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| -State of Florida  pscSEAL | | Public Service Commission  Capital Circle Office Center ● 2540 Shumard Oak Boulevard Tallahassee, Florida 32399-0850  -M-E-M-O-R-A-N-D-U-M- | |
| DATE: | October 20, 2022 | | |
| TO: | Office of Commission Clerk (Teitzman) | | |
| FROM: | Division of Accounting and Finance (Snyder, Norris)  Division of Economics (Draper)  Division of Engineering (P. Buys, D. Phillips)  Office of the General Counsel (Stiller, J. Crawford) | | |
| RE: | Docket No. 20200241-EI – Petition for limited proceeding for recovery of incremental storm restoration costs related to Hurricane Sally, by Gulf Power Company.  Docket No. 20210178-EI – Petition for evaluation of Hurricane Isaias and Tropical Storm Eta storm costs, by Florida Power & Light Company.  Docket No. 20210179-EI – Petition for limited proceeding for recovery of incremental storm restoration costs and associated true-up process related to Hurricane Zeta, by Gulf Power Company. | | |
| AGENDA: | 11/01/22 – Regular Agenda – Post-Hearing Decision – Participation is Limited to Commissioners and Staff | | |
| COMMISSIONERS ASSIGNED: | | | All Commissioners |
| PREHEARING OFFICER: | | | Graham |
| CRITICAL DATES: | | | None |
| SPECIAL INSTRUCTIONS: | | | None |

Case Background

On November 10, 2020, Gulf Power Company (Gulf) filed a petition for a limited proceeding seeking authority to implement an interim storm restoration recovery charge to recover incremental storm restoration costs related to Hurricane Sally. Gulf estimated a total of $206.0 million for incremental restoration costs related to Hurricane Sally. The Office of Public Counsel (OPC) intervened in this docket, and it was acknowledged by Order No. PSC-2020-0484-PCO-EI, issued December 9, 2020. The Commission approved the interim storm recovery surcharge as proposed by Gulf in Order No. PSC-2021-0112-PCO-EI, issued March 22, 2021.

On November 12, 2021, Gulf filed a petition for approval of final/actual storm restoration costs and associated true-up process related to Hurricane Sally in Docket No. 20200241-EI. In this petition, Gulf requests final reconciliation of actual recoverable costs with the amount it has collected pursuant to the Commission’s previous approval of interim recovery in Order No. PSC-2021-0112-PCO-EI.

On November 11, 2021, Florida Power & Light Company (FPL) filed a petition for evaluation of Hurricane Isaias and Tropical Storm Eta storm costs in Docket No. 20210178-EI.[[1]](#footnote-1) In its petition, FPL stated it is not seeking incremental recovery of Hurricane Isaias costs and Tropical Storm Eta costs, and instead recorded those costs to base operation and maintenance (O&M) expense as permitted under Rule 25-6.0143(2)(h), Florida Administrative Code (F.A.C.). As a result, FPL stated that it is seeking an evaluation of storm restoration activities, and the costs incurred by FPL related to Hurricane Isaias and Tropical Storm Eta. The OPC’s intervention in this docket was acknowledged by Order No. PSC-2021-0432-PCO-EI, issued November 19, 2021.

On November 12, 2021, Gulf filed a petition for limited proceeding for recovery of incremental storm restoration costs and associated true-up process related to Hurricane Zeta in Docket No. 20210179-EI. Gulf estimated a total of $10.1 million for incremental restoration costs related to Hurricane Zeta. The OPC’s intervention in this docket was acknowledged by Order No. PSC-2021-0433-PCO-EI, issued November 19, 2021.

On January 26, 2022, Order No. PSC-2022-0042-PCO-EI was issued consolidating Docket Nos. 20200241-EI, 20210178-EI, and 20210179-EI. A formal hearing was held on July 7, 2022, in which Gulf witnesses Paul Talley, Carmine Priore, III, Tiffany C. Cohen, FPL witnesses Manuel B. Miranda, Clare Gerard, David Hughes, and OPC witnesses Lane Kollen and Randy Futral testified.

The Commission has jurisdiction over this matter pursuant to Sections 366.04, 366.041, 366.05, 366.06, and 366.076, Florida Statutes (F.S.), Chapter 120, F.S., and Rules 25-6.0143, 25-6.0431, and 25-6.044, F.A.C.

Discussion of Issues

Issue 1:

 Should the incremental cost and capitalization approach (ICCA) found in Rule 25-6.0143, F.A.C., be used to determine the reasonable and prudent amounts to be included in the restoration costs?

1. Docket No. 20200241-EI for Gulf’s Hurricane Sally.
2. Docket No. 20210178-EI for FPL’s Hurricane Isaias.
3. Docket No. 20210178-EI for FPL’s Tropical Storm Eta.
4. Docket No. 20210179-EI for Gulf’s Hurricane Zeta.

Recommendation:

 Yes, in part. The ICCA found in Rule 25-6.0143, F.A.C., should be used, in part, to determine the reasonable and prudent incremental amounts to be included in the restoration costs. For Gulf, the ICCA in Rule 25-6.0143, F.A.C., should be used to determine the reasonable and prudent amounts to be included in the restoration costs that were charged to Account 228.1 for Hurricanes Sally and Zeta. For FPL, use of the ICCA methodology to determine incremental O&M costs is not applicable in evaluating storm restoration costs that were charged to base O&M expense for Hurricane Isaias and Tropical Storm Eta. (Norris, Snyder)

Position of the Parties

Gulf & FPL:

 Yes, in part. The applicable ICCA methodology should be used to determine the reasonableness and prudence of storm costs charged to Account 228.1. Previously approved settlement agreements and orders from this Commission should also be used to determine the reasonable and prudent restoration costs. Additionally, certain provisions of the ICCA methodology related to incremental O&M costs are not applicable in calculating storm restoration costs for Hurricane Isaias and Tropical Storm Eta.

OPC:

1. **Docket No. 20200241-EI for Gulf’s Hurricane Sally.**

Yes. Rule 25-6.0143(1)(d), F.A.C., states that “[i]n determining the costs to be charged to cover storm-related damages, the utility shall use an Incremental Cost and Capitalization Approach methodology (ICCA)” and “[u]nder the ICCA methodology, the cost charged to cover storm-related damages shall exclude those costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm.” These incremental costs are subject to reasonable and prudence review.

1. **Docket No. 20210178-EI for FPL’s Hurricane Isaias.**

Yes. The Rule requires the utility use an ICCA methodology that excludes costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm. Under the Rule, a utility may choose to charge these storm-related costs as operating expense, but has only one description of storm-related damages or costs that may be recovered from customers, despite recovery form. These incremental costs are subject to reasonable and prudence review.

1. **Docket No. 20210178-EI for FPL’s Tropical Storm Eta.**

Yes. The Rule requires the utility use an ICCA methodology that excludes costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm. Under the Rule, a utility may choose to charge these storm-related costs as operating expense, but has only one description of storm-related damages or costs that may be recovered from customers, despite recovery form. These incremental costs are subject to reasonable and prudence review.

1. **Docket No. 20210179-EI for Gulf’s Hurricane Zeta.**

Yes. Rule 25-6.0143(1)(d), F.A.C., states that “[i]n determining the costs to be charged to cover storm-related damages, the utility shall use an Incremental Cost and Capitalization Approach methodology (ICCA)” and “[u]nder the ICCA methodology, the cost charged to cover storm-related damages shall exclude those costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm.” These incremental costs are subject to reasonable and prudence review.

Staff Analysis:

PARTIES’ ARGUMENTS

Gulf & FPL

In their brief, Gulf and FPL (the Companies) asserted that the applicable provisions of the ICCA methodology found in Rule 25-6.0143 (the Rule) should be used to calculate Gulf’s incremental restoration costs for Hurricanes Sally and Zeta, along with applicable provisions from the Hurricane Irma Settlement Agreement, the Hurricane Michael Settlement Agreement, the Hurricane Matthew Settlement Agreement, and the 2006 Storm Order.[[2]](#footnote-2) (Gulf & FPL BR 12; TR 260)

Conversely, the Companies explained that pursuant to Rule 25-6.0143(1)(h), F.A.C., FPL opted to charge all non-capital storm costs associated with Hurricane Isaias and Tropical Storm Eta to base O&M expense. (Gulf & FPL BR 12) Thus, they maintained that certain provisions of the ICCA methodology related to incremental O&M costs are not applicable in calculating storm restoration costs for Hurricane Isaias and Tropical Storm Eta. (Gulf & FPL BR 12) The Companies further clarified this assertion by explaining that any non-capital storm costs considered non-incremental under the ICCA methodology would have been recorded to base O&M expense anyway. (Gulf & FPL BR 12).

OPC

OPC stated the ICCA in Rule 25-6.0143, F.A.C., should be used in determining the costs to be charged to cover storm-related damages. (OPC BR 5) OPC explained that under the ICCA methodology, utilities are allowed to charge to Account 228.1 those incremental costs for non-cost recovery clause operating expense incurred above the level that would ordinarily be incurred in the absence of a storm, with the expectation that these costs are subject to review for reasonableness and prudence. (OPC BR 6; TR 369)

OPC acknowledged that under Rule 25-6.0143(1)(h), a utility may choose to charge storm related costs to base O&M expense rather than charging them to Account 228.1. (OPC BR 6) However, OPC maintained that despite the two forms of recovery provided for in the Rule, it only contains one set of storm related costs that may be recovered from customers and does not contain any exculpatory term that relieves a utility from compliance with the Rule if it opts to charge storm costs to base O&M expense. (OPC BR 6; TR 372)

ANALYSIS

Both parties agreed that the ICCA methodology in Rule 25-6.0143, F.A.C., should be used to determine the costs used to cover storm related damages. (Gulf & FPL BR 12; OPC BR 5) As explained by FPL witness Hughes, when storm restoration costs are charged to the storm reserve, referenced by the Rule as Account 228.1, the ICCA methodology is used to identify and remove non-incremental costs. (TR 265) The non-incremental costs are then debited to base O&M expense. (TR 265) As Gulf charged storm restoration costs for Hurricanes Sally and Zeta to the storm reserve, the ICCA methodology should be applied for determining the reasonable and prudent incremental storm restoration costs that were charged to Account 228.1 for those storms.

As permitted by Rule 25-6.0143(1)(a), FPL elected to forego seeking incremental recovery of Hurricane Isaias and Eta storm restoration costs through a surcharge or depletion of the storm reserve and opted to charge all non-capital storm restoration costs to base O&M expense. (TR 313-314) As such, FPL maintained that the ICCA methodology is not applicable for determining incremental O&M costs because it’s not requesting any amounts be charged to the storm reserve. However, OPC contended that despite the two forms of recovery provided for in the Rule, through the storm reserve or charging to base O&M expense, it only contains one set of storm related costs that may be recovered from customers and does not contain any exculpatory term that relieves a utility from compliance with the Rule if it opts to charge storm costs to base O&M expense. (OPC BR 6; TR 372)

Staff agrees with FPL’s interpretation of the Rule and does not believe that the specific accounting instructions associated with Account 228.1 should apply to costs that were not recorded or charged to that account. This interpretation is not relieving FPL from compliance with the Rule, as it is following subpart (1)(a) in its decision to charge the storm restoration costs to base O&M expense.

CONCLUSION

The ICCA found in Rule 25-6.0143, F.A.C., should be used, in part, to determine the reasonable and prudent incremental amounts to be included in the restoration costs. For Gulf, the ICCA in Rule 25-6.0143, F.A.C., should be used to determine the reasonable and prudent amounts to be included in the restoration costs that were charged to Account 228.1 for Hurricanes Sally and Zeta. For FPL, use of the ICCA methodology to determine incremental O&M costs is not applicable in evaluating storm restoration costs that were charged to base O&M expense for Hurricane Isaias and Tropical Storm Eta.

Issue 2:

 What is the reasonable and prudent amount of regular payroll expense to be included in the restoration costs?

1. Docket No. 20200241-EI for Gulf’s Hurricane Sally.
2. Docket No. 20210178-EI for FPL’s Hurricane Isaias.
3. Docket No. 20210178-EI for FPL’s Tropical Storm Eta.
4. Docket No. 20210179-EI for Gulf’s Hurricane Zeta.

Recommendation:

 Staff recommends the total amounts of regular payroll expense to be included in storm restoration costs, as reflected in the table below.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Utility/Storm** | **Incremental** | | **Capitalized** | **Non-Incremental (Charged to Base O&M Expense)** | **Total** |
| **Recovered through Storm Restoration Surcharge** | **Charged to Base O&M Expense** |
| Gulf—Sally | $986,000 | $- | $- | $1,100,000 | $2,086,000 |
| FPL—Isaias | $- | $255,000 | $- | $416,000 | $671,000 |
| FPL—Eta | $- | $1,480,000 | $3,000 | $846,000 | $2,329,000 |
| Gulf—Zeta | $132,000 | $- | $37,000 | $135,000 | $304,000 |

(Snyder)

Position of the Parties

Gulf:

 For Docket No. 20200241-EI, $2.1 million for Hurricane Sally and for Docket No. 20210179-EI, $304,000 for Hurricane Zeta are the reasonable and prudent amounts of regular payroll expenses spent in direct support of storm-related activities.

FPL:

 For Docket No. 20210178-EI, $671,000 for Hurricane Isaias and $2.3 million for Tropical Storm Eta are the reasonable and prudent amounts of regular payroll expenses spent in direct support of storm-related activities.

OPC:

1. **Docket No. 20200241-EI for Gulf’s Hurricane Sally.**

Rule 25-6.0143(1)(f), F.A.C., lists the types of storm-related costs that are prohibited from being charged to customers under the ICCA methodology including base rate recoverable regular payroll and regular payroll-related costs for utility managerial and non-managerial personnel. The utility failed to limit its request to incremental costs by not removing regular payroll and related costs. Thus, OPC recommends that $0.957 million (jurisdictional) be disallowed in addition to the costs already removed by the utility.

1. **Docket No. 20210178-EI for FPL’s Hurricane Isaias.**

Rule 25-6.0143(1)(f), F.A.C., lists the types of storm-related costs that are prohibited from being charged to customers under the ICCA methodology including base rate-recoverable regular payroll and regular payroll-related costs for utility managerial and non-managerial personnel. The utility failed to limit its request to incremental costs by not removing all regular payroll and related costs. Thus, OPC recommends that $0.320 million (jurisdictional) be disallowed in addition to the costs already removed by the utility.

1. **Docket No. 20210178-EI for FPL’s Tropical Storm Eta.**

Rule 25-6.0143(1)(f), F.A.C., lists the types of storm-related costs that are prohibited from being charged to customers under the ICCA methodology including base rate-recoverable regular payroll and regular payroll-related costs for utility managerial and non-managerial personnel. The utility failed to limit its request to incremental costs by not removing regular payroll and related costs. Thus, OPC recommends that $1.429 million (jurisdictional) be disallowed in addition to the costs already removed by the utility.

1. **Docket No. 20210179-EI for Gulf’s Hurricane Zeta.**

Rule 25-6.0143(1)(f), F.A.C., lists the types of storm-related costs that are prohibited from being charged to customers under the ICCA methodology including base rate-recoverable regular payroll and regular payroll-related costs for utility managerial and non-managerial personnel. The utility failed to limit its request to incremental costs by not removing all regular payroll and related costs. Thus, OPC recommends that $0.131 million (jurisdictional) be disallowed in addition to the costs already removed by the utility.

