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April 9, 2021

## ELECTRONIC FILING

Mr. Adam J. Teitzman, Commission Clerk  
Office of Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Re: Docket 20210034-EI, Petition for Rate Increase by Tampa Electric Company

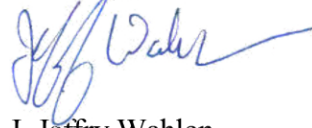
Dear Mr. Teitzman:

Attached for filing on behalf of Tampa Electric Company in the above-referenced docket is the Direct Testimony and Exhibit of Edsel L. Carlson, Jr.

Thank you for your assistance in connection with this matter.

(Document 21 of 34)

Sincerely,



J. Jeffry Wahlen

JJW/ne  
Attachment

cc: Richard Gentry, Public Counsel  
Jon Moyle, FIPUG



BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20210034-EI  
IN RE: PETITION FOR RATE INCREASE  
BY TAMPA ELECTRIC COMPANY

DIRECT TESTIMONY AND EXHIBIT  
OF  
EDSEL L. CARLSON, JR.

1                                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                                   **PREPARED DIRECT TESTIMONY**

3                                   **OF**

4                                   **EDSEL L. CARLSON, JR.**

5  
6   **Q.**   Please state your name, business address, occupation, and  
7           employer.

8  
9   **A.**   My name is Edsel L. Carlson, Jr. My business address is 702  
10           North Franklin Street, Tampa, Florida 33602. I am the Risk  
11           Manager for Tampa Electric Company ("Tampa Electric" or  
12           "company").

13  
14   **Q.**   Please describe your duties and responsibilities in that  
15           position.

16  
17   **A.**   As Risk Manager, I am responsible for developing and  
18           achieving strategic risk management objectives for TECO  
19           Energy and its subsidiaries, including Tampa Electric. My  
20           responsibilities include identifying and assessing risk  
21           exposures; performing qualitative and quantitative risk  
22           analysis to determine the frequency and severity of loss  
23           exposures; and developing and implementing loss control  
24           strategies to prevent and mitigate loss exposures. I am  
25           also responsible for determining and implementing cost-

1 effective strategies to finance risk, including risk  
2 retention or risk transfer; negotiating, procuring,  
3 allocating, and maintaining insurance programs; and  
4 property claims adjusting. I also serve as the risk  
5 management resource for all TECO Energy's subsidiaries and  
6 provide guidance regarding contractual risk management,  
7 merger and acquisition due diligence, and special project  
8 risk management. Finally, I serve as a resource for the  
9 development and implementation of risk management training  
10 and reporting for TECO Energy and its subsidiaries.

11

12 **Q.** Are you responsible for obtaining health insurance products  
13 for the company's team members?

14

15 **A.** No. Our Human Resource department is responsible for  
16 procuring those type of employee benefits. Tampa Electric  
17 witness Marian C. Cacciatore discusses employee benefits as  
18 part of total compensation in her direct testimony in this  
19 proceeding.

20

21 **Q.** Have you previously testified before the Florida Public  
22 Service Commission ("Commission")?

23

24 **A.** Yes. I submitted written testimony in the company's two  
25 most recent requests for general base rate relief, namely

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Docket Nos. 20080317-EI and 20130040-EI.

**Q.** Please provide a brief outline of your educational background and business experience.

**A.** I graduated from the University of South Florida with a Bachelor of Arts degree in Criminology and from Saint Leo University with a Master of Business Administration degree. I hold the Associate in Risk Management designation from Insurance Institute of America and a Fellow in Risk Management designation from Global Risk Management Institute, Inc. I have approximately 27 years of experience working in the company's Risk Management Department, where I have held the positions of Claims Adjuster and Risk Analyst. I have held my present position as Risk Manager since 2000.

**Q.** Have you prepared an exhibit to support your direct testimony?

**A.** Yes, Exhibit No. ELC-1, entitled "Exhibit of Edsel L. Carlson, Jr." was prepared under my direction and supervision. The contents of my exhibit were derived from the business records of the company and are true and correct to the best of my information and belief. It

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consists of the following five documents:

- Document No. 1 List of Minimum Filing Requirement Schedules Sponsored or Co-Sponsored by Edsel L. Carlson, Jr.
- Document No. 2 Storm Restoration Costs Charged to the Storm Reserve (2012-2019)
- Document No. 3 Paragraph 5 of 2013 Stipulation
- Document No. 4 Paragraph 5 of 2017 Agreement
- Document No. 5 Order Approving Storm Cost Settlement Agreement

**Q.** Are you sponsoring or co-sponsoring any sections of Tampa Electric's Minimum Filing Requirements ("MFR") schedules?

**A.** Yes. I am sponsoring or co-sponsoring the MFR schedules listed in Document No. 1 of my Exhibit. The contents of these MFR schedules were derived from the business records of the company and are true and correct to the best of my information and belief.

**Q.** What are the purposes of your direct testimony?

**A.** My direct testimony addresses the most appropriate means for Tampa Electric to recover the storm damage and

1 restoration costs associated with hurricanes and tropical  
2 storms on a going forward basis. I discuss the Commission's  
3 prior treatment of storm damage and restoration cost  
4 recovery for Tampa Electric. I also discuss the study  
5 performed by Tampa Electric witness Steven P. Harris of ABS  
6 Consulting on behalf of Tampa Electric and what that study  
7 suggests an appropriate annual accrual to our storm reserve  
8 to cover its uninsured windstorm loss reserves would be.

9  
10 I explain why a continuation of the storm damage and  
11 restoration cost recovery mechanism prescribed in Tampa  
12 Electric's two most recent rate settlements is the best  
13 available methodology for storm cost recovery and in our  
14 customers' best interests. That mechanism was first  
15 contained in the company's 2013 Stipulation and Settlement  
16 Agreement ("2013 Stipulation"), which was approved by Order  
17 No. PSC-2013-0443-FOF-EI, issued on September 30, 2013. It  
18 was extended for use until December 31, 2021 in the  
19 company's 2017 Amended and Restated Stipulation and  
20 Settlement Agreement ("2017 Agreement"), approved by Order  
21 No. PSC-2017-0456-S-EI.

22  
23 I also discuss the insurance currently available for storm  
24 cost recovery and other purposes and explain why our  
25 insurance costs are increasing.

1 **PROPOSED METHODOLOGY FOR INCREMENTAL STORM COST RECOVERY**

2 **Q.** Why does the company need a regulatory mechanism to recover  
3 the incremental storm costs associated with tropical storms  
4 and hurricanes?

5  
6 **A.** Because of its geographic location, the State of Florida  
7 including Tampa Electric's service area, is subject to  
8 seasonal hurricanes and tropical storms. We can predict the  
9 chances that a tropical storm or hurricane will hit our  
10 service territory over a long time period using  
11 probabilistic modeling but cannot accurately predict in  
12 which specific years or where storms will hit, what size of  
13 storm will hit, or what the associated storm recovery costs  
14 will be for a specific storm or specific year.

15  
16 Document No. 2 of my exhibit shows the storm restoration  
17 costs the company charged to its storm reserve, from 2012  
18 to 2019, and reflects the variability of storm activity and  
19 storm damage and restoration costs. Sometimes these costs  
20 are relatively modest, and sometimes they are substantial.

21  
22 **Q.** How has Tampa Electric traditionally accounted for storm  
23 costs in the rate making process?

24  
25 **A.** Prior to the 2013 Stipulation, the Commission authorized



1 Tampa Electric and other utilities to account for these  
2 occurrences by maintaining a storm damage reserve, with  
3 annual expense accruals toward these reserves informed by  
4 probabilistic storm analysis of the expected storm related  
5 losses and the resulting impact on the accumulated storm  
6 damage reserve. This approach allowed the company to  
7 recover expected future storm recovery costs through base  
8 rates by using the annual accrual to create a reserve and  
9 then charging storm recovery costs against the reserve.  
10

11 **Q.** Does Tampa Electric maintain a current level of storm damage  
12 reserve, and if so, in what amount?  
13

14 **A.** Yes. As shown on MFR Schedule B-21, the reserve amount as  
15 of February 1, 2021 was \$48,175,745. Without a storm damage  
16 reserve in place, the sudden and expected recovery costs  
17 for a storm could cause the company to earn below the bottom  
18 of its authorized range of return on equity, so the company  
19 proposes to continue maintaining a storm damage reserve as  
20 discussed below.  
21

22 **Q.** What target level of storm damage reserve and what annual  
23 accrual did the Commission last approve for Tampa Electric?  
24

25 **A.** The Commission last approved an \$8 million annual storm

1 damage accrual with a target reserve of \$64 million after  
2 five years. This is reflected in Order No. PSC-09-0283-FOF-  
3 EI, issued April 30, 2009 in Docket No. 20080317-EI. The  
4 2013 Stipulation reset the reserve target level to  
5 \$55,860,642, and that reserve target level was affirmed in  
6 the 2017 Agreement. Tampa Electric proposes to maintain  
7 this target as part of its proposal explained below.

8  
9 **Q.** Is the company currently recording an annual storm damage  
10 expense accrual on its income statement?

11  
12 **A.** No. As part of the 2013 Stipulation, we agreed to stop  
13 recording an annual storm expense accrual, and to recover  
14 the allowable costs of storm restoration for tropical  
15 systems through a surcharge on customer bills after the storm  
16 reserve amount is completely exhausted. This approach was  
17 requested by the consumer parties to the stipulation,  
18 reflects a "pay at the pump" approach, and was re-affirmed  
19 in the 2017 Agreement.

20  
21 The storm damage provisions from the 2013 Stipulation and  
22 2017 Agreement are reproduced in Document Nos. 3 and 4 of  
23 my exhibit.

24  
25 **Q.** Please describe the storm cost recovery methodology

1 approved in the 2013 Stipulation and 2017 Agreement.

2  
3 **A.** The storm damage provisions of the two agreements are  
4 essentially the same, but since the 2017 Agreement is the  
5 most recent and is still in effect, I will describe the  
6 storm damage provisions in the 2017 Agreement.

