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July 22, 2022

BY E-PORTAL

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

Re: **Docket No. 20220049-EI: Review of Storm Protection Plan pursuant to Rule 25-6.030, F.A.C., Florida Public Utilities Company**

Dear Mr. Teitzman:

Attached for electronic filing, please find the attached "marked up" version of the Office of Public Counsel's Witness Kollen's Direct Testimony filed May 31, 2022 in the above-referenced docket, which is being provided consistent with the Prehearing Officer's July 21, 2022 ruling on the Motion's to Strike Portions of the Testimony of Office of Public Counsel Witness Kollen filed by FP&L, Duke Energy Florida, and Tampa Electric Company in Dockets Nos. 20220051-EI, 20220050-EI, and 20220048-EI, respectively. Also attached, please find a chart identifying the page and line numbers of the marked up version.

Thank you for your assistance.

Sincerely,

Beth Keating
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MEK
cc: (Certificate of Service)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of 2022-2031 Storm Protection Plan, pursuant to Rule 25-6.030, F.A.C., Florida Public Utilities Company.	DOCKET NO.: 20220049-EI
	FILED: May 31, 2022

DIRECT TESTIMONY

AND EXHIBITS

OF

LANE KOLLEN

ON BEHALF OF THE OFFICE OF PUBLIC COUNSEL

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I. QUALIFICATIONS AND SUMMARY

A. Qualifications

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I earned a Bachelor of Business Administration ("BBA") degree in accounting and a Master of Business Administration ("MBA") degree from the University of Toledo. I also earned a Master of Arts ("MA") degree in theology from Luther Rice College & Seminary. I am a Certified Public Accountant ("CPA"), with a practice license, Certified Management Accountant ("CMA"), and Chartered Global Management Accountant ("CGMA"). I am a member of numerous professional organizations, including the American Institute of Certified Public Accountants, Institute of Management Accounting, Georgia Society of CPAs, and Society of Depreciation Professionals.

I have been an active participant in the utility industry for more than forty years, initially as an employee of The Toledo Edison Company from 1976 to 1983 and thereafter as a consultant in the industry since 1983. I have testified as an expert witness on hundreds of occasions in proceedings before regulatory commissions and courts at the federal and state levels. In those proceedings, I have addressed ratemaking, accounting, finance, tax, and planning issues, among others.

I have testified before the Florida Public Service Commission on numerous occasions, including base rate, fuel adjustment clause, acquisition, and territorial proceedings involving Florida Power & Light Company ("FPL"), Duke Energy Florida ("DEF"), Talquin Electric Cooperative, City of Tallahassee, and City of Vero Beach.[1]

B. Purpose of Testimony

Q. ON WHOSE BEHALF ARE YOU PROVIDING TESTIMONY?

A. I am providing this testimony on behalf of the Florida Office of Public Counsel ("OPC").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to address and make recommendations regarding the proposed Storm Protection Plans ("SPP") filed by Florida Public Utilities Company ("FPUC"), Duke Energy Florida, LLC ("DEF"), Tampa Electric Company ("Tampa"), and Florida Power and Light Company ("FPL") (collectively, the "utilities"). In this testimony, I specifically address the SPP filing for FPUC.

I address the scope of the proposed SPPs and the threshold economic decision criteria that the Commission should apply to the selection, ranking, and magnitude of SPP programs and projects, consistent with the statutory requirements set forth in Section 366.96, Florida Statutes, *Storm Protection Plan Cost Recovery* ("SPP Statute"), Rule 25-6.030, Florida Administrative Code ("SPP Rule"), and Rule 25-6.031, F.A.C. ("SPPCRC Rule") to the extent that the outcome of these proceedings will affect the cost recoveries in the Storm Protection Plan Cost Recovery Clause ("SPPCRC") proceedings pursuant to the SPPCRC Rule. My testimony should be considered in conjunction with the testimony of Witness Kevin Mara on behalf of OPC.

[1] I have attached a more detailed description of my qualifications and regulatory appearances as my Exhibit LK-1.

C. <u>Scope of the SPP Requests</u>

Q. PLEASE SUMMARIZE THE SPP REQUESTS.

A. In the aggregate, the four utilities seek authorization for programs and projects they estimate will cost \$25.323 billion over the next ten years (2023-2032), consisting of \$23.167 billion in capital expenditures and \$2.156 billion in operation and maintenance ("O&M") expense. The capital expenditures will have a growing and cumulative ratemaking impact for the duration of the SPPs and beyond of 40 or more years over the service lives of the plant assets. These amounts are in addition to the capital expenditures and O&M expense expended in prior years and this year for storm hardening and storm protection programs. The utilities also expect to seek authorization for additional amounts in subsequent SPP updates beyond the ten years reflected in these proceedings.

The following tables provide a summary of the estimated SPP program expenditures for each utility by year and in total for the ten-year period.

