ORIGINAL

041291-EI

Florida Power & Light Company, 215 S. Monroe St., Suite 810, Tallahassee, FL 32301

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COMMISSION
CLERK

November 4, 2004

VIA HAND DELIVERY
Ms. Blanca S. Bayó, Director
Division of the Commission Clerk and
Administrative Services
Florida Public Service Commission
Betty Easley Conference Center
2540 Shumard Oak Boulevard, Room 110
Tallahassee, FL 32399-0850

Re: Petition of Florida Power & Light Company for Authority to Recover Prudently Incurred Storm Restoration Costs Related to the 2004 Storm Season that Exceed the Storm Reserve Balance

Dear Ms. Bayó:

Enclosed for filing on behalf of Florida Power & Light Company ("FPL") are an original and 15 copies of FPL's Petition for Authority to Recover Prudently Incurred Storm Restoration Costs Related to the 2004 Storm Season that Exceed the Storm Reserve Balance.

Also enclosed is a diskette containing FPL's Petition in Word. Please contact me should you or your Staff have any questions regarding this filing.

Sincerely,

Lynne A. Adams

for R. Wade Litchfield

RWL:ec
Enclosures

DOCUMENT NUMBER-DATE
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FPSC-COMMISSION CLERK

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

In re: Florida Power & Light Company's Petition for Authority to Recover Prudently Incurred Storm Restoration Costs Related to the 2004 Storm Season That Exceed the Storm Reserve Balance	)))))	Docket No: 041291-EI Filed: November 4, 2004

PETITION OF FLORIDA POWER & LIGHT COMPANY FOR AUTHORITY TO RECOVER PRUDENTLY INCURRED STORM RESTORATION COSTS RELATED TO THE <u>2004 STORM SEASON THAT EXCEED THE STORM RESERVE BALANCE</u>

NOW, BEFORE THIS COMMISSION, through undersigned counsel, comes Florida Power & Light Company ("FPL" or the "Company"), and pursuant to Sections 366.04 and 366.05, Florida Statutes, Rule 25-6.0143, Florida Administrative Code, and relevant orders of the Florida Public Service Commission ("PSC" or the "Commission") submits its Petition for Authority to Recover Prudently Incurred Storm Restoration Costs Related to the 2004 Storm Season that Exceed the Storm Reserve Balance (the "Petition"). Hurricanes Charley, Frances and Jeanne struck FPL's service territory over an approximately six-week span between mid-August and late September, resulting in power outages to millions of FPL customers. In restoring power to its customers in an expeditious and safe manner, FPL estimates that it incurred extraordinary storm-related costs of approximately $710 million, net of insurance proceeds, which will result in a negative balance of approximately $356 million (system) in the Company's storm reserve at the end of December 2004.[1]

[1] On a jurisdictional basis, this amount is approximately $354 million.

FPL proposes to initiate recovery of the estimated deficit through a monthly surcharge to apply to customer bills based on a twenty-four month recovery period commencing January 1, 2005. The impact to the average residential customer bill (1,000 kWh per month) is expected to be $2.09 per month over the twenty-four month period.

Approval of FPL's request is consistent with prior Commission precedent and policy and is in the public interest, enabling FPL to continue to fulfill its statutory obligation to serve by safely and expeditiously restoring power for its customers in the event of storms, with the understanding that FPL will be timely reimbursed for its reasonably and prudently incurred storm-related costs. Further, such approval will reduce regulatory uncertainty associated with the extraordinary storm-related expenditures, and the resulting negative storm reserve due to an unprecedented hurricane season.

In further support of the Petition, FPL states as follows:

1. FPL is a public utility subject to the jurisdiction of the Commission under Chapter 366, Florida Statutes (2002). FPL's General Offices are located at 9250 West Flagler Street, Miami, FL 33174.

2. Any pleading, motion, notice, order or other document required to be served upon the petitioner or filed by any party to this proceeding should be served upon the following individuals:

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3. FPL is not aware of any disputed issue of material fact. This Petition is not filed in response to any agency decision.

Background

4. FPL serves approximately 4.2 million retail customers in its service area in Florida. Its service area comprises approximately 27,000 square miles in 35 of the state's 67 counties, encompassing the cities of Daytona Beach, Ft. Lauderdale, Ft. Myers, Miami, Naples and West Palm Beach and other densely populated areas on the East and West coasts of Florida. Further, FPL serves a number of less densely populated areas, including all or portions of Martin, St. Lucie, Indian River, Brevard, Charlotte, Desoto, Columbia, Highlands, Okeechobee, Seminole and Union Counties.