7  
8 Paragraph 5 of the 2017 Agreement prescribes a storm cost  
9 recovery mechanism ("Storm Methodology") designed to allow  
10 for storm cost recovery in a manner most acceptable to our  
11 customers. The Storm Methodology eliminated the annual  
12 storm damage expense accrual, set the company's storm  
13 damage reserve target at \$55.9 million, changed the way the  
14 reserve is replenished, authorized prompt cost recovery  
15 through a storm surcharge on customer bills, and  
16 established surcharge amounts based on the amount of storm  
17 costs to be recovered. The agreement that allows the company  
18 to use the Storm Methodology expires on December 31, 2021.

19  
20 **Q.** Please describe how the Storm Methodology operates.

21  
22 **A.** The Storm Methodology allows the company to petition the  
23 Commission for the replenishment of the storm reserve to  
24 its target level of \$55.9 million once the level within the  
25 storm reserve is completely exhausted. This petition allows

1 the company to begin recovering on an interim basis sixty  
2 days after the petition, storm related costs, and to recover  
3 those costs over a one-year period or longer, depending  
4 upon the rate impact of the storm related costs.

5  
6 The surcharge recovery period under the Storm Methodology  
7 is 12 months if the storm costs do not exceed \$4.00 per  
8 1,000 kWh on monthly residential customer bills. If the  
9 storm costs exceed that level, the costs in excess of \$4.00  
10 per 1,000 kWh are recovered in a subsequent year or years  
11 as determined by the Commission, after a hearing or an  
12 opportunity for a hearing.

13  
14 The \$4.00 per 1,000 kWh cap in the Storm Methodology applies  
15 in aggregate for a calendar year; but Tampa Electric may  
16 petition the Commission to allow Tampa Electric to set an  
17 initial 12-month recovery amount greater than \$4.00 per  
18 1,000 kWh or for a period longer than 12 months if the  
19 company incurs more than \$100 million of storm recovery  
20 costs that qualify for recovery in a given calendar year,  
21 including the amount needed to replenish the storm reserve  
22 to \$55.9 million.

23  
24 The Storm Methodology defines the storm recovery costs that  
25 can be recovered and includes procedural safeguards for the

1 company, customers, and consumer parties who are  
2 substantially affected.

3  
4 **Q.** Has the company used the Storm Methodology for the recovery  
5 of qualified storm restoration costs?

6  
7 **A.** Yes. In December 2017, Tampa Electric filed a petition  
8 invoking the Storm Methodology as contemplated in the 2017  
9 Agreement. The company originally proposed a \$4.00 per  
10 1,000 kWh surcharge to recover \$87.4 million of costs  
11 associated with named storms in 2015, 2016, and 2017 and to  
12 replenish its storm reserve. The company later amended its  
13 petition to increase its requested storm cost recovery  
14 amount to \$102.5 million and to increase its proposed  
15 surcharge amount, and then requested permission to use the  
16 projected income tax expense savings from the Tax Cut and  
17 Jobs Act of 2017 to offset its request for storm cost  
18 recovery. The Commission approved the latter proposal on  
19 March 7, 2018.

20  
21 After a year of extensive discovery and negotiations with  
22 some of the consumer parties to the 2017 Agreement, the  
23 company filed a Storm Cost Settlement Agreement on April 9,  
24 2019. As part of the settlement agreement, the company  
25 agreed to adopt process improvements for use in future storm

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cost recovery activities. The Commission approved the settlement agreement by Order No. PSC-2019-0234-AS-EI, dated June 14, 2019, in Docket No. 20170271-EI, a copy of which is included in Document No. 5 in my exhibit.

Although a surcharge never appeared on customer bills, the basic framework in the Storm Methodology allowed consumer parties to litigate the level of cost recovery requested, allowed tax savings to be used in lieu of a surcharge, and provided an efficient and reasonable way for the company to recover incremental storm recovery costs.

**Q.** What storm cost recovery methodology does Tampa Electric propose for Commission approval at this time?

**A.** Tampa Electric proposes that the Commission approve the Storm Methodology described above as the best way to secure our ability to continue providing reliable electric service, while at the same time preserving the interests of its customers. The Storm Methodology should continue in effect beginning January 1, 2022.

**Q.** Why is the Storm Methodology preferable to the annual accrual methodology and in the public interest?

1     **A.**    The Storm Methodology has worked well. It is understandable  
2            and has provided predictability for us and our customers.  
3            We believe that our customers prefer the "pay at the pump"  
4            approach in the Storm Methodology over the annual expense  
5            accrual or "pay as you go" approach in effect prior to the  
6            2013 Stipulation, because they have agreed to it twice. The  
7            Storm Methodology reasonably balances collecting sufficient  
8            storm costs to cover expected losses in advance with  
9            recovering all storm costs after an event, which could  
10           burden customers who may already be facing storm related  
11           hardships. It allows us to recover incremental storm damage  
12           costs that we incur, together with amounts needed to restore  
13           the company's reserve to \$55.9 million, in a timely manner  
14           and in a way that mitigates the rate impact on customers.

15  
16     **Q.**    How does the Storm Methodology differ from the way Tampa  
17            Electric could seek recovery of storm costs that deplete  
18            the storm reserve if the Storm Methodology is not available?

19  
20     **A.**    The primary differences between the standard method in  
21            which Tampa Electric may seek a storm surcharge to recover  
22            storm restoration costs and the Storm Methodology are  
23            timing and the amount and period over which the storm  
24            surcharge is spread. Without the Storm Methodology, we  
25            could still petition the Commission to recover the costs of

1 hurricanes and named tropical storms that deplete our storm  
2 reserve; however, the surcharge might not begin until after  
3 the hearing or other formal review by the Commission took  
4 place. Moreover, the amount of the surcharge would not be  
5 limited to \$4.00 per kWh on a residential monthly bill or  
6 a 12-month period as set forth in the Storm Methodology.  
7 The Storm Methodology balances potential rate impact  
8 consideration with timely cost recovery from the customers  
9 who were receiving service at the time the damage occurred,  
10 while still providing every opportunity for the Commission  
11 and other parties to review our incremental storm  
12 restoration costs.

13  
14 In some instances, delaying cost recovery until after a  
15 full evidentiary hearing as contemplated in the  
16 Commission's rule could shift cost responsibility to  
17 customers who were not customers at the time of the storm  
18 and increases the likelihood that customers at the time of  
19 the storm who benefitted from our restoration efforts will  
20 not pay for the cost of those efforts because they have  
21 left our system. Thus, we believe that the Storm Methodology  
22 is better than the standard process in terms of mitigating  
23 potential rate impacts to customers while still  
24 establishing fair review processes and cost assignment to  
25 those customers who took service at the time of the storm.



1 **Q.** Please describe the documentation and accounting  
2 clarification Tampa Electric agreed to in the April 2019  
3 Storm Cost Settlement Agreement?  
4

5 **A.** The storm restoration cost process improvements were  
6 developed and implemented to provide best practices for the  
7 safe and timely restoration of services in a cost-effective  
8 manner. They require better documentation and communication  
9 of company expectations to vendors. The improved process  
10 consists of 10 new policies providing direction around  
11 contracting, vendor engagement, travel, and work. It also  
12 consists of five new enhanced processes regarding cost  
13 documentation, auditing, and regulatory recovery. These  
14 improved processes provide a more organized and transparent  
15 approach and ensure that the customer does not pay excessive  
16 or improper costs to restore their service after a storm.  
17 They are reflected in Document No. 5 of my exhibit.  
18

19 **Q.** Does Tampa Electric propose to adhere to these  
20 documentation and accounting clarifications in the future?  
21

22 **A.** Yes.  
23

24 **Q.** What are the benefits of the Storm Methodology and why is  
25 it in the public interest to continue this methodology?

1 **A.** As stated earlier, the Storm Methodology has worked well.  
2 It is predictable for all involved. It allows for spreading  
3 the cost recovery beyond one year, depending upon the impact  
4 on rates. It allows for full due process for anyone affected  
5 by the way it operates. It has been approved by  
6 representatives of all customer classes. Also, it can be  
7 revisited in a future rate proceeding, if a more desirable  
8 alternative is developed.

9  
10 **Q.** In the past, the company has expressed concerns about  
11 imposing a storm surcharge after a hurricane or tropical  
12 storm when customers may be incurring other storm-related  
13 costs. How does your proposal accommodate that concern?

14  
15 **A.** We have always considered the impact rates and charges may  
16 have on our customers. However, our customers have  
17 expressed a preference for the surcharge approach like the  
18 one we are proposing now, as evidenced by the 2013  
19 Stipulation and 2017 Agreement and the storm damage  
20 approach set forth in those agreements. This approach,  
21 which maintains a smaller reserve than indicated by Mr.  
22 Harris's loss study discussed further below and does not  
23 collect an annual accrual amount from customers, strikes a  
24 reasonable balance between timely recovery of storm-related  
25 costs and mitigates rate impacts from both an annual accrual

1 and a storm surcharge after a major storm.

2  
3 **2021 STORM STUDY**

4 **Q.** Have you reviewed the direct testimony and exhibit Mr.  
5 Harris has submitted in this proceeding?

6  
7 **A.** Yes. The company asked Mr. Harris to prepare a Storm Damage  
8 Self-Insurance Reserve Study and are submitting it as part  
9 of this proceeding pursuant to Section 25-6.0143(1)(1).

10  
11 **Q.** How does your Storm Methodology proposal compare with the  
12 substance of Mr. Harris' direct testimony.