Florida Public Utilities Company
SPP Program Expenditures
\$ Millions

SPP Costs by Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Capital Total	2.3	6.7	16.9	54.2	53.2	19.9	19.6	19.8	25.3	25.2	243.1
O&M Expense Total	1.4	1.6	1.9	3.0	2.9	1.8	1.8	1.8	1.9	1.9	20.0
Overall Total	3.7	8.3	18.7	57.2	56.1	21.8	21.4	21.6	27.2	27.1	263.1

Duke Energy Florida, LLC
SPP Program Expenditures
\$ Millions

SPP Costs by Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total
Capital Total	602.7	693.4	775.2	748.8	747.7	749.7	748.5	750.6	749.4	751.6	7,317.5
O&M Expense Total	72.1	77.1	79.0	78.1	79.0	81.8	82.4	85.8	86.8	90.0	812.0
Overall Total	674.8	770.5	854.1	826.9	826.7	831.5	830.9	836.4	836.2	841.6	8,129.5

Tampa Electric Company SPP Program Expenditures $ Millions											
SPP Costs by Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Capital Total	169.9	168.7	173.1	172.9	169.0	167.5	169.6	166.0	172.5	169.4	1,698.7
O&M Expense Total	31.0	34.0	33.7	35.2	36.3	37.7	39.6	41.2	43.1	45.3	377.1
Overall Total	200.9	202.7	206.8	208.2	205.4	205.2	209.2	207.3	215.6	214.7	2,075.9

Florida Power & Light Company SPP Program Expenditures $ Millions											
SPP Costs by Year Total Company	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total
Capital Total	1,458.9	1,559.5	1,520.4	1,200.8	1,319.0	1,350.0	1,388.4	1,423.4	1,347.6	1,340.1	13,908.0
O&M Expense Total	86.0	86.7	88.0	88.2	94.1	100.3	99.8	100.5	100.9	101.5	946.2
Overall Total	1,544.9	1,646.3	1,608.4	1,289.0	1,413.1	1,450.3	1,488.2	1,523.9	1,448.5	1,441.6	14,854.2

Q. WHAT EFFECTS WILL THE REQUESTS HAVE ON CUSTOMER RATES?

A. The incremental effects on present customer rates will be significant as measured over multiple ratemaking metrics, including SPP revenue requirements, net plant in service, annual electric revenues, and cost per customer. The following table provides a summary of the revenue requirements by utility and in the aggregate by year and in total for the ten-year period.

Florida Public Utilities Company SPP Program Revenue Requirements $ Millions											
SPP Revenue Requirements By Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Capital Total	0.3	0.6	2.0	6.0	12.5	17.0	19.0	21.0	23.2	25.7	127.3
O&M Expense Total	1.4	1.6	1.9	3.0	2.9	1.8	1.8	1.8	1.9	1.9	20.0
Overall Total	1.7	2.2	3.9	9.0	15.4	18.9	20.8	22.8	25.1	27.6	147.3

Duke Energy Florida, LLC
SPP Program Revenue Requirements
$ Millions

SPP Revenue Requirements By Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total
Capital Total	77.3	144.2	217.9	303.3	378.5	451.1	522.2	590.7	657.8	722.1	4,065.2
O&M Expense Total	72.1	77.1	79.0	78.1	79.0	81.8	82.4	85.8	86.8	90.0	812.0
Overall Total	149.4	221.3	296.8	381.4	457.5	533.0	604.7	676.5	744.6	812.1	4,877.2

Tampa Electric Company
SPP Program Revenue Requirements
$ Millions

SPP Revenue Requirements By Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Capital Total	17.2	35.8	53.8	72.3	91.4	109.8	127.9	145.5	163.0	180.0	996.6
O&M Expense Total	30.7	33.6	33.4	34.9	36.0	37.4	39.3	40.9	42.8	44.9	374.0
Overall Total	47.9	69.4	87.2	107.2	127.4	147.3	167.2	186.4	205.7	224.9	1,370.7

Florida Power & Light Company
SPP Program Revenue Requirements
$ Millions

SPP Revenue Requirements By Year Jurisdictional	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total
Capital Total	332.9	509.3	685.9	836.6	971.5	1,112.3	1,254.0	1,396.5	1,533.2	1,661.6	10,293.8
O&M Expense Total	85.2	85.9	87.2	87.5	93.3	99.4	98.9	99.6	100.0	100.6	937.6
Overall Total	418.0	595.2	773.2	924.1	1,064.8	1,211.7	1,352.9	1,496.1	1,633.2	1,762.2	11,231.3

In addition to the revenue requirement effects of the proposed SPPs shown on the preceding tables, the following tables compare other ratemaking metrics, including capital expenditures compared to present net plant in service, increases in the revenue requirement compared to present revenues, and the cost per customer. These metrics provide additional context as to the magnitude and the impacts on customer rates.

Total 10-Year Projected Spend and Revenue Requirements
Compared to Total Net Plant in Service and Revenues
Actual Results For the 12 Months Ended December 31, 2021
$ Millions

	Net Plant In Service	10-Year Proposed Capital Spend	Percentage Increase in Net Plant	2021 Electric Revenues	Projected SPP Revenue Requirement In Year 10	Percentage Increase in Revenues
FPL	44,891.0	13,908.0	31.0%	12,244.3	1,762.2	14.4%
Duke	16,946.5	7,317.5	43.2%	5,111.8	812.1	15.9%
TEC	7,215.5	1,698.7	23.5%	2,180.0	224.9	10.3%
FPUC	94.0	243.1	258.6%	83.7	27.6	33.0%
Total	69,147.0	23,167.4	33.5%	19,619.8	2,826.8	14.4%

Total 10-Year Projected SPP Investment Per Customer
Includes Capital and O&M Investment

	Customers	Projected 10-Year Total Investment $ Millions	10-Year Investment Per Customer $
FPL	5,700,000	14,854.2	2,606
Duke	1,879,073	8,129.5	4,326
TEC	824,322	2,075.9	2,518
FPUC	32,993	263.1	7,976
Total	8,436,388	25,322.7	3,002

Q. HOW DO THESE COSTS COMPARE TO THE BENEFITS FROM POTENTIAL SAVINGS IN STORM DAMAGE AND RESTORATION COSTS?

A. The estimated costs are much greater than the benefits from potential savings for each utility and for nearly all of the programs and projects, although FPUC and FPL did not, and refused to, provide quantifications of the benefits from potential savings in storm damage and restoration costs.

