Attachment A.

The Commission has jurisdiction over this matter pursuant to Sections 366.04, 366.05 and 366.06, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve the Stipulation and Settlement?

Recommendation: Yes, the Commission should approve the Stipulation and Settlement. (Slemkewicz)

Staff Analysis: Between August 13, 2004, and September 26, 2004, Hurricanes Charley, Frances, and Jeanne struck TECO's service territory causing extensive damage to TECO's distribution and transmission systems. As a result, 631,000 customers were impacted, causing the worst outage situation in the Company's history. In order to repair its system and restore service to its customers, TECO estimates that it will ultimately spend $73.353 million once all of the repairs are completed and all of the costs are known. TECO, like the other Florida investor-owned electric utilities, self-insures for storm damage to its transmission and distribution facilities through the use of a property insurance reserve account. This account also covers other property losses not covered by insurance, such as deductible amounts related to its insured power plants. The authorized amount of TECO's annual accrual to the property insurance reserve is $4 million.

Prior to Hurricanes Charley, Frances and Jeanne, TECO had accumulated $42.3 million in its property insurance reserve. As shown on Exhibit A to the Stipulation, the total estimated restoration costs related to the hurricanes are $73.4 million. Per the terms of the Stipulation, TECO will capitalize $38.9 million of the total amount, leaving a balance of $34.5 million to be charged against the reserve. After charging the $34.5 million of storm restoration costs against the reserve balance of $42.3 million, a positive balance of $7.9 million remains in the property insurance reserve. Through the normal storm damage accrual, TECO anticipates that the property insurance reserve balance will grow to $11.2 million by the start of the 2005 hurricane season on June 1, 2005.

The major highlights contained in the Stipulation are as follows:

- Property Insurance Reserve balance at August 1, 2004 was $42,333,333
- Total costs associated with Hurricanes Charley, Frances and Jeanne: $73,353,366

Amount Capitalized to Account 101	(35,345,268)
Costs of Removal Charged to Account 108	(3,532,016)
Net Costs to be Charged to Property Insurance Reserve	$34,476,082

- Original cost of assets replaced to be removed from Electric Plant In Service and Accumulated Provision for Depreciation of Electric Utility Plant - $4,024,301.
- No increase in base rates to become effective prior to January 1, 2007
- May petition for a storm cost surcharge based on future hurricanes or tropical storms

- TECO will continue its authorized annual storm damage accrual of $4 million

Most of the Stipulation's provisions and the exhibit are self-explanatory, but Section 5 merits comment. TECO originally used the replacement cost approach to determine the appropriate amounts to be charged to the property insurance reserve. The use of that methodology is consistent with Order No. PSC-95-0255-FOF-EI, issued February 23, 1995, in Docket No. 930987-EI, In Re: Investigation into currently authorized return on equity of TAMPA ELECTRIC COMPANY. That order also prohibited charging lost revenues and special employee assistance costs against the reserve. Under the replacement cost approach, the total cost of restoration and related activities would be charged against the property insurance reserve. Thus, TECO's facilities would be restored to their pre-damage condition and the plant accounts would reflect the book value of the replaced plant prior to the damage caused by the storms. Utilizing this methodology, TECO charged $73.353 million of storm restoration costs against the property insurance reserve. This resulted in a reserve deficit of $31.020 million prior to the Stipulation.

Per the Stipulation, however, TECO capitalized $38.877 million of the total storm restoration costs of $73.353 million, leaving only $34.476 million of storm restoration costs to be charged against the property insurance reserve. As a result of capitalizing the $38.877 million, the property insurance reserve has a $7.857 million positive balance as of August 1, 2004, rather than a $31.020 million deficit. The $38.877 million to be capitalized includes approximately $14.1 million that could be considered "normal" costs if the activities had not been undertaken for restoration purposes related to the hurricanes. The difference of approximately $24.8 million is the "excess capital cost" which is a direct result of the rapid restoration of service. Staff would normally take exception with the capitalization of this "excess capital cost." However, in this case, staff does not believe that capitalizing this amount harms the customer. The result of leaving this amount in the storm reserve account or capitalizing it as electric plant in service has no current effect on rate base. The effect of not capitalizing the amount would result in a negative instead of a positive storm reserve going into the 2005 hurricane season. Staff would, therefore, not take exception to the capitalization of this amount in this case.

Also included in the $73.353 million of total restoration costs is $5,239,187 of TECO personnel straight time pay. Such "normal" costs and straight time labor costs were excluded from recovery in Gulf Power Company's stipulation with OPC and FIPUG that was approved in Order No. PSC-05-0250-PAA-EI, issued March 4, 2005, in Docket No. 050093-EI, In re: Petition for approval of stipulation and settlement for special accounting treatment and recovery of costs associated with Hurricane Ivan's impact on Gulf Power Company. The appropriateness of these types of expenditures are also at issue in both the Progress Energy Florida, Inc. and Florida Power & Light Company storm cost recovery dockets. Although staff believes that these "normal" costs should not be charged to the reserve, the costs are not material enough to justify a recommendation to not accept the Stipulation.

Staff has reviewed the Stipulation and believes that it is a reasonable resolution of the issues regarding the impacts of Hurricanes Charley, Frances, and Jeanne on TECO's property insurance reserve. In the Stipulation, TECO has agreed to capitalize $35.345 million to Account 101, Electric Plant In Service. In addition, $3.532 million of Costs of Removal will be charged to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant. The sum of these two adjustments is the $38.9 million that TECO will capitalize. TECO will also remove $4.024 million of the original costs of assets replaced as a result of the hurricanes by retiring the costs through a charge to Account 108 and a credit to Account 101. TECO further agrees not to petition for an increase in its base rates, including interim rate increases, to take effect until January 1, 2007, or after. However, TECO may petition to recover a storm cost surcharge if it is adversely affected by a future named tropical storm or hurricane.

Although it is not addressed in the Stipulation itself, it is staff's understanding that any difference between the estimated restoration costs of $73.353 million, as stated in the Stipulation, and the actual restoration costs will be charged to the property insurance reserve. Based on TECO's response to a staff data request, the total revised estimate of the restoration costs, as of April 27, 2005, was $73,954,089.

In staff's opinion, the Stipulation balances the interests of the ratepayers and TECO and results in no increase in the ratepayers' rates. Staff therefore recommends that the Stipulation is in the public interest and that the Commission should approve the Stipulation settling all of the issues regarding the impact of Hurricanes Charley, Frances, and Jeanne on TECO's property insurance reserve.

Issue 2: Should this docket be closed?

Recommendation: Yes, if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (Brubaker)

Staff Analysis: At the conclusion of the protest period, if no protest is filed, this docket should be closed upon the issuance of a consummating order.