Susan D. Ritenour
Secretary and Treasurer
and Regulatory Manager

One Energy Place
Pensacola, Florida 32520-0781

Tel 850.444.6231
Fax 850.444.6026
SDRITENO@southernco.com

GULF POWER
A SOUTHERN COMPANY

February 14, 2007

Mr. Larry Harris
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Dear Mr. Harris:

Re: FPSC Docket No. 070011-EI, Proposed Amendment of Rule 25-6.0143, F.A.C., Use of Accumulated Provision Accounts 228.1, 228.2, and 228.4

The staff of the Florida Public Service Commission ("Staff") is continuing with the development of Rule 25-6.0143, Florida Administrative Code, to amend provisions relating to use of accumulated provision accounts 228.1, 228.2 and 228.4. By notice issued January 24, 2007, a rule development workshop has been scheduled for February 21, 2007. Comments have been requested in order to facilitate discussion at the workshop.

Gulf Power Company ("Gulf") continues to be interested in the development of Rule 25-6.0143 and intends to participate in the workshop scheduled for February 21, 2007. In response to Staff's request for comments to facilitate discussion at the workshop, Gulf submits the following preliminary comments regarding the proposed rulemaking. Gulf does not intend this letter and attachment to serve as comprehensive or final comments regarding the subject matter of the proposed rulemaking and reserves the right to make further comments either at the workshop or post workshop if this rulemaking process continues.

In general, it is Gulf's position that the current rule provides appropriate guidance regarding the proper accounting treatment for all casualty occurrences to utility property which are not covered by insurance and is consistent with the Federal Energy Regulatory Commission's Uniform System of Accounts as specified in the Code of Federal Regulations ("FERC Uniform System of Accounts"). The purpose behind the rule is to provide for an appropriate accounting mechanism associated with an authorized program of self-insurance for all property casualty losses, including but not limited to those uninsured losses to property that occur as result of storms.

Gulf is, however, supportive of an incremental cost and capitalization concept in determining what costs are appropriate for cost recovery. If the Commission continues with the proposed rulemaking, Gulf offers the attached changes to Staff's proposed rule amendments. These changes are presented in Attachment A in red-line strikeout format. In general, Gulf's proposed changes would clarify the types of costs allowed to be charged to the reserve in addition to the items that would not be allowed to be charged to the reserve unless and until commission approval is received.

One key change proposed by Gulf is the removal of the requirement to credit the reserve with the reimbursement of a utility's costs incurred during the assistance of another utility with storm-recovery. Crediting the reserve with these types of reimbursements inappropriately assumes that these reimbursements are a windfall benefit to the utility providing the assistance. While personnel of the utility providing assistance are away, customer service and maintenance work continues to be required and must be completed through the hiring of contract labor or through additional employee overtime to ensure normal customer service and operations are maintained. The proposed requirement to credit the reserve with reimbursements would likely discourage Florida utilities from offering assistance to each other and to utilities outside the state when disaster strikes and ultimately would result in less assistance coming to Florida from outside the state when it is critically needed to restore service in a timely and effective manner.

In summary, if the Commission continues with the proposed rulemaking to clarify the accounting and cost recovery treatment of storm-related damages, then Gulf offers the proposed changes to Staff's proposed rule amendments as shown in Attachment A.

As noted earlier, these are the preliminary comments of Gulf Power Company which reserves the right to submit additional comments regarding proposed changes in the rule as the rule development process progresses.

Sincerely,

Susan D. Ritenour (dw)

rjm

cc: Blanca Bayo
Cheryl Bulecza-Banks
Michael Cooke
Tim Devlin
Chuck Hill
John Slemkewicz
Marshall Willis
James D. Beasley
Bill Feaster
Beggs and Lane
Jeffrey A. Stone, Esquire
John McWhirter
Charles Beck
Schef Wright
Javier J. Portuondo
Alex Glenn
John Burnett
Paul Lewis, Jr.
Natalie Smith
John Butler

Gulf Power Company Proposed Changes to Staff's Proposed Rule Amendments

THE PRELIMINARY TEXT OF THE PROPOSED RULE DEVELOPMENT IS:

25-6.0143 Use of Accumulated Provision Accounts 228.1, 228.2, and 228.4.

(1) Account No. 228.1 Accumulated Provision for Property Insurance.

(a) No change.

(b) Except as provided in subsections (1)(~~e~~f) and (1)(~~f~~g), ~~C~~charges to this account shall be made for all occurrences in accordance with the schedule of risks to be covered which are not covered by insurance. Recoveries, insurance proceeds or reimbursements for losses charged to this account shall be credited to the account.

(c) A separate subaccount shall be established for that portion of Account No. 228.1 which is designated to cover storm-related damages to the utility's own property or property leased from others that is not covered by insurance. The records supporting the entries to this account shall be so kept that the utility can furnish full information as to each storm event included in this account.

(d) In determining the costs to be charged to cover storm-related damages, the utility shall use an Incremental Cost and Capitalization Approach methodology (ICCA). Under the ICCA methodology, the costs charged to cover storm-related damages shall include all incremental costs incurred during storm recovery and all costs for insurance covering transmission and distribution facilities obtained by the utility subsequent to the test year on which its base rates were last set, and shall exclude those costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm. In addition, capital expenditures for the removal, retirement and replacement of damaged facilities charged to cover storm-related damages shall exclude the normal cost for the removal, retirement and replacement of those facilities in the absence of a storm. The utility shall notify the Director of the Commission's Division of Economic Regulation in writing ~~and provide a schedule of the amounts charged to Account No. 228.1~~ for each incident expected to exceed~~ing~~ ten million dollars.

