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**RICHARD CORCORAN**  
*Speaker of the House of Representatives*

April 6, 2018

Ms. Carlotta Stauffer, Commission Clerk  
Office of Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

Re: Docket No. 20160251-EI - Petition for Limited Proceeding for Recovery of Incremental Storm Restoration Costs Related to Hurricane Matthew by Florida Power & Light Company

Dear Ms. Stauffer:

Enclosed for filing in the above docket is the Public Version of the prefiled testimony of OPC witness Helmuth W. Schultz, III.

On April 5, 2018, the Office of Public Counsel submitted one copy of the prefiled testimony of Helmuth W. Schultz, III, under Florida Power & Light Company's claim of confidentiality. This procedure was an interim measure, designed to enable OPC to adhere to the procedural schedule while providing Florida Power & Light Company an opportunity to review the testimony and redact the material that it regards as confidential. The enclosed Redacted Version reflects Florida Power & Light Company's review. Counsel for Florida Power & Light Company has provided its revised request for confidentiality, including the highlighted confidential material and the accompanying detailed justification, in a separate filing. The notation of "CONFIDENTIAL" on this version should be ignored.

Thank you for your assistance.

Sincerely,

/s/Patricia A. Christensen  
Patricia A. Christensen  
Associate Public Counsel

cc: Parties of record

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of the foregoing Public Version of the Direct Testimony and Exhibits of Helmuth W. Schultz, III has been furnished by electronic mail on this 6<sup>th</sup> day of April, 2018, to the following:

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/s/Patricia A. Christensen  
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CONFIDENTIAL



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*Speaker of the House of Representatives*

April 5, 2018

**CONFIDENTIAL**

Ms. Carlotta Stauffer, Commission Clerk  
Office of Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

Re: Docket No. 20160251-EI – CONFIDENTIAL FILING  
Petition for Limited Proceeding for Recovery of Incremental Storm Restoration Costs  
Related to Hurricane Matthew by Florida Power & Light Company

Dear Ms. Stauffer:

Enclosed for filing in this docket is a CD copy of the confidential version of the complete direct testimony and exhibits of:

The testimony and exhibits of Helmuth W. Schultz, III contain information that Florida Power & Light (FPL) has asserted to be confidential. Today, OPC is providing the testimony and exhibits of Mr. Schultz to FPL for its review. FPL will redact the material it claims to be confidential, and return a redacted version of the testimonies back to OPC for filing with the Commission. It is our understanding that FPL will provide its request for confidentiality, including the highlighted confidential material and the accompanying detailed justification, in a separate filing. OPC reserves its right to challenge FPL's claims of confidentiality at the appropriate time.

CONFIDENTIAL

If you have any questions or concerns; please do not hesitate to contact me. Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office. Thank you for your assistance.

Sincerely,



Patricia A. Christensen  
Associate Public Counsel

PAC:ppg  
Enclosure  
cc: (letter only) Parties of Record

**CERTIFICATE OF SERVICE**  
**Docket No. 20160251-EI**

I hereby certify that a true and correct copy of the foregoing was furnished by e-mail  
this 5<sup>th</sup> day of April, 2018 to:

Suzanne Brownless  
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Patricia A. Christensen  
Associate Public Counsel

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition for limited proceeding for recovery  
of Hurricane Matthew Storm Costs, by Florida  
Power & Light Company.

---

Docket No. 20160251-EI

Filed: April 5, 2018

~~CONFIDENTIAL~~

Public Version  
**DIRECT TESTIMONY**

**OF**

**HELMUTH SCHULTZ III**

**ON BEHALF OF THE OFFICE OF PUBLIC COUNSEL**

J. R. Kelly  
Public Counsel

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Attorneys for the Citizens  
of the State of Florida

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**DIRECT TESTIMONY**

**OF**

**Helmuth W. Schultz, III**

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket No. 20160251-EI

1        **I. STATEMENT OF QUALIFICATIONS**

2        **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.**

3        A. My name is Helmuth W. Schultz, III. I am a Certified Public Accountant licensed in  
4        the State of Michigan and a senior regulatory consultant at the firm Larkin &  
5        Associates, PLLC, ("Larkin") Certified Public Accountants, with offices at 15728  
6        Farmington Road, Livonia, Michigan, 48154.