Staff Analysis:

PARTIES’ ARGUMENTS

Gulf

Sally

Gulf asserted that the total amount of storm restoration costs related to regular payroll and related overhead costs for Hurricane Sally is $2.1 million. (EXH 11, 43) After the application of the ICCA methodology, $1.1 million was deemed as non-incremental and $968,000 was considered incremental. (Gulf & FPL BR 15) The $1.1 million was charged to base O&M expenses pursuant to the 2006 Storm Order.[[3]](#footnote-3) (TR 456) Gulf determined the total non-incremental payroll by calculating the budgeted base O&M payroll percentage as compared to total budgeted payroll for the month in which the storm occurred, and then multiplied that percentage by the total actual payroll costs incurred for Gulf’s employees directly supporting storm restoration. (TR 271-272, 291-292) Gulf contended this is consistent with the intent and purpose of the ICCA methodology. (Gulf & FPL BR 13)

Zeta

Gulf asserted that the total amount of storm restoration costs related to regular payroll and related overhead costs for Hurricane Zeta is $304,000. (EXH 12, 44) Gulf identified $37,000 as capital and $135,000 as non-incremental with the remaining $132,000 deemed incremental. (Gulf & FPL BR 16) The $135,00 was charged to base O&M expenses pursuant to the 2006 Storm Order.[[4]](#footnote-4)Gulf determined the total non-incremental payroll by calculating the budgeted base O&M payroll percentage as compared to total budgeted payroll for the month in which the storm occurred, and then multiplied that percentage by the total actual payroll costs incurred for Gulf’s employees directly supporting storm restoration. (TR 271-272, 291-292) Gulf contended this is consistent with the intent and purpose of the ICCA methodology. (Gulf & FPL BR 13)

FPL

Isaias

FPL asserted that the total amount of storm restoration costs related to regular payroll and related overhead for Hurricane Isaias is $671,000. (EXH 25, 46) FPL determined the total non-incremental payroll by calculating the budgeted base O&M payroll percentage as compared to total budgeted payroll for the month in which the storm occurred, and then multiplied that percentage by the total actual payroll costs incurred for FPL’s employees directly supporting storm restoration. (TR 271-272, 291-292) FPL contended this is consistent with the intent and purpose of the ICCA methodology. (Gulf & FPL BR 13)

Eta

FPL asserted that the total amount of storm restoration costs related to regular payroll and related overhead for Tropical Storm Eta is $2.3 million. (EXH 26, 46) FPL identified $3,000 of this amount that was charged to capital. FPL determined the total non-incremental payroll by calculating the budgeted base O&M payroll percentage as compared to total budgeted payroll for the month in which the storm occurred, and then multiplied that percentage by the total actual payroll costs incurred for FPL’s employees directly supporting storm restoration. (TR 271-272, 291-292) FPL contended this is consistent with the intent and purpose of the ICCA methodology. (Gulf & FPL BR 13)

OPC

OPC contented that the Companies failed to limit its costs charged to customers to only those incremental costs above the “costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm.” (OPC BR 10; TR 396) Gulf failed to exclude all straight-time labor and related loadings costs as required by the Rule. (OPC BR 10; TR 396) Gulf only excluded a portion of straight-time labor and related loadings for non-cost recovery clause operating expenses included in its 2020 budget. (OPC BR 10; TR 396) Witness Kollen recommended a reduction, on a retail jurisdictional basis, of $0.957 million for Hurricane Sally, $0.320 million for Hurricane Isaias, $1.429 million for Tropical Storm Eta, and $0.131 million for Hurricane Zeta. (OPC BR 10; TR 399-400)

ANALYSIS

Rule 25-6.0143(1)(e)8, F.A.C., states that “overtime payroll and payroll related costs for utility personnel included in storm restoration activities” are allowed to be charged to the reserve under the ICCA methodology. Staff believes that the full amounts calculated by Gulf and FPL are allowable under Rule 25-6.0143, F.A.C.

OPC witness Kollen testified that the Companies failed to limit their costs charged to customers to only those incremental costs above the costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm, and the Companies failed to exclude all straight-time labor and related loadings costs as required by the Rule. (TR 396) OPC argued that Gulf excluded only 45 percent of the distribution straight-time labor costs and 41 percent of the straight-time transmission labor costs related to Hurricane Sally and 40 percent of the distribution straight-time labor costs and 29 percent of the straight-time transmission labor costs for Hurricane Zeta. (TR 396) FPL excluded only 48 percent of the distribution straight-time labor costs and 34 percent of the straight-time transmission labor costs related to Hurricane Isaias and 37 percent of the distribution straight-time labor costs and 16 percent of the straight-time transmission labor costs for Tropical Storm Eta. (TR 396)

The Companies asserted that the total amounts of storm restoration costs related to regular payroll and related overhead costs are $2.1 million for Hurricane Sally, $671,000 for Hurricane Isaias, $2.3 million for Tropical Storm Eta, and $304,000 for Hurricane Zeta. (EXH 11-12, 25-26, 43-44, 46) FPL witness Hughes testified that the Companies’ regular payroll costs recovered through base O&M expense are non-incremental. (TR 455-456) However, during a storm event, the Companies’ regular payroll normally recovered through capital or cost recovery clauses can be charged to the storm reserve based on the 2006 Storm Order which stated, “otherwise, the costs would effectively be disallowed because there is no provision to recover those costs in base rate operation and maintenance costs.…”[[5]](#footnote-5) (TR 455-456)

The Companies determined the amount of non-incremental payroll by calculating the respective Company’s budgeted base O&M payroll percentage as compared to total budgeted payroll for the month in which the storm occurred, including cost recovery clauses and capital by cost center. That percentage was then multiplied by the total actual payroll costs incurred (excluding overtime) for the Companies’ employees directly supporting storm restoration. (TR 271-272, 291-292) The Companies argued that while Rule 25-6.0143, F.A.C., does not expressly state how the ICCA methodology should be applied to regular payroll, the Rule does provide guidance on this issue. (TR 457) FPL witness Hughes testified that Rules 25-6.0143(1)(f)1 & 25-6.0143(1)(d), F.A.C., read in conjunction with Rule 25-6.0143(1)(f)7, F.A.C., shows that the Rule should be applied to exclude the normal regular base payroll O&M expense that would have been incurred in the absence of the storm. (TR 457)

Staff agrees with witness Hughes’ application of the Rule. Therefore, staff believes that the regular payroll and related overhead costs to be included in storm restoration costs are $2.1 million for Hurricane Sally, $671,000 for Hurricane Isaias, $2.3 million for Tropical Storm Eta, and $304,000 for Hurricane Zeta; these costs should be recovered through a surcharge, charged to base O&M expense, or capitalized, as specified in the table below.

CONCLUSION

Staff recommends the total amounts of regular payroll expense to be included in storm restoration costs, as reflected in the table below.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Utility/Storm** | **Incremental** | | **Capitalized** | **Non-Incremental (Charged to Base O&M Expense)** | **Total** |
| **Recovered through Storm Restoration Surcharge** | **Charged to Base O&M Expense** |
| Gulf—Sally | $986,000 | $- | $- | $1,100,000 | $2,086,000 |
| FPL—Isaias | $- | $255,000 | $- | $416,000 | $671,000 |
| FPL—Eta | $- | $1,480,000 | $3,000 | $846,000 | $2,329,000 |
| Gulf—Zeta | $132,000 | $- | $37,000 | $135,000 | $304,000 |

Issue 3:

 What is the reasonable and prudent amount of overtime payroll expense to be included in the restoration costs?

1. Docket No. 20200241-EI for Gulf’s Hurricane Sally.
2. Docket No. 20210178-EI for FPL’s Hurricane Isaias.
3. Docket No. 20210178-EI for FPL’s Tropical Storm Eta.
4. Docket No. 20210179-EI for Gulf’s Hurricane Zeta.

Recommendation:

 Staff recommends the total amounts of overtime payroll expense to be included in storm restoration costs, as reflected in the table below.

|  |  |  |
| --- | --- | --- |
| **Utility/Storm** | **Incremental** | |
| **Recovered through Storm Restoration Surcharge** | **Charged to Base O&M Expense** |
| Gulf—Sally | $3,200,000 | $- |
| FPL—Isaias | $- | $4,700,000 |
| FPL—Eta | $- | $8,800,000 |
| Gulf—Zeta | $339,000 | $- |

(Snyder)

Position of the Parties

Gulf:

 For Docket No. 20200241-EI, $3.2 million for Hurricane Sally and for Docket No. 20210179-EI, $339,000 for Hurricane Zeta are the reasonable and prudent amounts of overtime payroll expenses spent in direct support of storm-related activities.

FPL:

 For Docket No. 20210178-EI, $4.7 million for Hurricane Isaias and $8.8 million for Tropical Storm Eta are the reasonable and prudent amounts of overtime payroll expenses spent in direct support of storm-related activities.

OPC:

1. **Docket No. 20200241-EI for Gulf’s Hurricane Sally.**

The utility failed to limit its request to incremental costs by simply claiming that the entire overtime payroll and related costs were incremental, although the base revenue requirement includes overtime payroll and related costs. It failed to provide the amounts included in the base revenue requirement which results in overstating overtime. OPC recommends 25% disallowance in the absence of necessary detail being provided by the utility. Thus, $0.802 million (jurisdictional) should be disallowed.

1. **Docket No. 20210178-EI for FPL’s Hurricane Isaias.**

The utility failed to limit its request to incremental costs by not removing all non-incremental overtime payroll costs by simply claiming that the entire overtime payroll and related costs were incremental, although the base revenue requirement includes overtime payroll and related costs. It failed to provide the amounts included in the base revenue requirement which results in overstating overtime. OPC recommends 25% disallowance in the absence of necessary detail being provided by the utility. Thus, $1.146 million (jurisdictional) should be disallowed.

1. **Docket No. 20210178-EI for FPL’s Tropical Storm Eta.**

The utility failed to limit its request to incremental costs by not removing all non-incremental overtime payroll costs by simply claiming that the entire overtime payroll and related costs were incremental, although the base revenue requirement includes overtime payroll and related costs. It failed to provide the amounts included in the base revenue requirement which results in overstating overtime. OPC recommends 25% disallowance in the absence of necessary detail being provided by the utility. Thus, $2.097 million (jurisdictional) should be disallowed.

1. **Docket No. 20210179-EI for Gulf’s Hurricane Zeta.**

The utility failed to limit its request to incremental costs by not removing all non-incremental overtime payroll costs by simply claiming that the entire overtime payroll and related costs were incremental, although the base revenue requirement includes overtime payroll and related costs. It failed to provide the amounts included in the base revenue requirement which results in overstating overtime. OPC recommends 25% disallowance in the absence of necessary detail being provided by the utility. Thus, $0.084 million (jurisdictional) should be disallowed.

Staff Analysis:

PARTIES’ ARGUMENTS

Gulf

The Companies stated that its accounting for overtime payroll storm restoration costs for Hurricane Sally is consistent with the ICCA methodology under Rule 25-6.0143, F.A.C. (Gulf & FPL BR 16) Gulf & FPL contended that the overtime payroll for the storm events was neither budgeted nor planned and is therefore incremental. (Gulf & FPL BR 18; TR 460, 503-504) The Companies asserted that the total amount of overtime payroll and related overhead costs is $3.2 million for Hurricane Sally, $4.7 million for Hurricane Isaias, $8.8 million for Tropical Storm Eta, and $339,000 for Hurricane Zeta. (Gulf & FPL BR 18; EXH 11, 12, 25, 43, 44. 45, 46)

OPC

OPC argued that the Companies made no adjustments to remove storm costs that were non-incremental or capitalizable, thus failing to limit storm costs to those that are incremental. (OPC BR 13) OPC also argued that the Companies failed to provide the amount of overtime payroll and related expenses that was included in Gulf’s base rates. (OPC BR 13-14; TR 401) OPC recommended a 25-percent disallowance on all incremental amounts of overtime costs. (OPC BR 13-14; TR 402) Witness Kollen recommended a disallowance for claimed overtime payroll and related costs of $0.802 million for Hurricane Sally, $1.146 million for Hurricane Isaias, $2.097 million for Tropical Storm Eta, and $0.084 million for Hurricane Zeta. (OPC BR 13-14; TR 402)

ANALYSIS

Rule 25-6.0143(1)(e)8, F.A.C., states “overtime payroll and payroll related costs for utility personnel included in storm restoration activities” are allowed to be charged to the reserve under the ICCA methodology. Staff believes that the full amount calculated by Gulf and FPL is allowable under Rule 25-6.0143, F.A.C.

OPC witness Kollen testified that the Companies failed to provide the amount of overtime payroll and related expenses that was included in base rates and without the overtime payroll and related amounts in base rates, it is not possible to quantify the amount normally incurred. (TR 401) He asserted that because all overtime payroll and related costs were claimed by the Companies, without excluding the amount of overtime payroll and related costs normally included in base rates, the claimed overtime payroll and related costs amounts are overstated. (TR 401) Witness Kollen recommended a 25-percent disallowance for all overtime expenses in absence of the information to calculate the non-incremental amount more precisely. (TR 402)

The Companies stated the total amount of overtime payroll and related overhead costs is $3.2 million for Hurricane Sally, $4.7 million for Hurricane Isaias, $8.8 million for Tropical Storm Eta, and $339,000 for Hurricane Zeta. (EXH 11-12, 25-26, 43-46) The Companies argued that they do not budget for overtime payroll expenses for qualifying storm events and thus these costs are unplanned and incremental as they relate to the ICCA methodology. (Gulf & FPL BR 16-17) FPL witness Hughes explained that base rates in effect during 2020 were the result of Commissioned-approved settlement agreements entered into by both Gulf and FPL in separate rate case dockets, and in these settlement agreements, overtime payroll for the storm events were neither budgeted nor planned. (TR 460, 503-504; EXH 28) Thus, witness Hughes argued that any and all associated overtime payroll is incremental. (TR 460) Staff agrees with FPL witness Hughes, as the overtime costs for storm events are not budgeted nor planned and are therefore incremental and should be included in storm restoration costs. These costs should be recovered through a surcharge or charged to base O&M expense, as specified in the table below

CONCLUSION

Staff recommends the total amounts of overtime payroll expense to be included in storm restoration costs, as reflected in the table below.

|  |  |  |
| --- | --- | --- |
| **Utility/Storm** | **Incremental** | |
| **Recovered through Storm Restoration Surcharge** | **Charged to Base O&M Expense** |
| Gulf—Sally | $3,200,000 | $- |
| FPL—Isaias | $- | $4,700,000 |
| FPL—Eta | $- | $8,800,000 |
| Gulf—Zeta | $339,000 | $- |

Issue 4:

 What is the reasonable and prudent amount of contractor costs to be included in the restoration costs?

1. Docket No. 20200241-EI for Gulf’s Hurricane Sally.
2. Docket No. 20210178-EI for FPL’s Hurricane Isaias.
3. Docket No. 20210178-EI for FPL’s Tropical Storm Eta.
4. Docket No. 20210179-EI for Gulf’s Hurricane Zeta.

Recommendation:

 Staff recommends the total amounts of contractor costs to be included in storm restoration costs, as reflected in the table below.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Utility/Storm** | **Incremental** | | **Capitalized** | **Insurance** | **Total** |
| **Recovered through Storm Restoration Surcharge** | **Charged to Base O&M Expense** |
| Gulf—Sally | $93,100,000 | $- | $16,400,000 | $16,100,000 | $125,600,000 |
| FPL—Isaias | $- | $36,300,000 | $- | $- | $36,300,000 |
| FPL—Eta | $- | $77,370,000 | $30,000 | $- | $77,400,000 |
| Gulf—Zeta | $5,730,000 | $- | $70,000 | $- | $5,800,000 |

(P. Buys)

Position of the Parties

Gulf:

 For Docket No. 20200241-EI, $125.6 million for Hurricane Sally and for Docket No. 20210179-EI, $5.8 million for Hurricane Zeta are the reasonable and prudent amounts of contractor that were necessary to support Gulf’s storm restoration effort.

FPL:

 For Docket No. 20210178-EI, $36.3 million for Hurricane Isaias and $77.4 million for Tropical Storm Eta are the reasonable and prudent amounts of contractor costs that were necessary to support storm restoration effort.

OPC:

1. **Docket No. 20200241-EI for Gulf’s Hurricane Sally.**

The base revenue requirement includes costs for embedded line contractors that normally work for the utility and were used for storm restoration. The utility did not provide the information necessary to exclude these costs based on the historic three-year average resulting in overstating contract labor. OPC recommends 2% of the requested contract labor be disallowed in the absence of necessary detail being provided by the utility. Thus, $1.416 million (jurisdictional) should be disallowed.

1. **Docket No. 20210178-EI for FPL’s Hurricane Isaias.**

The base revenue requirement includes costs for embedded line contractors that normally work for the utility and were used for storm restoration. The utility did not provide the information necessary to exclude these costs based on the historic three-year average resulting in overstating contract labor. OPC recommends 2% of the requested contract labor be disallowed in the absence of necessary detail being provided by the utility. Thus, $0.612 million (jurisdictional) should be disallowed.

