
Docket No. 041272
Witness: Javier Portuondo
Exhibit ___ (JP-7)
Direct Testimony of Iliana H. Piedra
FPSC Docket No. 041291

DOCKET NO. 041291-EI: Petition for authority to recover prudently incurred storm restoration costs related to 2004 storm season that exceed storm reserve balance, by Florida Power & Light Company.

WITNESS: Direct Testimony Of Iliana H. Piedra, Appearing On Behalf Of Commission Staff

DATE FILED: February 22, 2005

1 DIRECT TESTIMONY OF ILIANA H. PIEDRA

2 Q. Please state your name and business address.

3 A. My name is Iliana H. Piedra and my business address is 3625 N.W. 82nd Ave.,
4 Suite 400, Miami, Florida, 33166.

5

6 Q. By whom are you presently employed and in what capacity?

7 A. I am employed by the Florida Public Service Commission as a Professional
8 Accountant Specialist in the Division of Regulatory Compliance and Consumer
9 Assistance.

10

11 Q. How long have you been employed by the Commission?

12 A. I have been employed by the Florida Public Service Commission since January,
13 1985.

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15 Q. Briefly review your educational and professional background.

16 A. In 1983, I received a Bachelor of Business Administration from Florida
17 International University with a major in accounting. I am also a Certified Public
18 Accountant licensed in the State of Florida.

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20 Q. Please describe your current responsibilities.

21 A. Currently, I am a Professional Accountant Specialist with the responsibilities of
22 planning and directing audits of regulated companies, and assisting in audits of
23 affiliated transactions. I am also responsible for creating audit work programs to meet
24 a specific audit purpose.

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1 Q. Have you presented expert testimony before this Commission or any other
2 regulatory agency?

3 A. Yes. I testified in the City Gas Company of Florida rate case, Docket No.
4 940276-GU and the General Development Utilities, Inc. rate cases for the Silver
5 Springs Shores Division in Marion County and the Port LaBelle Division in Glades
6 and Hendry Counties in Docket Nos. 920733-WS and 920734-WS, respectively.

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8 Q. What is the purpose of your testimony today?

9 A. The purpose of my testimony is to sponsor the staff audit report of Florida
10 Power & Light Company (Company) which addresses the Company's Petition for
11 authority to recover prudently incurred storm restoration costs related to the 2004
12 storm season that exceeded its storm reserve balance, Audit Control Number 04-343-4-
13 1. This audit report, with the exception of two detailed schedules associated with
14 Audit Disclosure No. 3, is filed with my testimony and is identified as Exhibit IHP-1.

15
16 Q. Did you prepare or cause to be prepared under your supervision, direction, and
17 control this audit report?

18 A. Yes, I was the audit manager in charge of the audit.

19
20 Q. Please describe the work performed in this audit.

21 A. We scanned and compiled all files provided with storm charges in Account
22 186.18, Storm Maintenance Deferred Debit, in order to select sample items for vehicle,
23 material and supplies, journal vouchers, cash vouchers, and payroll. We reconciled the
24 totals to the Company's general ledger. We verified sample items by reference to
25 supporting documentation. We also determined what portion of the Company's

1 property is insured and obtained information regarding any claims filed. We also read
2 the Commission-approved study, Transmission and Distribution Insurance
3 Replacement, dated October 1, 1993 and Order No. PSC-95-0264-FOF-EI, which
4 granted the request of Florida Power & Light Company to increase its annual storm
5 damage accrual and discussed the storm damage study.

6

7 Q. Please review the audit disclosures in the audit report.

8 A. Audit Disclosure No. 1 discusses the nuclear plant damages. The insurance
9 company is expected to reimburse FPL for all the St. Lucie nuclear plant damage
10 except for its deductible of \$2,000,000 and storm preparation expenses of \$9,280,311.
11 The deductible and storm preparation costs for St. Lucie nuclear plant are included in
12 the total amounts that the company is asking for as storm restoration costs in this
13 docket. The other costs were removed from the storm cost estimates and included in a
14 separate sub account consisting of all costs for nuclear. Also, the company received
15 \$20,000,000 in advances from its insurance company for the St. Lucie nuclear damage.
16 This amount was also removed from the storm cost estimates and included in a
17 separate sub account.