5. Pursuant to prior Commission orders and consistent with Rule 25-6.0143, Florida Administrative Code, FPL has established a storm and property insurance reserve ("Storm Reserve" or "Reserve"). The Commission has agreed that the establishment of the Storm Reserve provides an appropriate means of self-insurance, particularly where no reasonable commercial insurance market exists to cover the costs of repairing and restoring its transmission and distribution system in the event of hurricane, storm damage or other natural disaster. See In Re: Petition to implement a self-insurance mechanism for storm damage to transmission and distribution system and to resume and increase annual contribution to storm and property insurance reserve fund by Florida Power & Light Company, Docket No. 930405-EI, Order Nos. PSC-93-0918-FOF-EI (issued: June 17, 1993)[2] and PSC 95-0264-FOF-EI (issued: Feb. 27,

[2] By Order No. PSC 93-0918-FOF-EI, the Commission re-established the annual accrual to fund the Storm Reserve and required FPL to submit a study indicating the appropriate amount that should be contributed to the fund annually.

1995);[3] In Re: Petition for authorization to increase the annual storm fund accrual commencing January 1, 1995 to $20.3 million; to add approximately $51.3 million of recoveries for damage due to Hurricane Andrew and the March 1993 Storm; and to re-establish the storm reserve for the costs of Hurricane Erin by increasing the storm reserve and charging to expense approximately $5.3 million, by Florida Power & Light Company, Docket No. 951167-EI, Order No. PSC 95-1588-FOF-EI (issued: Dec. 27, 1995);[4] In Re: Petition for authority to increase annual storm fund accrual commencing January 1, 1997, to $35 million by Florida Power & Light Company, Docket No. 971237-EI, Order No. 98-0953-FOF-EI (issued: July 14, 1998).[5]

6. Pursuant to these and other Commission Orders, FPL has been operating under a self-insurance plan for storm-related costs in which the accrual and target amount of the Storm Reserve were intended to cover costs due to most, but not all, major storm events. In the event that the Storm Reserve proved to be inadequate due to an extraordinary event or storm season, it was expressly contemplated that FPL would have the ability to seek recovery of reasonable and prudently incurred storm restoration costs in excess of the Storm Reserve. Funds allocated to the Storm Reserve are accumulated by FPL in Account No. 228.1, Accumulated Provision for Property Insurance, which is intended to provide the reserve necessary to cover the costs of

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[3] By Order No. PSC 95-0264-FOF-EI, based on the study filed by FPL and an assumption that commercial insurance also would be available to cover a portion of storm-related costs, the Commission authorized an increase in FPL's annual accrual to $10.1 million.

[4] By Order No. PSC 95-1588-FOF-EI, based in part on the recognition that commercial insurance for transmission and distribution losses had not become a viable option, the Commission approved increasing the annual accrual to $20.3 million.

[5] By Order No. PSC 98-0953-FOF-EI, the Commission rejected FPL's request to increase its storm fund accrual to $35 million, finding that the balance in the Storm Reserve was sufficient to protect against most emergencies, but indicating that FPL would continue to be able to petition the Commission for emergency relief as reflected in Order No. PSC 95-1588-FOF-EI.

damage from storms, net of insurance proceeds.[6] As of August 31, 2004, the balance in the Storm Reserve was approximately $345 million. As described more fully below, due to the extraordinary 2004 Storm Season and the massive impact on FPL's service territory, restoration efforts and costs will greatly exceed the Storm Reserve. FPL currently estimates that the deficit, net of insurance proceeds, will be approximately $356 million (system) at the end of December 2004, taking into account accruals and projected earnings on the declining fund balance through year end.

<u>An Unprecedented Storm Season</u>

7. By any measure, Floridians endured an unprecedented Storm Season in 2004, the effects of which were widespread and, on certain levels, catastrophic. It is important to note that FPL's emergency preparedness plans are initiated well in advance of any projected storm impact to its service territory. During the 2004 Storm Season, these plans were repeatedly executed within the six-week span. Before storm season, FPL conducts extensive training, various system tests and a mock hurricane drill to practice its emergency preparedness plans. When a storm threatens FPL's service territory, FPL takes well-tested actions at specified intervals prior to landfall. At 72 hours, the Company's state-of-the-art Command Center is activated, storm personnel are alerted, initial restoration plan and resource requirements are forecast, contingency resources are activated and mutual assistance utilities are contacted. At 48 hours, commitments

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[6] FPL accounts for the restoration and replacement costs to plant in accord with Order No. 95-0264-FOF-EI, issued February 27, 1995, in Docket No. 930405-EI, consistent with the manner in which replacement cost insurance works. Specifically, the accounting works to retain the net book value of the affected plant in service at the same level before and after the storm with the full cost of the restoration charged to the storm maintenance account. This accounting is described in more detail in Order No. 95-0264-FOF-EI at page 5.

are sought for restoration personnel, materials and logistics support. Computer models are run based on the projected intensity and path of the storm to forecast expected damage, restoration workload and potential customer outages. Before storm season, agreements are negotiated for staging site locations. These locations are then identified and confirmed based on the storm's expected path. At 24 hours, the focus turns to getting personnel and supplies in position to begin restoration as soon as it is safe to do so. The Company also provides information to the news media and customers focused on the storm preparation, possibility of extended outages and public safety. These efforts prefaced each of the storms that threatened FPL's service territory in 1004. The impacts of the three storms that in fact struck FPL's territory are described below.