1. **Docket No. 20210178-EI for FPL’s Tropical Storm Eta.**

The base revenue requirement includes costs for embedded line contractors that normally work for the utility and were used for storm restoration. The utility did not provide the information necessary to exclude these costs based on the historic three-year average resulting in overstating contract labor. OPC recommends 2% of the requested contract labor be disallowed in the absence of necessary detail being provided by the utility. Thus, $1.325 million (jurisdictional) should be disallowed.

1. **Docket No. 20210179-EI for Gulf’s Hurricane Zeta.**

The base revenue requirement includes costs for embedded line contractors that normally work for the utility and were used for storm restoration. The utility did not provide the information necessary to exclude these costs based on the historic three-year average resulting in overstating contract labor. OPC recommends 2% of the requested contract labor be disallowed in the absence of necessary detail being provided by the utility. Thus, $0.109 million (jurisdictional) should be disallowed.

Staff Analysis:

PARTIES’ ARGUMENTS

Gulf & FPL

The Companies argued that their accounting for contractor storm restoration costs for Hurricanes Sally, Zeta, and Isaias, and Tropical Storm Eta, was consistent with the ICCA methodology under Rule 25-6.0143, F.A.C., and prior Commission Orders. The Companies opined that OPC’s recommendation to reduce the amount by 2 percent without detailed justification is unsupported and should be rejected. (Gulf & FPL BR 19)

In their brief, the Companies described the model used for estimating the amount of construction man-hours needed to restore service. Information such as travel distance, relative labor costs, and resource availability is considered when decisions are made regarding final contractor and mutual-aid resources. The Companies argued that each storm is different and that the cheapest restoration costs are not always equivalent to the safest and most timely restoration options. (Gulf & FPL BR 19-20)

In response to OPC’s argument, the Companies opined that they are permitted to charge costs for additional contractor labor for storm restoration activities to the service reserve pursuant to Rule 25-6.0143(e)(1), F.A.C. Contractor costs are incremental in nature because if the storm event did not happen, the Companies would not need to hire additional contractor labor. (Gulf & FPL BR 20) Further, the Companies argued that any contractor costs not recovered through normal base rates are eligible to be recovered through the storm reserve. OPC alleges that the Companies refused to give a three-year historical average on the embedded line contractor costs; however, as the Companies argued, OPC ignored the fact that the 2007 version of Rule 25-6.0143, F.A.C., applies to these storms and that version does not require historical average data to be given to justify the costs. (Gulf & FPL BR 20) In addition, the Companies argued the base rates in effect during 2020 were the result of settlement agreements approved by the Commission, and did not specify an amount for embedded line contractors and embedded line contractor costs because storm events are neither budgeted nor planned, and by definition, incremental. (Gulf & FPL BR 20-21)

OPC

OPC argued that the Companies failed to demonstrate that its line contractor costs are all incremental. As a result, OPC proposed a 2 percent disallowance for claimed line contractor costs. In support of its position, OPC cited Rule 25-6.0143, F.A.C., which describes the ICCA methodology, and states that utilities are only allowed to charge costs to the storm account if the costs are incremental. The Rule also allows for additional contract labor that complies with the ICCA methodology. Additionally, OPC believes FPL charged storm costs to its base O&M rather than its storm reserve, due to its reserve surplus amortization mechanism (RSAM). (OPC BR 15-16)

OPC is concerned that the Companies will be permitted to recover their contractor costs twice, both through base rates and a storm surcharge or through the RSAM. OPC was unable to calculate the non-incremental amount of contractor costs because the Companies refused to provide historical data to quantify the embedded costs included in base rates. (OPC BR 16-17) Not all contractor costs are incremental since some are budgeted and planned for through base rates; however, costs recovered through the storm account should all be incremental pursuant to the Rule. Therefore, OPC argued that the Companies failed to meet their burden of demonstrating that all contractor costs included in storm cost recovery are incremental. As a result, OPC argued a 2 percent disallowance should be applied. (OPC BR 17-18)

ANALYSIS

Pursuant to Rule 25-6.0143, F.A.C., the ICCA methodology is to be used to determine costs for storm-related damages. The Rule also lists types of storm related costs that are allowed, such as additional contractor labor and transportation of crews for storm restoration. Table 4-1 identifies the revised contractor costs that Gulf and FPL are requesting to be recovered for Hurricanes Sally, Zeta, and Isaias and Tropical Storm Eta.

Table 4-1

Gulf and FPL Original and Revised Contractor Costs Per Storm ($million)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Hurricane Sally (Gulf)** | | **Hurricane Zeta (Gulf)** | | **Hurricane Isaias (FPL)** | | **Tropical Storm Eta (FPL)** | |
| Original Request | Revised Request | Original Request | Revised Request | Original Request | Revised Request | Original Request | Revised Request |
| Contractor Costs | $126.6 | $125.6 | $5.8 | $5.8 | $36.4 | $36.3 | $78.2 | $77.4 |
| Capital Cost | 16.4 | 16.4 | 0.07 | 0.07 | 0.0 | 0.0 | 0.03 | 0.03 |
| Insurance Receivable | 16.1 | 16.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | $94.1 | $93.1 | $5.7 | $5.7 | $36.4 | $36.3 | $78.2 | $77.4 |

Source: EXH 11; EXH 12; EXH 25; EXH 26; EXH 43; EXH 44; EXH 45; & EXH 46

OPC witness Futral testified that certain amounts associated with various vendors were accrued as estimates and posted to the general ledger, but that the invoices were either double posted, not received and paid, or consisted of different amounts compared to the original estimates. (TR 419) In response, Gulf and FPL agreed to reduce the amounts of the contractors’ costs as shown in Table 4-1 as the Revised Request.

OPC Witness Kollen testified that the Companies used embedded line contractors to respond to storms. He argued that the costs of embedded contractors are recovered in the Companies’ base revenues. Witness Kollen further testified that neither FPL or Gulf reduced its contractor costs by “the costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm” as required by Rule 25-6.0143(1)(d), F.A.C. He stated that as a result, the contractor costs are overstated. Witness Kollen argued that the Companies are not entitled to recover these costs twice, once in the base revenues and then again either through a storm surcharge or through a charge to base O&M expense under the RSAM. He stated that the Companies objected and refused to provide the historic information necessary to quantify the embedded contractor costs. (TR 403) Moreover, according to witness Kollen the historic information would be used to determine a three-year historic average similar to what is used to exclude vegetation management. Because he did not have the information at the time he filed his testimony, witness Kollen recommended a disallowance of 2 percent for the contractor costs in addition to the revisions already agreed to by Gulf and FPL. This recommended 2 percent adjustment results in the following disallowances to contractor costs: $1.46 million for Hurricane Sally, $0.612 million for Hurricane Isaias, $1.325 million for Tropical Storm Eta, and $0.109 million for Hurricane Zeta. (TR 404)

In rebuttal, FPL witness Hughes testified that witness Kollen’s proposed adjustments are based entirely on his erroneous application of the ICCA methodology. (TR 455) Witness Hughes testified that the Companies followed Rule 25-6.0143(1)(e)1., F.A.C., which states “additional contractor labor hired for storm restoration activities” are allowed to be recovered. He further testified that the contractor costs are neither budgeted nor planned and that they are therefore incremental in nature. The Companies would not have incurred these contractor expenses if it were not for the storms. (TR 461)

The base rates in effect for 2020 were the result of settlement agreements, as such they did not fix or otherwise specify the amounts attributed to embedded line contractors. The Companies noted that the actual amount of embedded line contractor expense to be charged to base rates fluctuates from year to year, but the fluctuations do not alter the fixed base rates charged to customers under the settlement agreements. (EXH 47, BSP 00007; EXH 48, BSP 00031; EXH 49, BSP 00056) The Companies also stated that embedded contractors are paid for “day-to-day services” pursuant to their contracts for blue-sky work. When the embedded contractors are mobilized for storm restoration work, a storm rate goes into effect, which applies to both embedded and non-embedded contractors. (EXH 47, BSP 00015; EXH 48, BSP 00046; EXH 49, BSP 00063) In addition, as witness Hughes testified, Commission staff conducted an audit to determine if the storm costs were properly stated and recorded, and the final audit report reflected no findings regarding the costs incurred during the restoration of the storms. (TR 454)

As discussed in Issue 1, it appears that Gulf and FPL followed the 2007 version of Rule 25-6.0143, F.A.C., which was in place during Hurricanes Sally, Isaias, and Zeta, and Tropical Storm Eta. The storms took place during the 2020 hurricane season, which was prior to the 2021 revision of the Rule. (Gulf & FPL BR 12) Staff disagrees with OPC that costs for the use of embedded contractors deployed for storm restoration are charged to base rates. During the hearing, FPL witness Hughes demonstrated that the costs for embedded line crews that are redeployed from normal operations to storm activities are not recovered in FPL’s base rates. (TR 325) He further explained that any contractor costs which are not recovered through normal base rates would be eligible to be recovered as part of the storm reserve, as they are incremental. (TR 326) Therefore, it appears that the Companies are not double-recovering these costs as OPC alleges. Further, OPC witness Futral testified that the Companies’ resulting “audit and verification processes for all overhead line and vegetation management contractor invoices were systematic, comprehensive, and effective in auditing all submitted costs elements.” (TR 418) It appears that the Companies’ adjustments are consistent with the ICCA methodology and therefore appropriate for recovery. Based on the above information, staff recommends the reasonable and prudent contractor costs to be included in storm restoration costs are the Companies’ revised costs shown in Table 4-1; these costs should be recovered through a surcharge, charged to base O&M expense, or offset by an insurance receivable, as specified in the table below.

CONCLUSION

Staff recommends the total amounts of contractor costs to be included in storm restoration costs, as reflected in the table below.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Utility/Storm** | **Incremental** | | **Capitalized** | **Insurance** | **Total** |
| **Recovered through Storm Restoration Surcharge** | **Charged to Base O&M Expense** |
| Gulf—Sally | $93,100,000 | $- | $16,400,000 | $16,100,000 | $125,600,000 |
| FPL—Isaias | $- | $36,300,000 | $- | $- | $36,300,000 |
| FPL—Eta | $- | $77,370,000 | $30,000 | $- | $77,400,000 |
| Gulf—Zeta | $5,730,000 | $- | $70,000 | $- | $5,800,000 |

Issue 5:

 What is the reasonable and prudent amount of vegetation and line clearing costs to be included in the restoration costs?

1. Docket No. 20200241-EI for Gulf’s Hurricane Sally.
2. Docket No. 20210178-EI for FPL’s Hurricane Isaias.
3. Docket No. 20210178-EI for FPL’s Tropical Storm Eta.
4. Docket No. 20210179-EI for Gulf’s Hurricane Zeta.

Recommendation:

 Staff recommends the total amounts of vegetation and line clearing costs to be included in storm restoration costs, as reflected in the table below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Utility/Storm** | **Incremental** | | **Non-Incremental (Charged to Base O&M Expense)** | **Total** |
| **Recovered through Storm Restoration Surcharge** | **Charged to Base O&M Expense** |
| Gulf—Sally | $26,600,000 | $- | $700,000 | $27,300,000 |
| FPL—Isaias | $- | $11,800,000 | $1,200,000 | $13,000,000 |
| FPL—Eta | $- | $11,200,000 | $- | $11,200,000 |
| Gulf—Zeta | $1,200,000 | $- | $700,000 | $1,900,000 |

(P. Buys)

Position of the Parties

Gulf:

 For Docket No. 20200241-EI, $27.3 million for Hurricane Sally and for Docket No. 20210179-EI, $1.9 million for Hurricane Zeta are the reasonable and prudent amounts of vegetation and line clearing costs associated Gulf’s storm restoration effort.

FPL:

 For Docket No. 20210178-EI, $13.0 million for Hurricane Isaias and $11.2 million for Tropical Storm Eta are the reasonable and prudent amounts of vegetation and line clearing costs associated with its storm restoration effort.

OPC:

1. **Docket No. 20200241-EI for Gulf’s Hurricane Sally.**

Rule 25-6.0143(1)(d), F.A.C., requires storm costs must exclude those costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm. Costs for various overhead line and vegetation management contractors were accrued as estimates and posted to the general ledger, but the invoices were either double posted, not received and paid, or differed in amount compared to the original estimates. OPC is recommending $0.229 million (jurisdictional) be disallowed.

1. **Docket No. 20210178-EI for FPL’s Hurricane Isaias.**

Rule 25-6.0143(1)(d), F.A.C., requires storm costs must exclude those costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm. Costs for various overhead line and vegetation management contractors were accrued as estimates and posted to the general ledger, but the invoices were either double posted, not received and paid, or differed in amount compared to the original estimates. OPC is recommending $0.081 million (jurisdictional) be disallowed.

1. **Docket No. 20210178-EI for FPL’s Tropical Storm Eta.**

Rule 25-6.0143(1)(d), F.A.C., requires storm costs must exclude those costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm. Costs for various overhead line and vegetation management contractors were accrued as estimates and posted to the general ledger, but the invoices were either double posted, not received and paid, or differed in amount compared to the original estimates. OPC is recommending $0.116 million (jurisdictional) be disallowed.

1. **Docket No. 20210179-EI for Gulf’s Hurricane Zeta.**

Rule 25-6.0143(1)(d), F.A.C., requires storm costs must exclude those costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm. Costs for various overhead line and vegetation management contractors were accrued as estimates and posted to the general ledger, but the invoices were either double posted, not received and paid, or differed in amount compared to the original estimates. OPC is recommending $0.005 million (jurisdictional) be disallowed.

Staff Analysis:

PARTIES’ ARGUMENTS

Gulf & FPL

The Companies argued that their accounting for vegetation and line clearing costs is consistent with the ICCA methodology under Rule 25-6.0143, F.A.C., the Hurricane Irma Settlement Agreement, and the Hurricane Michael Settlement Agreement. The Companies opined that the costs were reasonable and prudent and noted that OPC praised their accounting, auditing and verification process. Further, the Companies argued that OPC’s recommendation to reduce vegetation and line clearing costs for Hurricanes Sally, Zeta, and Isaias, and Tropical Storm Eta, is unsupported and should be rejected. (Gulf & FPL BR 22)

In 2019, FPL entered into the Hurricane Irma Settlement Agreement with OPC. In 2020, Gulf entered into the Hurricane Michael Settlement Agreement with OPC. Based on procedures implemented in both settlements, the Companies provided OPC with records for overhead line and vegetation crews in “flat files” that are electronic and searchable. In addition, the Companies implemented their iStormed Application (the App), which contains electronic timesheets and expense information for overhead line and vegetation crews contractors. All of the contractor invoices were reviewed by FPL’s cost finalization team and any applicable adjustments and exceptions were documented in the flat files. (Gulf & FPL BR 22-23)

The Companies noted that OPC praised the App and its accounting processes. (TR 441-442) However, OPC alleged that certain amounts associated with various vendors were posted to the general ledger incorrectly. The Companies provided additional cost support, work papers, contracts, and invoices to support the payments, and also made the appropriate minor adjustments. The Companies argued these adjustments were reflected in witness Hughes’ rebuttal testimony and that the Commission should reject OPC’s recommendation to disallow these adjustments. (Gulf & FPL BR 23-24)

The Companies further argued that OPC made several recommendations that fall outside the scope of this proceeding. OPC recommended that the Companies expand the App to include underground crews, arborists, transmission storm restoration contractors, and damage assessors. OPC also recommended that the Commission direct the Companies to institute a binder file structure where a physical binder would be provided to OPC. The Companies argued that the Prehearing Officer determined this was beyond the scope of this proceeding and the appropriate relief is to disallow the disputed costs and not to impose new procedural requirements.[[6]](#footnote-6) (Gulf & FPL BR 24)

OPC

OPC stated that Rule 25-6.0143, F.A.C., describes the ICCA methodology, which only allows utilities to charge costs to the storm account if the costs are incremental. The Rule also allows for additional vegetation management costs that comply with the ICCA methodology. OPC further stated that the Rule allows utilities to charge storm costs to base O&M expense instead of the storm reserve, and pointed out that FPL charged storm costs to its O&M expense because of its RSAM. OPC argued the Rule only has one description of storm-related damages or storm costs that may be recovered and that description is not dependent on the method of recovery, i.e., storm surcharge or O&M expense. (OPC BR 19)

OPC stated that witness Futral’s audit team reviewed copies of all invoices over $10,000 provided by the Companies and verified the timing of costs incurred, whether the costs were appropriate for storm cost recovery by storm, line item costs matching contract and purchase order pricing, and the total invoice levels matching the general ledger, and that there were no duplications of individual costs items. The audit results, as confirmed through discovery, showed that certain amounts were based on estimated amounts due, invoices that were not received, or the amount paid differed from original estimates. Therefore, OPC recommends disallowing $0.2229 million for Hurricane Sally, $0.005 million for Hurricane Zeta, $0.081 million for Hurricane Isaias, and $0.116 million for Tropical Storm Eta. (OPC BR 19-20)

OPC recommended that copies of all relevant invoice documentation related to all contractors and vendors that do not use the App be provided with the Notice of Filings to assist in the review process. OPC also recommended that the App be expanded to include underground line crews, arborists, transmission storm restoration contractors, and damage assessors. In addition, OPC recommended that the Companies provide a binder file structure where each vendor is assigned a binder in which all relative information (invoices, timesheets) is included. OPC argued that, currently, FPL puts each invoice in individual files and the individual files are not grouped or identified by vendor. OPC further opined that this existing process is unnecessarily burdensome, time consuming, and costly, and thus is neither reasonable nor prudent. (OPC BR 20-21).