7

8        **Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, P.L.L.C.**

9        A. Larkin performs independent regulatory consulting primarily for public service/utility  
10       commission staffs and consumer interest groups (public counsels, public advocates,  
11       consumer counsels, attorney generals, etc.). Larkin has extensive experience in the  
12       utility regulatory field as expert witnesses in over 600 regulatory proceedings,  
13       including water and sewer, gas, electric and telephone utilities.

14       **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC**  
15       **COMMISSION AS AN EXPERT WITNESS?**

1 A. Yes. I have provided testimony before the Florida Public Service Commission  
2 ("Commission" or "FPSC") as an expert witness in the area of regulatory accounting  
3 in more than 15 cases.

4

5 **Q. HAVE YOU PREPARED AN EXHIBIT WHICH DESCRIBES YOUR**  
6 **EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE?**

7 A. Yes. I have attached Exhibit No. \_\_ (HWS-1), which is a summary of my background,  
8 experience and qualifications.

9

10 **Q. BY WHOM WERE YOU RETAINED, AND WHAT IS THE PURPOSE OF**  
11 **YOUR TESTIMONY?**

12 A. Larkin was retained by the Florida Office of Public Counsel ("OPC") to review the  
13 request for recovery of storm costs associated with Hurricane Matthew incurred by  
14 Florida Power & Light Company (the "Company" or "FPL"). Accordingly, I am  
15 appearing on behalf of the citizens of Florida ("Citizens") who are customers of FPL.

16

17 **II. BACKGROUND**

18 **Q. PLEASE SUMMARIZE YOUR UNDERSTANDING OF WHAT DOCKET NO.**  
19 **20160251-EI IS.**

20 A. This docket is described as a petition by FPL for recovery of Hurricane Matthew Storm  
21 Costs.

1 **Q. PLEASE SUMMARIZE WHAT THE COMPANY HAS INCLUDED IN ITS**  
2 **REQUEST TO THE FLORIDA PUBLIC SERVICE COMMISSION?**

3 A. The October 16, 2017 filing by FPL states that the first page of the final cost  
4 information provided with this filing is in the same format as was provided in Appendix  
5 A, page 1 to FPL's December 29, 2016 petition in this proceeding. Subsequently, FPL  
6 provided testimony and exhibits requesting recovery of \$291.799 million  
7 (jurisdictional) of Hurricane Matthew restoration costs, \$599,000 of interest on the  
8 unamortized reserve balance, \$24.026 million for the replenishment of the storm  
9 reserve pre-Hurricane Matthew and \$228,000 for a regulatory assessment fee, for a  
10 total of \$316.652 million. The Company's Exhibit KO-1 summarized the Hurricane  
11 Matthew costs. The total restoration costs are listed as \$310.343 million. Subtracted  
12 from the total cost are \$4.829 million of non-incremental costs, \$295,000 of third party  
13 reimbursements and \$12.982 million of costs which are being capitalized. The net  
14 requested restoration costs listed in FPL's Exhibit KO-1 were \$292.237 million  
15 (\$291.799 million jurisdictional).

16  
17 **Q. HAS FPL UPDATED ITS HURRICANE MATTHEW COST REQUEST SINCE**  
18 **IT FILED EXHIBIT KO-1?**

19 A. On March 15, 2018, the Company updated its filing again. FPL's supplemental filing  
20 reduced the Company's request for recovery of Hurricane Matthew restoration costs to  
21 \$291.647 million (jurisdictional) which is a reduction of \$152,000. The overall request  
22 still includes \$599,000 for interest on the unamortized reserve balance, \$24.026 million  
23 for the replenishment of the storm reserve pre-Hurricane Matthew and \$228,000 for the  
24 regulatory assessment fee for a total of \$316.500 million. The Company's Exhibit KO-

1 2 summarizes the Hurricane Matthew costs and the cost of replenishing the storm  
 2 reserve. The total restoration costs are now listed as \$313.333 million. Subtracted  
 3 from the total cost are \$4.829 million of non-incremental costs, \$295,000 of third party  
 4 reimbursements and \$16.124 million of costs which are being capitalized. The net  
 5 requested restoration cost on Exhibit KO-2 is \$292.084 million (\$291.647 million  
 6 jurisdictional). It appears there is a minor mathematical error on the updated exhibit,  
 7 because the jurisdictional rate of .9998 multiplied by the distribution cost of \$280.941  
 8 million would be \$280.885 million, not the \$280.899 million currently reflected on  
 9 Exhibit KO-2. As a result, the Company's request for Hurricane Matthew recovery  
 10 should be \$291.633 million, instead of the listed \$291.647 million.