8. On August 13, 2004, Hurricane Charley struck the Southwest Florida coast at Port Charlotte with sustained winds of up to 140 miles per hour making it a strong category four hurricane. It continued through 22 of the 35 counties served by FPL before exiting at Daytona Beach on the East coast, resulting in a loss of power to 874,000 FPL customers. Hurricane force winds were 60 miles wide and tropical storm force winds were 210 miles in diameter. Hurricane Charley inflicted extensive damage throughout FPL's service territory, completely destroying portions of the Company's electric distribution system. Port Charlotte, Punta Gorda and Arcadia, all communities just north of Fort Myers, experienced severe damage similar to that incurred during Hurricane Andrew. Due to the massive destruction, FPL has had to completely rebuild most of its electrical facilities in these areas. Significant restoration efforts also were required in other areas hard hit by Hurricane Charley, including counties on the Eastern coast, ranging from as far south as Brevard to as far north as St. Johns near Jacksonville.

9. Hurricane Charley restoration efforts involved enormous quantities of materials and supplies, and a dedicated work force of more than 11,200 individuals in the field performing

repairs and reconstruction or directly supporting those tasks. For example, more than 7,100 poles, 5,100 transformers, and 900 miles of conductor were required to repair and rebuild the electrical system following Hurricane Charley.

10. On September 5, Hurricane Frances struck the Eastern coast of Florida with sustained winds of up to 105 miles per hour, making it a strong category two hurricane. As reported by the National Weather Service, the hurricane force wind swath extended 145 miles across, and tropical storm force winds extended 345 miles in diameter, making Frances' reach immense, affecting the entire East coast of Florida and virtually all 35 counties within FPL's service territory. The slow moving storm sat on top of much of the state for more than 60 hours, allowing winds to batter the electrical system over an extended period of time, toppling thousands of poles and downing hundreds of miles of power lines. The damage inflicted was extensive. Nearly 2.8 million of FPL's 4.2 million customers lost power during the storm – the largest known number of customer outages ever experienced by a single U.S. utility from a single event.

11. Again, restoration efforts required enormous quantities of materials and supplies. More than 16,700 personnel worked throughout FPL's service territory to effect repairs to the electrical distribution system. Materials and supplies required included more than 3,800 poles, 3,000 transformers, and 550 miles of conductor. Despite the impact, within three days of Hurricane Frances having left FPL's service territory, FPL had restored power to 75 percent of those who had lost power, or 2.1 million customers. Within one week, FPL had restored power to 92 percent, or 2.6 of the 2.8 million who had lost power. FPL completed its Hurricane Frances restoration efforts on September 17, 2004.

12. On September 9, 2004, with Hurricane Frances restoration efforts ongoing, FPL filed a petition for Commission approval to establish a regulatory asset ("Regulatory Asset Petition"). See In re: Petition for approval to establish as regulatory asset any costs charged to Account No. 228.1 in excess of Storm Reserve, by Florida Power & Light Company, Docket No. 041057-EI. As of that date, FPL had not yet drawn upon the Storm Reserve as the costs associated with Hurricanes Charley and Frances continued to be collected. FPL expected that the costs of Hurricane Charley would deplete roughly half of the Storm Reserve. While not as intense a storm, the geographic scope of damage caused by Hurricane Frances was much broader than that caused by Hurricane Charley, resulting in more than three times the number of power outages than occurred during Hurricane Charley. Therefore, FPL believed that it likely would incur expenditures in excess of the Storm Reserve and insurance coverage. Consequently, FPL requested that the Commission enter an order that FPL could recover prudently incurred costs in excess of the Storm Reserve balance. FPL's intent in making the request was to obtain an order from the Commission enabling FPL to record these costs as a regulatory asset in conformance with Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation.

13. The Commission addressed the Regulatory Asset Petition at the September 21, 2004, Agenda Conference. The Commission voted to approve with modification the Commission Staff's ("Staff's") recommendation that FPL's petition be denied, stating in its order that "[i]t is unnecessary to create a separate regulatory asset . . . because allowing a negative balance to be recorded in the Storm Reserve (Account No. 228.1) serves the same purpose and is contemplated by Rule 25-6.0143, Florida Administrative Code. See In re: Petition for approval to establish as regulatory asset any costs charged to Account No. 228.1 in excess of Storm

Reserve, by Florida Power & Light Company, Docket No. 041057-EI, Order No. 04-0976-PAA-EI (issued: Oct. 8, 2004). The Commission concluded that through the application of Rule 25-6.0143, FPL could defer storm restoration costs in excess of the Storm Reserve and recover prudently incurred costs through a means to be determined at a later date upon application by FPL. Id., at 2.