ANALYSIS

Pursuant to Rule 25-6.0143, F.A.C., the ICCA methodology is to be used to determine costs to cover storm-related damages. The Rule also explains that if tree trimming expenses are incurred in the same month as storm restoration, and are less than the actual monthly average for the same month in the three previous calendar years, then those tree trimming expenses are excluded from storm related costs. Table 5-1 identifies the revised vegetation and line clearing costs that Gulf and FPL are requesting to be recovered for Hurricanes Sally, Zeta, and Isaias, and Tropical Storm Eta.

Table 5-1

Gulf and FPL Original and Revised Vegetation and Line Clearing Costs Per Storm ($million)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Hurricane Sally (Gulf)** | | **Hurricane Zeta (Gulf)** | | **Hurricane Isaias (FPL)** | | **Tropical Storm Eta (FPL)** | |
| Original Request | Revised Request | Original Request | Revised Request | Original Request | Revised Request | Original Request | Revised Request |
| Vegetation and Line Clearing Costs | $26.2 | $27.3 | $1.9 | $1.9 | $12.8 | $13.0 | $10.4 | $11.2 |
| ICCA Adjustments | 0.7 | 0.7 | 0.7 | 0.7 | 1.2 | 1.2 | 0.0 | 0.0 |
| Total | $25.5 | $26.6 | $1.2 | $1.2 | $11.6 | $11.8 | $10.4 | $11.2 |

Source: EXH 11; EXH 12; EXH 25; EXH 26; EXH 43; EXH 44; EXH 45; & EXH 46

OPC witness Futral testified that his team found the Companies’ iStormed App and resulting audit and verification process for all overhead line and vegetation management contractor invoices to be systematic, comprehensive, and effective in auditing all submitted costs elements. He further testified that the process was effective in auditing the vendor invoices, documenting exceptions, making reductions where appropriate, and ultimately in authorizing payments. (TR 418-419) In addition, witness Futral testified that certain amounts associated with various vendors were accrued as estimates and posted to the general ledger. However, the invoices were either double posted, not received and paid, or the amounts differed when compared to the original estimate. As such, he recommended the following disallowances: $0.229 million for Hurricane Sally, $0.005 million for Hurricane Zeta, $0.081 million for Hurricane Isaias, and $0.116 million for Tropical Storm Eta. (TR 419) It is unclear if witness Futral’s recommended adjustments apply to all categories (e.g., payroll, contractor costs, logistics) or just the vegetation and line clearing category. However, the Companies testified that they incorporated all adjustments to the final storm costs, which included adjustments identified by the Companies in their responses to discovery. Table 5-1 reflects the revised adjustments to the vegetation and line clearing costs and are shown as the Revised Request.

In addition, witness Futral recommended that the Companies provide copies of all contracts and invoices for overhead line and vegetation management contractors, as well as other vendors, with their Notice of Filings. Witness Futral testified this would avoid unnecessary delays for the reviewers. He also recommended that the Companies institute a Binder file structure to help streamline the auditing process. Witness Futral testified that currently the Companies provide an accounts payable detail list of all invoices. The details as well as the invoices are saved as individual pdf files with a document number as the file name. He further testified that a reviewer is required to first determine the document number for each vendor invoice, and then locate the associated pdf file. Finally, Witness Futral’s final recommendation was for the Companies to expand the iStorm App to include underground line contractors, arborists, transmission storm restoration contractor, and damage assessors. (TR 419-420)

In rebuttal, FPL witness Hughes testified that the Companies updated their costs as identified in responses to discovery requests and as shown in Table 5-1. (TR 465) While these updates slightly reduced vegetation and line clearing costs, FPL found that it inadvertently added some costs to contractor costs instead of vegetation and line clearing costs which resulted in a net increase to some vegetation and line clearing costs. (EXH 48, BSP 00040-00041) The contractor costs were also adjusted accordingly as discussed in Issue 4. Witness Hughes testified that instituting a Binder file structure is not required under the Storm Rule nor does it fall under the provisions of FPL’s Hurricane Irma settlement. He testified that the Companies provided searchable electronic files for each of the storm events with their petitions for this proceeding. Witness Hughes further testified that searchable electronic files are more efficient when reviewing a large volume of data. (TR 454)

It appears that the Companies made adjustments that were identified by OPC and in discovery. As such, staff recommends the revised vegetation and line clearing costs, as shown in Table 5-1, are reasonable and prudent. However, staff disagrees with OPC’s process improvement recommendations. As FPL argued in its brief, the Prehearing Officer determined this request was beyond the scope of this proceeding. The Prehearing Office further stated that the appropriate relief is to disallow the disputed costs and not to impose new procedural requirements.[[7]](#footnote-7) (Gulf & FPL BR 24) Based on the above information, staff recommends the reasonable and prudent vegetation and line clearing costs to be included in storm restoration costs are the Companies’ revised costs shown in Table 5-1; these costs should be recovered through a surcharge or charged to base O&M expense, as specified in the table below

CONCLUSION

Staff recommends the total amounts of vegetation and line clearing costs to be included in storm restoration costs, as reflected in the table below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Utility/Storm** | **Incremental** | | **Non-Incremental (Charged to Base O&M Expense)** | **Total** |
| **Recovered through Storm Restoration Surcharge** | **Charged to Base O&M Expense** |
| Gulf—Sally | $26,600,000 | $- | $700,000 | $27,300,000 |
| FPL—Isaias | $- | $11,800,000 | $1,200,000 | $13,000,000 |
| FPL—Eta | $- | $11,200,000 | $- | $11,200,000 |
| Gulf—Zeta | $1,200,000 | $- | $700,000 | $1,900,000 |

Issue 6:

 What is the reasonable and prudent amount of employee expenses to be included in the restoration costs?

1. Docket No. 20200241-EI for Gulf’s Hurricane Sally.
2. Docket No. 20210178-EI for FPL’s Hurricane Isaias.
3. Docket No. 20210178-EI for FPL’s Tropical Storm Eta.
4. Docket No. 20210179-EI for Gulf’s Hurricane Zeta.

Recommendation:

 Staff recommends that the total amount of employee expenses to be included in storm restoration costs is $278,000 for Hurricane Sally, $14,000 for Hurricane Isaias, $37,000 for Tropical Storm Eta, and $53,000 for Hurricane Zeta. All employee expenses are non-incremental costs, are not recoverable under the ICCA methodology, and should be charged to base O&M expense. (Norris, Snyder)

Position of the Parties

Gulf:

 For Docket No. 20200241-EI, $278,000 for Hurricane Sally and for Docket No. 20210179-EI, $53,000 for Hurricane Zeta are the reasonable and prudent amounts of employee assistance expenses associated with Gulf’s storm restoration effort.

FPL:

 For Docket No. 20210178-EI, $14,000 for Hurricane Isaias and $37,000 for Tropical Storm Eta are the reasonable and prudent amounts of employee assistance associated with its storm restoration effort.

OPC:

1. **Docket No. 20200241-EI for Gulf’s Hurricane Sally.**

The employee expenses included in the utility’s request should be reduced consistent with OPC’s positions on the disallowance of non-incremental regular payroll and overtime payroll.

1. **Docket No. 20210178-EI for FPL’s Hurricane Isaias.**

The employee expenses included in the utility’s request should be reduced consistent with OPC’s positions on the disallowance of non-incremental regular payroll and overtime payroll.

1. **Docket No. 20210178-EI for FPL’s Tropical Storm Eta.**

The employee expenses included in the utility’s request should be reduced consistent with OPC’s positions on the disallowance of non-incremental regular payroll and overtime payroll.

1. **Docket No. 20210179-EI for Gulf’s Hurricane Zeta.**

The employee expenses included in the utility’s request should be reduced consistent with OPC’s positions on the disallowance of non-incremental regular payroll and overtime payroll.

Staff Analysis:

PARTIES’ ARGUMENTS

Gulf & FPL

Witness Hughes testified that employee assistance expenses are not recoverable under the ICCA methodology pursuant to Rule 25-6.0143(1)(f), F.A.C., and are considered non-incremental costs. (TR 273, 293, 310) However, the Companies disagreed with OPC’s recommendation to completely disallow these costs, because they are non-incremental. (Gulf & FPL BR 25) Gulf & FPL argued that a storm cost is not disallowed as a base O&M expense solely because it is non-incremental under the ICCA methodology rather the costs would have to be found imprudent or unreasonable to make such an adjustment. (Gulf & FPL BR 25-26) The Companies also noted that OPC did not characterize or claim that the employee assistance expenses were unreasonable or imprudent. (OPC BR 25) The Companies maintained that the total amount of employee assistance expenses is $278,000 for Hurricane Sally, $37,000 for Hurricane Isaias, ount is considered non-incremental. (OPC BR 26; EXH 11, 12, 25, 26, 43, 44, 45, 46)

OPC

OPC argued that employee expenses should be reduced consistent with OPC’s positions on the disallowance of non-incremental regular payroll and overtime payroll. (OPC BR 22)

ANALYSIS

As testified by FPL witness Hughes, Rule 25-6.0143(1)(f)4, F.A.C., prohibits employee assistance costs from being charged to the reserve under the ICCA methodology, thus making them non-incremental. (TR 273, 293, 310) Gulf chose to seek recovery for Hurricane Sally and Hurricane Zeta storm restoration costs through separate storm recovery surcharges. (TR 317) As such, Gulf removed employee assistance expense from the total incremental amount of storm restoration costs for each storm pursuant to ICCA methodology and charged them to base O&M expense. (TR 271, 271, 308, 310; EXH 43, 44) Although FPL is not seeking recovery of any incremental storm restoration costs for Hurricane Isaias or Tropical Storm Eta through a surcharge or depletion of the storm reserve, it identified the storm restoration costs charged to base O&M expense that would be considered non-incremental costs under the ICCA methodology and employee assistance expense was included. (TR 291, 293) Staff agrees with FPL witness Hughes regarding the amounts and treatment of employee assistance expenses for the four storms.

In its post-hearing brief, OPC recommended the disallowance of employee expense, consistent with its position on the disallowance of non-incremental regular payroll and overtime payroll. (OPC BR 22) It referred to the same reasons discussed in other issues without explaining how they applied to this specific expense category and cited the same summary of its interpretation of Rule 25.6-0143 that was included in each issue of its post-hearing brief. (OPC BR 21-22) Employee assistance expense was not addressed as being imprudent or unreasonable in OPC’s testimony, and the arguments in its post-hearing brief are not clear. Thus, staff believes OPC’s proposed disallowance is unsupported.

CONCLUSION

Staff recommends that the total amount of employee expenses to be included in storm restoration costs is $278,000 for Hurricane Sally, $14,000 for Hurricane Isaias, $37,000 for Tropical Storm Eta, and $53,000 for Hurricane Zeta. All employee expenses are non-incremental costs, are not recoverable under the ICCA methodology, and should be charged to base O&M expense.

Issue 7:

 What is the reasonable and prudent amount of materials and supplies expense to be included in the restoration costs?

1. Docket No. 20200241-EI for Gulf’s Hurricane Sally.
2. Docket No. 20210178-EI for FPL’s Hurricane Isaias.
3. Docket No. 20210178-EI for FPL’s Tropical Storm Eta.
4. Docket No. 20210179-EI for Gulf’s Hurricane Zeta.

Recommendation:

 The Companies properly applied the ICCA methodology when expensing the cost of material and supplies and have removed all non-incremental costs. Staff recommends that the total amount of materials and supplies expense to be included in storm restoration costs, as reflected in the table below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Utility/Storm** | **Incremental** | | **Capitalized** | **Total** |
| **Recovered through Storm Restoration Surcharge** | **Charged to Base O&M Expense** |
| Gulf—Sally | $7,300,000 | $- | $3,000,000 | $10,300,000 |
| FPL—Isaias | $- | $39,000 | $3,000 | $42,000 |
| FPL—Eta | $- | $185,000 | $347,000 | $532,000 |
| Gulf—Zeta | $75,000 | $- | $104,000 | $179,000 |

(D. Phillips)

Position of the Parties

Gulf:

 $10.3 million for Docket No. 20200241-EI and $179,000 for Docket No. 20210179-EI are the reasonable and prudent amounts of material and supplies expenses associated with Gulf’s storm restoration effort.

FPL:

 For Docket No. 20210178-EI, $42,000 for Hurricane Isaias and $532,000 for Tropical Storm Eta are the reasonable and prudent amounts of material and supplies expenses associated with its storm restoration effort.

OPC:

1. **Docket No. 20200241-EI for Gulf’s Hurricane Sally.**

The utility failed to eliminate all non-incremental costs for materials and supplies. Although the utility objected, they did provide the information necessary to exclude these materials and supplies costs based on the historic three-year average. However, the utility did not remove all non-incremental costs which results in overstating materials and supplies in storm costs. Thus, OPC is recommending $0.063 million (jurisdictional) be disallowed.

1. **Docket No. 20210178-EI for FPL’s Hurricane Isaias.**

The utility failed to eliminate all non-incremental costs for materials and supplies. Although the utility objected, they did provide the information necessary to exclude these materials and supplies costs based on the historic three-year average. However, the utility did not remove all non-incremental costs which results in overstating materials and supplies in storm costs. Thus, OPC is recommending $0.038 million (jurisdictional) be disallowed.

1. **Docket No. 20210178-EI for FPL’s Tropical Storm Eta.**

The utility failed to eliminate all non-incremental costs for materials and supplies. Although the utility objected, they did provide the information necessary to exclude these materials and supplies costs based on the historic three-year average. However, the utility did not remove all non-incremental costs which results in overstating materials and supplies in storm costs. Thus, OPC is recommending $0.182 million (jurisdictional) be disallowed.

1. **Docket No. 20210179-EI for Gulf’s Hurricane Zeta.**

The utility failed to eliminate all non-incremental costs for materials and supplies. Although the utility objected, they did provide the information necessary to exclude these materials and supplies costs based on the historic three-year average. However, the utility did not remove all non-incremental costs which results in overstating materials and supplies in storm costs. Thus, OPC is recommending $0.063 million (jurisdictional) be disallowed.