13  
14 **A.** Mr. Harris performed both a Hurricane Loss Analysis and a  
15 Reserve Performance Analysis. His studies simulated  
16 possible hurricanes and the impact they are projected to  
17 have on the company's storm damage reserve. His studies  
18 suggest that an annual storm reserve accrual of  
19 approximately \$23.7 million would be required, over a long  
20 period of time, to cover the expected storm loss costs from  
21 all Category 1 through 5 hurricanes. The study indicates  
22 that using the Storm Methodology, no accrual and one-year  
23 recoveries, there is about a 70 percent likelihood that the  
24 reserve will have insufficient funds in one or more of the  
25 next five years, and that Tampa Electric will need to

1 recover storm costs through the approved Storm Methodology.  
2 The company believes that his studies are reasonable and  
3 informative. For the reasons explained above, the company  
4 has opted to propose the Storm Methodology in lieu of an  
5 annual accrual to reach a target of over \$100 million over  
6 a five-year period.  
7

8 **Q.** When will Tampa Electric submit another storm damage study  
9 like the one performed by Mr. Harris in this proceeding?  
10

11 **A.** We will file a new storm damage study in 2026 and can  
12 revisit this topic at that time if needed, or in a future  
13 rate proceeding.  
14

15 **PROPERTY INSURANCE**

16 **Q.** What is the status of Tampa Electric's efforts to obtain  
17 commercial Transmission and Distribution ("T&D") Insurance?  
18

19 **A.** The property insurance markets for T&D insurance coverage  
20 remain restricted, especially for Gulf and Atlantic coast  
21 locations. In the last several years, Tampa Electric has  
22 requested a price indication from its property insurance  
23 broker for commercial property insurance to cover its T&D  
24 facilities from storm related damage. Based on discussions  
25 with the broker, property insurance for the company's T&D

1 facilities at reasonable costs and deductible levels  
2 continues to be unavailable.

3

4 **Q.** Does the company have property insurance on other portions  
5 of its property?

6

7 **A.** Yes, Tampa Electric has property insurance on almost all of  
8 its assets with the exception of its T&D assets.

9

10 **Q.** Please describe changes in the property insurance market  
11 since the company's last rate case.

12

13 **A.** Between 2013, when the company filed its last rate case,  
14 and 2018, the insurance market was relatively robust. In  
15 2018 we started seeing signs that market costs were  
16 increasing. In 2019 and 2020, this trend continued with  
17 premium increases as the market became more restricted. We  
18 anticipate that this will continue into 2021 and beyond.

19

20 **Q.** What is a "restricted" insurance market?

21

22 **A.** The insurance market is cyclical, and there are periods  
23 where demand for insurance exceeds supply, putting buyers  
24 at a disadvantage. This is known as a "restricted market."  
25 From 2013 to 2018, we experienced a "robust market" cycle

1 due to relatively low catastrophic loss events and the  
2 influx of nontraditional investors in the insurance sector  
3 (naive capacity). This created a market where there was  
4 more supply than demand, and pricing gradually decreased  
5 for accounts with good loss history.

6  
7 Robust markets usually take several years to materialize,  
8 as opposed to restricted markets that can develop rather  
9 quickly. Restricted markets typically affect insureds with  
10 less desirable loss exposures (like catastrophic loss  
11 exposures) more rapidly.

12  
13 **Q.** What causes the market to become restricted?

14  
15 **A.** There are three primary factors: (1) insurers' low premium  
16 investment income causing reliance on true underwriting  
17 profit; (2) increases in frequency and severity of losses;  
18 and (3) insurers' capacity decreases.

19  
20 Under the insurance industry's basic business model, the  
21 insurer charges customers a risk premium, investing the  
22 premium for a return, and paying customer claims. Insurers  
23 apply the model on a class of business basis for numerous  
24 customers so that insurers can spread the risk of individual  
25 customers across the class. Insurers need to collect enough

1 premium revenue and earn investment returns in amounts  
2 sufficient to cover their operating cost and claims. When  
3 insurers continually experience high loss ratios, the  
4 market will start to become restricted.

5  
6 **Q.** How has the cost and availability of property insurance for  
7 other assets changed for Tampa Electric since 2013?

8  
9 **A.** Tampa Electric expects its annual property insurance costs  
10 to be over \$15.1 million in 2022 compared to \$8.2 million  
11 in 2013. This increase was caused by three factors. First,  
12 the insurance market has become restricted, so insurance  
13 rates are higher. Second, the total and replacement values  
14 of the company's insurable property are higher. Third, we  
15 have recently constructed solar assets which are considered  
16 by the insurance industry to be more susceptible to loss  
17 than traditional generating assets.

18  
19 **Q.** How much has the value of Tampa Electric's insured assets  
20 increased since 2013?

21  
22 **A.** Our property insurance values increased from \$5.2 billion  
23 in 2013 to \$7.8 billion in 2021 and are projected to be  
24 over \$8 billion in 2022. The investments we have made, and  
25 are making, that have contributed to this growth are

1 explained by Tampa Electric witnesses Jeffrey S.  
2 Chronister, David A. Pickles, C. David Sweat, Melissa L.  
3 Cosby, and Karen M. Mincey.

4  
5 **Q.** Have market changes caused Tampa Electric to change the  
6 manner or degree to which company facilities are insured?

7  
8 **A.** Yes. At the 2020 property insurance renewal, Tampa Electric  
9 elected to increase its property insurance deductible from  
10 \$10,000,000 to \$15,000,000 in an effort to control the cost  
11 associated with the restricting market conditions. For the  
12 same reason, Tampa Electric also decided not to pursue  
13 increasing the coverage limit by \$100,000,000 above the  
14 current \$500,000,000 limit, even though the company's  
15 values and exposures have increased substantially since  
16 that limit was established in 2007. We also elected to self-  
17 insure Big Bend Unit 2 and parts of Unit 1.

18  
19 **OTHER INSURANCE**

20 **Q.** Is Tampa Electric's insurance cost increasing for other  
21 types of insurance?

22  
23 **A.** Yes, basically all lines of insurance have seen cost  
24 increases due to restricted market conditions. We estimate  
25 that approximately 50 percent of our 2022 insurance budget



1 is for property insurance, 42 percent for general liability  
2 insurance, and eight percent for other lines of coverage.  
3 The general liability insurance covers the company's  
4 liability arising from claims for third party bodily injury  
5 and property damage. Our general liability insurance cost  
6 was \$3.2 million in 2013 and is projected to be \$12.9  
7 million in 2022.

8  
9 **Q.** Are the amounts the company expects to pay for property,  
10 general liability, and other insurance in 2022 reasonable?

11  
12 **A.** Yes. We take several steps to ensure that the cost Tampa  
13 Electric pays for its insurance is reasonable. First, we  
14 contract with a quality insurance broker that has a  
15 tremendous amount of experience securing insurance coverage  
16 for the utility industry, and who has deep knowledge of all  
17 insurance markets. Our broker ensures that the terms and  
18 conditions of our insurance placement are fair and  
19 reasonable, and consistent with prevailing insurance market  
20 conditions.

21  
22 Second, we procure insurance from financially secure  
23 insurers that are committed to the utility industry and are  
24 long term partners. Many of our insurers have been on our  
25 programs for several decades. Long term insurers typically

1 charge lower premium over the long run than short term  
2 insurers.

3  
4 Third, due to the size of our company and the exposure to  
5 extreme weather such as hurricanes, we use multiple  
6 insurers to cover our risks. Our primary insurance  
7 policies, such as property and general liability, are  
8 renewed annually, which is consistent with industry  
9 practice, and when we renew, our broker works with our  
10 existing and prospective insurer to provide the most  
11 favorable overall terms, and in this regard multiple  
12 insurers create competition.

13  
14 Fourth, during the renewal process, we review our  
15 deductible levels, purchased limits and sub-limits to  
16 ensure that we purchase appropriate limits and retain a  
17 prudent amount of risk. This helps our overall insurance  
18 and risk transfer costs.

19  
20 Finally, we ensure that our insurers understand our risks,  
21 which enable us to get the right products, in the right  
22 amounts and at the best cost.

23  
24 **SUMMARY**

25 **Q.** Please summarize your direct testimony.

1 **A.** My direct testimony supports a continuation of the  
2 surcharge methodology approved by the Commission in the  
3 2017 Agreement. At this time, we believe that the Storm  
4 Methodology is in the best interests of Tampa Electric's  
5 customers and will enable the company to manage storm cost  
6 recovery in a reasonable manner - one which has been shown  
7 to be beneficial to the customers we serve. Finally, we  
8 have examined the insurance market and have concluded that  
9 it is not a commercially available or economic alternative  
10 to what we are proposing for transmission and distribution  
11 assets.

12  
13 Our insurance coverages and proposed costs for 2022 are  
14 reasonable and prudent. Although or general liability and  
15 property insurance costs have increased due to restricted  
16 market conditions and other factors associated with its  
17 risk exposures, the company has proactively managed its  
18 insurance program in a reasonable way that balances our  
19 risks with the costs we incur.

20  
21 **Q.** Does this conclude your testimony?

22  
23 **A.** Yes, it does.  
24  
25

EXHIBIT  
  
OF  
  
EDSEL L. CARLSON, JR.

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<b>DOCUMENT NO.</b>	<b>TITLE</b>	<b>PAGE</b>
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TAMPA ELECTRIC COMPANY  
DOCKET NO. 20210034-EI  
EXHIBIT NO. ELC-1  
WITNESS: CARLSON  
DOCUMENT NO. 1  
PAGE 1 OF 1  
FILED: 04/09/2021

LIST OF MINIMUM FILING REQUIREMENT SCHEDULES  
SPONSORED OR CO-SPONSORED BY EDSSEL L. CARLSON, JR.

MFR Schedule	Title
B-21	Accumulated Provision Accounts - 228.1, 228.2 And 228.4
C-06	Budgeted Versus Actual Operating Revenues And Expenses
C-08	Detail Of Changes In Expenses

**Tampa Electric's Storm Reserve History**  
(In \$ Thousands)

<u>Year</u>	<u>Storm</u>	<u>Storm Reserve Postings for Restoration Costs</u>
2012	Isaac	1,015
2012	Debbie	1,185
2015	Erika	699
2015	Colin	2,523
2016	Hermine	5,302
2016	Matthew	1,006
2017	Irma	87,871
2018	Alberto	2
2019	Dorian	7,500
2019	Nestor	8
	<b>Total</b>	<b>109,790</b>

but not limited to, for example, investment in and maintenance of transmission assets) that have been and traditionally, historically and ordinarily would be recovered through base rates. It is the further intent of the Parties to recognize that an authorized governmental entity may impose requirements on Tampa Electric involving new or atypical kinds of costs (including, but not limited to, for example, requirements related to cyber security) and, concurrently with the imposition of such requirements, the Legislature and/or Commission may authorize Tampa Electric to recover those related costs through a cost recovery clause, and in such event, Tampa Electric shall be able to seek recovery of such costs from the Commission. This Paragraph 4 does not preclude Tampa Electric from seeking clause recovery of a type of cost (and for the same or similar reasons) not heretofore recovered through a clause which the Commission or the Legislature authorizes or has authorized another electric utility to recover through a clause before or during the Term of this Agreement. The Parties to this Agreement are not precluded from participating in any proceedings pursuant to this paragraph.