The following table provides a summary of the costs and dollar benefits by utility and in the aggregate by year and in total for the ten-year period and a fifty-year period. I show $0 ("n/a") in benefits for FPUC and FPL, consistent with their failure to quantify any benefits from potential savings in storm damage and restoration costs.

Total 10-Year Projected SPP Costs and Benefits Summary
Includes Capital and O&M Investment

	Projected 10-Year Total Investment $ Millions	Projected Annual Avoided Restoration Costs $ Millions	Escalated Avoided Restoration Costs Over 10 Years $ Millions	Benefits to Costs Ratio 10 Years %	Escalated Avoided Restoration Costs Over 50 Years $ Millions	Benefits to Costs Ratio 50 Years %
FPL	14,854.2	n/a	n/a	n/a	n/a	n/a
Duke	8,129.5	56.5	647.7	8%	6,373.0	78%
TEC	2,075.9	13.0	149.5	7%	1,470.6	71%
FPUC	263.1	n/a	n/a	n/a	n/a	n/a
Total	25,322.7	69.5	797.2		7,843.6	

Note: Benefits Calculations Not Provided by FPL and FPUC.

Q. **WHY ARE THESE SUMMARIES AND COMPARISONS SIGNIFICANT IN THESE PROCEEDINGS?**

A. They provide context for the Commission in its review of the proposed SPPs, including the sheer magnitude of the incremental capital expenditures and O&M expense and the rate impacts of these costs, as well as for the establishment and application of threshold decision criteria for the selection, ranking, and magnitude of the SPP programs and projects that are authorized. They also demonstrate that the costs of the proposed SPP programs and projects far outweigh the benefits from savings in storm damage and restoration costs.

The Commission also should keep in mind that the impact of the SPP programs is yet another addition to the customer bill in an environment of high inflation, skyrocketing natural gas prices and other base rate increases.

D. Summary of Conclusions and Recommendations

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.

A. Each utility's proposed SPP capital expenditures, O&M expenses, increases in rate base, and resulting increases in customer rates are significant. The SPP capital expenditures and O&M expenses are incremental costs with incremental customer rate impacts. The framework, scope, selection, ranking, magnitude, prudence, and authorization to proceed of the SPP programs and projects will be determined in these proceedings, not in the subsequent SPPCRC proceeding. Therefore, the decision criteria, ratemaking principles, and rate recovery of the SPP project costs are important factors in the decision making process in this and the other SPP proceedings now pending.

To qualify for inclusion in the SPP proceedings and cost recovery in the SPPCRC proceedings, the projects and the costs of the projects must be incremental, not simply displacements of base rate costs that would have been incurred during the normal course of business, as well as prudent, used and useful, and just and reasonable both as to amount and customer impact. These factors must be considered in the decision process in the SPP proceedings, not limited to the review that will take place in the SPPCRC proceedings after the projects are selected and costs already have been incurred.

The Commission should apply rational and specific decision criteria to the selection, ranking, and magnitude of the proposed programs and projects and apply those decision criteria consistently to all four utilities in these proceedings. The decision criteria should include justification in the form of a benefit/cost analysis in addition to the qualitative assessments of whether the programs and projects will reduce restoration costs and outage times. The economic justification is an important consideration in whether the programs and projects are prudent and reasonable, a determination that can only be made in the SPP proceedings, in contrast to whether the costs actually incurred during implementation of the programs and projects were prudently incurred and reasonable, which is determined in the SPPCRC proceeding.

In addition, the total multi-year customer rate impact can be considered only in the SPP proceeding. The SPPCRC proceedings address the actual recovery and annual customer rate impact only after the decision process in these SPP proceedings is complete, projects are approved, and the SPP programs and projects are implemented.

Further, it is critical that the customer rate impact reflect only the incremental cost of the SPP projects and that all avoided cost savings be reflected as offsets to those costs either through reductions to the SPPCRC or through reductions to base rates. However, in their SPP filings, the utilities did not, with limited exceptions, explicitly exclude the costs presently recovered in base rates or expressly account for any avoided cost savings. The utilities will retain the avoided cost savings for costs presently recovered in base rates unless these costs are addressed in this proceeding and the SPPCRC proceedings or otherwise included in a negotiated resolution.

I recommend that the Commission adopt and consistently apply decision criteria for the selection, ranking, magnitude, and prudence of the SPP programs and projects for the four utilities to ensure that the utilities do not use the SPP and SPPCRC process to displace costs that are subject to and recoverable through the base rate process and shift those costs to recover them through the SPP and SPPCRC process.

I concur with Witness Mara's recommendation to exclude the costs of programs and projects that displace base rate costs that would have been incurred during the normal course of business and that are not incurred on an incremental basis specifically to achieve the objectives of the SPP Rule.