14. Four days after the September 21, 2004, Agenda Conference, and almost exactly three weeks after Hurricane Frances struck Florida, a third hurricane, Hurricane Jeanne, struck FPL's service territory, making landfall at almost the identical point Hurricane Frances came ashore. Though Hurricane Jeanne moved across FPL's service area more quickly than Hurricane Frances, -- in about 45 hours --, Hurricane Jeanne was a stronger hurricane and almost as large, again affecting customers in all 35 counties served by FPL. As reported by the National Weather Service, Hurricane Jeanne struck with sustained hurricane force winds of 120 miles per hour, rendering it a category 3 hurricane. Hurricane force winds extended 125 miles across, while tropical storm force winds extended 315 miles in diameter. More than 1.7 million of FPL's 4.2 million customers, or 41%, lost power during the storm.

15. Yet again, FPL's employees and partnering crews were called to restoration duty. More than 16,500 personnel worked to effect repairs to the electrical system. Again the amount of materials and supplies required was enormous, including more than 2,300 poles, 3,000 transformers, and 250 miles of conductor. FPL completed its Hurricane Jeanne restoration efforts on October 4, 2004, just eight days after the storm left FPL's service territory.

16. Never before have three hurricanes struck the area served by FPL in a single year. Jeanne was the fourth hurricane to hit Florida this year, something that no state has had to endure since four hurricanes struck the state of Texas in 1886, almost 120 years ago. The impact has

been staggering. Within less than an eight-week period, these storms forced FPL to restore service to a total of nearly 5.4 million customers, requiring service restoration effort of immense scale that is unprecedented in the history of the United States. In the aggregate, the efforts required thousands of man hours of labor, and massive quantities of materials, including approximately 12,900 poles, 11,700 transformers, and 2,000 miles of conductor.

17. Although FPL continues to gather the final costs associated with restoration work, FPL has compiled cost estimates for each of the three hurricanes. Current estimated restoration costs, by storm, are shown on the schedule attached as Appendix A. FPL's best estimate as of this filing date is that total restoration costs for all three storms will be approximately $710 million, net of insurance. Insurance proceeds are expected to cover approximately $108 million in damages to FPL's nuclear generating plants and associated facilities. Since Hurricane Andrew, and particularly in the post-September 11, 2001 era, insurance for transmission and distribution facilities is not practically available. FPL currently anticipates that storm restoration costs, net of insurance proceeds, and including on-going accruals and estimated earnings from the fund will exceed the Storm Reserve balance as of December 31, 2004 by approximately $356 million (system).

Storm Restoration Surcharge

18. FPL respectfully requests that the Commission enter an order allowing FPL to recover, subject to true-up, an amount equal to the difference between the amount in the Storm Reserve as of August 31, 2004 , adjusted for the monthly storm fund accruals and the storm fund earnings through the period September 1, 2004 to December 31, 2004, and the actual amount of prudently incurred storm restoration costs associated with storms occurring during the calendar

year 2004, net of insurance proceeds, (the "Storm Reserve Deficit" or "Deficit").[7] FPL proposes to initiate recovery of the jurisdictional portion of the estimated Storm Reserve Deficit of $356 million (system), or $354 million (jurisdictional), through a monthly surcharge "Storm Restoration Surcharge" to apply to customer bills based on a twenty-four month period (the "Recovery Period"). FPL proposes that the recovery period commence January 1, 2005.[8]

19. The computation of the proposed surcharge is shown on the attached Appendix B, Storm Restoration Surcharge Computation. FPL proposes to allocate the Storm Restoration Surcharge among rate classes using the same method of allocation used for similar costs in the utility's cost of service study as filed in Docket No. 001148-EI. The application of the Storm Restoration Recovery Factor will result in a Storm Restoration Surcharge of $2.09 to a 1000 kWh monthly residential customer bill.[9]

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[7] FPL expects that the balance of its storm fund will be zero by December 31, 2004. Nothing in FPL's proposal is intended to alter the operation of the Storm Reserve accrual going forward.

[8] FPL is not proposing at this time that the Commission pre-approve a surcharge on customer bills for damages in the event that a future Storm Reserve balance is inadequate; rather, FPL is reacting to an actual, significant shortfall in the Storm Reserve, and seeking appropriate regulatory action to recover reasonable and prudently incurred storm restoration costs in excess of the Reserve. Cf. In Re: Petition to implement a self-insurance mechanism for storm damage to transmission and distribution system and to resume and increase annual contribution to storm and property insurance reserve fund by Florida Power & Light Company, Docket No. 930405-EI, Order No. PSC-93-0918-FOF-EI (issued: June 17, 1993).

[9] Applying the 30-day commercial paper rate of return to the deficiency is consistent with the Commission's normal practice of applying the commercial paper rate of return to prudently incurred under-recovered costs of a short-term nature. See In re: General investigation of fuel cost recovery clause. Consideration of staff's proposed projected fuel and purchased power cost recovery clause with an incentive factor, Docket No. 74680-CI, Order No. 9273 (issued March 7, 1980).