18 For Turkey Point nuclear, the company included a total of \$1,060,461.22 for
19 storm preparation charges. This total is for all three storms.

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21 Audit Disclosure No. 2 discusses the insurance coverage for non-nuclear
22 property. FPL carries insurance on non-nuclear property which has a deductible of
23 \$25,000,000 for each named storm. The policy indicates that no coverage is provided
24 for transmission and distribution lines, except for lines situated within 1,000 feet of the
25 insured premises. We did not find items in our sample for credits for insurance

1 | payments or accrued insurance payments for non-nuclear property. The company has
2 | not applied to the insurance company for reimbursement. Company personnel
3 | explained that, as of mid-January, the damage to plants and buildings for each named
4 | storm was approximately \$12 million for Charley, \$15 million for Jeanne, and \$18
5 | million for Frances. The Company periodically updates these estimates. FPL has not
6 | identified damage estimates for the lines situated within 1,000 feet of the premises.
7 | Should the damage to plant and building exceed the \$25,000,000 deductible for a
8 | particular storm, then the insurance reimbursements should be credited to the
9 | restoration costs.

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11 | Audit Disclosure No. 3 discusses bonuses paid to employees. FPL paid
12 | approximately \$2,043,600 in bonuses to various employees. Of this total, the company
13 | reversed \$129,000 leaving a net amount of \$1,914,600 charged to the storm reserve.
14 | These bonuses range from \$1,500 to \$35,000 per employee.

15

The company stated:

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"The Approved study states that regular payroll, overtime payroll, and
17 | temporary relieving pay are chargeable to the storm reserve fund.

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These charges should be reasonable and attributable to the storm
18 | restoration efforts. Management determined that in some cases certain

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employees who performed beyond expectations deserved additional
20 | compensation. Management, therefore, awarded bonuses to these

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employees. In doing so, management developed loose guidelines in
22 | order to determine the amount of the bonus based on the employee's

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position held during storm restoration efforts. For example, a staging
24 | site manager was eligible for an \$18,000 bonus for Charley, and the

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1 manager's backup was eligible for a \$12,000 bonus. If they, of course,
2 exceeded management's expectations. Whether an employee received
3 overtime compensation also determined the amount of the bonus. For
4 instance, if management felt that a certain position deserved a \$10,000
5 bonus, but the person in that position also earned \$5,000 in overtime
6 compensation then that employee was only awarded a \$5,000 bonus."

7
8 Audit Disclosure No. 4 discusses storm assignment records. We selected a
9 sample of payroll from the Company's Account 186.18-Storm Maintenance Deferred
10 Debit, which was later charged to the storm reserve Account 228, to determine if the
11 Company had adequate supporting documentation and that the employees were
12 actually working on storm related work. The sample was traced to supporting
13 documentation, but the documentation did not include any information about what
14 duties the employee performed. We requested additional information about the duties
15 performed by all employees in the sample and, for a small sample of those employees,
16 we asked for job tickets that the employee worked on. The Company explained that
17 they could not provide a job ticket or job record which shows the actual storm duties
18 assigned to each employee selected or a list of duties for the entire sample. The
19 Company contacted the individuals in the small sample for which we sought job tickets
20 to request their storm duties and locations and explained that:

21 "FPL maintains a storm restoration plan with initial assignments of
22 employees to restoration assignments. When the storm restoration efforts
23 actually are underway, the assignments become very fluid. Some
24 employees are not available for their assignment and others are
25 substituted. The goal is to track all assignments, however, during the

1 summer of 2004 the efforts were so long and so dynamic, centralized
2 daily records are not available. Employees are reassigned duties and
3 locations on a daily basis to meet the changing needs of the restoration
4 efforts.”