I recommend that the Commission reject all proposed SPP projects that are not economic, meaning that they do not have a benefit-to-cost ratio of at least 100%. Projects with a benefit-to-cost ratio of less than 100% are not economic, cannot be considered prudent at the point of decision in this proceeding, and cannot be considered prudent or just and reasonable for future recovery through the SPPCRC.

I recommend that the Commission adopt and consistently apply uniform methodologies among the utilities to determine the revenue requirements and rate impacts of the programs and projects in these proceedings and that it carry through those uniform methodologies to the rate calculations in the SPPCRC proceeding. More specifically, I recommend that the Commission: 1) exclude construction work in progress ("CWIP") from both the return on rate base and depreciation expense, and instead allow a deferred return on the CWIP until it is converted to plant in service or prudently abandoned; 2) allow property tax only on the net plant at the beginning of each year; 3) require a credit for the avoided depreciation expense on plant that is retired due to SPP plant investments; 4) require a realignment of the costs of pole inspections and vegetation management from base rates to the SPPCRC, to the extent this has not been adopted for FPUC; and 5) require a credit for the avoided O&M expenses due to the SPP plant investments and SPP O&M expenses.

II. DECISION CRITERIA FOR THE RATIONAL SELECTION, RANKING, AND MAGNITUDE OF SPP PROGRAMS AND PROJECTS

Q. DESCRIBE THE FRAMEWORK FOR THE SELECTION AND RANKING OF SPP PROGRAMS AND PROJECTS.

A. Section 366.96, Fla. Stat., and Rule 25-6.030, F.A.C., establish the required framework for the utility's SPP, including the utility's identification of projects that are designed to reduce outage restoration costs and outage times, information necessary to develop and apply decision criteria for the selection, ranking, and magnitude of the SPP programs and costs, estimates of the customer rate impacts, and parameters for recovery of the actual costs incurred for the SPP projects offset by costs recovered through base rates and other clause recoveries as well as savings in those costs.

The SPP framework provides important customer safeguards that should be enforced to require the utility to: 1) identify new programs and projects or the expansion of existing programs and projects that are not within the scope of its existing base rate programs and cost recoveries in the normal course of business; 2) limit requests to programs and projects that are prudent and reasonable; 3) justify the selections, rankings, and magnitude of SPP programs, projects, and costs; 4) ensure there is a comparison of benefits to costs; 5) effectively consider the rate impact on customers; and 6) ensure that the utility only recovers incremental costs, net of decremental (avoided) costs or reductions in costs (savings), through the SPPCRC.

More specifically, Section 366.96(8), Fla. Stat., limits SPP programs and projects to costs not recovered through the utility's base rates. Section 366.96(8), Fla. Stat., states in part: "The annual transmission and distribution storm protection plan costs may not include costs recovered through the public utility's base rates."

Section 366.96(2)(c), Fla. Stat., limits SPP programs and projects to costs that are prudent and reasonable. The Statute further defines "[t]ransmission and distribution storm protection plan costs" as "the reasonable and prudent costs to implement an approved transmission and distribution storm protection plan." §366.96(2)(c), Fla. Stat. Similarly, the SPPCRC Rule requires that costs included in the SPPCRC be "prudent" and "reasonable." Rule 25-6.031(3), F.A.C. Although the requirements found in the statute are repeated in the SPPCRC Rule, the determination of whether the costs included in the SPPCRC are prudent and reasonable necessarily requires that the SPP programs and projects approved in the SPP docket must be prudent to undertake and implement and that the estimated costs of the programs and projects are reasonable as a threshold matter. The sequential nature of these determinations effectively limits any subsequent assessment of prudence and reasonableness in the SPPCRC proceeding to an after-the-fact assessment of the utility's implementation of each project and the actual costs incurred.

In addition, the SPP Rule requires that the utility quantify the "benefits" and costs, compare the benefits to the costs, and provide an estimate of the revenue requirement effects for each year of the SPP. Rule 25-6.030(3)(d)4, and (3)(g), F.A.C. Section 366.96(4), Fla. Stat., requires the Commission to consider this evidence in its evaluation of the SPPs. This information allows the Commission and intervening parties to determine if the proposed projects are economic, or cost-justified, to establish thresholds, or cutoff limitations, based on whether the projects are wholly or partially self-funding through cost savings, or "benefits," and to consider these factors in establishing limitations based on the customer rate impact, not only in the first year, but over the life of the SPP itself, and then beyond the SPP, extending over the lives of the SPP project costs that were capitalized.

Further, Section 366.96, Fla. Stat., and the SPPCRC Rule limit the costs eligible for recovery through the SPPCRC to incremental costs net of avoided costs (savings). The Statute and this Rule specifically require the exclusion of costs that are recovered through base rates and other clause forms of ratemaking recovery.[2]

Q. ARE THE SPP RULE AND THE SPPCRC RULE SEQUENTIAL AND INTERRELATED?

A. Yes. Certain ratemaking determinations required pursuant to the SPPCRC Rule necessarily start with an assessment of the SPP programs and projects that can only be performed in the SPP proceeding, and then are confirmed and refined in the SPPCRC proceeding for cost recovery purposes.

In the SPP proceeding, the Commission must determine the prudence of the programs upfront based on whether they are economically justified, whether the projected costs are just and reasonable, and whether the customer rate impact is reasonable. This requires the application of objective thresholds and related screening criteria to select, rank, and determine the magnitude of SPP projects. The Commission also must determine whether the Company has quantified the revenue requirement and customer rate impacts

[2] § 366.96(8), Fla. Stat.; Rule 25.6.031(6)(a), F.A.C.

in an accurate and comprehensive manner, although the final SPPCRC rate quantifications will be performed in the SPPCRC proceeding.