20. Within sixty days following expiration of the Recovery Period, FPL would file the final actual costs of the Storm Reserve Deficit. Any actual over-recovery of the Storm Reserve Deficit based upon such filing would be refunded on customer bills as soon as practicable following a final Commission order accepting the proposed true-up, such refund to be allocated in the same manner as the surcharge was applied. For any under-recovered portion of the Storm Reserve Deficit, FPL would propose the means by which it would be recovered, at that time. In addition to identifying the actual, final Storm Reserve Deficit in its filing, and any under or over-recovered amounts, FPL would supply the revised Storm Recovery Factor corresponding to the refund or recovery, as appropriate, in connection with the true-up.

21. Entry of an order approving this Petition is consistent with Commission precedent regarding hurricane-related expenditures. FPL's existing accrual was last established by the Commission in Order No. PSC 98-0953-FOF-EI, issued July 14, 1998, in Docket No. 971237-EI, in which the Commission declined to approve an increase in the $20.3 million accrual to $35 million, but indicated that FPL would continue to be able to petition the Commission for emergency relief, as reflected in its prior Order No. PSC 95-1588-FOF-EI. Further, in allowing FPL to defer the negative balance in the Storm Reserve for future recovery, Commission Order No. 04-0976-PAA-EI, refers to its decision in Order No. PSC-96-0023-FOF-EI, issued January 8, 1996, in Docket No. 951433-EI, In Re: Petition for Approval of Special Accounting Treatment of Expenditures Related to Hurricane Erin and Hurricane Opal by Gulf Power Company ("Order No. 96-0023"). In Order No. 96-0023, the Commission addressed Gulf Power Company's ("Gulf's") petition for relief related to two 1995 hurricanes the expenses for which exceeded the amount accumulated in Gulf's storm reserve. There, the Commission recognized there could be times when charges to the accumulated provision account could exceed the balance in the

account, resulting in a negative balance. The Commission determined that reasonable and prudent hurricane-related costs could be recovered, including reasonably and prudently incurred costs that resulted in a negative balance.

22. Instituting the proposed surcharge, subject to true-up, will provide an appropriate mechanism enabling the Company to begin to recover the Storm Reserve Deficit, while not restricting the Commission's right to review the prudence and reasonableness of such costs. Recovering the Storm Reserve Deficit through the proposed surcharge over a two-year period will mitigate the impact on customers' bills. As noted above, the estimated monthly surcharge on a 1000 kWh residential bill will be approximately $2.09.

23. Bond rating agencies have noted the Commission's past record of allowing recovery of storm-related costs, but have indicated that ratings of Florida utilities could be negatively affected if a significant amount of costs are not recovered or if the timing of recovery is significantly delayed. See e.g., Standard & Poors Research Bulletin dated September 21, 2004, attached as Appendix C. In prior orders, the Commission has indicated that it would act expeditiously to address a utility's request for recovery of catastrophic losses in excess of its Storm Reserve. See, e.g., In Re: Petition to implement a self-insurance mechanism for storm damage to transmission and distribution system and to resume and increase annual contribution to storm and property insurance reserve fund by Florida Power & Light Company, Docket No. 930405-EI, Order No. PSC-93-0918-FOF-EI (issued: June 17, 1993); In Re: Petition for authorization to increase the annual storm fund accrual commencing January 1, 1995 to $20.3 million; to add approximately $51.3 million of recoveries for damage due to Hurricane Andrew and the March 1993 Storm; and to re-establish the storm reserve for the costs of Hurricane Erin by increasing the storm reserve and charging to expense approximately $5.3 million, by Florida

Power & Light Company, Docket No. 951167-EI, Order No. PSC-95-1588-FOF-EI (issued: Dec. 27, 1995). Timely implementation of the proposed surcharge mechanism will provide appropriate signals to the investment community.

Conclusion

24. FPL believes that Commission approval of the Storm Restoration Surcharge described above is an appropriate mechanism for recovery of FPL's Storm Reserve Deficit. This will enable FPL to recover the significant and extraordinary hurricane-related costs FPL incurred to repair the massive damage and destruction caused to FPL's transmission and distribution system by the unprecedented storm season in which three major hurricanes struck FPL's service territory, while at the same time preserving the Commission's right to review the prudence and reasonableness of the storm restoration costs recovered through the surcharge. Such action is consistent with Commission precedent and policy and will reduce regulatory uncertainty associated with the severe impacts of an extraordinary storm season.

25. In light of the significant deficiency that exists in FPL's Storm Reserve, FPL respectfully requests that the Commission's consideration of this Petition be expedited such that implementation of the recovery mechanism could commence effective January 1, 2005.