5. Storm Damage.

(a) Nothing in this Agreement shall preclude Tampa Electric from petitioning the Commission to seek recovery of costs associated with any tropical systems named by the National Hurricane Center or its successor without the application of any form of earnings test or measure and irrespective of previous or current base rate earnings. Consistent with the rate design methods approved in this Agreement, the Parties agree that recovery of storm costs from customers will begin, on an interim basis, sixty days following the filing of a cost recovery petition and tariff with the Commission and will be based on a 12-month recovery period if the storm costs do not exceed \$4.00/1,000 kWh



on monthly residential customer bills. In the event the storm costs exceed that level, any additional costs in excess of \$4.00/1,000 kWh shall be recovered in a subsequent year or years as determined by the Commission. All storm related costs shall be calculated and disposed of pursuant to Commission Rule 25-6.0143, F.A.C., and shall be limited to (i) costs resulting from a tropical system named by the National Hurricane Center or its successor, (ii) the estimate of incremental storm restoration costs above the level of storm reserve prior to the storm and (iii) the replenishment of the storm reserve to the level as of October, 2013. The Parties to this Agreement are not precluded from participating in any such proceedings and opposing the amount of Tampa Electric's claimed costs or whether the proposed recovery is consistent with this Paragraph 5, but not the mechanism agreed to herein.

(b) The Parties agree that the \$4.00/1,000 kWh cap in this Paragraph 5 shall apply in aggregate for a calendar year; provided, however, that Tampa Electric may petition the Commission to allow Tampa Electric to increase the initial 12 month recovery at rates greater than \$4.00/1,000 kWh or for a period longer than 12 months if Tampa Electric incurs in excess of \$100 million storm recovery costs that qualify for recovery in a given calendar year, inclusive of the amount needed to replenish the storm reserve to the level that existed as of August 31, 2013. All Parties reserve their right to oppose such a petition.

(c) The Parties expressly agree that any proceeding to recover costs associated with any storm shall not be a vehicle for a "rate case" type inquiry concerning the expenses, investment, or financial results of operations of Tampa Electric and shall not apply any form of earnings test or measure or consider previous or current base rate earnings.

(d) The provisions of this paragraph 5 shall remain in effect during the Term except as otherwise permitted or provided for in this Agreement and shall continue in effect until the company's base rates are next reset by the Commission.

6. Polk Generation Base Rate Adjustment.

(a) Tampa Electric projects that its Polk 2-5 Waste Heat Recovery Conversion Project ("Polk 2-5" or the "Project") will enter commercial service while this Agreement is in effect with Polk 2-5 projected to go into service in January 2017. For this Project, Tampa Electric shall be authorized to increase its base rates as specified in paragraph 3 of this Agreement by \$110 Million annually effective on the later of the Project's actual in-service date or January 1, 2017. This base rate adjustment will be referred to as the Polk Generation Base Rate Adjustment ("Polk GBRA"). The Polk GBRA is an amount agreed to by and between the parties that reflects their negotiations regarding all relevant factors such as capital costs, cost of capital, capital structure and the other costs and expenses associated with the Project. The Parties agree that the amount of the Polk GBRA is fair and reasonable and intend that the Polk GBRA be implemented as provided herein without further inquiry or regulatory evaluation other than the approval of this Agreement. Nothing in this Agreement shall preclude any Party from asserting, in any proceeding to set Tampa Electric's rates to be effective after December 31, 2017, that the actual revenue requirements of the Polk 2-5 Waste Heat Recovery Conversion Project are different from those provided for in this Agreement.

(b) The Polk GBRA shall be reflected in Tampa Electric's customers' bills by allocating the \$110 Million annual increase to all rate classes (including IS and Lighting Facilities) based on each class's percentage of total base revenues calculated using the

traditionally or historically would be, have been, or are presently recovered through cost recovery clauses or surcharges, or (b) incremental costs not currently recovered in base rates which the Legislature expressly requires shall be clause recoverable subsequent to the approval of this 2017 Agreement. It is the intent of the Parties that, in conjunction with the provisions of Subparagraph 3(a), the company shall not seek to recover, nor shall the company be allowed to recover, through any cost recovery clause or charge, or through the functional equivalent of such cost recovery clauses and charges, costs of any type or category that have historically or traditionally been recovered in base rates, unless such costs are: (i) the direct and unavoidable result of new governmental impositions or requirements; or (ii) new or atypical costs that were unforeseeable and could not have been contemplated by the Parties resulting from significantly changed industry-wide circumstances directly affecting the company's operations. As a part of the base rate freeze agreed to herein, the company will not seek Commission approval to defer for later recovery in rates, any costs incurred or reasonably expected to be incurred from the Effective Date through and including December 31, 2021, which are of the type which historically or traditionally have been or would be recovered in base rates, unless such deferral and subsequent recovery is expressly authorized herein or otherwise agreed to by each of the Parties. The Parties are not precluded from participating in any proceedings pursuant to this Paragraph 4, nor is any Party precluded from raising any issues pertinent to any such proceedings.

5. Storm Damage.

(a) Nothing in this 2017 Agreement shall preclude Tampa Electric from petitioning the Commission to seek recovery of costs associated with any tropical systems named by the National Hurricane Center or its successor without the application of any form of earnings test or measure and irrespective of previous or current base rate earnings. Consistent with the rate design methods

approved in this 2017 Agreement, the Parties agree that recovery of storm costs from customers will begin, on an interim basis (subject to refund following a hearing or a full opportunity for a formal proceeding), sixty days following the filing of a cost recovery petition and tariff with the Commission and will be based on a 12-month recovery period if the storm costs do not exceed \$4.00/1,000 kWh on monthly residential customer bills. In the event the company's reasonable and prudent storm costs exceed that level, any additional costs in excess of \$4.00/1,000 kWh shall be recovered in a subsequent year or years as determined by the Commission, after hearing or after the opportunity for a formal proceeding has been afforded to all substantially affected persons or parties. All storm related costs shall be calculated and disposed of pursuant to Rule 25-6.0143, F.A.C., and shall be limited to (i) costs resulting from a tropical system named by the National Hurricane Center or its successor, (ii) the estimate of incremental storm restoration costs above the level of storm reserve prior to the storm, and (iii) the replenishment of the storm reserve to \$55,860,642. The Parties to this 2017 Agreement are not precluded from participating in any such proceedings and opposing the amount of Tampa Electric's claimed costs (for example, and without limitation, on grounds that such claimed costs were not reasonable or were not prudently incurred) or whether the proposed recovery is consistent with this Paragraph 5, but not the mechanism agreed to herein.

(b) The Parties agree that the \$4.00/1,000 kWh cap in this Paragraph 5 shall apply in aggregate for a calendar year; provided, however, that Tampa Electric may petition the Commission to allow Tampa Electric to increase the initial 12 month recovery at rates greater than \$4.00/1,000 kWh or for a period longer than 12 months if Tampa Electric incurs in excess of \$100 million of storm recovery costs that qualify for recovery in a given calendar year, inclusive of the

amount needed to replenish the storm reserve to \$55,860,642. All Consumer Parties reserve their right to oppose such a petition.

(c) The Parties expressly agree that any proceeding to recover costs associated with any storm shall not be a vehicle for a "rate case" type inquiry concerning the expenses, investment, or financial results of operations of Tampa Electric and shall not apply any form of earnings test or measure or consider previous or current base rate earnings. Such issues may be fully addressed in any subsequent Tampa Electric base rate case.

(d) The provisions of this Paragraph 5 shall remain in effect during the Term except as otherwise permitted or provided for in this 2017 Agreement and shall continue in effect until the company's base rates are next reset by the Commission. For clarity, this means that if this 2017 Agreement is terminated pursuant to Paragraph 7 hereof, the company's rights regarding storm cost recovery under this 2017 Agreement are terminated at the same time, except that any Commission-approved surcharge then in effect shall remain in effect until the costs subject to that surcharge are fully recovered. A storm surcharge in effect without approval of the Commission shall be terminated at the time this 2017 Agreement is terminated pursuant to Paragraph 7 hereof.

6. Solar Base Rate Adjustment Mechanism ("SoBRA").

(a) Notwithstanding the general base rate freeze specified in Paragraph 2, the company shall be allowed to recover the cost of its investment in, and operation of, certain new solar generation facilities and to make solar base rate adjustments consistent with this Paragraph 6. If the applicable federal or state income tax rate for the Company changes before any of the increases provided for in in this Paragraph 6, the Company will adjust the amount of the base rate increase to reflect the new tax rate before the implementation of such increase, pursuant to the applicable methodology in Exhibit C.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for recovery of costs associated with named tropical systems during the 2015, 2016, and 2017 hurricane seasons and replenishment of storm reserve subject to final true-up, Tampa Electric Company.

DOCKET NO. 20170271-EI  
ORDER NO. PSC-2019-0234-AS-EI  
ISSUED: June 14, 2019

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman  
JULIE I. BROWN  
DONALD J. POLMANN  
GARY F. CLARK  
ANDREW GILES FAY

ORDER APPROVING SETTLEMENT AGREEMENT

BY THE COMMISSION:

APPEARANCES

JAMES D. BEASLEY, J. JEFFRY WAHLEN JR., and MALCOLM MEANS ESQUIRES, Ausley Law Firm, Post Office Box 391, Tallahassee, Florida 32302  
On behalf of Tampa Electric Company (TECO).

J.R. KELLY, CHARLES REHWINKEL, PATRICIA A. CHRISTENSEN and THOMAS A. DAVID ESQUIRES, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400  
On behalf of the Citizens of the State of Florida (OPC).

JON C. MOYLE, JR., KAREN PUTNAL, and IAN WALDICK, ESQUIRES, Moyle Law Firm, P.A., 118 North Gadsden Street, Tallahassee, Florida 32301  
On behalf of Florida Industrial Power Users Group (FIPUG).