Staff Analysis:

PARTIES’ ARGUMENTS

Gulf & FPL

The Companies stated that Rule 25-6.0143(1)(e), F.A.C., allows the cost of materials and supplies used to restore service to be charged to the storm reserve account for recovery except for those that would normally be charged to the non-cost recovery clause operating expenses in the absence of a storm. (Gulf & FPL BR 27) The Companies asserted that they increased inventory in preparation for storm season but do not expense those supplies as a cost until they are actually used. The Companies argued that since cost for materials and supplies related to recovery from each of the storm events were not considered when setting base rates, they are incremental, and as such are eligible to be recovered through the storm reserve. (Gulf & FPL BR 27) The Companies determined the total amount of material and supplies associated with each storm event, then after application of the ICCA methodology, made a determination of the capital and incremental costs. (Gulf & FPL BR 27, 28)

Sally

Gulf asserted that the total amount of material and supplies expenses associated with Hurricane Sally is $10.3 million, of which $3.0 million is identified as capital and $7.3 million is considered incremental. (Gulf & FPL BR 28)

Zeta

Gulf asserted that the total amount of material and supplies expenses associated with Hurricane Zeta is $179,000, of which $104,000 is identified as capital while the remaining $75,000 is considered incremental. (Gulf & FPL BR 28)

Isaias

FPL asserted that the total amount of material and supplies expenses associated with Hurricane Isaias is $42,000, of which $3,000 is identified as capital. FPL chose to charge all materials and supplies expenses associated with Hurricane Isaias to base O&M expense. (Gulf & FPL BR 28)

Eta

FPL asserted that the total amount of material and supplies expenses associated with Tropical Storm Eta is $532,000, of which $347,000 is identified as capital. FPL chose to charge all materials and supplies expenses associated with Tropical Storm Eta to base O&M expense. (Gulf & FPL BR 28)

OPC

OPC agreed that Rule 25-6.0143(1)(e)7, F.A.C., allows for the utilities to charge the costs for materials used to restore service to the storm account, except those costs that would normally be charged to non-cost recovery clause operating expenses in the absence of a storm. OPC further noted that Rule 25-6.0143(1)(h), F.A.C., allows a utility to charge storm cost to base O&M instead of the storm reserve. (OPC BR 23) OPC argued that while a typical utility would choose not to charge storm cost to base O&M expense unless the cost was minimal, FPL is unique due to the availability of the depreciation reserve under the RSAM, which would allow the utility to earn a return on storm costs until the next base rates are set. (OPC BR 23) OPC averred that the 2007 version of the Rule uses a three-year average to determine non-incremental costs that are not recoverable, and as such is the appropriate way to determine the cost that should be disallowed for storm cost recovery under Rule 25-6.0143(1)(h), F.A.C. (OPC BR 25) OPC agreed that the Companies made appropriate reductions for capitalized costs related to materials and supplies. (OPC BR 23-24) However, OPC argues that the Companies failed to remove costs that normally would be charged to non-cost recovery clause operating expenses in the absence of each storm event as the Rule requires. In order to calculate their proposed adjustment, OPC asserted that the three-year historic average amounts included in non-storm O&M expense for the month each storm event occurred must be subtracted. (OPC BR 24-25)

Sally

OPC recommended subtracting the three-year historic average amounts included in non-storm O&M expense for September, the month Hurricane Sally occurred, and disallowing an additional $63,000. (OPC BR 24-25)

Isaias

OPC recommended subtracting the three-year historic average amounts included in non-storm O&M expense for August, the month Hurricane Isaias occurred, and disallowing an additional $38,000. (OPC BR 24-25)

Eta

OPC recommended subtracting the three-year historic average amounts included in non-storm O&M expense for November, the month Tropical Storm Eta occurred, and disallowing an additional $182,000. (OPC BR 24-25)

Zeta

OPC recommended subtracting the three-year historic average amounts included in non-storm O&M expense or October, the month Hurricane Zeta occurred, and disallowing an additional $63,000. (OPC BR 24-25)

ANALYSIS

Staff reviewed the Companies’ expenses associated with materials and supplies, as well as the relevant rule provisions to determine the material and supplies expense that should be included in restoration costs for each storm event. (EXH 43; EXH 44; EXH 45; EXH 46; EXH 67) Rule 25-6.0143(1)(d), F.A.C., states that when a utility is determining the costs to be charged to cover storm-related damages, it shall use the ICCA methodology, under which costs charged to cover storm-related damages shall exclude those costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm. Rule 25-6.0143(1)(e)7, F.A.C., allows for a utility to charge the costs of materials and supplies used to repair and restore service and facilities to pre-storm conditions to the storm reserve. Rule 25-6.0143(1)(f)10, F.A.C., also specifically prohibits the replenishment of the utility’s materials and supplies inventories from being included in materials and supplies expense charged to the storm reserve. (EXH 67)

As testified by the Companies’ witness Hughes, inventory is only expensed once it is actually used. In addition, the materials and supplies expensed for specific named storms are not included in the materials and supplies expense included in base rates. (TR 328-329) Staff believes this is consistent with the requirements of Rule 25-6.0143(1)(f)10, F.A.C. OPC witness Kollen argued that the Companies did not properly remove all costs that would normally be charged to non-cost recovery clause operating expenses because they failed to remove the three-year historic average of monthly materials and supplies expenses from their requests. (TR 396-397; TR 405-406) Witness Kollen testified that materials and supplies should be treated the same as vegetation management costs. (TR 397) This is inconsistent with the Commission’s Rules, as the requirement to remove a three-year average of historic expenses is specific to tree trimming expenses in Rule 25-6.0143(1)(f)8, F.A.C., and does not apply to materials and supplies. Based on staff’s review, the Companies have appropriately excluded non-incremental materials and supplies expenses. Staff agrees with witness Hughes, who argued in rebuttal testimony that tree trimming expenses and materials and supplies expenses are different, and therefore a three-year standard is not an appropriate benchmark for materials and supplies. (TR 505-506).

CONCLUSION

As the Companies have demonstrated, the materials and supplies are expensed based on incremental usage associated with the named storm events and not normal operations or replenishment of inventory. The Companies properly applied the ICCA methodology when expensing the cost of material and supplies and have removed all non-incremental costs. Staff recommends that the total amount of materials and supplies expense to be included in storm restoration costs, as reflected in the table below. These costs should be recovered through a surcharge, charged to base O&M expense, or capitalized, as specified in the table below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Utility/Storm** | **Incremental** | | **Capitalized** | **Total** |
| **Recovered through Storm Restoration Surcharge** | **Charged to Base O&M Expense** |
| Gulf—Sally | $7,300,000 | $- | $3,000,000 | $10,300,000 |
| FPL—Isaias | $- | $39,000 | $3,000 | $42,000 |
| FPL—Eta | $- | $185,000 | $347,000 | $532,000 |
| Gulf—Zeta | $75,000 | $- | $104,000 | $179,000 |

Issue 8:

 What is the reasonable and prudent amount of logistics costs to be included in the restoration costs?

1. Docket No. 20200241-EI for Gulf’s Hurricane Sally.
2. Docket No. 20210178-EI for FPL’s Hurricane Isaias.
3. Docket No. 20210178-EI for FPL’s Tropical Storm Eta.
4. Docket No. 20210179-EI for Gulf’s Hurricane Zeta.

Recommendation:

 Staff recommends that the total amount of logistics costs to be included in storm restoration costs, as reflected in the table below.

|  |  |  |
| --- | --- | --- |
| **Utility/Storm** | **Incremental** | |
| **Recovered through Storm Restoration Surcharge** | **Charged to Base O&M Expense** |
| Gulf—Sally | $42,200,000 | $- |
| FPL—Isaias | $- | $9,300,000 |
| FPL—Eta | $- | $9,100,000 |
| Gulf—Zeta | $1,300,000 | $- |

(P. Buys)

Position of the Parties

Gulf:

 For Docket No. 20200241-EI, $42.2 million for Hurricane Sally and for Docket No. 20210179-EI, $1.4 million for Hurricane Zeta of logistics costs were reasonably and prudently incurred by Gulf with its storm restoration effort.

FPL:

 For Docket No. 20210178-EI, $9.3 million for Hurricane Isaias and $9.1 million for Tropical Storm Eta of logistics costs were reasonably and prudently incurred by FPL with its storm restoration effort.

OPC:

1. **Docket No. 20200241-EI for Gulf’s Hurricane Sally.**

Rule 25-6.0143(1)(d), F.A.C., requires that storm costs must exclude those costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm. OPC is not recommending an adjustment to the logistics cost included in the storm restoration costs for this storm.

1. **Docket No. 20210178-EI for FPL’s Hurricane Isaias.**

Rule 25-6.0143(1)(d), F.A.C., requires that storm costs must exclude those costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm. OPC is not recommending an adjustment to the logistics cost included in the storm restoration costs for this storm.

1. **Docket No. 20210178-EI for FPL’s Tropical Storm Eta.**

Rule 25-6.0143(1)(d), F.A.C., requires that storm costs must exclude those costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm. OPC is not recommending an adjustment to the logistics cost included in the storm restoration costs for this storm.

1. **Docket No. 20210179-EI for Gulf’s Hurricane Zeta.**

Rule 25-6.0143(1)(d), F.A.C., requires that storm costs must exclude those costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm. OPC is not recommending an adjustment to the logistics cost included in the storm restoration costs for this storm.

Staff Analysis:

PARTIES’ ARGUMENTS

Gulf & FPL

The Companies argued that their logistics costs for Hurricanes Sally, Zeta, and Isaias and Tropical Storm Eta were reasonable and prudent. (Gulf & FPL BR 29) The Companies argued that per Rule 25-6.0143(1)(e)2-3, and 6, F.A.C., the ICCA methodology allows the incremental costs charged related to logistics, transportation of crews, and rental equipment for storm restoration activities to be charged to the storm reserve. The Companies incurred logistics costs for staging and processing sites, meals, lodging, buses, and transportation used by employees and contractors in support of storm restoration. As further argued, logistics functions serve a key role in the restoration effort by ensuring that basic needs and supplies are adequately available and provided to restoration personnel. In addition, agreements with primary vendors are also in place prior to the storm season as part of the Companies’ storm-planning process. (Gulf & FPL BR 29)

The Companies noted that OPC did not recommend any adjustments to the logistics costs and the record demonstrated that the Companies have appropriately accounted for the costs consistent with ICCA methodology. The Companies argued that the Commission should determine the logistics costs to be prudently incurred and reasonable. (Gulf & FPL BR 29).

OPC

OPC stated that Rule 25-6.0143, F.A.C., describes the ICCA methodology, which only allows utilities to charge costs to the storm reserve if the costs are incremental. The Rule also allows for additional logistics costs that comply with the ICCA methodology. OPC further stated that the Rule allows utilities to charge storm costs to base O&M expense instead of the storm reserve and pointed out that FPL charged storm costs to its O&M expense because of its RSAM. OPC argued the Rule only has one description of storm-related damages or storm costs that may be recovered and that description is not dependent on the method of recovery, i.e., storm surcharge or O&M expense. (OPC BR 26-27)

OPC stated that witness Futral’s audit team reviewed copies of all invoices over $10,000 provided by the Companies and verified the timing of costs incurred, the costs being appropriate for storm costs recognition by storm, line item costs matching contract and purchase order pricing, and the total invoice levels matching the general ledger, and that there were no duplications of individual costs items. The audit confirmed through discovery that certain amounts were based on estimated amounts due, invoices that were not received, or the amount paid differed from original estimates. However, OPC does not recommend an adjustment to the logistics costs. (OPC BR 27)

ANALYSIS

Pursuant to Rule 25-6.0143, F.A.C., the ICCA methodology is to be used to determine costs to cover storm-related damages. The Rule also lists types of storm related costs that are allowed, such as logistics and costs of providing meals and lodging for crews performing storm restoration. Table 8-1 identifies the revised logistics costs that Gulf and FPL are requesting to be recovered for Hurricanes Sally, Zeta, and Isaias, and Tropical Storm Eta.

Table 8-1

Gulf and FPL Original and Revised Logistics Costs Per Storm ($million)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Hurricane Sally (Gulf)** | | **Hurricane Zeta (Gulf)** | | **Hurricane Isaias (FPL)** | | **Tropical Storm Eta (FPL)** | |
| Original Request | Revised Request | Original Request | Revised Request | Original Request | Revised Request | Original Request | Revised Request |
| Logistics Costs | $42.6 | $42.2 | $1.4 | $1.3 | $9.4 | $9.3 | $9.1 | $9.1 |

Source: EXH 11; EXH 12; EXH 25; EXH 26; EXH 43; EXH 44; EXH 45; & EXH 46

OPC witness Futral testified that certain amounts associated with various vendors were accrued as estimates and posted to the general ledger, but that the invoices were either double posted, not received and paid, or consisted of different amounts compared to the original estimates. (TR 419) In response, Gulf and FPL agreed to adjust the amounts of the logistics costs as shown in Table 8-1 as the Revised Request. FPL witness Hughes testified that the Companies updated their costs as identified in responses to discovery requests and as shown in Table 8-1. (TR 465) Gulf found that it inadvertently added some vendor costs to logistics costs instead of contractor costs. (EXH 47, BSP 00016; EXH 49, BSP 00064)

Staff agrees with the Companies and OPC that the revised logistics costs as shown in Table 8-1 are reasonable and prudent. OPC did not provide any testimony on this issue, and stated in its brief that it is not recommending an adjustment to the logistics costs included in the storm restoration costs. (OPC BR 27) It appears that the Companies’ adjustments are consistent with the ICCA methodology and therefore appropriate for recovery. Based on the above information, staff recommends the reasonable and prudent logistic costs to be included in storm restoration costs are the Companies’ revised costs shown in Table 8-1; these costs should be recovered through a surcharge or charged to base O&M, as specified in the table below

CONCLUSION

Staff recommends that the total amount of logistics costs to be included in storm restoration costs, as reflected in the table below.

|  |  |  |
| --- | --- | --- |
| **Utility/Storm** | **Incremental** | |
| **Recovered through Storm Restoration Surcharge** | **Charged to Base O&M Expense** |
| Gulf—Sally | $42,200,000 | $- |
| FPL—Isaias | $- | $9,300,000 |
| FPL—Eta | $- | $9,100,000 |
| Gulf—Zeta | $1,300,000 | $- |

Issue 9:

 What is the reasonable and prudent total amount of costs to be included in the restoration costs?

1. Docket No. 20200241-EI for Gulf’s Hurricane Sally.
2. Docket No. 20210178-EI for FPL’s Hurricane Isaias.
3. Docket No. 20210178-EI for FPL’s Tropical Storm Eta.
4. Docket No. 20210179-EI for Gulf’s Hurricane Zeta.

Recommendation:

 Based on staff’s recommendations in Issues 2 through 8, the appropriate amounts of prudently incurred storm restoration costs are reflected on the table below, along with how the costs should be recovered. In addition to these costs, Gulf should be allowed recover $0.311 million and $0.001 million in interest on the unamortized storm restoration costs for Hurricane Sally and Hurricane Zeta, respectively.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Utility/Storm** | **Incremental** | | **Capitalized** | **Non-Incremental (Charged to Base O&M Expense)** | **Insurance** | **Total** |
| **Recovered through Storm Restoration Surcharge** | **Charged to Base O&M Expense** |
| Gulf—Sally | $187,800,000 | $- | $21,200,000 | $2,300,000 | $16,100,000 | $227,400,000 |
| FPL—Isaias | $- | $66,400,000 | $3,000 | $2,020,000 | $- | $68,423,000 |
| FPL—Eta | $- | $113,200,000 | $439,000 | $2,200,000 | $- | $115,839,000 |
| Gulf—Zeta | $10,100,000 | $- | $292,000 | $1,000,000 | $- | $11,392,000 |

(Norris, Snyder)

Position of the Parties

Gulf:

 For Docket No. 20200241-EI, $227.3 million for Hurricane Sally and for Docket No. 20210179-EI, $11.4 million for Hurricane Zeta are the reasonable and prudent amounts of costs incurred by Gulf with its storm restoration effort.

FPL:

 For Docket No. 20210178-EI, $68.5 million for Hurricane Isaias and $115.8 million for Tropical Storm Eta are the reasonable and prudent amounts costs incurred by FPL with its storm restoration effort.

OPC:

1. **Docket No. 20200241-EI for Gulf’s Hurricane Sally.**

Gulf included $0.311 million in interest on the unamortized storm cost for this storm. The Rule does not include interest as a recoverable cost. Thus, the total amount of costs to be included in restoration costs should be reduced by the disallowance recommendations in OPC’s positions including the $0.311 million in unauthorized interest.

1. **Docket No. 20210178-EI for FPL’s Hurricane Isaias.**

The total amount of costs to be included in restoration costs should be reduced by the disallowance recommendations in OPC’s positions.

1. **Docket No. 20210178-EI for FPL’s Tropical Storm Eta.**

The total amount of costs to be included in restoration costs should be reduced by the disallowance recommendations in OPC’s positions.

1. **Docket No. 20210179-EI for Gulf’s Hurricane Zeta.**

Gulf included $0.001 million in interest on the unamortized storm cost for this storm. The Rule does not include interest as a recoverable cost. Thus, the total amount of costs to be included in restoration costs should be reduced by the disallowance recommendations in OPC’s positions including the $0.001 million in unauthorized interest.