WHEREFORE, for the above and foregoing reasons, Florida Power & Light Company respectfully requests that the Commission grant this Petition to initiate recovery of reasonable and prudent storm-related costs that exceed the Storm Reserve Balance, subject to the review and true-up mechanism, all as outlined herein above.

Respectfully submitted,

By: Lynn D. Adams
for
R. Wade Litchfield
Natalie F. Smith
Attorneys for Florida Power & Light Company
700 Universe Boulevard
Juno Beach, Florida 33408-0420

APPENDIX C

Return to Regular Format

Research:

Storms Likely to Have Little Effect on U.S. Utility Credit

Publication date: 21-Sep-2004
Credit Analyst: Jodi E Hecht, New York (1) 212-438-2019

After being hit by Hurricanes Charley, Frances, and Ivan and Tropical Storm Bonnie within two months, many utilities in Florida and U.S. Gulf Coast states are still working to restore power to their customers. Most utilities have not released detailed cost estimates for restoration costs. Although there is sure to be some significant restoration costs associated with the storm damage, Standard & Poor's does not expect to revise any of the credit ratings of the utilities as a result of the storms. This conclusion is based on the storm damage reserves maintained by the utilities, the ability to recover storm-related expenses through rates, a favorable regulatory history with such recovery, and sound liquidity. Some utilities will issue commercial paper to fund storm-related operational and capital expenditures if storm damage repairs are not funded with cash. This increase in short-term debt is expected to be temporary, and will last until the utilities recover the costs through rates. Ratings could be negatively affected if a significant amount of costs are not recovered in rate base or reimbursed through Federal Emergency Management Agency (FEMA) or if the timing of recovery is significantly delayed.

Significant Outages

The southeastern utilities experienced significant outages and damage from Charley, Frances, Ivan, and Bonnie. The number of customers without service was at a record high, causing more outages than in past hurricanes. In total, 2 million customers lost service during Hurricane Charley, over 4 million during Hurricane Frances, and 1.5 million during Ivan. Restoration cost estimates range from $1 billion to $2 billion for the electric utilities. The most damage was to distribution systems and some transmission lines, with very little damage to generating facilities. All of the investor-owned utilities will experience some loss in revenues due to the outages. The most severe effects are the restoration costs. When Hurricane Andrew hit Florida in 1992, most restoration costs were paid for by insurance policies. However, insurance companies did not renew policies covering transmission and distribution lines, forcing utilities to self-insure the equipment.

The Florida Public Service Commission (FPSC) currently allows each investor-owned utility to collect revenues from customers for operating costs related to storm recovery, which are included in base rates and dedicated to storm-damage reserve funds. If operations and maintenance (O&M) costs exceed the amounts in the storm reserves, the FPSC has in the past allowed for recovery through increases in base rates, a fuel-adjustment clause, and a special surcharge. Gulf Power Co. successfully petitioned for recovery of $12 million in costs above reserve balances to repair damage from Hurricanes Erin and Opal in 1995. The recovery of capital costs is not as straightforward because these costs are treated according to regulatory accounting, which varies from GAAP and are not automatically included in the storm reserve. The FPSC allowed capital costs associated with Hurricane Andrew to be recovered through the reserve, which created a precedent. However, those costs were not as extensive because the bulk of the costs were covered by private insurance. Florida Power & Light Co.'s and Progress Energy Florida Inc.'s (PEF) rate agreements expire at year-end 2005. If costs are not recovered earlier, the capital costs may be recovered under the next rate agreement.

Affected Investor-Owned Utilities

Florida Power & Light Co. (A/Negative/A-1).

Florida Power & Light restored power to 3.66 million customers--874,000 from Hurricane Charlie and 2.79 million from Hurricane Frances. The company's dedicated storm reserve totaled about $345 million ($208 million in cash with a related deferred tax benefit of $132 million as of Aug. 31, 2004). The company estimates that restoration costs from Charley and Francis will exceed the balance in the storm reserve fund. The company filed with the FPSC on Sept. 9, 2004 to establish a regulatory asset to recover the excess costs. The recovery method, including timing, will be determined at a hearing in late September and may include recovery of operational and maintenance costs, as well as capital costs. Florida Power & Light may draw on its bank lines to fund some costs related to the storm in excess of its reserves. The company has not released costs estimates, but it will also have some lost revenues due to customer outages and increased short-term debt expenses. However, costs are expected to be fully recovered and will not negatively affect long-term credit factors.

Progress Energy Florida Inc. (BBB/Stable/A-2).

PEF restored power to all customers capable of receiving service, including a half million lost to Charley and 832,898 lost to Frances. The company will fund all storm-restoration costs, both capital and O&M costs, from working capital and may issue short-term debt to meet its needs. The balance in the storm damage reserve fund was $44.4 million as of Aug. 3, 2004, but was not funded with cash. Although PEF's liquidity is sound, additional short-term debt will increase the consolidated company's debt to total capital ratio, which was already high at 59.1% as of June 30, 2004. Similar to Florida Power & Light, the costs will exceed the balances in the storm reserve funds and PPEF filed with the FPSC on Sept. 10, 2004 to establish a regulatory asset to recover the excess costs. The restoration expenditures will increase 2004 operating expenditures, reversing the projected positive free cash flow at year-end 2004 to negative. As a result, the consolidated company will not be able to reduce commercial paper as expected, adding pressure to already high debt levels. While these costs are expected to be recovered, the long-term rating could be negatively affected if a large portion of the recovery is deferred or occurs over an extended period of time.