11

12 **Q. WHAT TYPES OF ACTIVITIES ARE CONSIDERED DISTRIBUTION**  
 13 **FUNCTIONS?**

14 A. The Company's request is summarized by functions. The functions include Steam &  
 15 Other, Nuclear, Transmission, Distribution, General and Customer Service. The  
 16 distribution function is for costs that are associated with restoration to the distribution  
 17 system that includes poles, transformers and conductors that provide service to  
 18 residential, industrial and commercial customers. The distribution function represents  
 19 the majority of the costs incurred for storm restoration and includes payroll, contractor  
 20 costs, line clearing costs, vehicle and fuel costs, materials and supplies, logistics costs  
 21 and various other costs. I address each cost category throughout my testimony.

22 **Q. WHY ARE YOU DISTINGUISHING BETWEEN DISTRIBUTION AND**  
 23 **TOTAL COSTS?**

1 A. This reference is specific to an error that I have identified under the distribution  
2 function. Throughout my testimony I will reference the distribution amount as well as  
3 the total amount included in the restoration request because the distribution function is  
4 the source of the majority of costs being requested by FPL. For Hurricane Matthew,  
5 the total jurisdictional amount is \$291.647 million of which the distribution function is  
6 \$280.899 million or 96.3% of the request. The distribution function is where the  
7 majority of the damage to poles and wires is reflected so I believe it is helpful to  
8 separately identify the cost associated with that function.

9  
10 **Q. PLEASE BRIEFLY DESCRIBE THE ISSUES YOU WILL BE ADDRESSING**  
11 **IN THIS PROCEEDING.**

12 A. I am addressing the appropriateness of FPL's proposed recovery of costs related to  
13 payroll, contractors, line clearing, vehicles and fuel, materials and supplies, logistics  
14 and other items as reflected in its petition. As part of my analysis, I relied on my  
15 experience in analyzing storm costs in other jurisdictions, past review of storm costs in  
16 Florida, and Rule 25-6.0143, Florida Administrative Code ("F.A.C.") which addresses  
17 what costs should be included and excluded from a utility's request for recovery of  
18 storm related costs. Also at issue in this proceeding is the appropriateness of FPL's  
19 request to replenish its storm reserve, based on the 2012 rate case settlement agreement  
20 (2012 Settlement). See, Order No. PSC-2013-0023-S-EI, issued January 14, 2013, in  
21 Docket No. 20120015-EI. FPL has requested to replenish the storm reserve from the  
22 pre-Hurricane Matthew balance of \$93.105 million to the balance as of first billing  
23 cycle of January, 2013 (January 2013), which was \$117.131 million. I note that,  
24 contrary to the representations in FPL's October 16, 2017 filing, the schedule attached

1 to that filing was not consistent with the format provided in Appendix A, page 1 to  
2 FPL's December 29, 2016 petition in this proceeding. The difference between the two  
3 schedules is the replenishment of the reserve deficiency which was not included in the  
4 October 16, 2017 filing. This issue will be discussed in detail later in my testimony.  
5

6 **Q. PLEASE SUMMARIZE YOUR RECOMMENDED ADJUSTMENTS?**

7 A. On a jurisdictional basis, I recommend a reduction of \$1.027 million to FPL's request  
8 for regular payroll expense since these costs are already covered by amounts collected  
9 through base rates and they are not incremental costs as discussed below. I recommend  
10 a reduction of \$5.677 million to FPL's request for overtime payroll expense to properly  
11 reflect the capitalization of restoration work. I recommend a reduction of \$21.710  
12 million to FPL's storm request related to contractor costs to adjust for increasing the  
13 amount of contractor cost to be capitalized. I also recommend a reduction of \$14,000  
14 to account for the mathematical error I discussed above. Next, I recommend a reduction  
15 of \$17.971 million to logistic costs for lack of support. Finally, I recommend a  
16 reduction of \$24.026 million to FPL's request, which is the amount requested to  
17 replenish the storm reserve, because FPL failed to provide any support to justify  
18 charging the costs to the storm reserve. In total, I recommend a reduction of \$70.419<sup>1</sup>  
19 million to FPL's overall storm restoration and reserve replenishment request.

---

<sup>1</sup> The individual adjustments do not precisely add to the total recommended adjustment due to rounding.