Staff Analysis:

PARTIES’ ARGUMENTS

Gulf

Sally

Gulf stated that the total amount of Hurricane Sally storm-related costs was $227.3 million. (Gulf & FPL BR 31; EXH 11, 43) After the application of the ICCA methodology, Gulf identified approximately $21.2 million as capital, $16.1 million as recoverable under insurance, $2.3 million as non-incremental, and $187.8 million was identified as incremental. (Gulf & FPL BR 31) Gulf also maintained that the interest on unamortized storm costs should be included in storm-related costs, based on previous Commission approval in the 2006 Order and the Commission’s approval of the Hurricane Matthew and Hurricane Matthew Settlement Agreements.[[8]](#footnote-8)

Zeta

Gulf stated that the total amount of Hurricane Zeta storm-related costs was $11.4 million. (Gulf & FPL BR 32; EXH 12, 44) After the application of the ICCA methodology, Gulf identified approximately $292,000 as capital, $1.0 million as non-incremental, and $10.1 million as incremental. (Gulf & FPL BR 32) Gulf also maintained that the interest on unamortized storm costs should be included in storm-related costs, based on previous Commission approval in the 2006 Order and the Commission’s approval of the Hurricane Matthew and Hurricane Matthew Settlement Agreements.[[9]](#footnote-9)

FPL

Isaias

FPL stated that the total amount of Hurricane Isaias storm-related costs was $68.5 million. (Gulf & FPL BR 32; EXH 25, 45) FPL asserted that it charged all storm restoration costs associated with Hurricane Isaias to base O&M expense, except for $3,000 that was charged to capital. (Gulf & FPL BR 32) FPL maintained that this was permissible based on its application of Rule 25-6.0143(1)(h), F.A.C., and Section 6 of its 2016 Settlement Agreement.[[10]](#footnote-10) (Gulf & FPL BR 32)

Eta

FPL stated that the total amount of Tropical Storm Eta storm-related costs was $115.8 million. (Gulf & FPL BR 32; EXH 26, 46) FPL asserted that it charged all storm restoration costs associated with Tropical Storm Eta to base O&M expense except for $439,000, which was charged to capital. (Gulf & FPL BR 32) FPL maintained that this was permissible based on its application of Rule 25-6.0143(1)(h), F.A.C., and Section 6 of its 2016 Settlement Agreement.[[11]](#footnote-11) (Gulf & FPL BR 32)

OPC

OPC asserted that the total amount of costs to be included in restoration costs should be reduced by all of its disallowance recommendations for Hurricane Sally, Hurricane Isaias, Tropical Storm Eta, and Hurricane Zeta. (OPC BR 29) Further, OPC argued that the amount included by Gulf of $0.311 million and $0.001 million in interest on the unamortized storm cost for Hurricanes Sally and Zeta, respectively, should also be disallowed. (OPC BR 29; TR 394) OPC witness Kollen maintained that interest is not identified as a recoverable cost in Rule 25-6.0143, F.A.C. (TR 394)

ANALYSIS

Based on staff’s recommendations in Issues 2 through 8, the appropriate amounts of prudently incurred storm restoration costs, by cost category, are reflected in the following tables. Table 9-1 below reflects the major costs categories from the previous issues for Hurricane Sally, Gulf’s requested amounts, and staff’s recommended amounts.

Table 9-1

Gulf’s Storm Restoration Costs for Hurricane Sally

|  |  |  |
| --- | --- | --- |
| **Major Cost Category** | **Gulf Requested** | **Staff Recommended** |
| Payroll | $2,100,000 | $2,100,000 |
| Overtime Payroll | 3,237,000 | 3,237,000 |
| Contractor Costs | 125,609,000 | 125,609,000 |
| Line Clearing Costs | 27,346,000 | 27,346,000 |
| Vehicle & Fuel | 3,171,000 | 3,171,000 |
| Materials & Supplies | 10,292,000 | 10,292,000 |
| Logistics | 42,230,000 | 42,230,000 |
| Other | 13,316,000 | 13,316,000 |
| Total Costs | $227,303,000 | $227,303,000 |

Source: EXH 43

Table 9-2 below reflects the major costs categories from the previous issues for Hurricane Isaias, FPL’s requested amounts, and staff’s recommended amounts.

Table 9-2

FPL’s Storm Restoration Costs for Hurricane Isaias

|  |  |  |  |
| --- | --- | --- | --- |
| **Major Cost Category** | **FPL**  **Requested** | | **Staff Recommended** |
| Payroll | $671,000 | | $671,000 |
| Overtime Payroll | 4,694,000 | | 4,694,000 |
| Contractors | 36,270,000 | | 36,270,000 |
| Line Clearing Costs | 13,027,000 | | 13,027,000 |
| Vehicle & Fuel | 2,752,000 | | 2,752,000 |
| Materials & Supplies | | 42,000 | 42,000 |
| Logistics | 9,332,000 | | 9,332,000 |
| Other | 1,677,000 | | 1,677,000 |
| Total Costs | $68,464,000 | | $68,464,000 |

Source: EXH 45

Table 9-3 below reflects the major costs categories from the previous issues for Tropical Storm Eta, FPL’s requested amounts, and staff’s recommended amounts.

Table 9-3

FPL’s Storm Restoration Costs for Tropical Storm Eta

|  |  |  |
| --- | --- | --- |
| **Major Cost Category** | **FPL**  **Requested** | **Staff Recommended** |
| Payroll | $2,327,000 | $2,327,000 |
| Overtime Payroll | 8,750,000 | 8,750,000 |
| Contractors | 77,423,000 | 77,423,000 |
| Line Clearing Costs | 11,204,000 | 11,204,000 |
| Vehicle & Fuel | 4,747,000 | 4,747,000 |
| Material & Supplies | 532,000 | 532,000 |
| Logistics | 9,076,000 | 9,076,000 |
| Other | 1,764,000 | 1,764,000 |
| Total Costs | $115,822,000 | $115,822,000 |

Source: EXH 46

Table 9-4 below reflects the major costs categories from the previous issues for Hurricane Sally, Gulf’s requested amounts, and staff’s recommended amounts.

Table 9-4

Gulf’s Storm Restoration Costs for Hurricane Zeta

|  |  |  |
| --- | --- | --- |
| **Major Cost Category** | **Gulf Requested** | **Staff Recommended** |
| Payroll | $304,000 | $304,000 |
| Overtime Payroll | 339,000 | 309,000 |
| Contractors | 5,803,000 | 5,803,000 |
| Line Clearing Costs | 1,864,000 | 1,864,000 |
| Vehicle & Fuel | 327,000 | 327,000 |
| Materials & Supplies | 179,000 | 179,000 |
| Logistics | 1,370,000 | 1,370,000 |
| Other Costs | 1,198,000 | 1,198,000 |
| Total Costs | $11,384,000 | $11,384,000 |

Source: EXH 44

In addition to seeking recovery of storm restoration costs, Gulf’s total Retail Recoverable Storm Amount includes $0.311 million in interest on the unamortized storm costs for Hurricane Sally and $0.001 million in interest on the unamortized storm cost for Hurricane Zeta. (TR 394; EXH 11, 12) The interest was calculated using the average commercial paper rate and applied to the average balance of unrecovered eligible storm restoration costs over the timeframe the surcharge is collected. (EXH 11, 12) As such, the interest for Hurricane Zeta was calculated to only reflect the two months it is collected in 2024.(EXH 12).

OPC witness Kollen testified that the Rule does not include interest as a recoverable cost and recommended that the interest be disallowed. (TR 394) FPL witness Hughes countered that although there was nothing in the Storm Rule addressing interest on unamortized storm costs, the Commission had addressed the issue in its approval of the Hurricane Michael and Hurricane Matthew Settlement Agreements. (TR 329, 462) He testified that Gulf should be able to earn interest on the amount of unrecovered incremental storm costs until they are fully recovered from customers based on its inclusion in those prior settlement agreements. (TR 506)

While Rule 25-6.0143, F.A.C., does not address the recovery of interest on unrecovered storm costs, the Commission has previously addressed this issue in previous storms. As OPC emphasized in its brief, both settlements state in their agreements that nothing in the agreement will have precedential value. (OPC BR 28) However, the Commission has also previously approved the inclusion of interest on unamortized storm costs in the 2006 Storm Order. As such, staff agrees that the interest on unamortized storm costs for Hurricane Sally and Hurricane Zeta should be included in Gulf’s total Retail Recoverable Storm Amount for each storm.

CONCLUSION

Based on staff’s recommendations in Issues 2 through 8, the appropriate amounts of prudently incurred storm restoration costs are reflected on the table below, along with how the costs should be recovered. In addition to these costs, Gulf should be allowed to recover $0.311 million and $0.001 million in interest on the unamortized storm restoration costs for Hurricane Sally and Hurricane Zeta, respectively.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Utility/Storm** | **Incremental** | | **Capitalized** | **Non-Incremental (Charged to Base O&M Expense)** | **Insurance** | **Total** |
| **Recovered through Storm Restoration Surcharge** | **Charged to Base O&M Expense** |
| Gulf—Sally | $187,800,000 | $- | $21,200,000 | $2,300,000 | $16,100,000 | $227,400,000 |
| FPL—Isaias | $- | $66,400,000 | $3,000 | $2,020,000 | $- | $68,423,000 |
| FPL—Eta | $- | $113,200,000 | $439,000 | $2,200,000 | $- | $115,839,000 |
| Gulf—Zeta | $10,100,000 | $- | $292,000 | $1,000,000 | $- | $11,392,000 |

Issue 10:

 What is the reasonable and prudent amount of storm-related costs that should be capitalized?

1. Docket No. 20200241-EI for Gulf’s Hurricane Sally.
2. Docket No. 20210178-EI for FPL’s Hurricane Isaias.
3. Docket No. 20210178-EI for FPL’s Tropical Storm Eta.
4. Docket No. 20210179-EI for Gulf’s Hurricane Zeta.

Recommendation:

 The total amounts of storm-related costs that should be capitalized are $21.2 million for Hurricane Sally, $3,000 for Hurricane Isaias, $439,000 for Tropical Storm Eta, and $292,000 for Hurricane Zeta. (P. Buys)

Position of the Parties

Gulf:

 For Docket No. 20200241-EI, $21.2 million for Hurricane Sally and for Docket No. 20210179-EI, $292,000 for Hurricane Zeta are the reasonable and prudent amounts of storm-related costs that should be and were capitalized.

FPL:

 For Docket No. 20210178-EI, $3,000 for Hurricane Isaias and $439,000 for Tropical Storm Eta are the reasonable and prudent amounts of storm-related costs that should be and were capitalized.

OPC:

1. **Docket No. 20200241-EI for Gulf’s Hurricane Sally.**

Rule 25-6.0143(1)(d), F.A.C., requires capital expenditures for the removal, retirement and replacement of damaged facilities charged to cover storm-related damages shall exclude the normal cost for the removal, retirement and replacement of thos

e facilities in the absence of a storm. OPC is not recommending an adjustment to the capitalized cost included in the storm restoration costs for this storm.

1. **Docket No. 20210178-EI for FPL’s Hurricane Isaias.**

Rule 25-6.0143(1)(d), F.A.C., requires that capital expenditures for the removal, retirement and replacement of damaged facilities charged to cover storm-related damages shall exclude the normal cost for the removal, retirement and replacement of those facilities in the absence of a storm. OPC is not recommending an adjustment to the capitalized cost included in the storm restoration costs for this storm.

1. **Docket No. 20210178-EI for FPL’s Tropical Storm Eta.**

Rule 25-6.0143(1)(d), F.A.C., requires capital expenditures for the removal, retirement and replacement of damaged facilities charged to cover storm-related damages shall exclude the normal cost for the removal, retirement and replacement of those facilities in the absence of a storm. OPC is not recommending an adjustment to the capitalized cost included in the storm restoration costs for this storm.

1. **Docket No. 20210179-EI for Gulf’s Hurricane Zeta.**

Rule 25-6.0143(1)(d), F.A.C., requires that capital expenditures for the removal, retirement and replacement of damaged facilities charged to cover storm-related damages shall exclude the normal cost for the removal, retirement and replacement of those facilities in the absence of a storm. OPC is not recommending an adjustment to the capitalized cost included in the storm restoration costs for this storm.

Staff Analysis:

PARTIES’ ARGUMENTS

Gulf & FPL

Gulf and FPL argued that the capitalized costs for Hurricanes Sally, Zeta, and Isaias, and Tropical Storm Eta were reasonable and prudent. The Companies used Rule 25-6.0143(1)(d), F.A.C., to determine the amounts that should be capitalized. In addition, the Companies adhered to the provisions of the Hurricane Irma and Hurricane Michael settlements regarding how to determine amounts to be capitalized. The Companies argued that based on their analysis and the fact that OPC is not disputing these costs, the capitalized costs should be determined prudent and reasonable. (Gulf & FPL BR 32-33)

OPC

OPC stated that Rule 25-6.0143(1)(d), F.A.C., requires that capital expenditures for the removal, retirement, and replacement of damaged facilities charged to cover storm-related damages shall exclude the normal cost for the removal, retirement, and replacement of those facilities in the absence of a storm. OPC stated that witness Futral’s audit team reviewed copies of all invoices over $10,000 provided by the Companies and verified the timing of costs incurred, the costs being appropriate for storm cost recognition by storm, line item costs matching contract and purchase order pricing, and the total invoice levels matching the general ledger, and that there were no duplications of individual costs items. The audit confirmed that the invoice documentation and detailed general ledger were sufficient to justify the costs included in the storm cost summaries, with exception of specific adjustments for reconciling amounts. Therefore, OPC is not recommending an adjustment to the capitalized cost. (OPC BR 30)

ANALYSIS

Rule 25-6.0143(1)(d), F.A.C., requires the ICCA methodology be used to determine the costs to be charged to cover storm-related damages. In addition, the Rule requires that capital expenditures charged to cover storm related damages shall exclude the normal cost of those expenditures in the absence of a storm.

Gulf requested $21.2 million in capitalized costs for Hurricane Sally and $292,000 for Hurricane Zeta. FPL requested $3,000 in capitalized costs for Hurricane Isaias and $439,000 for Tropical Storm Eta. (EXH 11; EXH 12; EXH 25; EXH 26) OPC witness Futral testified that certain amounts associated with various vendors were accrued as estimates and posted to the general ledger, but that the invoices were either double posted, not received or paid, or differed compared to the original estimates. (TR 419) Even though there were changes to different costs, the capitalized costs did not change. (EXH 43; EXH 44; EXH 45; EXH 46) Table 10-1 shows a breakdown of the capitalized costs per storm.

Table 10-1

Gulf and FPL’s Capitalized Costs per Category per Storm ($000)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Categories** | **Hurricane Sally (Gulf)** | **Hurricane Zeta (Gulf)** | **Hurricane Isaias (FPL)** | **Tropical Storm Eta (FPL)** |
| Payroll & Related Costs | $- | $37 | $- | $3 |
| Contractors | 16,369 | 71 | - | 28 |
| Materials & Supplies | 2,976 | 104 | 3 | 347 |
| Other | 1,847 | 80 | - | 61 |
| Total | $21,191 | $292 | $3 | $439 |

Source: EXH 11; EXH 12; EXH 25; EXH 26; EXH 43; EXH 44; EXH 45; & EXH 46

FPL witness Hughes testified that the Companies determined the amount of capital costs for each storm event by applying Rule 25-6.0143(1)(d), F.A.C.,[[12]](#footnote-12) which states that “the normal cost for removal, retirement and replacement of those facilities in the absence of a storm” should be the basis for calculating storm restoration capital. In addition, consistent with the Hurricane Irma Settlement, a blended simple average of internal employee and contractor hourly rate, under non-storm conditions, were used to calculate capital costs. (TR 267; TR 286; TR 303-304)

OPC did not provide any testimony on this issue, and stated in its brief that it is not recommending an adjustment to the capitalized cost included in the storm restoration costs. (OPC BR 30) It appears that the Companies’ calculations are consistent with the ICCA methodology and, therefore, the costs are appropriate for recovery. Based on the evidence in the record and information above, staff recommends the total capital costs shown in Table 10-1 are reasonable and prudent.