Tampa Electric Co. (BBB-/Stable/A-3).

At its peak, Hurricane Frances left more than one-third of Tampa Electric's 612,000 customers without power. Tampa Electric (a subsidiary of TECO Energy Inc.) estimates that combined damage from Frances and Charley will cost the utility $25 million to $30 million, below storm reserves of $42 million at Sept. 15, 2004. Management indicates that cash on hand is sufficient to pay for storm expenses, and that no additional borrowings are necessary. Hurricane-related expenses incurred to date are not expected to negatively affect Tampa Electric's credit ratings.

Southern Co. (A/Stable/A-1).

Southern Co. owns Alabama Power Co., Georgia Power Co., Gulf Power Co., Mississippi Power Co., and Savannah Electric & Power Co., most of which experienced damage from the recent storms. Although the affected companies have not released damage estimates, Standard & Poor's does not expect that developments will lead to any changes in its ratings on Southern Co. and its operating units, which are rated on a consolidated basis. Standard & Poor's supports this conclusion based on the company's property damage reserves, positive relations with regulators that provide confidence that repair costs can be recovered, and strong liquidity.

Gulf Power Co. (A/Stable/--).

Ivan inflicted heavy damage on Gulf Power, which services about 405,000 customers in the western Florida Panhandle. Ivan affected service to about 364,000 customers. Gulf Power currently has about $27.8 million in storm damage reserves, which is within the FPSC's target balance of $25.1 million to $36 million approved in 1996 following Hurricanes Opal and Erin in 1995. If the reserves are not enough to repair storm damage, Gulf Power may petition the FPSC to change the annual accrual. In 1996, the FPSC approved annual accruals to the reserve of $3.5 million plus the ability to make discretionary accruals above this limit. As of June 30, 2004, Gulf Power had about $12.8 million of cash and cash equivalents and $56.3 million of unused committed lines of credit with banks.

Alabama Power Co. (A/Stable/A-1)

Hurricane Ivan caused widespread property damage to and outages for Alabama Power, which serves about 1.4 million customers in about two-thirds of the state. The storm affected about 825,000 customers. The company's natural disaster reserve has $14.6 million currently funded for O&M expenses. The regulators allow annual accruals of about $3 million, up to a reserve cap of $32 million. Alabama Power will recover O&M costs in excess of its reserve and capital repair costs by adjusting its rate-stabilization and equalization plan. Adjustments to this plan are now made annually and are based on the results of the preceding calendar year. As of June 30, 2004, Alabama Power reported it had $28 million of cash and cash equivalents, and unused committed lines of credit of about $808 million.

Mississippi Power Co. (A/Stable/A-1).

Ivan caused some property damage to and outages for Mississippi Power, which serves about 193,000 customers in the southeastern part of the state. The hurricane affected about 70,000 customers. The company currently has a reserve fund of $7.8 million. The reserve provisions enable annual accruals from $1.5 million to $4.6 million, up to a reserve cap of $23 million. If repair costs exceed reserves, Mississippi Power would seek recovery from the Mississippi PSC, with which it has positive relations. As of June 30, 2004, Mississippi Power had about $3.9 million of cash and cash equivalents and $100 million of unused committed credit arrangements with banks.

Georgia Power Co. (A/Stable/A-1).

Georgia Power, which serves about two million customers, suffered damage from Ivan but actually had more outages from Frances. The company has a property damage reserve, but accruals in 2004 essentially offset storm repairs made in 2004, resulting in a low reserve balance. Georgia Power can make annual accruals to the reserve of $9.4 million. If storm-related repairs exceed reserves, which will likely be the case after Ivan, Georgia Power would defer all costs until the next rate case when the current accrual could be adjusted to recover deferred costs. Georgia Power recently submitted a rate filing to increase rates that the Georgia PSC is expected to rule on in December 2004. Recent storm cost recovery will likely be dealt with in the current rate case. The company represents having no problems with recovering storm-related repair costs in rates. As of June 30, 2004, Georgia Power had about $20.3 million of cash and cash equivalents and $773 million of unused credit arrangements with banks.

Entergy Louisiana Inc.; Entergy Mississippi Inc.; Entergy New Orleans Inc.; Entergy Gulf States Inc. (all BBB-/Stable/--).

