	Accounting for Uninsured Losses Associated with a Qualifying Event	Policy #: FPL – 3.5
FPL		Rev Date: 10/05/2011
		Former Policy #9.2

I. Scope:

To document Florida Power & Light Company's (FPL) policies for accounting for a restoration event for:

1) Qualifying losses due to accidents, fires, floods, tornadoes, storms, nuclear accidents and similar type events (herein referred to as a "qualifying event"). Qualifying events referred to in this policy shall not apply to planned actions taken by FPL that result in losses.
2) Interest income on deferred qualifying event-related costs
3) Recovery of qualifying event-related costs

II. General:

FPL is subject to regulation by the Florida Public Service Commission (FPSC) and the Federal Energy Regulatory Commission (FERC). Its rates are designed to recover the cost of providing electric service to its customers including a reasonable rate of return on invested capital. As a result of this cost-based regulation, FPL follows the accounting practices set forth in ASC 980, *Regulated Operations* (ASC 980). See FPL policy number 9.1. As a result, in addition to the general policies outlined in III below and in accordance with ASC 980, no costs that would otherwise be charged to expense should be deferred unless those costs are deemed probable of recovery from future revenues.

III. Policies:

1) Qualifying Event-Related Costs

<u>Accrued costs versus incurred costs</u>

In accordance with ASC 450-20-25-2 (Contingencies) an estimated loss from a loss contingency (defined as an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur) shall be accrued by a charge to income if both the following conditions are met:

a) Information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements.
b) The amount of the loss can be reasonably estimated.

FPL considers it has incurred a liability upon a qualifying event because FPL has an obligation to its customers (constructive obligation as defined in Concept Statement No. 6, Elements of

Financial Statements par. 40) to restore power. This is consistent with the overarching public policy favoring prompt and safe restoration of electric service, the expectations of state and local governments, and the regulatory framework established by the FPSC (imposed obligations as defined in CON 6 par. 39) following Hurricane Andrew. Therefore, in anticipation of damages to FPL's service territory related to a qualifying event, FPL makes an assessment of the estimated costs (O&M and Capital) to restore the system to pre-event conditions and considers such to be a liability that should be accrued in full when the amount can be reasonably estimated under ASC 450. This amount will either be expensed or deferred as a regulatory asset based on the application of the following criteria and on application of ASC 980.

<u>Determination of when to defer losses</u>

Eligible losses are charged to the Storm Reserve (FERC Account 228.1) in accordance with the FPSC Rule 25-6.0143 Use of Accumulated Provision Accounts 228.1, 228.2 and 228.4 upon approval of such event by the President and CEO of Florida Power & Light. One of the following criteria must be applicable: (1) full activation of FPL's Area Command Center, (2) resources, including third party financial commitments, are committed and costs incurred in advance of anticipated impact, due to the expected risk of significant outages and/or substantial infrastructure damages (whether or not outages and/or infrastructure damage actually occurs), (3) the event is eligible for exclusion from the Adjusted Distribution Reliability Data in accordance with FPSC Rule 25-6.0455(4), and/or (4) uninsured losses arising from unplanned or unanticipated emergent qualifying events that require an extraordinary commitment of resources in order to restore service.

<u>Classification on the balance sheet</u>

If the charges to the Storm Reserve exceed the account balance, the excess shall be carried as a debit balance and no request for a deferral of the excess or for the establishment of a regulatory asset is necessary (Florida Administrative Code (FAC) Rule 25-6.0143(1)(i)). Any such debit balance will be reported as a regulatory asset for external reporting purposes in accordance with ASC 980 if such balance is deemed probable of recovery through future revenues; otherwise, the portion of such balance not deemed probable of recovery will be expensed (see <u>Consideration of need for GAAP reserve</u> below).

The FERC portion of qualifying event costs are recovered primarily through formula rates. Any remaining amounts will be recovered from wholesale customers or will be expensed.

FPL will classify qualifying event costs deferred as a regulatory asset as long-term until such time that the FPSC approves recovery from customers. After which, FPL will classify to current regulatory assets an amount representing expected collections from customers within the next 12 months.

Methodology for accumulating qualifying event-related costs

Internal orders are created for all qualifying events to aggregate costs for financial reporting and for regulatory recovery purposes associated with restoration of FPL's system. The Company will use the internal orders to account for all costs associated with restoration, including some that will not be recoverable outside of base rates, pursuant to FPSC rules. The Property Accounting Department, using information provided by each business unit, will adjust the total costs captured in these internal orders to represent only charges that can be applied against the Storm Reserve per the FPSC guidelines. For more details on eligible costs to be charged against the Storm Internal Order, please refer to the Storm Internal Order Memo (follow link) published on the Company's Intranet site.