1           **III. PAYROLL**

2   **Q.   WHAT HAS THE COMPANY REQUESTED FOR RECOVERY OF PAYROLL**  
3       **COSTS AS PART OF ITS STORM RESTORATION COSTS FOR**  
4       **HURRICANE MATTHEW?**

5   A.   Included in FPL's storm restoration cost is \$6.396 million of regular payroll and  
6       \$14.635 million of overtime payroll for a total payroll request of \$21.031 million.  
7       Excluded from the request is \$2.264 million of regular payroll identified as non-  
8       incremental and \$3.099 million of regular payroll that was capitalized. The net total  
9       payroll requested by FPL is \$15.669 million. The Company has included in its request  
10      for recovery \$1.417 million of regular distribution payroll (\$1.034 million total and  
11      \$1.027 million jurisdictional) and \$10.761 million of distribution overtime payroll  
12      (\$10.759 million distribution jurisdictional) and \$14.635 million total overtime payroll  
13      (\$14.527 million jurisdictional).

14  
15   **Q.   ARE THE PAYROLL DOLLARS STRICTLY PAYROLL?**

16   A.   No, they are not. According to FPL's response to Citizens' Interrogatory No. 4, the  
17      costs listed as payroll include overhead loadings for medical and dental insurance, thrift  
18      plan, life insurance, pension, long term disability benefits, social security, Medicare,  
19      and state and federal unemployment taxes.

20  
21   **Q.   WHAT RULE DID YOU REVIEW TO DETERMINE THE APPROPRIATE**  
22      **LEVEL OF PAYROLL TO BE INCLUDED IN STORM COST RECOVERY?**

23   A.   I reviewed Rule 25-6.0143, F.A.C., (the "Rule"), which identifies the costs that are  
24      allowed and excluded from storm cost recovery utilizing the Incremental Cost and

1 Capitalization Approach methodology (ICCA). Rule 25-6.0143(1)(d) provides that  
2 “the utility will be allowed to charge to Account No. 228.1 costs that are **incremental**  
3 to cost normally charged to non-cost recovery clause operating expenses in the absence  
4 of the storm.” Rule 25-6.0143(1)(f)1 prohibits “base rate recoverable payroll and  
5 regular payroll-related costs for utility managerial and non-managerial personnel” from  
6 being charged to the reserve.

7  
8 **Q. IN YOUR OPINION, HOW SHOULD THE COMMISSION DETERMINE**  
9 **WHAT ARE INCREMENTAL PAYROLL COSTS UNDER RULE 25-**  
10 **6.0143(1)(f)1., F.A.C.?**

11 A. Based upon my years of experience as an accountant in the utility field, I believe the  
12 Rule requires that an evaluation of the amount of regular payroll included in a utility’s  
13 applicable base rates must be established before a determination of whether any of the  
14 regular payroll costs are incremental, and thus eligible for storm cost recovery.

15  
16 **Q. IS A BUDGETED LEVEL OF PAYROLL AN APPROPRIATE MEASURE FOR**  
17 **ESTABLISHING INCREMENTAL PAYROLL COSTS?**

18 A. No, it is not. The Rule plainly states “[b]ase rate recoverable.” (Emphasis added.)  
19 Thus, payroll included in a utility’s established rates – not the utility’s budgeted  
20 spending levels of payroll as FPL proposes – is the appropriate measurement.

21  
22 **Q. HOW DID YOU DETERMINE THE THRESHOLD LEVEL OF PAYROLL**  
23 **COSTS THAT SHOULD BE CONSIDERED THE NORMAL COST LEVEL**  
24 **INCLUDED IN BASE RATES FOR THIS PROCEEDING?**

1 A. In determining whether the payroll costs requested by FPL were incremental to its  
2 normal costs included in its base rates, I reviewed the amount of payroll included in the  
3 Minimum Filing Requirements (MFRs) in FPL's 2012 rate case which was settled.

4  
5 **Q. WHY DID YOU USE THE AMOUNT OF PAYROLL INCLUDED IN FPL'S**  
6 **2012 MFRS RATHER THAN FPL'S 2016 MFRS?**

7 A. I used the 2012 MFR payroll information because, at the time Hurricane Matthew hit  
8 FPL's territory, the Company's 2012 Settlement was in effect through the last billing  
9 cycle in December 2016. See, Order No. PSC-2013-0023-S-EI, issued January 14,  
10 2013, in Docket No. 20120015-EI.