CONCLUSION

The total amounts of storm-related costs that should be capitalized are $21.2 million for Hurricane Sally, $3,000 for Hurricane Isaias, $439,000 for Tropical Storm Eta and $292,000 for Hurricane Zeta.

Issue 11:

 What is the appropriate accounting treatment associated with any storm costs found to have been imprudently incurred?

1. Docket No. 20210178-EI for FPL’s Hurricane Isaias.
2. Docket No. 20210178-EI for FPL’s Tropical Storm Eta.

Recommendation:

 All storm costs found to have been imprudently incurred should be charged below-the-line with a corresponding reduction in capital costs or above-the-line base O&M expense. (Snyder)

Position of the Parties

FPL:

 All of FPL’s costs associated with Hurricane Isaias and Tropical Storm Eta have been charged as either capital costs or base O&M expenses. Should the Commission find that any of FPL’s storm-related costs charged as either capital or base O&M expense were imprudently incurred based on the actual conditions and circumstances at the time decisions were made, such costs would be charged below-the-line with a corresponding reduction in capital or above-the-line base O&M.

OPC:

1. **Docket No. 20210178-EI for FPL’s Hurricane Isaias.**

The costs improperly charged by FPL to base O&M expense and recovered through the depreciation reserve should be restored to the depreciation reserve. This should be in a manner that ensures the non-incremental costs remain available to customers, but are not available to FPL to increase earnings using the RSAM in the future.

1. **Docket No. 20210178-EI for FPL’s Tropical Storm Eta.**

The charges improperly charged by FPL to base O&M expense and recovered through the depreciation reserve, should be restored to the depreciation reserve. This should be in a manner that ensures the non-incremental costs remain available to customers, but are not available to FPL to increase earnings using the RSAM in the future.

Staff Analysis:

PARTIES’ ARGUMENTS

FPL

FPL stated that all of its costs associated with Hurricane Isaias and Tropical Storm Eta have been charged as either capital costs or base O&M expenses. (Gulf & FPL BR 34) FPL also acknowledged that should the Commission find that any of FPL’s storm related costs were imprudently incurred, such costs would be charged below-the-line with a corresponding reduction in capital or above-the-line base O&M expense. (Gulf & FPL BR 34) FPL further clarified that an adjustment to above-the-line base O&M expense would also adjust the balance of its RSAM. (Gulf & FPL BR 35)

OPC

OPC contended that costs improperly charged by FPL to base O&M expense and recovered through the depreciation reserve should be restored to the depreciation reserve. (OPC BR 31) OPC specified that this should be done in a manner that ensures the non-incremental costs remain available to customers, but are not available to FPL to increase earnings using the RSAM in the future. (OPC BR 31)

ANALYSIS

As affirmed by both parties, any charges of storm costs found to have been imprudently incurred should be reversed. (OPC BR 31; Gulf & FPL BR 35) As addressed in Issues 1 through 9, staff is recommending that all storm restoration costs associated with Hurricane Isaias and Tropical Storm Eta were prudently incurred. However, should the Commission make a different finding, the identified costs should be charged below-the-line with a corresponding reduction in capital cost or above-the-line base O&M expense. As acknowledged by FPL, an adjustment to its above-the-line base O&M expense would also adjust the balance of its RSAM. (OPC BR 35)

CONCLUSION

All storm costs found to have been imprudently incurred should be charged below-the-line with a corresponding reduction in capital costs or above-the-line base O&M expense.

Issue 12:

 Should the Commission approve Gulf Power Company’s proposed tariffs and associated charges?

1. Docket No. 20200241-EI for Gulf’s Hurricane Sally.
2. Docket No. 20210179-EI for Gulf’s Hurricane Zeta.

Recommendation:

 Gulf’s proposed First Revised Tariff Sheet No. 8.030.5 (Hurricane Sally), Second Revised Tariff Sheet No. 8.030.5 (Hurricane Sally), and Original Sheet No. 8.030.6 (Hurricane Zeta) and associated charges should be approved. If the Commission disallows any storm-related costs, FPL should file revised tariffs that reflect the Commission vote for administrative approval by staff.

First Revised Tariff Sheet No. 8.030.5 should be effective January 1, 2023, Second Revised Tariff Sheet No. 8.030.5 should be effective November 1, 2023, and Original Sheet No. 8.030.6 should be effective November 1, 2024. (Draper)

Position of the Parties

Gulf:

 Yes. Gulf’s proposed tariff and associated charge will allow Gulf to recover the reasonable and prudent storm-related costs, in incurrence and amount.

OPC:

1. **Docket No. 20200241-EI for Gulf’s Hurricane Sally.**

No. Gulf should be required to file new tariffs that reflect the disallowances recommended in OPC’s positions and approved by the Commission.

1. **Docket No. 20210179-EI for Gulf’s Hurricane Zeta.**

No. Gulf should be required to file new tariffs that reflect the disallowances recommended in OPC’s positions and approved by the Commission.

Staff Analysis:

PARTIES’ ARGUMENTS

Gulf

Sally

In Order No. PSC-2021-0112-PCO-EI, the Commission approved an interim storm recovery charge for Hurricane Sally applicable to all customers within the service area previously served by Gulf, or Northwest Florida. (Gulf & FPL BR 35-36) The interim charge for a residential customer using 1,000 kilowatt-hours (kWhs) is $3 and has been in effect since March 2, 2021. (Gulf & FPL BR 25) Witness Cohen presented revised Hurricane Sally charges to reflect the cost allocations to the various rate classes approved in FPL’s recent rate case, Docket No. 20210015-EI. (EXH 13) The Hurricane Sally charge for a residential customer remains at $3/1,000 kWhs until October 2023. (Gulf & FPL BR 36) The proposed revised Hurricane Sally charges for the non-residential rate classes reflect cost allocations previously approved by the Commission in the rate case docket. (TR 347) The revised Hurricane Sally surcharges are shown on First Revised Tariff Sheet No. 8.030.5. (EXH 14)

Witness Cohen explained that once the current Commission-approved Hurricane Michael surcharge ($8/1,000 kWhs) terminates in October 2023, FPL proposed to increase the $3/1,000 kWh residential Hurricane Sally charge to $10/1,000 kWhs. (TR 348) The increased Hurricane Sally surcharges for all rate classes are shown on Second Revised Tariff Sheet No. 8.030.5. (EXH 15) The Second Revised Tariff Sheet No. 8.030.5 should be effective November 1, 2023. (Gulf & FPL BR 36) Witness Cohen testified that FPL proposed to stage the surcharges to customers in order to provide a fair balance between mitigating bill impacts to customers and timely recovery of costs that have already been spent. (TR 347-348; TR 351)

Zeta

Once recovery of Hurricane Sally storm charges is complete in October 2024 from customers in Northwest Florida, FPL proposed to commence recovery of Hurricane Zeta storm charges. (TR 344) Witness Cohen testified that the proposed recovery period for the Hurricane Zeta costs is two months: November 1, 2024 through December 31, 2024. (TR 345) Witness Cohen testified that the Hurricane Zeta recoverable storm amount has been allocated to each retail rate class based upon cost allocations presented in Exhibit TCC-1 to the direct testimony. (TR 344; EXH 16) The proposed Hurricane Zeta Original Tariff Sheet No. 8.030.6 should be effective November 1, 2024. (EXH 17). The proposed Hurricane Zeta surcharge is $9.34/1,000 kWhs for a residential customer. (TR 345)

OPC

Sally

OPC stated that Gulf should be required to file new tariffs that reflect the disallowances recommended in OPC’s positions and approved by the Commission. (OPC BR 32)

Zeta

OPC stated that Gulf should be required to file new tariffs that reflect the disallowances recommended in OPC’s positions and approved by the Commission. (OPC BR 32)

ANALYSIS

OPC did not address the timing of the implementation of the proposed storm charges in Issue 12. However, in its post-hearing brief for Issue 13, OPC stated that the cost for Hurricane Zeta should not be delayed until October 2024. (OPC BR 33) OPC further stated that charges should be collected closer in time when the costs were incurred. (OPC BR 33). Finally, OPC in its post-hearing brief for Issue 13 stated that the combined charge for Gulf’s residential customers should not be increased above $11/1,000 kWh and that the charge should be used to collect $8/1,000 kWhs for Hurricane Michael, $2/1,000 kWhs for Hurricane Sally and $1/1,000 kWh for Hurricane Zeta. (OPC BR 34) Once Hurricane Michael costs are fully recovered, then the surcharge for Hurricane Sally should increase by an amount equivalent to the Hurricane Michael surcharge plus the current Hurricane Sally surcharge until fully recovered. (OPC BR 34) Upon cross examination by OPC, witness Cohen testified that Gulf could start recovery of Hurricane Zeta costs in 2022; however, the way FPL proposed to stagger the surcharges was a thoughtful approach in trying to mitigate bill impacts to customers. (TR 351)

CONCLUSION

Based on the evidence in the record, staff believes that the proposed tariffs and the timing of cost recovery is appropriate and balances the interests of recovery and customer impacts. While staff believes that OPC’s argument that hurricane costs should be recovered closer in time when the costs occurred has merit, due to the number of hurricanes (Michael, Sally, and Zeta) and associated storm restoration costs, FPL’s proposed timing of cost recovery is reasonable. Gulf’s proposed First Revised Tariff Sheet No. 8.030.5 (Hurricane Sally), Second Revised Tariff Sheet No. 8.030.5 (Hurricane Sally), and Original Sheet No. 8.030.6 (Hurricane Zeta) and associated charges should be approved. If the Commission disallows any storm-related costs, FPL should file revised tariffs that reflect the Commission vote for administrative approval by staff.

First Revised Tariff Sheet No. 8.030.5 should be effective January 1, 2023, Second Revised Tariff Sheet No. 8.030.5 should be effective November 1, 2023, and Original Sheet No. 8.030.6 should be effective November 1, 2024.

Issue 13:

 If applicable, how should any under-recovery or over-recovery be handled?

1. Docket No. 20200241-EI for Gulf’s Hurricane Sally.
2. Docket No. 20210179-EI for Gulf’s Hurricane Zeta.

Recommendation:

 At the end of the storm restoration surcharge period for the recovery of Hurricane Sally and Hurricane Zeta, the actual amount recovered through the surcharge should be compared to the appropriate amounts approved by the Commission for each of the storms, and a determination made whether any under/over recovery has occurred. The disposition of any under/over recovery, and associated interest, should be considered by the Commission at a later date. (Norris, Snyder)

Position of the Parties

Gulf:

 When appropriate, Gulf will make a compliance filing with the Commission to provide notice of its intent to terminate the Proposed Storm Charges. Within 45 days of the charges expiration, Gulf will compare the approved recovery amount to actual revenues received from the storm charges and determine any excess or shortfalls. Gulf will calculate final true-up rates and file it with the Commission for approval to apply those rates to customer bills.

OPC:

1. **Docket No. 20200241-EI for Gulf’s Hurricane Sally.**

The storm surcharge should reflect all disallowances. The combined surcharge for Gulf residential customers should not be increased above the current $11/1,000 kWh and used to collect $8/1,000 kWh for Hurricanes Michael, $2/kWh for Hurricane Sally and $1/$1,000 kWh for Hurricane Zeta. Once Hurricane Michael costs are fully recovered, then the surcharge for Hurricane Sally should increase by an amount equivalent to the Hurricane Michael surcharge plus the current Hurricane Sally surcharge until fully recovered.

1. **Docket No. 20210179-EI for Gulf’s Hurricane Zeta.**

The storm surcharge should reflect all disallowances. The combined surcharge for Gulf residential customers should not be increased above the current $11/1,000 kWh and used to collect $8/1,000 kWh for Hurricanes Michael, $2/kWh for Hurricane Sally and $1/$1,000 kWh for Hurricane Zeta. Once Hurricane Michael costs are fully recovered, then the surcharge for Hurricane Sally should increase by an amount equivalent to the Hurricane Michael surcharge plus the current Hurricane Sally surcharge until fully recovered.

Staff Analysis:

PARTIES’ ARGUMENTS

Gulf

Gulf stated that it will make a compliance filing with the Commission to provide notice of its intent to terminate its proposed storm charges, no fewer than 90 days prior to the date it expects to fully recover its final recoverable storm amounts for Hurricanes Sally and Zeta. (Gulf & FPL BR 37) Gulf affirmed that within 45 days of the charges, it will compare the approved recovery amount to actual revenues received from the storm charges, determine any excess or shortfalls, calculate final true-up rates, and file them with the Commission for approvals. (Gulf & FPL BR 37; TR 339, 345)

OPC

In the event of an over-recovery, OPC proposed that it be reflected as a one-time credit on Gulf’s customers’ bills. (OPC BR 34) OPC also recommended the disallowance of interest on any variance associated with Hurricane Zeta. (OPC BR 33) OPC asserted that the storm surcharge should reflect all disallowances if the approved storm costs have yet to be collected. (OPC BR 32-33) Additionally, OPC contended that the combined surcharge for Gulf residential customers should not be increased above the current $11/1,000 kWh and used to collect $8/1,000 kWh for Hurricane Michael, $2/kWh for Hurricane Sally and $1/1,000 kWh for Hurricane Zeta. (OPC BR 32-33) OPC further specified that once Hurricane Michael costs are fully recovered, then the surcharge for Hurricane Sally should increase by an amount equivalent to the Hurricane Michael surcharge plus the current Hurricane Sally surcharge until fully recovered. (OPC BR 32-34)

ANALYSIS

As explained by Gulf witness Cohen, the final Recoverable Storm Amount approved the Commission for Hurricanes Sally and Zeta will be compared to the actual received from the approved surcharges in order to determine whether any over/under recovery has occurred and interest would be applied to the variance at the 30-day commercial paper rate.[[13]](#footnote-13) (TR 339, 345) Within 45 days after the expiration of the proposed storm charges, Gulf would make a compliance filing with the Commission that sets forth the calculation of the appropriate final true-up rates to apply to customer bills for a one-month period in order to refund the excess or collect the shortfall. (TR 339, 345)

In its post-hearing brief, OPC recommended the disallowance of interest on any variance associated with Hurricane Zeta. (OPC BR 33) OPC’s argument against the inclusion of interest was limited to its post-hearing brief and appeared to reference the interest associated with unamortized storm costs, as it made reference to the timing of the Hurricane Zeta surcharge and interest being collected during the timeframe that costs are not collected from customers and cited the same interpretations of Rule 25-6.0143 that it raised in its post-hearing brief on Issue 9. (OPC BR 33) The interest associated with unamortized storm costs addressed in Issue 9 is not the same concept as the interest included in the calculation of an excess or shortfall from the storm surcharges. Gulf’s final true-up methodology was not addressed elsewhere in OPC’s testimony, and the arguments in its post-hearing brief are not clear. Staff does not agree with the proposed disallowance of interest on any variance associated with Hurricane Zeta.

CONCLUSION

At the end of the storm restoration surcharge period, for the recovery of Hurricane Sally and Hurricane Zeta, the actual amount recovered through the surcharge should be compared to the appropriate amounts approved by the Commission for each of the storms, and a determination made whether any under/over recovery has occurred. The disposition of any under/over recovery, and associated interest, should be considered by the Commission at a later date.

Issue 14:

 Should this docket be closed?

1. Docket No. 20200241-EI for Gulf’s Hurricane Sally.
2. Docket No. 20210178-EI for FPL’s Hurricane Isaias.
3. Docket No. 20210178-EI for FPL’s Tropical Storm Eta.
4. Docket No. 20210179-EI for Gulf’s Hurricane Zeta.

Recommendation:

 Yes. If the Commission approves staff’s recommendations on Issues 1-10, 12 and 13 relating to Gulf’s recovery for Hurricane Sally and Hurricane Zeta storm-related costs, this docket should be closed. If the Commission approves staff’s recommendations that FPL’s storm-related costs for Hurricane Isaias and Tropical Storm Eta were reasonable and prudent, this docket should be closed. (Stiller)

Position of the Parties

Gulf:

 Yes. The dockets should be closed following the establishment of a final Recoverable Storm Amount and the approval of final true-up rates to be applied to customer bills for a one-month period starting on Cycle 1 of the first month that is more than 30 days after the date of Commission approval.

FPL:

 Yes. The dockets should be closed upon the issuance of an order finding that FPL’s costs were reasonable and prudent.

OPC:

1. **Docket No. 20200241-EI for Gulf’s Hurricane Sally.**

No position.