ROBERT SCHEFFEL WRIGHT and JOHN T. LAVIA, III, ESQUIRES, Gardner, Bist, Wiener, Wadsworth, Bowden, Bush, Dee, LaVia & Wright, P.A. 1300 Thomaswood Drive, Tallahassee, FL 32308  
On behalf of the Florida Retail Federation (FRF).

ORDER NO. PSC-2019-0234-AS-EI  
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KURT SCHRADER, ESQUIRE, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850  
On behalf of the Florida Public Service Commission (Staff).

MARY ANNE HELTON, ESQUIRE, Deputy General Counsel, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850  
Advisor to the Florida Public Service Commission.

KEITH C. HETRICK, ESQUIRE, General Counsel, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850  
Florida Public Service Commission General Counsel.

BY THE COMMISSION:

Background

On December 28, 2017, pursuant to Rules 28-106.201 and 25-6.0143, Florida Administrative Code (F.A.C.), and Order No. PSC-2017-0456-S-EI,<sup>1</sup> Tampa Electric Company (TECO) filed its Petition for Recovery of Costs Associated with Named Tropical Systems and Replenishment of Storm Reserve. TECO's petition seeks recovery of incremental storm restoration costs associated with tropical systems named by the National Hurricane Center during the 2015, 2016 and 2017 hurricane seasons<sup>2</sup> and the replenishment of its Storm Reserve in the amount of \$87,377,388. On January 30, 2018, TECO filed an Amended Petition to increase its request for recovery to \$102,476,127.

Also, on January 30, 2018, TECO filed a Motion to Approve Implementation Stipulation, which it amended on February 13, 2018. The Implementation Stipulation, as amended, sought to avoid volatility in customer rates by recognizing and then utilizing annual tax reform benefits resulting from the passage of the Tax Cut and Jobs Act of 2017 as a direct offset to avoid implementing separate cost recovery of storm damage costs that customers would otherwise have been obligated to pay. The Amended Implementation Stipulation provided that TECO would be entitled to make the appropriate adjustments to its regulated books and records to recover the entire estimated amount of storm costs that would have otherwise been recovered from customers over a nine month period in 2018, to instead recover such costs from the Company's estimated annual tax savings over the same nine month period. By Order No. PSC-2018-0125-PCO-EI, issued on March 7, 2018, we approved the Amended Implementation Stipulation.

On February 16, 2018, we issued an Order Establishing Procedure, Order No. PSC-2018-0081-PCO-EI (Procedural Order), which established hearing procedures to govern this docket,

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<sup>1</sup> Order No. PSC-2017-0456-S-EI, issued on November 27, 2017, in Docket No. 20170210-EI, In re: Petition for limited proceeding to approve 2017 amended and restated stipulation and settlement agreement by Tampa Electric Company.

<sup>2</sup> These tropical systems would include Tropical Storms Erika and Colin, and Hurricanes Hermine, Matthew and Irma.

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including controlling dates and discovery response times. On March 7, 2018, Order No. PSC-2018-0126-PCO-EI was issued to modify the controlling dates in Section VIII of the Procedural Order. Order No. PSC-2018-0486-PCO-EI was issued on September 27, 2018, which further modified these dates along with revising the discovery response times. On January 16, 2019, Order No. PSC-2019-0042-PCO-EI was issued to further revise the controlling dates. The Office of Public Counsel (OPC), Florida Retail Federation (FRF), and the Florida Industrial Power Users Group (FIPUG) intervened.

On February 8, 2019, TECO filed revised testimony and reduced its request from \$102,476,127 (as referred to in its January 30, 2018, Amended Petition) to \$98,982,984 (Second Amended Petition). This reduction was based on TECO's analysis of all of the invoices and other documentation associated with the work performed by other utilities and contractors who assisted in restoration efforts. On March 29, 2019, TECO filed an Unopposed Motion to Suspend Testimony Filing Schedule seeking to suspend the filing of further testimony, and other procedural deadlines as appropriate. In its Motion, TECO asserted that OPC, FRF, and FIPUG had reached an agreement in principle to resolve all issues in this docket. However, the parties needed additional time to memorialize their settlement to present to the Commission for approval. On April 3, 2019, Order No. PSC-2019-0120-PCO-EI was issued granting the motion and abating the remaining controlling dates except the dates for the prehearing conference, hearing, and filing briefs.

On April 9, 2019, TECO filed its Motion to Approve Storm Cost Settlement Agreement (Motion). In its Motion, TECO contends that it is in the public interest and in the best interests of TECO's customers. On May 14, 2019, TECO filed an unopposed Motion to Approve Amended Storm Cost Settlement Agreement. The amendment revised the first unnumbered paragraph in the "Capitalized Costs" bullet on page 16 of the parties' initial settlement agreement. The Storm Cost Settlement Agreement and the Amended Storm Cost Settlement Agreement (collectively referred to as the Settlement Agreement hereafter) are appended to this Order as Attachment A. OPC, FRF, and FIPUG support the Settlement Agreement.

An administrative hearing was held on May 21, 2019. During the hearing, TECO provided clarifications agreed to by the parties regarding two points from the Settlement Agreement. These clarifications are detailed below. Also, at the conclusion of the evidentiary portion of the hearing, the parties indicated that they were willing to waive the filing of post-hearing briefs, and we approved the Settlement Agreement, as set forth herein, by bench vote.

#### The Settlement Agreement

The Settlement Agreement provides a compromise between the parties regarding the amount of recoverable storm costs, and it sets forth an extensive set of storm restoration policies and procedures to follow during future storms (Process Improvements). The major elements of the Settlement Agreement are as follows:

- This Settlement Agreement reduces the Second Amended Petition by an additional \$7,725,098. This would bring the total amount of recoverable storm costs to \$91,257,886.



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- A portion of the \$7,725,098 reduction, \$6.0 million, would be reclassified as capital and added to TECO's electric plant in service balance in Account 364—Poles, Towers and Fixtures (vintage year 2017), for all surveillance and future rate setting purposes.
- The remaining \$1,725,098 of the additional reduction would be reclassified as a regulatory deferred debit. TECO would eliminate the deferred debit and charge base rate Operations and Maintenance expense for \$1,725,098 prior to the filing of its next general base rate case proceeding. Of this amount, \$650,000 represents non-specific reductions related to incremental internal labor and \$1,075,098 represents foreign contractor costs.
- TECO would be entitled to recover the entire estimated amount of storm costs from the Company's estimated annual tax savings over a nine month period in 2018 instead of surcharging its customers over the same period.
- Based on the annual tax savings amount established in Docket No. 20180045-EI, In re: Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Tampa Electric Company, and the reduced recoverable amount, TECO would refund to customers \$11,500,000 as a one-time bill credit. This one-time bill credit would be reflected as a separate line item on customer's bills concurrently with meter readings for the first billing cycle of January 2020.
- The parties agreed to Process Improvements to allow cost effective and timely storm damage recovery and service restoration. The Process Improvements cover a broad range of storm cost recovery issues, including: contracting and vendor engagement, travel and work policies, cost documentation, auditing and regulatory recovery processes, and a methodology for determining incremental costs.
- The parties agreed to meet to evaluate the Process Improvements and consider any need to amend such improvements during the first quarter of 2021, and every two years thereafter.

At the administrative hearing, TECO provided two points of clarification regarding the Settlement Agreement. First, TECO stated that in regards to the Process Improvements, the parties agreed that TECO's "primary objective will be power restoration for its customers." Second, TECO also stated that the parties are in agreement as to a clarification of the phrase "superseded by action of the PSC," located in paragraph eight of the Settlement Agreement. The parties agreed that the phrase means "actions taken by the Commission in any rule-making proceeding or in any evidentiary proceeding to which [TECO] is subject as initiated by [TECO], third parties or the Commission on its own motion, which addresses storm cost recovery and which has the effect of overriding or supplanting any provision of the settlement."

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Decision

The standard for approval of a settlement agreement is whether it is in the public interest.<sup>3</sup> A determination of public interest requires a case-specific analysis based on consideration of the proposed settlement taken as a whole.<sup>4</sup> By implementing the reductions and reclassifications above, the Settlement Agreement provides a fair and balanced resolution of the storm costs incurred by TECO. Also, as noted above, the Settlement Agreement and Amended Implementation Stipulation authorizes TECO to recover the entire estimated amount of storm costs that would have otherwise been recovered from customers over a nine month period in 2018 and instead collect the storm costs from the Company's estimated annual tax savings over the same nine month period. Further, based on the annual tax savings amount established in Docket No. 20180045-EI and the storm cost reductions agreed to by the parties, TECO will issue an \$11,500,000 refund to its customers as a one-time bill credit.

In addition, the Process Improvements represent a good-faith effort by the parties to recognize and mitigate the kinds of issues that present themselves in the storm restoration process. These Process Improvements are designed to reasonably balance the interests of customers to have service promptly restored with the customers' interest to not pay excessive or improper costs to achieve such prompt storm restoration. The parties articulated that their goal was to implement the best practices for how to safely and timely restore power, and that the Process Improvements will not impede future storm recovery efforts. Instead, the Process Improvements are designed to reduce the number of disputes regarding storm restoration costs in the future. TECO also clarified that it would not permit the Process Improvements to impede speedy power restoration.

Based upon the TECO's application, its subsequent filings, our review of the Settlement Agreement, evidence and testimony on the record, and the clarification provided by TECO at the hearing, we find that the Settlement Agreement is in the public interest and is approved. The Settlement Agreement resolves all of the issues in this docket.

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<sup>3</sup> Order No. PSC-13-0023-S-EI, issued on January 14, 2013, in Docket No. 120015-EI, In re: Petition for increase in rates by Florida Power & Light Company; Order No. PSC-11-0089-S-EI, issued February 1, 2011, in Docket Nos. 080677 and 090130, In re: Petition for increase in rates by Florida Power & Light Company and In re: 2009 depreciation and dismantlement study by Florida Power & Light Company; Order No. PSC-10-0398-S-EI, issued June 18, 2010, in Docket Nos. 090079-EI, 090144-EI, 090145-EI, 100136-EI, In re: Petition for increase in rates by Progress Energy Florida, Inc., In re: Petition for limited proceeding to include Bartow repowering project in base rates, by Progress Energy Florida, Inc., In re: Petition for expedited approval of the deferral of pension expenses, authorization to charge storm hardening expenses to the storm damage reserve, and variance from or waiver of Rule 25-6.0143(1)(c), (d), and (f), F.A.C., by Progress Energy Florida, Inc., and In re: Petition for approval of an accounting order to record a depreciation expense credit, by Progress Energy Florida, Inc.; Order No. PSC-05-0945-S-EI, issued September 28, 2005, in Docket No. 050078-EI, In re: Petition for rate increase by Progress Energy Florida, Inc.