Q. ARE EACH OF THE UTILITIES' PROPOSED PROGRAMS AND PROJECTS OUTSIDE THE SCOPE OF THE EXISTING BASE RATE PROGRAMS AND COST RECOVERIES IN THE NORMAL COURSE OF BUSINESS?

A. No. FPUC and each other utility have included programs and projects that are within the scope of their existing base rate programs and base rate recoveries in the normal course of business. These programs and projects are listed and addressed in greater detail by Witness Mara. These programs and projects should be excluded from the SPP and the costs should be excluded from recovery through the SPPCRC.

The SPPs and SPPCRCs are for new and expanded programs and projects that will reduce restoration costs and outage times and for the recovery of the incremental costs of the SPP programs and projects, not to displace base rate programs and base rate recoveries. Nor are the SPPs and SPPCRCs an alternative and expedited form of rate recovery for any and all costs that arguably improve resiliency or reliability. Absent a demonstrable simultaneous, equivalent corresponding reduction of base rates, neither the SPP Statute nor the SPP or SPPCRC Rules authorize the Commission or the utilities to displace and exclude programs and costs from base rates and then include the programs and costs in the SPPs and SPPCRCs.

Q. ARE EACH OF THE FPUC's PROPOSED PROGRAMS AND PROJECTS PRUDENT AND REASONABLE?

A. No. The utility's programs and costs are not prudent and reasonable unless they meet all of the requirements of the SPP and the SPPCRC Rules that I previously described. Certain of the utility's programs and projects fail these requirements because they are not new or expansions of existing programs outside of base rates in the normal course of business; certain programs and projects fail because they are not economic.

Q. DID THE UTILITIES CONSISTENTLY APPLY A BENEFIT/COST ANALYSIS TO DETERMINE THE SELECTION, RANKING, AND MAGNITUDE OF THE SPP PROGRAMS?

A. No. The utilities used a variety of decision criteria, qualitative and quantitative, but none of them relied on a benefit/cost analysis as a threshold decision criterion to qualify a program or project for inclusion in its SPP. Nor were the decision criteria consistent among the utilities or even among each utility's SPP programs and projects.[3]

Neither FPUC nor FPL developed or relied on any benefit/cost analyses. Although neither DEF nor Tampa developed or relied on benefit/cost analyses as a threshold decision criterion to qualify their programs, they both used a form of benefit/cost analysis for the ranking and the magnitude of their programs.

Q. WHY IS AN ECONOMIC JUSTIFICATION NECESSARY AS A THRESHOLD DECISION CRITERION TO QUALIFY PROGRAMS OR PROJECTS FOR INCLUSION IN THE SPP?

A. Fundamentally, SPP programs and projects should be authorized only if the benefits exceed the costs; in other words, the benefit-to-cost ratio should be at least 100%. Neither the Statute nor the SPP Rule require the Commission to approve SPP programs and projects

[3] I have attached a brief summary of each utility's decision criteria as my Exhibit LK-2.

that are uneconomic even if they meet the statutory and SPP Rule objectives to reduce restoration costs and outage times.

The programs and projects submitted within the SPP are discretionary and must be incremental, meaning their scope and the costs should be above and beyond the present scope and costs for actual and planned capital expenditures and O&M expenses recovered in base rates in the normal course of business. By its terms, the SPP Rule requires the utility to address and undertake projects "to enhance the utility's existing infrastructure for the purpose of reducing restoration costs and outage times associated with extreme weather conditions therefore improving overall service reliability." Rule 25-6.030(2)(a), F.A.C.

The SPP programs and projects must be incremental, including the expansions of the pole inspection and vegetation management programs and projects that were previously in effect. If the projects actually had been necessary as base rate programs in the normal course of business, but the utility failed to undertake them, then the utility would have been, and would continue to be, imprudent for its failure to construct "transmission and distribution facilities" that would withstand "extreme weather events" and its failure to undertake maintenance activities that would reduce outage durations and outage expenses. No utility and no other party has made that argument.

The economic justification standard allows the utility to propose, and the Commission to set, an appropriate and reasonable benefit-to-cost threshold, whether it is the minimum 100% that I recommend or something greater or lesser.

In addition, the economic justification allows the utility and the Commission to rank proposed programs and projects to achieve the greatest value at the lowest customer rate impact.

Further, the economic justification allows the utility and the Commission to determine the maximum amount (magnitude) of expenditures for each SPP program and project that will result in net benefits to the utility's customers.

Q. HOW SHOULD THE COMMISSION DETERMINE WHETHER THE PROPOSED SPP PROGRAMS AND PROJECTS ARE ECONOMICALLY JUSTIFIED?

A. Typically, economic justification is based on a comparison of the incremental revenues or benefits (savings) that are achieved or achievable to the incremental costs of a project, with the benefits measured as the avoided costs that will not be incurred due to the SPP programs and projects and the incremental costs as the sum of the annual revenue requirements for the SPP programs and projects. The savings in costs includes not only the avoided outage restoration costs that will not be incurred due to extreme weather events, but also the reductions in maintenance expense from the new SPP assets that require less maintenance than the base rate assets that were replaced and the future savings due to near-term accelerated and enhanced vegetation management activities and expense.