1. **Docket No. 20210178-EI for FPL’s Hurricane Isaias.**

No position.

1. **Docket No. 20210178-EI for FPL’s Tropical Storm Eta.**

No position.

1. **Docket No. 20210179-EI for Gulf’s Hurricane Zeta.**

No position.

Staff Analysis:

PARTIES’ ARGUMENTS

Gulf

Sally

The docket should be closed following the establishment of a final Recoverable Storm Amount and the approval of final true-up rates to be applied to customer bills for a one-month period starting on Cycle 1 of the first month that is more than 30 days after the date of Commission approval.

Zeta

FPL is not seeking approval in this proceeding to recover any of the Hurricane Isaias storm-related costs through depletion of the storm reserve or through a storm surcharge, because all non-capitalized storm-related costs were charged to base O&M expense as permitted under Rule 25-6.0143(1)(h), F.A.C. Upon the issuance of an order finding that FPL’s costs were reasonable and its activities in restoring power following Hurricane Isaias were prudent, this docket should be closed.

FPL

Isaias

FPL is not seeking approval in this proceeding to recover any of the Tropical Storm Eta storm-related costs through depletion of the storm reserve or through a storm surcharge, because all non-capitalized storm-related costs were charged to base O&M expense as permitted under Rule 25-6.0143(1)(h), F.A.C. Upon the issuance of an order finding that FPL’s costs were reasonable and its activities in restoring power following Tropical Storm Eta were prudent, this docket should be closed.

Eta

The docket should be closed following the establishment of a final Recoverable Storm Amount and the approval of final true-up rates to be applied to customer bills for a one-month period starting on Cycle 1 of the first month that is more than 30 days after the date of Commission approval.

OPC

Sally

No post-hearing position or argument was provided in its brief.

Isaias

No post-hearing position or argument was provided in its brief.

Eta

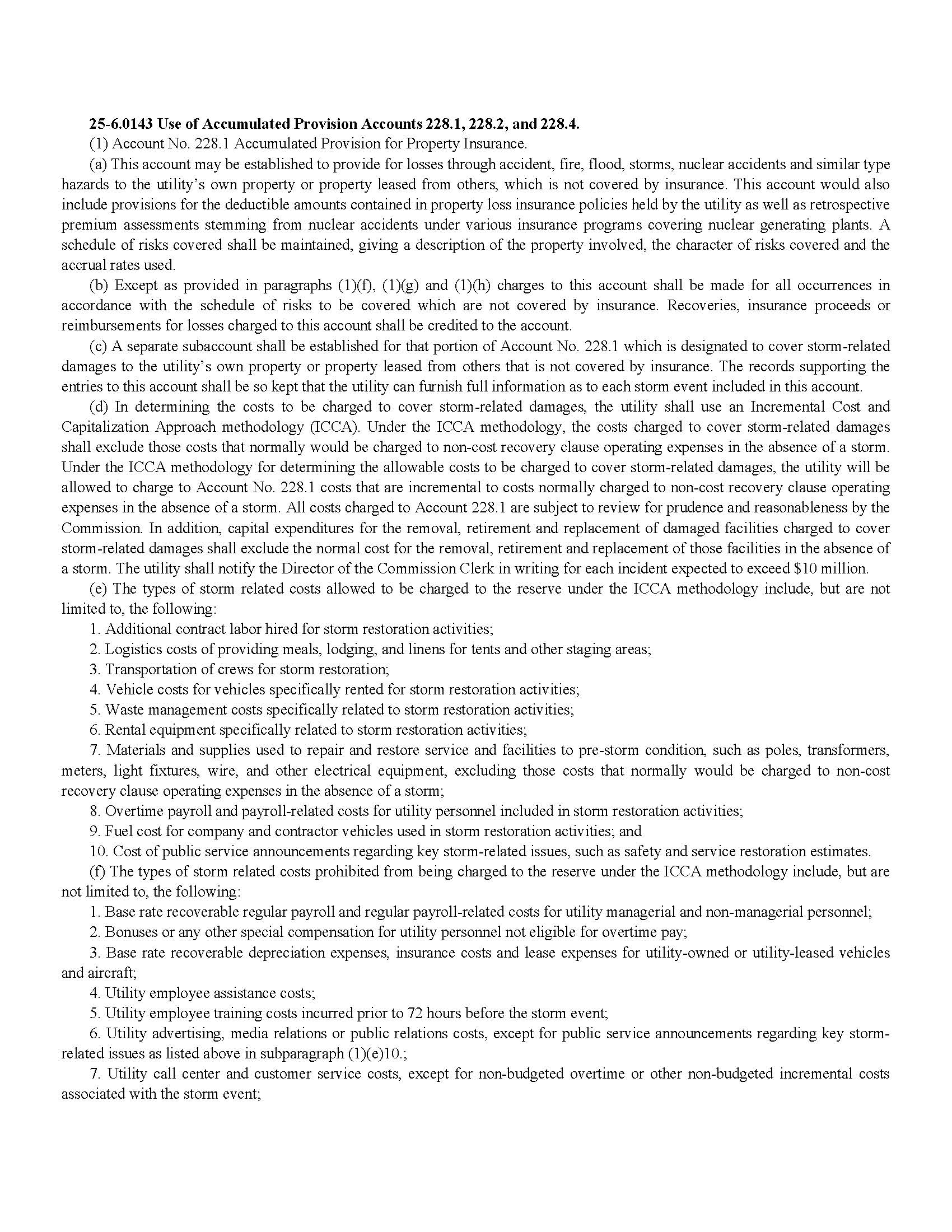
No post-hearing position or argument was provided in its brief.

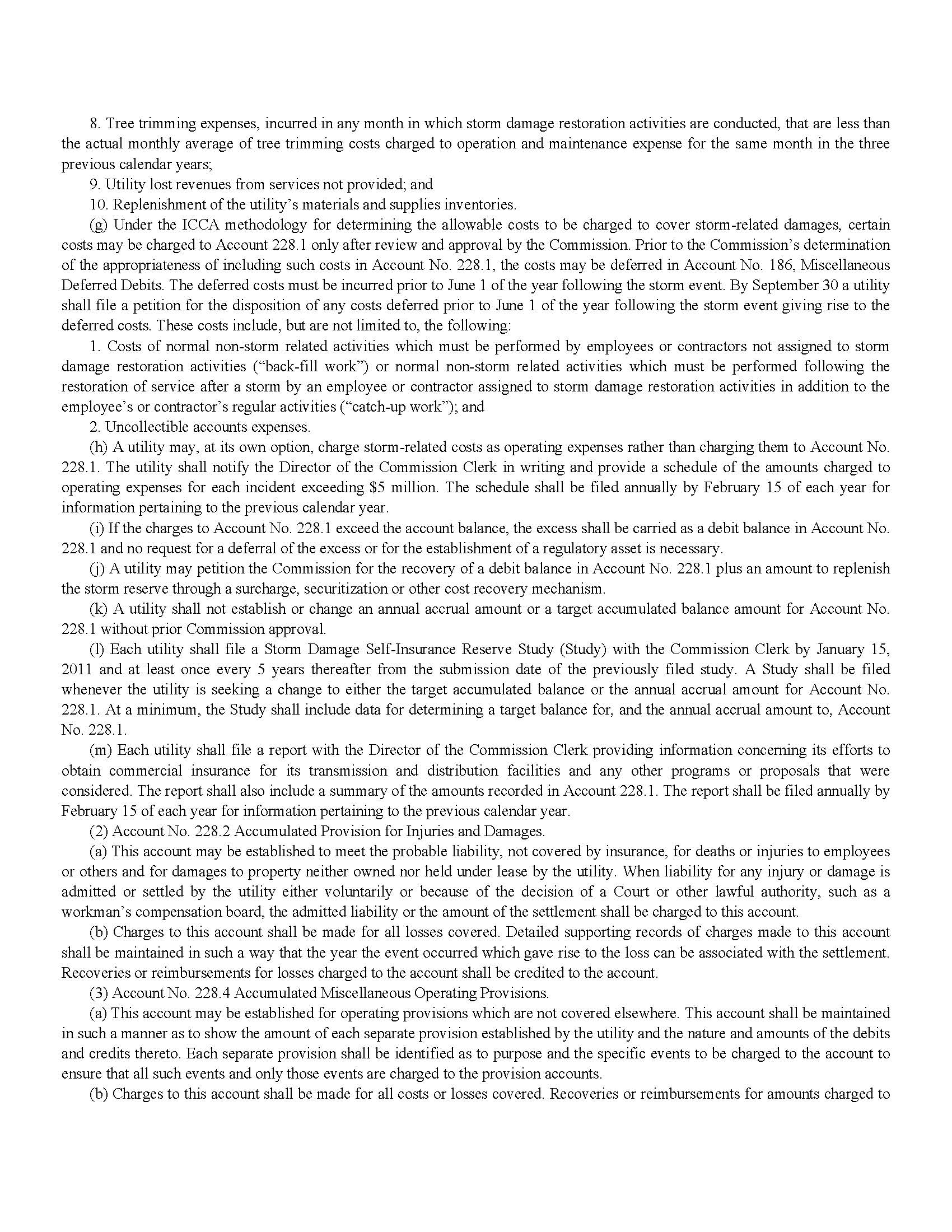
Zeta

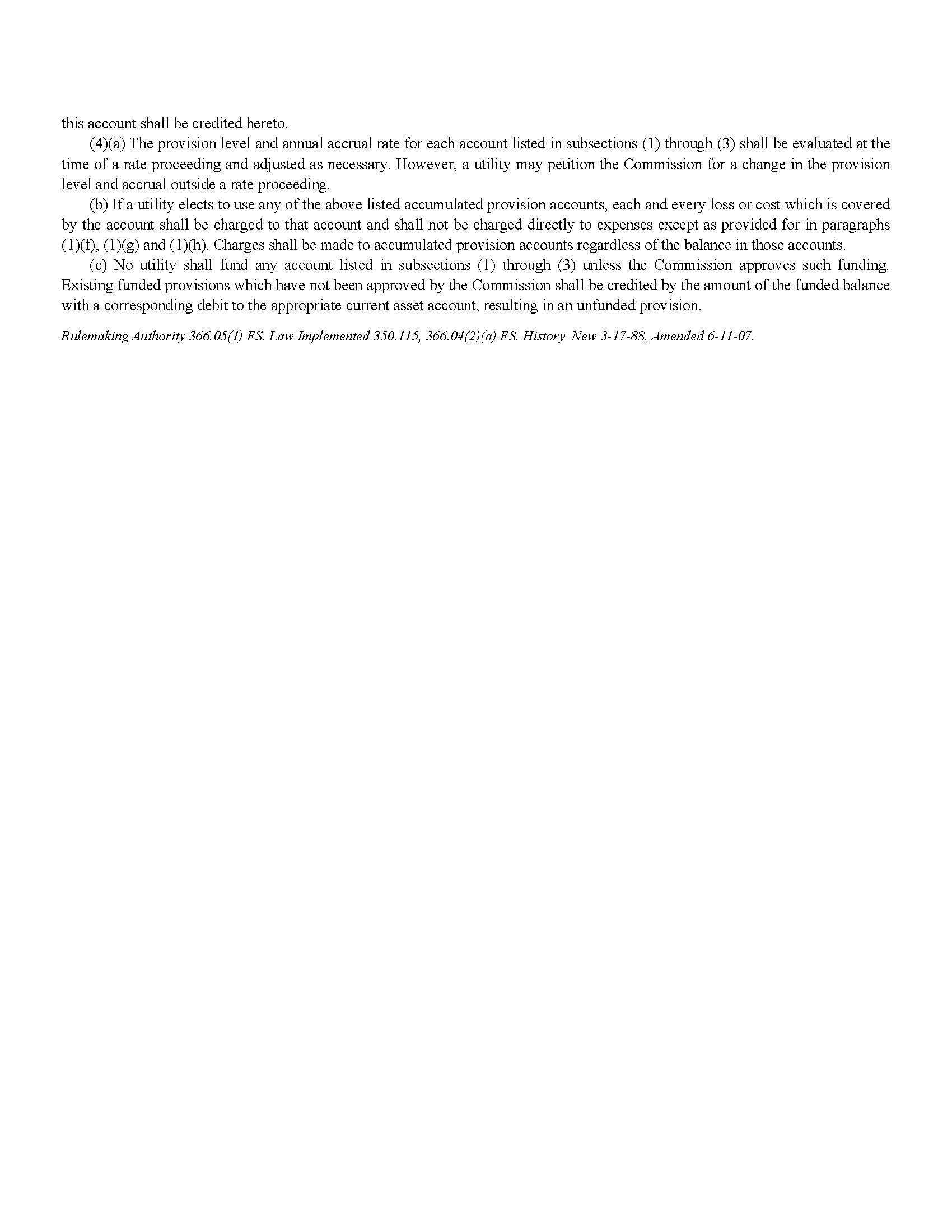
No post-hearing position or argument was provided in its brief.

ANALYSIS

If the Commission approves staff’s recommendations on Issues 1-10, 12 and 13 relating to Gulf’s recovery for Hurricane Sally and Hurricane Zeta storm-related costs, this docket should be closed. If the Commission approves staff’s recommendations that FPL’s storm-related costs for Hurricane Isaias and Tropical Storm Eta were reasonable and prudent, this docket should be closed.







1. Gulf was acquired by NextEra Energy, Inc. (FPL's parent) on January 1, 2019, and merged into FPL on January 1, 2021. Rates were consolidated effective January 1, 2022. [↑](#footnote-ref-1)
2. Order Nos. PSC-2019-0319-S-EI issued on August 1, 2019, and PSC-2020-0104-PAA-EI issued on April 14, 2020, in Docket No. 20180049-EI, In re: Evaluation of storm restoration costs for Florida Power & Light Company related to Hurricane Irma (Hurricane Irma Settlement Agreement); Order No. PSC-2020-0349-S-EI issued on October 8, 2020, in Docket No. 20190038-EI, In re: Petition for limited proceeding for recovery of incremental storm restoration costs related to Hurricane Michael, by Gulf Power Company (Hurricane Michael Settlement Agreement); Order No. PSC-2018-0359-FOF-EI issued on July 24, 2018, as amended by Order No. PSC-2018-

   0359A-FOF-EI issued on August 8, 2018, in Docket No. 20160251-EI, In re: Petition for limited proceeding for recovery of incremental storm restoration costs related to Hurricane Matthew by Florida Power & Light Company (Hurricane Matthew Settlement Agreement)\; and Order No. PSC-2006-0464-FOF-EI issued on May 30, 2006 in

   Docket No. 20060038-EI, In re: Petition for issuance of a storm recovery financing order, by Florida Power & Light Company (2006 Storm Order). [↑](#footnote-ref-2)
3. Order No. PSC-2006-0464-FOF-E. [↑](#footnote-ref-3)
4. Order No. PSC-2006-0464-FOF-EI. [↑](#footnote-ref-4)
5. Order No. PSC-2006-0464-FOF-EI. [↑](#footnote-ref-5)
6. Pursuant to Order No. PSC-2022-0242-PHO-EI, the Prehearing Officer determined that OPC’s proposed issue, to evaluate what changes should be made to FPL’s hurricane processes, is beyond the scope of this proceeding and will not be included. [↑](#footnote-ref-6)
7. See Order No. PSC-2022-0242-PHO-EI, issued June 27, 2022, in Docket No. 20200241-EI. [↑](#footnote-ref-7)
8. Order No. PSC-2006-0464-FOF-EI; Order No. PSC-2020-0349-S-EI; and Order No. PSC-2018-0359-FOF-EI issued on July 24, 2018, as amended by Order No. PSC-2018-0359A-FOF-EI [↑](#footnote-ref-8)
9. Id. [↑](#footnote-ref-9)
10. Order No. PSC-2016-0560-AS-EI, issued on 10 December 15, 2016, Docket No. 20160021-EI, *In re: Petition for rate increase by Florida Power & Light Company*. [↑](#footnote-ref-10)
11. Id. [↑](#footnote-ref-11)
12. The 2007 version of Rule 25-6.0143, F.A.C., applied to Hurricanes Sally, Isaias, and Zeta and Tropical Storm Eta, as these storms occurred during the 2020 hurricane season and the 2021 version of the Rule was not adopted at that time. [↑](#footnote-ref-12)
13. [↑](#footnote-ref-13)