<sup>4</sup> Order No. PSC-13-0023-S-EI, at p. 7.

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Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the attached Settlement Agreement is approved as Amended. It is further

ORDERED that this docket shall be closed.

By ORDER of the Florida Public Service Commission this 14th day of June, 2019.



ADAM J. TEITZMAN  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399  
(850) 413-6770  
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

KMS

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Office of Commission Clerk, and filing a

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copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance 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.

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Attachment A

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Re: Petition for recovery of costs associated with named tropical systems during the 2015, 2016, and 2017 hurricane seasons and replenishment of storm reserve subject to final true-up, Tampa Electric Company.

DOCKET NO. 20170271-EI  
FILED: April 09, 2019

**TAMPA ELECTRIC**  
**STORM COST SETTLEMENT AGREEMENT**

THIS AGREEMENT is dated this 9th day of April, 2019 and is by and between Tampa Electric Company ("Tampa Electric" or the "company"), the Office of Public Counsel ("OPC" or "Citizens"), the Florida Industrial Power Users Group ("FIPUG") and the Florida Retail Federation ("FRF"). Collectively, Tampa Electric, OPC, FIPUG and FRF shall be referred to herein as the "Parties" and the term "Party" shall be the singular form of the term "Parties." OPC, FIPUG and FRF will be referred to herein as the "Consumer Parties." This document shall be referred to as the "Tampa Electric Storm Cost Settlement Agreement" or the "Agreement."

**General Background**

This Agreement resolves all of the issues in this Docket No. 20170271-EI and establishes for Florida Public Service Commission ("FPSC") approval the amount of storm costs to be netted against the company's 2018 annual federal income tax savings as contemplated in the Implementation Stipulation approved in this docket by Order No. PSC-2018-0125-PCO-EI, issued March 7, 2018.

The Implementation Stipulation memorialized the understanding and agreement of the Parties regarding the way Tampa Electric would implement paragraphs 5 (storm damage) and 9

**ATTACHMENT A**

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Attachment A

(federal income tax reform) of the 2017 Amended and Restated Stipulation and Settlement Agreement ("2017 Agreement"). Paragraph 5 of the Implementation Stipulation states in part:

(a) The final amount of the company's storm costs authorized to be recovered will be determined by the Commission in Docket No. 20170271-EI.

(b) A final determination of the impact of tax reform on Tampa Electric's base rates and charges pursuant to the 2017 Agreement will be determined by the Commission in Docket No. 20180013-PU or a separate docket established for that purpose and dedicated to Tampa Electric.

(c) After the final determinations of the impact of tax reform and recoverable storm cost amounts have been determined, any difference will be trued up and recovered (or returned) to customers through the ECCR Clause in 2019, as contemplated in the 2017 Agreement.

The FPSC approved the 2017 Agreement by Order No. PSC-2017-0456-S-EI, issued on November 27, 2017, in Docket Nos. 20170210-EI and 20160160-EI. The Commission determined that the annual impact of the Tax Cuts and Jobs Act of 2017 on the company's revenue requirement was \$102.7 million by Order No. PSC-2018-0457-FOF-EI, issued September 10, 2018, in Docket No. 20180045-EI.

#### Case Background

This proceeding began on December 27, 2017 when Tampa Electric filed a Petition for Recovery of Costs Associated with Named Tropical Systems and Replenishment of Storm Reserve ("Initial Petition") seeking recovery of storm costs and to replenish its storm cost reserve in the amount of \$87.4 million. Based on new information available to it, the company updated its request for storm cost recovery on January 30, 2018 by filing an Amended Petition for Recovery of Costs Associated with Named Tropical Systems and Replenishment of Storm Reserve ("Amended Petition"), therein seeking storm cost recovery in the amount of \$102,476,127.

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Thereafter, the Consumer Parties, led by the Office of Public Counsel, conducted extensive discovery on the requested cost recovery reflected in the company's Amended Petition.

During discovery, the Office of Public Counsel identified and shared with the company items and categories of items that should not have been included in the company's request for cost recovery and/or for which prudence and recoverability were questionable. Examples include: (a) costs for which the underlying documentation was inadequate; (b) costs billed to the company that should have been billed to another utility; (c) meals incurred during times or at places when it appeared crews should have been working to restore service instead of dining; (d) costs associated with vendors that incurred apparently excessive mobilization and travel time and costs; and (e) items that were purchased by vendors and billed to the company that did not provide bona fide value to the company's customers and the storm restoration process. When presented with this information, the company requested a continuance of the hearing schedule in this docket so it could conduct a supplemental review of the details of all foreign crew costs included in its request for storm cost recovery ("Supplemental Review").

Tampa Electric conducted its Supplemental Review from August 2018 to January 2019. The company estimates that it took approximately 8,000 person hours, cost approximately \$330,000 for internal and external labor and involved over 60 employees from the company's accounting, corporate audit services and electric delivery departments. The Supplemental Review applied a uniform review process, used standard recoverability guidelines and covered every individual cost element reflected in each and every invoice (totaling \$77,856,061) submitted by 72 vendors – foreign or native – that directly worked to restore the company's electric system during Tropical Storms Erika and Colin, and Hurricanes Hermine, Matthew and Irma. As a result of the Supplemental Review, and in recognition of the errors and other issues brought to its

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attention by the Office of Public Counsel, the company filed its Second Amended Petition on February 8, 2019, and therein reduced its request for cost recovery by \$2.3 million (“Initial Reduction”). Although the Initial Reduction was a by-product of the company’s voluntary Supplemental Review, the need for the Supplemental Review became apparent from the discovery efforts of OPC, so the \$2.3 million Initial Reduction can be fairly attributed to the efforts of the Public Counsel and substantially his entire staff, his expert witnesses/consultants and attorneys, and the other Consumer Parties.

After the company filed its Second Amended Petition, OPC resumed its discovery activities, this time regarding the request for cost recovery contained in the company’s Second Amended Petition. As part of this process, OPC sent three additional sets of written interrogatories, reviewed over 20,000 documents and spent days at the company’s headquarters reviewing documents, talking with company personnel and discussing prior and possible future storm cost restoration procedures.

Through these efforts, including the Supplemental Review, the Parties have gained considerable knowledge about utility storm restoration policies and practices, and have become well informed about their respective positions, the kinds of issues that presented themselves in the storm restoration process and the risks associated with pursuing a fully litigated resolution in this docket. The Parties have also engaged in extensive and constructive discussions focused on (a) reaching an agreement on a mutually agreeable and fair compromise regarding the amount of recoverable storm costs and (b) equally, or perhaps more importantly, developing an extensive set of improved procedures for use on future storms that will provide substantial value to the company and its customers.



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With this background, the Parties have entered into this Tampa Electric Storm Cost Settlement Agreement in compromise of positions taken or that could have been taken in accord with their rights and interests under Chapters 350, 366 and 120, Florida Statutes, as applicable, and as part of a negotiated exchange of consideration among the Parties, in which each Party has agreed to concessions to the others with the expectation, intent, and understanding that all provisions of this Agreement, upon approval by the Commission, will be enforced by the Commission as to all matters addressed herein with respect to all Parties.

NOW, THEREFORE, in light of the mutual covenants of the Parties and the benefits accruing to all Parties through this Storm Cost Recovery Settlement Agreement, and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. The foregoing "General Background" and "Case Background" sections of this document are fully incorporated in and a part of this Agreement. The Agreement will become effective when approved by the Commission, a final order has been issued and the final order becomes unappealable ("Implementation Date").

Storm Cost Recovery Amount

2. The company's original proposed Recoverable Storm cost amount of \$102,476,127 (jurisdictional) as contained in its Amended Petition and as revised in its Second Amended Petition to \$98,982,984 (jurisdictional) shall be reduced by a total of \$7,725,098 ("Additional Reduction"), such that the total amount to be recovered from customers for the named storms in the Second Amended Petition shall be \$91,257,886 ("Reduced Recoverable Storm Amount"). Together, the Initial Reduction and Additional Reduction represent a total reduction for customers of \$10,025,098 from the Amended Petition.

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3. A portion of the Additional Reduction totaling \$6.0 million will be reclassified as capital and added to Tampa Electric's retail Electric Plant in Service balance in Account 364 – Poles, Towers and Fixtures (vintage year 2017) for all surveillance and future rate setting purposes. OPC and the other Parties agree not to dispute the reasonableness or prudence of this additional \$6.0 million of capital in any future rate proceeding.

4. The remaining \$1,725,098 of the Additional Reduction shall be reclassified the month following the Implementation Date as a regulatory deferred debit and represents non-specific reductions related to incremental internal labor (\$650,000) and foreign contractor costs (\$1,075,098). The company shall eliminate the deferred debit and charge base rate O&M expense for \$1,725,098 prior to the filing of its next general base rate case proceeding.

5. Based on the annual tax savings amount established in Docket No. 20180045-EI, and the Reduced Recoverable Amount specified above, Tampa Electric will refund to customers \$11,500,000 as a one-time bill credit reflected as a separate line item on the customers' bills utilizing the cost allocation principles used in the Energy Conservation Cost Recovery (ECCR) clause and calculated based upon Tampa Electric's billing determinants used in the company's most-current ECCR Clause filings with the Commission. This one-time bill credit will be reflected on customers' bills concurrently with meter readings for the first billing cycle of January 2020.<sup>1</sup>

6. The way the dollar amounts for the Initial Reduction, Additional Reduction and the Reduced Recoverable Storm Amounts were developed will not have any precedential value.