Q. DOES THE SPP RULE REQUIRE THAT THE UTILITIES PROVIDE A COMPARISON OF THE "COSTS" AND "BENEFITS" TO DETERMINE IF THE PROGRAMS AND PROJECTS ARE ECONOMICALLY JUSTIFIED?

A. Yes. The SPP Rule requires the utility to provide "[a] comparison of the costs identified in subparagraph (3)(d)3, and the benefits identified in subparagraph (3)(d)1." Rule 25-6.030(3)(d)4, F.A.C. The context and juxtaposition of the terms "costs" and "benefits" strongly imply a comparison of dollar costs and dollar benefits, not a comparison of dollar costs and qualitative benefits. The latter comparison provides no useful decision making information because it does not provide a useful threshold decision criterion to qualify programs and projects, does not provide a framework for ranking programs and projects, and does not allow a rational quantitative basis for the magnitude of programs and projects.

Q. DID EACH OF THE UTILITIES PROVIDE THE REQUIRED COMPARISON OF THE "COSTS" AND "BENEFITS" IN THEIR SPP FILINGS OR IN RESPONSE TO DISCOVERY?

A. No. FPUC and FPL provided no dollar quantifications of benefits in their SPP filings and refused to provide any dollar quantifications in response to OPC discovery. FPUC claimed that it had not quantified avoided cost savings benefits and stated that it did not rely on an economic benefit cost criterion for the selection, ranking, or magnitude of its proposed programs and projects.[4] Both FPUC and FPL argued that the SPP Rule's text requiring the comparison of costs and benefits did not require the utilities to provide a dollar quantification of the benefits, but instead required only that there had to be benefits, which they qualitatively described to meet the "objectives" and or "requirements" of the SPP Rule.[5]

In contrast to FPUC and FPL, DEF and Tampa quantified expected dollar benefits in their SPP filings based on their modeling results and provided additional detail on their modeling and quantifications of the dollar benefits in response to OPC discovery. DEF developed its benefit quantifications using a storm damage model developed by Guidehouse. Tampa developed its benefit quantifications using a Storm Resilience Model, which includes a Storm Impact Model, developed by 1898 & Co.

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[4] FPUC's response to Interrogatory No. 13(a and b) in OPC's Third Set of Interrogatories in Docket No. 20220049-EI. I have attached a copy of this response as my Exhibit LK-3.

[5] FPL's response to Interrogatory No. 14(a) in OPC's Third Set of Interrogatories in Docket No. 20220051-EI. I have attached a copy of this response as my Exhibit LK-4.

Q. DOES FPUC HAVE A STORM DAMAGE MODEL SIMILAR TO THE MODELS THAT WERE USED BY DEF AND TAMPA TO CALCULATE DOLLAR BENEFITS?

A. Yes. All four utilities have storm damage models that can be used to quantify the dollar benefits of the SPP programs and projects. However, while DEF and Tampa used their models for their SPPs; FPUC and FPL did not. FPUC relied on a storm resiliency risk model developed by Pike Engineering, although it is not clear that this model forecasts damage and restoration costs that could be avoided (dollar benefits) due to its SPP programs and projects.

Regardless of whether FPUC and FPL have models that could have been used to calculate dollar benefits, the fact is that they chose not to provide dollar benefits in their SPP filings and refused to do so in response to OPC discovery.

Q. ARE ANY OF THE UTILITIES' SPP PROGRAMS ECONOMICALLY JUSTIFIED?

A. No. This is extremely problematic. None of the SPP programs has benefits that exceed the costs. None of the utilities used a benefit/cost test to qualify its programs or projects, although DEF and Tampa used a flawed form of a benefit/cost test to rank their programs and projects and to determine the maximum expenditure levels for its programs.

Q. IF THE SPP PROGRAMS ARE NOT ECONOMICALLY JUSTIFIED, CAN THE PROGRAMS AND PROJECTS OR THE RELATED COSTS BE PRUDENT OR REASONABLE?

A. No. The Statute and the SPP Rule require that the programs and the incremental cost of the programs be prudent and reasonable. If the programs and projects are not economically justified, then the costs should not be incurred; if they are not economically justified, then the programs and projects cannot be prudent and the costs would be imprudent and unreasonable.

The Commission, not the utility, is the arbiter of whether these programs and projects are prudent and reasonable. It is not enough for the utility simply to assert that the programs and projects will reduce restoration costs and outage times (without quantifying the dollar benefits from the reduction of restoration costs and outage times). This bar is a starting point as an initial screening criterion, but it is insufficient in and of itself for a determination of prudence and reasonableness.

Prudence requires that additional decision criteria be applied to determine the selection, ranking, and magnitude of the programs and projects and the costs. Specifically, an economic benefit/cost criterion is required to determine what programs, if any, are cost effective to undertake. In simple terms, it defies rational thought to undertake discretionary programs and projects and to incur the incremental costs for those programs and projects if the economic benefits are not at least equal to the costs. This is especially relevant given the current economic hardships for ratepayers.

Q. WHAT ARE YOUR RECOMMENDATIONS?

A. I recommend that the Commission adopt and consistently apply specific decision criteria for the selection, ranking, and magnitude of the utilities' SPP programs and projects for the four utilities to ensure that the utilities are not able to use the SPP and SPPCRC process to displace base rate costs that are subject to and recoverable through the base rate process and shift those costs to recover them through the SPP and SPPCRC process.

