

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Investigation into ) DOCKET NO. 930987-EI  
currently authorized return on ) ORDER NO. PSC-95-0255-FOF-EI  
equity of TAMPA ELECTRIC ) ISSUED: February 23, 1995  
COMPANY. )  
\_\_\_\_\_ )

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman  
J. TERRY DEASON  
JOE GARCIA  
JULIA L. JOHNSON  
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING STORM DAMAGE STUDY

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

A limited proceeding hearing was held January 21, 1994, and February 3, 1994, to examine TECO's then authorized return on equity (ROE) and to implement a storm damage reserve. As a result of the hearing, Order No. PSC-94-0337-FOF-EI was issued authorizing an 11.35% return on equity, authorizing a \$4 million annual storm damage accrual, and requiring that TECO submit a storm damage study. Said study was filed by TECO on September 23, 1994. The purpose of this Order is to address the findings of the storm damage study.

TECO proposes an annual accrual to the storm damage reserve in the amount of \$4,000,000. TECO's analysis of the appropriate annual accrual and reserve target is based on a report developed by independent consultants, EQE International and Anistics. EQE International and Anistics developed probabilistic models to determine a range of possible damage to T&D facilities due to Class 3 and 4 hurricanes. Class 5 storms were not included because TECO's service area is inland and the severity of storms decrease as they make landfall and travel inland. Other key criteria such

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as location of facilities, replacement costs, design standards, and a 100 year history of tropical storms were also incorporated into the probabilistic models. While we do not necessarily agree with all of TECO's assumptions, the study does provide insight into TECO's exposure to storm damage. We believe that TECO's study is a reasonable estimate of TECO's exposure to storm related transmission and distribution (T&D) damage.

TECO requests that the annual accrual to the reserve be set at \$4,000,000 based on EQE International and Anistics recommendation of a value between \$4,160,000 and \$12,570,000. The lower amount suggested by TECO appears more reasonable for two reasons:

- (1) Over the past 10 years TECO has not experienced damage in excess of the \$3,500,000 deductible of the T&D insurance policy in force at the time of TECO's last rate case; and
- (2) TECO has agreed to keep this insurance "deductible" policy in place and not use the reserve for storms causing less than \$3,500,000. Therefore, TECO is assuming the same risk as it experienced when it had T&D insurance.

This level of risk is represented in the study as being adequate to meet losses approximately 90 percent of time. Assuming that this estimate is reasonably close to future storm events, that TECO accrues \$4,000,000 annually, and that TECO maintains a "deductible" of \$3,500,000, then the reserve can be expected to grow.

Based on the foregoing, we find the annual accrual amount of \$4,000,000 to a storm damage reserve is appropriate.

Pursuant to Order No. PSC-94-0337-FOF-EI, TECO was also required to address the appropriate target balance for a storm damage reserve. TECO's analysis of the target balance was an integral part of the study and modeling regarding the annual accrual amount. Therefore, TECO appropriately addresses the target reserve balance in conjunction with the accrual amount. According to TECO's model, since a \$4,000,000 accrual covers 90 percent of the events, there remains a 10 percent chance of losses which needs to be addressed. TECO proposes a policy which in effect sets the reserve target balance at a level equivalent to the expected losses 98 percent of the time with the remaining 2 percent to be addressed through petitions for relief. Assuming no storm losses in excess of TECO's "deductible", the target balance is expected to be achieved in 13 years. TECO further proposes that the accrual amount be suspended once the target balance is achieved.

We find that the methodology used to determine a reserve target and the amount of \$55,000,000 is reasonable. However, because the reserve balance is not expected to approach the target for at least 13 years, it is premature to determine that the accrual amount be suspended once the current target is achieved. The suspension of the accrual can better be determined at a future date when the storm damage reserve has achieved the target balance. There will be opportunities to review the accrual and the reserve during Modified Minimum Filing Requirements reviews or other rate proceedings.

TECO proposes to use a replacement cost approach for determining the appropriate amounts to be charged to the storm damage reserve. We find that the replacement cost approach, as outlined in Attachment A of the study, is a reasonable methodology for determining the appropriate amounts to be charged to the storm damage reserve. It is also consistent with the provisions of TECO's prior insurance coverage. Under this approach, the total cost of restoration and related activities would be charged against the storm damage reserve. TECO would be restored to its pre-damage condition and the plant accounts would reflect the book value of the replaced plant prior to the damages caused by the storm.

In accounting for the restoration and replacement costs to plant, the gross original cost of the replaced plant shall be retired by a credit to the plant accounts and a debit to the depreciation reserve. Then, a credit shall be made to the plant accounts so that the replacement gross plant would be reduced by the available balance of the storm reserve until it is equal to the value of the plant it replaced. In addition, the depreciation reserve shall be credited with an amount equal to the gross cost of the replaced plant. This would restore the plant accounts and depreciation reserve to their original values prior to the damage caused by the storm. In the event that the storm reserve is not sufficient to cover the credits to the plant accounts and the depreciation reserve, the utility would need to seek recovery through a petition to the Commission.

As part of the study on the storm damage reserve, TECO was directed to inform the Commission as to the types of costs that it proposes to charge to the storm damage reserve. In Section VI, TECO has listed examples of the types of costs that it proposes to charge to the storm damage reserve. Our Staff agrees with the costs listed in I. Actual Repair Activities, but there are several costs listed in II. Costs Directly Associated with Storm Damage and Restoration Activities that the Staff considers inappropriate:

Item H concerns special employee assistance. This category of expenses does not represent the cost of repairing or restoring TECO's facilities. While TECO should be commended for offering such assistance to its employees in emergency situations, the costs of such assistance is not an appropriate cost to be charged to the storm damage reserve.

Item I seeks recovery of identifiable bad debt and revenue write-offs due to storm damage. This represents "lost revenues" and attempts to maintain the Company's earnings even when it is not selling electricity due to storm damage. This is not a "cost" normally covered by insurance and is not an appropriate item to be charged to the storm damage reserve.

While we sympathize with Staff's concerns regarding the appropriateness of particular proposed expenses listed by TECO, it is our understanding that this list is merely setting forth examples of expenses that the utility may wish to charge against storm damage reserves. The list is a general guideline of categories to be recovered; it is neither all inclusive or exclusive. Because of the unpredictable nature of any given storm, it seems premature to make a determination of the prudence of any particular charge at this time. In the event of a storm, the utility will bear the burden of showing that specific charges against reserves are prudent and reasonable. Further, it is our understanding that these types of charges are the same that would be applicable to the self-insured deductible of \$3,500,000. We retain the right to review the costs and disallow any that are found to be inappropriate.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that Tampa Electric Company's storm damage study is approved, as discussed in the body of this Order. It is further

ORDERED that Tampa Electric Company continue to accrue the sum of \$4,000,000 annually to its storm damage reserve. It is further

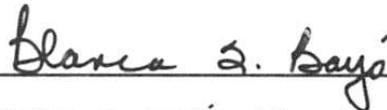
ORDERED that the target amount for the storm damage reserve fund be \$55,000,000. It is further

ORDERED that Tampa Electric Company use a replacement cost approach to determine amounts to be charged to the storm damage reserve, as discussed in the body of this Order. It is further

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ORDERED that this Order shall become final and effective and this docket shall be closed unless an appropriate petition for formal proceedings is received by the Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date indicated in the Notice of Further Proceedings or Judicial Review.

By ORDER of the Florida Public Service Commission, this 23rd day of February, 1995.



BLANCA S. BAYÓ, Director  
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative

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Code. This petition must be received by the Director, Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on March 16, 1995.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.