<sup>1</sup> This approach to refunding the net difference between the mutually agreed recoverable storm cost amount and the annual impact of tax reform constitutes a change from the procedure specified in the Implementation Stipulation. Although it is not a party to this docket or this Agreement, the Federal Executive Agencies has represented to Tampa Electric and OPC that it agrees to the change. Tampa Electric and OPC have consulted with counsel for the WCF Hospital Utility Association ("HUA") and were asked to represent that HUA did not participate in the negotiation of the Settlement Agreement and takes no position on it or the change. Consequently, all of the parties to the Implementation Stipulation either affirmatively agree to the change or take no position. In any event, since this change will give consumers the benefit of the tax savings-storm cost true up earlier than contemplated in the Implementation Stipulation, consumers will not be harmed or substantially affected in a negative way by the change.

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Future Process Improvements

7. In recognition of the evidence gathered and the adjustments described in paragraphs 2 through 4, above, the Parties have further agreed to a set of principles and mutually agreeable process changes intended to allow cost effective and timely storm damage recovery and service restoration that reasonably balances the customers' right to have service promptly restored with the customers' equal right not to pay excessive or improper costs to achieve that restoration.

8. The process changes generally described in the previous paragraph are more fully specified in Exhibit One to this Agreement, which is hereby incorporated herein by reference. Beginning on the Implementation Date, the company will make a good faith effort to implement as many of the new processes and procedures reflected in Exhibit One for the 2019 hurricane season as possible and will fully implement the processes and procedures for the 2020 hurricane season. The policies and procedures reflected in Exhibit One will remain in effect until amended by agreement of the Parties to this Tampa Electric Storm Cost Settlement or superseded by action of the FPSC applicable to Tampa Electric. The Parties will meet to evaluate the policies and procedures in Exhibit One and consider the need to amend them during the first quarter of 2021 and every two years thereafter.

Other Provisions

9. The provisions of this Agreement are contingent upon approval of this Agreement by the Commission in its entirety without modification. The Parties agree that approval of the Agreement is in the public interest. The Parties will support approval of the Agreement and will not request or support any order, relief, outcome or result in conflict with it. No Party to the Agreement will request, support or seek to impose a change to any provision of the Agreement without the agreement of the other Parties. Approval of the Agreement in its entirety will resolve

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all matters and issues in this docket. This docket will be closed effective on the date that the Commission Order approving this Agreement is final, and no Party shall seek appellate review of any order issued in this docket.

10. Except as explained in paragraph 5 and footnote 1, the resolutions contained herein are consistent with the applicable terms of the 2017 Agreement and the Implementation Stipulation. Except for any conflict regarding the method of making the tax savings-storm cost true up refund, which will be controlled by this Agreement, if any conflict between the terms of this Agreement, the 2017 Agreement and the Implementation Stipulation arise, the terms of the 2017 Agreement and Implementation Stipulation shall control.

11. This Agreement may be executed in counterpart originals, and a scanned pdf copy of an original signature will be deemed an original. Any principal or entity that executes, or causes to be executed, a signature page to this Agreement will be deemed and become a Party with the full range of rights, obligations, and responsibilities provide hereunder, notwithstanding that such principal or entity is not listed in the first recital above or executes the signature page subsequent to the date of this Agreement. It is expressly understood that the addition of any such additional Party(ies) will not disturb or diminish the benefits of the Agreement to any current Party.

12. The Parties agree that the following materials shall be admitted without cross-examination or objection into the evidentiary record in this docket to support this Agreement: (a) the non-confidential discovery answers and responses provided to the Parties in this docket; (b) the pre-filed testimony filed by the company on February 8, 2019; and (c) the confidential version of the transcript and exhibits of the Confidential Deposition Duces Tecum of Wesley Caldwell taken on August 8 and 9, 2018 ("Caldwell Deposition"). None of the Parties will contest or oppose

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the request for confidential classification filed by Tampa Electric covering the Caldwell  
Deposition.

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Exhibit One

**STORM RESTORATION COST PROCESS IMPROVEMENTS**

[Where Items I. A.- I. contain policies (and expectations) that are to be communicated to vendors through inclusion in the engagement documentation (*i.e.* the documentation which is to be transmitted to a vendor immediately after it has agreed to perform storm restoration work for the Company), an asterisk (\*) is placed in front of each applicable term. Additional specific guidance or reinforcement may be contained in individual policy statements.]

**I. Contracting And Vendor Engagement, Travel And Work Policies**

- A. Contracting Policy. The Company will (for damage assessment, line clearing and repair work) make a good-faith effort to contract and establish major terms and conditions with independent vendors who have non-embedded crews. Where applicable, the terms and conditions should reflect the procedures, policies and expectations outlined under I. A through I. An embedded crew provides storm restoration services and also performs similar or additional types of services for the Company in non-storm-restoration (non-emergency) conditions on a year-round basis. A non-embedded crew does not provide similar or additional types of services for the Company in non-storm-restoration (non-emergency) conditions on a year-round basis.
- B. \*Billing Start Point Policy. The Company will establish a policy that vendor billing should begin at the point crews mobilize after acquisition. The term "mobilize" does not include the time or activity associated with crew members traveling to the point of travel departure, but may include reasonable and prudent time and activity associated with stocking supplies and making vehicles ready to travel. Any exceptions to this requirement will be documented.
- C. \*Travel Time Billing Policy. The Company will establish a policy and use its best efforts to ensure that contracts with vendors include terms and conditions designed to limit compensation for travel time to the actual time traveled, with no minimum hours, and to require documentation of any exceptions to the policy and the reason therefor. For safety, timing, and logistics purposes, Company will request an electronic version of the proposed route that will be taken.
- D. \*Pace of Travel Guidance Policy. The Company will establish a policy for invoice review and storm filing documentation purposes that it expects distribution vendor crews that bill for 12 or more hours of travel in a day to travel 500 miles per day and it will require explanations sufficient to explain the degree of divergence from the expected travel distance.

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- E. *\*GPS Tracking Capability Policy.* The Company will establish a policy that GPS tracking of vendor crews using ARCOS or a similar application will be required of vendors where reasonably practicable and GPS tracking will be utilized to the maximum extent possible. The mandatory nature of this requirement will be communicated in the engagement documentation. Any exceptions to this requirement will be documented.
- F. *\*Anti-Poaching Policy.* The Company declares that, on an informed basis, it does not, and will not, "poach" vendors or vendor crews who are committed to another utility or are part of another utility's mutual aid allocation without the consent of the other utility. The Company will use its best efforts to communicate with Florida utilities regarding the engagement and the release of vendors. The standardized engagement documentation will communicate that the Company expects that vendors will communicate honestly with other utilities about any prior engagement to provide assistance to decrease the opportunity for "poaching."
- G. *\*Daily Time Sheet Review and Documentation Policy.* The Company will require, review, verify, and approve the daily time sheets for all applicable vendor crews (*i.e.*, other than those of an investor-owned utility ("IOU") allocated through a mutual assistance organization) and will maintain documentation of the Company's approval and any exceptions noted by the Company. Electronic interfacing for time sheet review and approval will be utilized by vendors where reasonably practicable, and a spreadsheet template will be made available to all contractors to facilitate consistent application to the maximum extent possible.
- H. *\*16 Hour Work/8 Hour Rest Policy.* The Company will establish a policy (and use its best efforts to ensure that contracts with vendors include necessary terms and conditions) to limit work time to 16 hours on, with 8 hours of rest, with no minimum hours, including the avoidance of double-time billing through efficient management of prior day's work time and/or current day's end of rest time/start time. The Company will document any exceptions if it is unable to include such provisions in its contract (in accordance with I. A.), and the reasons therefor. The Company will also document exceptions to the policy, if any, in the implementation of the policy, and the reasons therefor. The expectations in this policy will be communicated in the engagement documentation provided to all vendors.
- I. *\*Meal and Fuel Policy.* The Company will establish a policy for all vendors that all meals and fueling after vendor crews are on-boarded will occur at or be provided by the base camp; exceptions to this policy should be rare and all exceptions must be documented. Any authorized exception where meals are eaten off-site will not be

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reimbursed if they exceed a reasonable and customary amount. This Company policy will also include an expectation that no vendor crews will eat sit down meals outside the base camp or will purchase fuel off-site during working hours. The Company will establish a policy that vendor crews receiving meal stipends are expected to eat or receive all meals at or by the base camp once on-boarded. Time related to any unauthorized meals will not be paid. A sit-down meal is defined as a meal served in a restaurant where the crew park and leave their vehicles, enter the restaurant and sit down for a meal served by a server, and the meal is eaten inside the restaurant. The policies in 1.1 will be communicated to all vendors through the standard engagement documentation and, where possible, spelled out in the terms and conditions

- J. Mutual Assistance Group Advocacy Commitments. The Company will use reasonable best efforts to recommend to Southeastern Electric Exchange ("SEE") and/or Edison Electric Institute ("EEL") and advocate for/achieve changes to mutual aid IOU and vendor policies that are inconsistent with the receiving utility's company policies. In discussions with SEE and/or EEL, the Company will encourage SEE to establish policies to eliminate billing for management double-time and mandatory meal stipends, and to establish standardized meal policies (reasonable *per diem*, if any). The Company will update the consumer parties annually in writing as to the status of this item.

## II. Cost Documentation, Auditing and Regulatory Recovery Process

- A. Storm Cost Documentation. The Company will provide, for each named tropical storm, supporting documentation which includes binders (files) segregated by vendor with summaries and invoices, time sheets, etc., as follows:

- Summary identifying vendor, any reference number associated with discreet vendor crews, billing and point of origin location, distance to travel, assumed travel days, dates secured, date started travel, date arrived, date released, time released, released to whom and, if vendor travels home, the date arrived at home.
- Contractor review showing the results of the Company's internal review that contains the detail listed on a Storm Audit Narrative, including all exceptions documented pursuant to I.A. through I.
- Summary of expenses in a format that shows total billing (all invoices are listed separately).
- Filings will be very similar in organization, showing cost by storm and by cost category, including but not limited to Regular Payroll, Overtime Payroll, Payroll Overheads, Contractors Cost for line restoration, Line Clearing Contractor costs, Logistics, Materials & Supplies, Other.



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The Company will provide the information outlined above in a format that comports with the Company's record keeping and accounting practices on the timeline discussed below. Testimony will be filed after any required independent audit is concluded.