In determining which qualifying event-related costs can be charged against the Storm Reserve, the Company follows FAC Rule 25-6.0143(1)(d) which mandates the use of the Incremental Cost and Capitalization Approach methodology (ICCA). Under the ICCA methodology, only costs that can be shown to be incremental (costs above that normally charged to operating expenses in the absence of a storm) can be charged to the Storm Reserve. In addition, the approach allows costs that in the absence of a qualifying event would be recoverable through recovery clauses or capitalization to be charged to the reserve. Under this approach, costs should be specifically identifiable, necessary and reasonable, and in direct support of restoration. All costs charged are subject to review for prudence and reasonableness by the FPSC.

The types of qualifying event-related costs allowed to be charged to the Storm Reserve under the ICCA methodology include, but are not limited to, the following:

- Additional contract labor hired for restoration activities
- Logistics costs
- Transportation of crews for restoration
- Vehicle costs for vehicles specifically rented for restoration activities
- Waste management costs specifically related to restoration activities
- Rental equipment specifically related to restoration activities
- Materials and supplies used to repair and restore service and facilities to pre-qualifying event-related condition, such as poles, transformers, meters, light fixtures, wire, and other electrical equipment.
- Overtime payroll and payroll-related costs for utility personnel included in restoration activities
- Fuel costs for company and contractor vehicles used in restoration activities
- Cost of public service announcements regarding key qualifying event-related issues, such as safety and service restoration estimates.

The types of qualifying event-related costs prohibited from being charged to the Storm Reserve under the ICCA methodology include, but are not limited to, the following:

- Base rate recoverable regular payroll and regular payroll-related costs for utility managerial and non-managerial personnel
- Bonuses or any other special compensation for utility personnel not eligible for overtime pay
- Base rate recoverable depreciation, insurance, and lease expenses for utility-owned or utility-leased vehicles & aircrafts
- Utility employee assistance costs
- Utility employee training costs incurred prior to 72 hours before the qualifying event
- Utility advertising, media relations, or public relations costs, except for public service announcements listed above
- Utility call center and customer service costs, except for non-budgeted overtime or other non-budgeted incremental costs associated with the qualifying event
- Tree trimming expenses, incurred in any month in which damage restoration activities as a result of a qualifying event are conducted, that are less than the actual monthly average of tree trimming costs charged to operation and maintenance expense for the same month in the three previous calendar years
- Utility lost revenues from services not provided
- Replenishment of the utility's materials and supplies inventories.

In addition, the FPSC has identified in FAC Rule 25-6.0143(1)(g), certain costs that can be charged against the Storm Reserve only after review and approval by the FPSC. Prior to the FPSC's determination of the appropriateness of including such costs in the Storm Reserve, the following costs may be deferred in FERC Account 186, Miscellaneous Deferred Debits (see Consideration of need for GAAP reserve below):

- Backfill Work – Cost of normal non-qualifying event-related activities which must be performed by employees or contractors not assigned to qualifying event-related damage restoration activities.
- Catch-up Work – Costs of normal non-qualifying event-related activities which must be performed following the restoration of service after a storm by an employee or contractor assigned to qualifying event-related damage restoration activities in addition to their regular activities.
- Uncollectible Account expenses directly related to a qualifying event.

Capital costs (both incurred and estimated) related to qualifying event-related restoration work are initially charged against the Storm Reserve. Estimated capital costs are reclassified from the Storm Reserve to a high-level CWIP account (i.e. not included in fixed assets). Once these capital costs are actually incurred the high-level CWIP account is credited and fixed assets is debited based on the estimated normalized cost of installed units of property as determined by the Business Units and Accounting, following analysis of incurred costs. Retirements of fixed assets are recorded when incurred capital costs are placed in service via an internal order. Retirements are not recorded on estimated capital costs.

Consideration of need for GAAP reserve

FPL will subsequently review the costs accumulated under the ICCA approach and any costs which are deemed not probable of recovery will be reserved. FPL will use recent FPSC Orders, and any additional information that may become available, in its assessment of the likelihood of receiving future revenues to recover the event-related costs. Only those costs deemed probable (defined by ASC 450 as likely to occur) of recovery may be deferred as a regulatory asset, in accordance with ASC 980-340-25-1.

2) Interest Income on Deferred Qualifying Event-Related Costs

In its storm orders related to storm costs incurred in 2004 and 2005, the FPSC recommended that FPL be allowed to charge interest at the applicable 30-day commercial paper rate on the outstanding balance of storm damage restoration costs permitted to be recovered from customers. In addition, the FPSC recommended an adjustment be made in the calculation of interest to recognize the storm-related deferred taxes.

Based on the facts and circumstances at the time, the Company will make a determination on whether or not to accrue interest on any future deferred qualifying event-related costs that exceed the Company's Storm Reserve.

3) Recovery of Qualifying Event-Related Costs

Per FAC 25-6.0143(1)(j), if the charges to the Storm Reserve exceed the account balance, FPL can seek recovery of the excess, plus an amount to replenish the Storm Reserve, through a surcharge, securitization, or other cost recovery mechanism.