I concur with Witness Mara's recommendation to exclude the costs of programs and projects that displace base rate costs that would have been incurred during the normal course of business and that are not incurred on an incremental basis specifically to achieve the objectives of the SPP Rule.

I recommend that the Commission reject all proposed SPP projects that are not economic, meaning that they do not have a benefit-to-cost ratio of at least 100%. Projects with a benefit-to-cost ratio of less than 100% are not economic, cannot be considered prudent at the point of decision in this proceeding, and cannot be considered prudent or just and reasonable for future recovery through the SPPCRC.

Alternatively, I recommend that the Commission minimize the customer rate impact (harm) of uneconomic SPP programs and projects by setting a minimum threshold benefit/cost ratio for the selection and magnitude of the SPP programs and projects, such as 70%, or limiting the rate impact over the life of the SPP to a defined threshold, such as 10% over the ten-year term of each utility's proposed SPP programs. Such thresholds would result in ranking projects with greater benefits to customers and winnowing projects with lesser benefits to customers, as well as limiting the magnitude of the customer rate impact of the SPP programs and projects.

III. METHODOLOGIES TO CALCULATE THE REVENUE REQUIREMENTS AND CUSTOMER RATE IMPACTS

Q. DID THE UTILITIES CONSISTENTLY CALCULATE THE REVENUE REQUIREMENT EFFECTS OF THEIR SPP PROGRAMS?

A. No. Although each of the utilities calculated the revenue requirements as the sum of the return on rate base plus O&M expense, depreciation expense, and property tax expense, there were differences among the utilities in their calculations of rate base, depreciation expense, and property tax expense. Most significantly, there were differences in their assumptions regarding the conversions of CWIP to plant in service and the resulting calculations of depreciation expense and differences in the calculations of property tax expense.

Only Tampa reflected any reductions in depreciation expense on retired plant recovered in base rates that will be replaced by SPP plant assets and recovered through the SPPCRCs. None of utilities reflected reductions in O&M expenses recovered in base rates due to savings from the SPP programs and projects. Both reductions are necessary to ensure that the utilities do not recover costs that they no longer incur as a result of the SPP programs.

If these additional savings are not considered in these SPP proceedings and accounted for in the SPPCRC proceeding or otherwise reflected in a negotiated resolution, then the utilities will retain the savings due to the reductions in expenses that presently are recovered in base rates.

Q. DID FPUC'S CALCULATIONS OF THE ESTIMATED REVENUE REQUIREMENTS ALSO INCLUDE UNIQUE ERRORS THAT SHOULD BE CORRECTED IN THESE PROCEEDINGS?

A. Yes. FPUC had several unique errors in its calculations of the SPP revenue requirements and customer rate impact. FPUC improperly included costs in rate base and depreciation expense that it already incurred prior to the approval of its SPP, which is not allowed pursuant to the SPP Rule and the SPPCRC Rule.[6]

FPUC improperly included depreciation expense on CWIP.[7]

FPUC improperly included property tax expense on CWIP.[8]

FPUC failed to offset the estimated pole inspection and vegetation management expenses with the expenses already incurred for base rate purposes, thus overstating its costs for these SPP programs.[9] I noted previously that this was a common error among all of the utilities. However, I note that the other three utilities in their 2020 SPPCRC proceedings agreed to realign legacy program costs, including vegetation management expenses, from base rates to SPPCRC rates. In this proceeding, FPUC affirmed that it would recover the costs in the manner directed in these proceedings and acknowledged that it should not double recover the same costs.[10]

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[6] In FPUC's response to Interrogatory No. 9 in OPC's Second Set of Interrogatories in Docket No. 20220049-EI, FPUC agreed to remove its investment at December 31, 2021 from its recoverable SPP costs, but did not agree to remove its engineering and planning costs estimated to be incurred in 2022, including those prior to the approval of its SPP from its SPP costs and ratemaking recovery. I have attached a copy of this response as my Exhibit LK-5.

[7] FPUC's response to Interrogatory No. 19(a) in OPC's Third Set of Interrogatories in Docket No. 20220049-EI. In that response, FPUC agreed that it should not include or recover depreciation expense on CWIP. I have attached a copy of this response as my Exhibit LK-6.

[8] FPUC's response to Interrogatory No. 19(b) in OPC's Third Set of Interrogatories in Docket No. 20220049-EI. In that response, FPUC agreed that it should not include or recover property tax expense on CWIP. See Exhibit LK-6.

[9] FPUC's response to Interrogatory No. 20(a) in OPC's Third Set of Interrogatories in Docket No. 20220049-EI. In that response, FPUC stated that it would recover the distribution pole inspection and replacement program and transmission pole inspection and hardening inspection program expenses exclusively through base rates, although this could change in future SPP filings. FPUC stated that it would continue to recover a portion of the vegetation management expenses through base rates and the remaining amount through SPPCRC rates. I have attached a copy of this response as my Exhibit LK-7.

[10] FPUC's response to Interrogatory No. 20(b) in OPC's Third Set of Interrogatories in Docket No. 20220049-EI. See Exhibit LK-7.

All of these FPUC errors should be considered and corrected in this SPP proceeding and in the SPPCRC proceeding, including the realignment of legacy program costs, including vegetation management expenses, from base rates to SPPCRC rates.