The service territories of these Entergy Corp. (BBB/Stable/-) subsidiaries were spared the brunt of Hurricane Ivan. The maximum outages, due to flooding and fallen trees, totaled about 50,000 customers. Within about 24 hours, 97% of outages were restored. Standard & Poor's has determined that storm-damage costs are not significant to Entergy's credit. Historically, any cost recovery associated with storms has been through regulatory processes.

Affected Cooperatives and Municipal Utilities

The recovery process for municipally owned utilities and cooperatives varies because these entities are self-regulated. Most maintain cash-funded reserves and lines of credit to fund cash expenses. Storm costs can also be reimbursed through a combination of grants and loans from FEMA and state assistance. The loss of income is not reimbursable from FEMA. A list of affected public power entities in Florida appears in the table.

Florida Municipal Utilities and Cooperatives

Utility	Rating	Total O&M and capital expenses (mil. $)	Reserves (mil. $)	Lost income (%)	Applying for FEMA assistance?
Orlando Utilities Commission	(AA/Stable/--)	30 to 40*¶	39	5 to 9.5	Yes
Lakeland Electric	(AA-/Stable/--)	2.5 to 3.0*	9	Less than 1%	Yes
Seminole Electric Cooperative	(A/Negative/--)	Less than 1*	25.7§	Not significant	Yes
Fort Pierce Utilities Authority	(A-/Stable/--)	5 to 9*¶	2**; 16¶¶	N.A.	Yes
Gainesville Regional Utilities	(AA/Stable/--)	2.5 to 3.0*	60§§	N.A.	Yes

*Estimated. ¶As of June 30, 2004. §Damage estimate for combined electric, water, wastewater, and gas system. **Emergency reserve as of Sept. 30, 2003. ¶¶Cash and investments as of Sept. 30, 2003. §§Estimated at end of fiscal 2004, after funding storm recovery costs. N.A.--Not available.

Many of public power and electric cooperatives in Alabama are still assessing damage caused by Hurricane Ivan. As in other states, most damage was to distribution lines and some transmission lines. Alabama Electric Cooperative (AEC; BBB+/Stable/--) lost nearly 90% of distribution load lost in the early days after the storm. Although damage and restoration cost estimates are not yet available, AEC's liquidity position should remain adequate. The cooperative and its members are expected to apply for

FEMA assistance. Nearly all of Fairhope Utilities' (A+/Stable/--) 6,600 customers lost power, with outages expected to last in some parts of the service area for up to one week. In terms of lost revenues resulting from power outages, the financial impact is expected to be less than 2% of annual revenue. Foley Board of Utilities, AL (d/b/a Riviera Utilities; A+/Stable/--) experienced widespread outages throughout its 30,000-customer service area. It maintains strong cash reserve levels, which will be used to offset lost revenue and restoration costs.

Appendix A
ESTIMATED RESTORATION COSTS BY STORM, NET OF INSURANCE PROCEEDS (IN MILLIONS)

As of October 31, 2004, FPL has paid approximately $337 million related to the three storms or approximately 47% of its total estimate of storm restoration costs, net of insurance.

As of October 31, 2004 (in millions)	Charley	Frances	Jeanne	Total
Actuals	159.5	129.2	48.3	337
Total Estimate	209	267	234	710
Actuals as a percentage of the total estimate	76%	48%	21%	47%

Appendix B
STORM RESTORATION SURCHARGE COMPUTATION
(DERIVATION OF THE RATE CLASS CHARGES)

Rate Class	allocation %	allocated $	kWh sales	cents/kWh
CILC-1D	2.129%	$3,943,191	3,115,195,901	0.127
CILC-1G	0.170%	$315,003	236,307,462	0.133
CILC-1T	0.656%	$1,214,973	1,470,679,427	0.083
CS1	0.170%	$314,738	238,999,203	0.132
CS2	0.074%	$136,281	96,707,805	0.141
GS1	6.077%	$11,255,335	5,868,159,484	0.192
GSD1	19.414%	$35,958,622	22,297,550,490	0.161
GSLD1	7.998%	$14,813,612	10,075,675,845	0.147
GSLD2	1.205%	$2,231,585	1,594,156,174	0.140
GSLD3	0.089%	$165,575	181,381,896	0.091
MET	0.083%	$154,590	93,345,000	0.166
OL-1	0.357%	$661,554	109,770,156	0.603
OS-2	0.045%	$82,532	20,392,522	0.405
RS1	59.638%	$110,462,338	53,446,136,741	0.207
SL-1	1.761%	$3,262,190	426,888,873	0.764
SL-2	0.043%	$80,412	67,779,324	0.119
SST-TST	0.078%	$144,619	144,332,900	0.100
SST-DST (1,2,3)	0.013%	$23,506	12,199,083	0.193
Total Retail	100.00%	$185,220,657	99,495,658,286	0.186

Calculation of Total Retail:	
Total	$183,179,800
Jurisdictional Factor	99.525%
Total Retail	$182,308,988
Expanded for 1.5% GRT and Reg Assessment Fee	$185,220,657