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January 28, 1998

Ms. Blanca S. Bayó, Director
Division of Records and Reporting
Florida Public Service Commission
4075 Esplanade Way, Room 110
Tallahassee, FL 32399

980000

RE: DOCKET NO. 971237-EI

Dear Ms. Bayó:

As requested by Order No. PSC-98-0953-FOF-EI issued July 14, 1998 enclosed for filing please find the original and fifteen (15) copies of Florida Power & Light Company's response regarding the methodology for separating Transmission and Distribution and Other assets covered by this reserve fund. Also enclosed is FPL's response regarding a study addressing the feasibility of establishing a trust fund for the storm damage reserve and fund in the above referenced docket.

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FPSC-BUREAU OF RECORDS

Very truly yours,

Matthew M. Childs, P.A.

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Enclosure

cc: Jack Shreve, Esq., Office of Public Counsel

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FLORIDA POWER & LIGHT COMPANY
RESPONSE TO ORDER NO. PSC-98-0953-FOF-EI
Issued July 14, 1998

Section I

This filing is in response to Order No. PSC-98-0953-FOF-EI dated July 14, 1998, concerning the storm reserve fund, wherein the PSC ordered, among other things, that: ". . . FPL shall file a methodology for separating Transmission, Distribution and Other Assets by December 31, 1998."

The order quotes reasons FPL has previously given against separating the Fund. FPL's position on the reasons given previously has not changed. FPL still believes it would be inappropriate to separate the fund at this time. As such, the methodology FPL is submitting herein should be viewed as a methodology only and not as an endorsement or recommendation to separate the fund at this time. Ultimately, the actual application of the methodology should only be done when and if the fund is required to be separated.

Proposed Methodology for Separating Transmission & Distribution and Other Assets

In response to the Commissions Order FPL requested EQE International, Inc. (EQE) to develop a study showing the expected annual losses in each of four areas:

- T&D assets from hurricane peril;
- Non-T&D assets from hurricane peril;
- Nuclear retrospective premium assessments; and
- Nuclear losses larger than the insured limits ($2.75 billion per plant) provided by FPL's insurance program.

The results of EQE's study as to the expected annual loss in each area is as follows:

Transmission Assets:	$ 7.2	15.0%
Distribution Assets:	35.0	72.6%
Non-T&D hurricane	5.0	10.4%
Nuclear retro premiums	.5	1.0%
Uninsured nuclear risk	.5	1.0%
	$48.2	100.0%

If and when it is determined that the fund must be split among the various risks the fund is designed to cover, the methodology proposed by FPL would be to develop a study to determine the then estimated annual average loss for each risk and subdivide the fund based on the percentage each risk's estimated annual loss bears to the total of all average annual losses. As an example, based on this methodology, if subdivision of the fund was required to be performed at this time, the above percentages for each risk category would simply be applied to the total of the fund to determine the amount attributable to each of the risk categories.

Since expected risks change over time, the amount attributable to each risk will change over time. For example, if the recommended methodology had been performed in 1985, the amount attributable to hurricane risks would have been quite low and the amount attributed to nuclear risks would have been much higher. The reasons are as follows: in 1985, FPL had an excellent windstorm T&D program providing an amount of coverage such that it was inconceivable that a storm (given then current thinking) could have exceeded the insurance limits. Thus, the fund's only exposure to windstorm was to pay insurance deductibles (maximum of $21 million for any one storm). Further, at that time, FPL's territory had experienced only two major hurricanes in the last 35 years (Donna, a category 4 in 1960 and Betsy, a category 3 in 1965) and none in 20 years - and neither Donna nor Betsy had done massive damage to FPL assets. Floridians simply would not have estimated the storm risk as having the potential for catastrophic damage.

On the other hand, with the serious accident at Three Mile Island in 1979, many perceived the nuclear risk (both as to property and liability) to be quite high. The industry responded with the creation of Nuclear Electric Insurance Limited (NEIL) in the early 1980's to provide higher property insurance limits. But to form NEIL, very high retroactive premiums were required.

Thus, in 1985, a reasonable person would have attributed relatively little of the fund to storm related risks and most of the fund to nuclear exposures. However, in the years since 1985, risk perception has changed significantly. With Hurricane Andrew in 1992, it became apparent that major storms remained a significant risk and that they were capable of doing much more damage than previously thought. Further, with the worldwide collapse of T&D insurance markets, in the years since 1992, FPL has had no T&D insurance. With Andrew, only the $21 million in applicable deductibles was charged to the fund (of the $455.4 million in total insured damage). Were a storm of similar magnitude to have done identical damage (unadjusted for inflation) in later years, something in the range of $295-300 million would have been charged (the total T&D damage plus the non-T&D windstorm deductibles).

On the other hand, in the years since 1985, nuclear operations nationwide have performed admirably without a single loss even threatening a retroactive premium call. Further, during that time and because of the excellent loss history, NEIL's financial condition has improved dramatically making a retroactive premium call much less likely.

The above example is included merely to show how risk perception and insurance protection change over time and why it is thus inappropriate to fix specific amounts in the fund for any one risk category compared to another unless absolutely necessary to do so.

The application of the proposed methodology is fast, simple, of relatively low cost, and we believe its results are reliable, defensible and represent a reasonable approach for subdivision if and when required at some future point in time.

Other Issues/Areas of Concern

All of EQE's studies have focused on the hurricane peril alone largely because of the somewhat spotty database for tropical storms, winter storms, etc. The fund, however, is available for windstorm whether or not a hurricane is involved (e.g., the 1993 winter storm). Given the inherent conservatism in all modern modeling approaches, it is believed that EQE's estimate for T&D is adequate for all windstorms.

In conclusion, FPL believes it is inappropriate to allocate the fund. A separate fund may not be in the best interest of FPL's customers until and unless a change in the regulation makes it's appropriate. The seperation of the fund will inevitably lead to reduced flexibility and increased costs to the customers and/or FPL and thus should be avoided unless absolutely necessary.

Section II

FPL's filing is in response to Order No. PSC-98-0953-FOF-EI dated July 14, 1998, requesting information concerning the feasibility of establishing a trust fund or the storm damage reserve. Although at some future point in time it may be prudent to establish a trust structure, we do not see any advantages from a tax, Commission oversight or administrative perspective to do so at this time. We do not believe there are any tax advantages to the establishment of a trust. At this point, in fa^t, to achieve tax advantages legislation supporting it would have to be enacted. To obtain the appropriate legislative changes could prove costly and time consuming. As to the matter of oversight by the Commission, we believe that the Commission has all of the oversight authority that it needs under existing statutes. We see no added Commission oversight authority as a result of the establishment of a trust. There are no administrative benefits to the establishment of a trust, only added costs. FPL's customers would incur the administrative fees' associated with maintaining a trust fund.

Since we can find no tax advantages, increased oversight authority or administrative benefits, only added costs, it is FPL's belief that establishing a Trust fund for our storm damage reserve would not be in our customers best Interests at this time.