(e) All costs charged to Account 228.1 are subject to review for prudence and reasonableness by the Commission. Under the ICCA methodology for determining the allowable costs to be charged to cover storm-related damages, the utility will be allowed to charge to Account No. 228.1 all costs that are incremental to costs normally charged to non-cost recovery clause operating expenses in the absence of a storm and all costs for insurance covering transmission and distribution facilities obtained by the utility subsequent to the test year on which its base rates were last set. The types of storm related costs expressly allowed to be charged to the reserve under the ICCA methodology include, but are not limited to, the following:

1. Contract labor, such as utility personnel, line clearing personnel, and security guards;

2. Logistics costs of providing meals, lodging, and linens for tents and other staging areas;

3. Transportation of crews to staging sites;

4. Vehicle mileage and rentals;

5. Waste management costs;

6. Rental equipment;

7. Materials used to repair and restore facilities to pre-storm condition, such as poles, transformers, meters, light fixtures, wire, and other electrical equipment;

8. Overtime payroll and payroll-related costs for utility personnel

9. Fuel cost for company and contractor vehicles;

Gulf Power Company Proposed Changes to Staff's Proposed Rule Amendments

10. Cost of public service announcements regarding key storm-related issues, such as safety and service restoration estimates; and

11. Cost of commercial insurance for a utility's transmission and distribution facilities or cost to fund other programs, such as a cooperative risk sharing plan or pooled reserve among other investor-owned utilities.

(f) Under the ICCA methodology for determining the allowable costs to be charged to cover storm-related damages, the following costs are expressly prohibited from being charged to Account No. 228.1 unless and until the utility has received express approval from the commission following a showing by the utility that such costs are incremental costs incurred during storm recovery and are not costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm:

1. Base rate recoverable regular payroll and regular payroll-related costs for utility managerial and non-managerial personnel;

2. Bonuses ~~or any other special compensation~~ for utility personnel not eligible for overtime pay;

3. Base rate recoverable depreciation expenses, insurance costs and lease expenses for utility-owned or utility-leased vehicles and aircraft;

4. Utility employee assistance costs;

5. Utility employee training costs;

6. Utility advertising, media relations or public relations costs, except for public service announcements regarding key storm-related issues as listed above in item (e) 10.;

7. Utility call center and customer service costs, except for non-budgeted overtime or other incremental costs associated with the storm event;

8. Tree trimming expenses, incurred in any month in which storm damage restoration activities are conducted, that are less than the actual monthly average of tree trimming costs charged to operation and maintenance expense for the three previous calendar years;

9. Uncollectible accounts expenses;

10. Utility lost revenues from services not provided;

11. Costs of back-fill work or catch-up work for activities not directly related to storm damage restoration activities; and

12. Replenishment of the utility's materials and supplies inventories.

(g~~f~~) A utility may, at its own option, charge storm-related costs as operating expenses rather than charging them to Account No. 228.1. The utility shall notify the Director of the Commission's Division of Economic Regulation in writing and provide a schedule of the amounts charged to operating expenses for each incident exceeding five million dollars. The schedule shall be filed annually by February 15 of each year for information pertaining to the previous calendar year.

(h~~g~~) If the charges to Account No. 228.1 exceed the account balance, the excess shall be carried as a debit balance in Account No. 228.1 and no request for a deferral of the excess or for the establishment of a regulatory asset is necessary.

(i~~h~~) A utility may petition the Commission for the recovery of a debit balance in Account No. 228.1 plus an amount to replenish the storm reserve through a surcharge, securitization or other cost recovery mechanism.

Gulf Power Company Proposed Changes to Staff's Proposed Rule Amendments

~~(i) If a utility receives reimbursement from another utility for expenses incurred in providing storm damage restoration assistance to another utility, the utility shall credit Account No. 228.1 for the costs that normally would be charged to operating expenses in the absence of providing storm damage restoration assistance.~~

(j) A utility shall not establish or change an annual accrual amount or a target accumulated balance amount for Account No. 228.1 without prior Commission approval.

~~(k)~~ Each utility shall file a Storm Damage Self-Insurance Reserve Study (Study) with the Division of the Commission Clerk and Administrative Services~~ by January 15, 2011 and at least once every five years thereafter from the submission date of the previously filed study. A Study shall be filed~~ whenever the utility is seeking a change to either the target accumulated balance or the annual accrual amount for Account No. 228.1. At a minimum, the Study shall include data for determining a target balance for, and the annual accrual amount to, Account No. 228.1.

(k~~l~~) Each utility shall file a report with the Director of the Commission's Division of Economic Regulation providing information concerning its efforts to obtain commercial insurance for its transmission and distribution facilities and any other programs or proposals that were considered. The report shall also include a summary of the amounts recorded in Account 228.1. The report shall be filed annually by February 15 of each year for information pertaining to the previous calendar year.

(2) – (4)(a) No change.

(b) If a utility elects to use any of the above listed accumulated provision accounts, each and every loss or cost which is covered by the account shall be charged to that account and shall not be charged directly to expenses except as provided for in subsections (1)(f~~e~~) and (1)(g~~f~~). Charges shall be made to accumulated provision accounts regardless of the balance in those accounts.

(c) No change.

Specific Authority 366.05(1) FS.
Law Implemented 350.115, 366.04(2)(a) FS.
History-New 3-17-88, Amended ____________.