- B. Initial Audit Required. The Company will engage an independent outside audit firm to conduct an audit of the Company's presentation of recoverable costs of the first named-storm for which claimed damages exceed at least 50% of its full authorized storm reserve amount or \$40 million, whichever is greater. The purpose, scope and activities of this audit will include, at a minimum, the following:

(1) Audit Purpose and Scope

- (a) The purpose of the audit is to validate that any and all storm costs paid were allowable, legitimate, accurate, incurred within the appropriate time period, adequately and completely supported, and properly approved, ensuring that only actual and approved storm costs are recovered in customer rates.
- (b) The scope of the audit should be sufficient to enable the auditor to evaluate the adequacy and effectiveness of the Company's internal controls (or processes) governing the vendor procurement process, including (1) complete rate agreement, (2) invoice/billing payment review process, and (3) the approval/denial/resolution process, including but not limited to, the Company's payment approval logic for reasonableness, allowability and compliance with contract terms.

(2) Audit Activities should include:

- (a) Interviews with key personnel
- (b) Review of operating policies and procedures
- (c) Review of relevant documents, such as executed contracts, labor and equipment rates, established work day hours, over time and double time criteria, and vendor employee rosters
- (d) Comparisons between vendor employee rosters and approved timesheets, and expense receipts (hotel, fuel or meal)
- (e) Inspection and comparison of paid invoices to submitted expense receipts, submitted timesheets
- (f) Recalculation and reconciliation of paid invoices
- (g) Reconciliation of paid invoices with overall vendor invoice summaries or utility expense recap documents

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- C. *Provision of Supporting Documentation.* All supporting documentation referenced under II. A will be provided to Interveners in response to an agreed, standardized discovery request shortly after the filing of testimony.
- D. *Cost recovery for initial process implementation.* For the first qualifying storm described under II. B, the Consumer Parties will not object to and will support the Company recovering the start-up costs for the new procedures required under these processes (e.g. audit costs, base rate payroll for employees needed to implement the process).
- E. *Incremental cost methodology.* The Company will provide in its testimony full details as to how incremental and non-incremental costs were determined in accordance with the Incremental Cost Methodology Addendum below and Rule 25-6.0143, F.A.C. The Consumer Parties agree that the methodology explained below is a reasonable approach to identifying incremental storm costs as that concept is used in the rule.

**Incremental Cost Methodology Addendum**

- Base Payroll:
  - Affiliate employees: Charge time to the storm reserve charge codes. Then remove the difference between the actual and the 3-year historical average Affiliate base payroll dollars charged to IOU total Operation and Maintenance expense ("O&M") for the month(s) of the activities directly related to the storm in the absence of a storm. This is the non-incremental portion.
  - IOU employees in Transmission and Distribution ("T & D"): Charge all time to the storm reserve charge codes. For each T & D function, remove the difference between the actual and the 3-year historical average functional O&M base payroll dollars for the month(s) of the activities directly related to the storm in the absence of a storm. This is the non-incremental portion.
  - IOU employees not in T & D and not clause recoverable: Charge all base payroll time to normal charge codes as non-incremental.
  - IOU employees who are clause recoverable: Charge all base payroll time to the storm reserve charge codes. This amount is incremental and recoverable.
  - The costs attributed to the new processes agreed to by the parties will be treated the same as the "IOU employees who are clause recoverable" bullet above for the first storm these processes are in place, and thereafter will be treated the same as the "IOU employees not in T&D and not clause recoverable" bullet above.

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- Overtime (OT):
  - All IOU and Affiliate employees on storm duty charge OT to storm reserve charge codes.
  - Remove the difference between the actual and the 3-year historical average total IOU OT (including Affiliate OT charged to the IOU) for the month(s) of the activities directly related to the storm in the absence of a storm. This is the non-incremental portion.
- Burdens:
  - Labor burdens follow base and OT payroll charge codes. Follow the same procedures as base and OT payroll above.
- Exempt Supplemental Compensation (ESC):
  - All ESC associated with storm duty for employees who are eligible for overtime is charged to the storm reserve charge codes and is incremental recoverable.
- T & D Non-Vegetation Management Contractor Costs:
  - Non-native contractors: Charge all invoices to storm reserve charge codes as incremental recoverable.
  - Native contractors: Charge all time to storm reserve charge codes. For each T & D function, remove the difference between the actual and the 3-year historical average native contractor O&M costs for the month(s) of the activities directly related to the storm plus the month(s) following the storm in the absence of a storm. This is the non-incremental portion.
- T & D Vegetation Management Costs:
  - Charge all native and non-native vegetation contractor costs to the storm reserve charge codes.
  - For each T & D function, remove the difference between the actual and the 3-year historical average of vegetation management costs for the month(s) of the activities directly related to the storm plus the month(s) following the storm in the absence of a storm. This is the non-incremental portion.

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- Capitalized Costs:
  - Use a combined simple average of hourly foreign and native contractor costs to determine amounts to capitalize to plant, property and equipment along with the materials and other cost of equipment.
  - IOUs will be authorized to defer the depreciation expense impact on 40% of the total capitalized amount as a regulatory asset until the next rate case or settlement, and then will amortize and recover said regulatory asset over a 4 year period.

**Notes:**

The term "IOU" (investor owned utility) is the same as Company and is used here to distinguish the operating regulated company from any affiliate.

To the extent that the three year period referenced above in this Addendum includes a rate case or settlement test period, the approved rate case or settlement test period data for that year will be used in lieu of the actuals for that year that would otherwise be used in setting the 3-year average, and the other two years will be based on the actual results for those years.

The Company will include workpapers and journal entries that support the above calculations as part of its data request responses.

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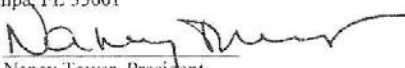
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DATED this 4<sup>th</sup> day of April, 2019.

IN WITNESS WHEREOF, the Parties evidence their acceptance and agreement with the provisions of this Tampa Electric Storm Cost Recovery Agreement by their signature(s):

Tampa Electric Company  
702 N. Franklin Street  
Tampa, FL 33601

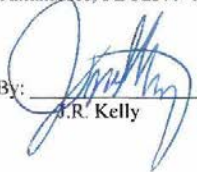
By   
Nancy Tower, President

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Signature Page to Tampa Electric Storm Cost Settlement Agreement

Office of Public Counsel  
J. R. Kelly, Esquire  
Public Counsel  
Charles Rehwinkel, Esquire  
Deputy Public Counsel  
Patricia A. Christensen  
Associate Public Counsel  
c/o The Florida Legislature  
111 West Madison Street, Room 812  
Tallahassee, FL 32399-1400

By:   
J.R. Kelly

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Signature Page to Tampa Electric Storm Cost Settlement Agreement

The Florida Industrial Power Users Group  
Jon C. Moyle, Jr., Esquire  
Moyle Law Firm  
The Perkins House  
118 North Gadsden Street  
Tallahassee, FL 32301

By:  April 9, 2019  
Jon C. Moyle, Jr.

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Signature Page to Tampa Electric Storm Cost Settlement Agreement

Florida Retail Federation  
Robert Scheffel Wright  
Gardner, Bist, Bowden, Bush, Dee, LaVia & Wright, P.A.  
1300 Thomaswood Drive  
Tallahassee, FL 32308

By:   
Robert Scheffel Wright



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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Re: Petition for recovery of costs associated with named tropical systems during the 2015, 2016, and 2017 hurricane seasons and replenishment of storm reserve subject to final true-up, Tampa Electric Company.

DOCKET NO. 20170271-EI

FILED: May 14, 2019

**AMENDMENT TO TAMPA ELECTRIC  
STORM COST SETTLEMENT AGREEMENT**

THIS AMENDMENT is dated as of this 14<sup>th</sup> day of May, 2019 and amends the Tampa Electric Storm Cost Settlement Agreement (“Settlement Agreement”) filed with the Florida Public Service Commission (“FPSC” or Commission”) on April 24, 2019. This Amendment complies with paragraph 9 of the Settlement Agreement, because it is executed by each of the parties to the Settlement Agreement, namely: Tampa Electric Company (“Tampa Electric” or the “company”), the Office of Public Counsel (“OPC” or “Citizens”), the Florida Industrial Power Users Group (“FIPUG”) and the Florida Retail Federation (“FRF”). This document shall be referred to as the “Settlement Agreement Amendment” or the “Amendment.”

**Terms**

1. The first unnumbered paragraph in the “Capitalized Costs” bullet on page 16 of the Settlement Agreement (in the Incremental Cost Methodology Addendum in Exhibit One) is amended with changes shown in legislative format [additions underlined deletions struck through] to read as follows:

Use a combined simple average of hourly ~~internal company foreign~~ and native contractor costs that are the type normally incurred in the

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absence of a storm to determine amounts to capitalize to plant, property and equipment along with the materials and other cost of equipment.

2. All other provisions of the Settlement Agreement shall remain in full force and effect as originally stated therein.

DATED this 11 day of May, 2019.

IN WITNESS WHEREOF, the Parties evidence their acceptance and agreement with the provisions of this Amendment to the Tampa Electric Storm Cost Recovery Agreement by their signature(s):

Tampa Electric Company  
702 N. Franklin Street  
Tampa, FL 33601

By   
Nancy Tower, President

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Signature Page to Amendment to Tampa Electric Storm Cost Settlement Agreement

Office of Public Counsel  
J. R. Kelly, Esquire  
Public Counsel  
Charles Rehwinkel, Esquire  
Deputy Public Counsel  
Patricia A. Christensen  
Associate Public Counsel  
c/o The Florida Legislature  
111 West Madison Street, Room 812  
Tallahassee, FL 32399-1400

By: \_\_\_\_\_

J.R. Kelly



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Signature Page to Amendment to Tampa Electric Storm Cost Settlement Agreement

The Florida Industrial Power Users Group  
Jon C. Moyle, Jr., Esquire  
Moyle Law Firm  
The Perkins House  
118 North Gadsden Street  
Tallahassee, FL 32301

By:  May 13, 2019  
Jon C. Moyle, Jr.

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Signature Page to Amendment to Tampa Electric Storm Cost Settlement Agreement

Florida Retail Federation  
Robert Scheffel Wright  
Gardner, Bist, Bowden, Bush, Dec, LaVia & Wright, P.A.  
1300 Thomaswood Drive  
Tallahassee, FL 32308

By:   
Robert Scheffel Wright