5 Since the records were not available, we were not able to verify storm duties for the
6 sample of payroll selected.

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8 Audit Disclosure No. 5 discusses the revision of the storm reserve estimate to
9 \$890,000,000. On December 8, 2004, we requested all entries to Accounts 228-Storm
10 Reserve and 186.180-Storm Maintenance Deferred Debit for 2004. The Company
11 provided the information through November because the data for December was not
12 yet available. On January 10, 2005, we again requested detail of all December 2004
13 entries. We received this detail on January 14, 2005. The Company made a press
14 release on January 21, 2005, to announce it was increasing the costs charged to the
15 storm reserve from \$710,000,000 to \$890,000,000. The detail we received on January
16 14 did not include the journal entry accruing the additional amounts. On January 21,
17 we requested all supporting documents relating to the accrual. On January 25, we
18 received the journal entry but no supporting documents. We did not receive any
19 supporting documents until January 31. On that date we selected a sample of vendors
20 and asked the Company to provide the list of invoices for those vendors. We had
21 planned to select a sample of those invoices to trace to source documentation. We did
22 not receive the lists until February 5, 2005. Since our audit report was due February 8,
23 we could not follow up on these items and obtain the actual invoices.

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25 Audit Disclosure No. 6 discusses items included in base rates. The Company

1 records regular and overtime payroll based on Expense Analysis Codes (EAC). In
2 1993, as part of Docket No. 930405-EI, FPL was required to file a study describing to
3 the Commission how it would record hurricane related costs to the reserve. The study
4 provided by FPL included three possible methods.

- 5 1. Actual restoration costs
- 6 2. Actual restoration cost with a net book value adjustment.
- 7 3. Incremental costs.

8 The incremental cost method proposed reducing restoration costs by straight time
9 payroll, loadings, and vehicle charges. But, included in that proposal, the Company
10 included an increment for lost revenue, catch-up work, and back-fill work. Order No.
11 PSC-95-0264-FOF-EI, dated February 27, 1995, says:

12 "FPL stated that it would use the actual restoration cost approach for determining the
13 appropriate amounts to be charged to the reserve. This methodology is consistent with
14 the manner in which replacement cost insurance works." The order also states:
15 "However, we have the authority to review any expenses charged to the reserve for
16 reasonableness and prudence." The order also discusses that capital additions should
17 be recorded in the reserve at the gross cost of the replaced plant. FPL has recorded the
18 costs as proposed in its 1993 study and as discussed in the 1995 order, using the actual
19 costs.

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21 Q. Does this conclude your testimony?

22 A. Yes, it does.

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AUDIT DISCLOSURE NO. 6

SUBJECT: ITEMS INCLUDED IN BASE RATES

STATEMENT OF FACT: The company records regular and overtime payroll based on Expense Analysis Codes (EAC). As of December 31, 2004, the payroll charged to the storm reserve based on these codes, consisted of \$27,778,474.04 of regular pay, \$76,746,600.87 of overtime pay, and \$3,120,737.06 of other pay. The other pay consists of the bonuses discussed in another section of this report, shift differentials and temporary relief payments.

The company also included overhead based on the payroll using a factor of 13.92% for regular time and 6.88% for overtime. The overhead is for taxes and pension and welfare. Overtime payroll was not charged with pension and welfare. The overhead charged for base salaries was \$3,866,763.59.

Vehicle costs which are normally included in base rates were also included in the storm reserve.

In 1993 as part of docket 930405-EI, Florida Power and Light was required to file a study describing to the Commission how it would record hurricane related costs to the reserve. The study provided by Florida Power and Light included three possible methods.

1. Actual restoration costs
2. Actual restoration cost with a net book value adjustment.
3. Incremental costs.

The incremental cost method proposed reducing restoration costs by straight time payroll, loadings and vehicle charges. But, included in that proposal, the company included an increment for lost revenue, catch-up work, and back-fill work.

Commission Order No. PSC-95-0264-FOF-EI dated February 27, 1995, says: "FPL stated that it would use the actual restoration cost approach for determining the appropriate amounts to be charged to the reserve. This methodology is consistent with the manner in which replacement cost insurance works."

The order also states: "However, we have the authority to review any expenses charged to the reserve for reasonableness and prudence." The order also discusses that capital additions should be recorded in the reserve at the gross cost of the replaced plant.

OPINION: Florida Power and Light has recorded the above costs as proposed in its 1993 study and discussed in the 1995 order, using the actual costs.