Q. DID THE UTILITIES ALL INCLUDE CWIP IN RATE BASE?

A. Yes, although there were differences in the assumptions regarding the conversions of CWIP to plant in service among the utilities. More specifically, FPUC assumed that all capital expenditures were closed to plant in service as expended in the current year.[11] DEF assumed that CWIP was converted to plant in service throughout the current year. Tampa assumed that CWIP was converted to plant in service throughout the current year. FPL assumed that capital expenditures were closed to plant in service 50% in the current year and 50% in the following year.

Q. IS A RETURN ON CWIP IN RATE BASE EXPLICITLY AUTHORIZED IN THE STATUTE, SPP RULE, OR THE SPPCRC RULE?

A. No. Section 366.96(9), Fla. Stat., states "[i]f a capital expenditure is recoverable as a transmission and distribution storm protection plan cost, the public utility may recover the annual depreciation on the cost, calculated at the public utility's current approved depreciation rates, and a return on the undepreciated balance of the costs calculated at the public utility's weighted average cost of capital using the last approved return on equity." Similarly, the SPPCRC Rule states "[t]he utility may recover the annual depreciation expense on capitalized Storm Protection Plan expenditures using the utility's most recent Commission-approved depreciation rates. The utility may recover a return on the

[11] FPUC's response to Interrogatory No. 19(a) in OPC's Third Set of Interrogatories in Docket No. 20220049-EI. See Exhibit LK-6.

undepreciated balance of the costs calculated at the utility's weighted average cost of capital using the return on equity most recently approved by the Commission." Rule 25-6.031(6)(c), F.A.C.

The term "undepreciated balance" is not defined in the statute or the SPPCRC Rule, but typically has meaning in an accounting and ratemaking context as "net plant," defined as gross plant in service less accumulated depreciation. The term "undepreciated" typically is not applied to CWIP because CWIP is not depreciated; only plant in service is depreciated.

Q. IS IT POSSIBLE TO LEGITIMATELY ASSESS WHETHER CWIP COSTS ARE PRUDENT PRIOR TO THE COMPLETION OF CONSTRUCTION AND THE CONVERSION OF THE CWIP TO PLANT IN SERVICE?

. No. The Commission cannot legitimately assess whether CWIP costs incurred are prudent until all costs have been incurred and converted to plant in service (or an abandonment has occurred), whether the scope of the work actually completed was consistent with the scope included in the approved SPP programs and projects, and whether the costs actually incurred were consistent with the utility's estimated costs included in the approved SPP programs and projects.

Q. ARE THERE ALTERNATIVES TO A RETURN ON CWIP IN RATE BASE INCLUDED IN THE REVENUE REQUIREMENT AND CUSTOMER IMPACTS CONSISTENT WITH THE SUBSEQUENT CONSIDERATION OF PRUDENCE AFTER THE CWIP HAS BEEN CONVERTED TO PLANT IN SERVICE?

A. Yes. As alternatives, a return on CWIP can be deferred either as allowance for funds used during construction ("AFUDC") or as a miscellaneous deferred debit. Once construction is completed and the CWIP is converted to plant in service, then the deferred return will be added to the direct construction expenditures as plant in service in rate base and included in the depreciation expense in the SPPCRC revenue requirement.

Q. **WHY IS THE RETURN ON CWIP A CONCERN THAT NEEDS TO BE ADDRESSED IN THESE PROCEEDINGS?**

A. It is a concern because construction expenditures are not converted from CWIP to plant in service as they are incurred, but rather only after construction is completed. There will be no actual depreciation expense until the construction expenditures are converted from CWIP to plant in service.

The return on CWIP also is a concern because all of the utilities incur engineering costs prior to incurring actual construction expenditures on specific projects. Those costs cannot be deemed prudent or reasonable unless and until the costs are charged to specific projects, construction is completed (or prudently abandoned), and the CWIP is converted to plant in service.

Q. **IS THERE A SIMILAR CONCERN WITH ANOTHER COST INCLUDED IN RATE BASE BY TAMPA THAT SHOULD BE ADDRESSED FOR ALL FOUR UTILITIES?**

A. Yes. Tampa has established a separate warehouse and inventory of materials and supplies for its SPP programs and included these costs in rate base and the return on these inventories in its SPP revenue requirement and customer rate impact, which raises a concern similar to the return on CWIP. Such inventory costs should not be included in rate base or the return on these inventories in the SPP revenue requirement and customer rate impact in any utility's SPP or SPPCRC. This type of item should not be included in any company's SPP. As an alternative, a return on such inventories can be deferred either as AFUDC or as a miscellaneous deferred debit, similar to the alternatives for the return on CWIP.

Q. DOES THIS COMPLETE YOUR PREFILED DIRECT TESTIMONY?

A. Yes.

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7:12-8:1	
8:11	
8:16-22	
9:6-8	
9:15-22	
10:1-3 (ending with “utilities”)	
10:2 (only “prudence”)	
10:3-9 (starting with “to ensure”)	
10:10-14	
10:15-11:4	
12:3-6	
12:7-19	
12:20-13:4	
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13:15-16 (through word “upfront”)	
13:16-17 (starting with “based” ending with “reasonable”)	
13:17-19 (starting with “This”)	
14:6-19	
14:22-23 (ending with “described”)	
14:23 – 15:3 (starting with “Certain”)	
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20:1-2 (ending with “reasonable)	
20:2-5 (starting with “If”)	
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20:20-22 (ending with “four utilities”)	
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by Electronic Mail to the following parties of record this 22nd day of July, 2022.

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