11  
12 **Q. IS IT APPROPRIATE TO USE THE LEVEL OF PAYROLL INCLUDED IN**  
13 **THE 2012 RATE CASE MFRS EVEN THOUGH THAT CASE WAS SETTLED?**

14 A. Yes, it is appropriate. The 2012 Settlement was a black box settlement (i.e. settled to  
15 a revenue requirement without specifically addressing all revenue inputs).  
16 Notwithstanding the settlement, the payroll levels included in the 2012 rate case MFRs  
17 were part of the sworn testimonies of FPL witnesses Kim Ousdahl and Kathleen  
18 Slattery and are the best available information regarding payroll included in base rates  
19 by the Company at the time Hurricane Matthew occurred. As discussed above, the  
20 level of regular payroll included in base rates must be established before a  
21 determination of whether any regular payroll can be considered incremental and  
22 eligible for storm cost recovery. Initially, in an attempt to confirm an appropriate dollar  
23 amount for payroll included in rates, FPL was requested to provide the amount of  
24 payroll included in its base rates that were in effect during 2016. FPL failed to provide

1 this information; therefore, a supplemental request was made by Citizens' Interrogatory  
2 No. 82. The Company indicated it was unsure of what was being requested and, after  
3 clarification, FPL provided a response identifying the amount of payroll included in its  
4 base rates during 2016. This response states as follows:

5 Subsequent to receiving this request, FPL sought clarification from OPC  
6 in order to ensure FPL was providing a responsive answer. In its  
7 clarification, OPC indicated they would like FPL to provide the amount  
8 of regular and overtime payroll included in FPL's projected test year  
9 ended 12/31/2013 filed in Docket No. 20120015-EI for all base rate  
10 recoverable O&M expenses by FERC account.  
11

12 Based on the revised request, please see Attachment No. 1 for base rate  
13 regular and overtime payroll dollars reflected included in FPL's  
14 projected test year ended 12/31/13 in Docket No. 20120015-EI. Note,  
15 the information provided does not include payroll overheads, incentives,  
16 and other types of payroll related expenses.  
17

18 Based on FPL's representation that the information supplied was the amount charged  
19 to O&M expense included in its base rates, I relied on this response as being the payroll  
20 to be used in determining what payroll costs were incremental in 2016 as part of the  
21 storm restoration costs.  
22

23 **Q: WHAT WAS THE AMOUNT OF REGULAR PAYROLL THE COMPANY**  
24 **STATED WAS INCLUDED IN ITS 2016 BASE RATES?**

25 A. In response to Citizens' Interrogatory No. 82, the Company states its base rates in effect  
26 during 2016, the period during which the storm occurred, included \$610,638,151 of  
27 regular payroll charged to O&M expense. The Company's supplemental response to  
28 Citizens' Interrogatory No. 82 indicates the actual 2016 regular payroll was  
29 \$493,011,189.

1 Q. WAS ANY OF THE REQUESTED REGULAR PAYROLL COST  
2 INCREMENTAL AND THEREFORE ELIGIBLE FOR STORM COST  
3 RECOVERY?

4 A. No, it was not. It is clear that the amount of regular payroll included in base rates that  
5 was being collected during the time Hurricane Matthew impacted Florida exceeded the  
6 regular payroll costs that FPL actually incurred in 2016 (\$610,638,151 payroll expense  
7 collected in rates compared to \$493,011,189 actual payroll expense). Thus, all of the  
8 Company's regular payroll included in the restoration costs should be excluded as non-  
9 incremental costs. Since the \$610,638,151 of regular payroll included in base rates far  
10 exceeds the 2016 actual O&M payroll expense of \$493,011,189, it would be  
11 impractical to assume that any regular payroll could be considered as incremental storm  
12 restoration costs. Any allowance of regular payroll as part of storm restoration costs  
13 would result in double recovery for FPL – first as part of base rates and then recovered  
14 a second time as part of the storm restoration costs.

15

16 Q. DID FPL EXCLUDE ANY REGULAR PAYROLL FROM ITS REQUESTED  
17 RECOVERY AS NON-INCREMENTAL?

18 A. Yes, it did. The Company excluded \$2.264 million of total regular payroll from the  
19 \$6.396 million total payroll charged to the storm restoration costs for Hurricane  
20 Matthew.

21

22 Q. DO YOU AGREE WITH THE METHOD FPL USED TO ESTABLISH ITS  
23 NON-INCREMENTAL REGULAR PAYROLL?

1 A. No, I do not. FPL's response to Citizens' Interrogatory No. 40 shows how it calculated  
2 its non-incremental payroll adjustment. FPL's calculation ignores any comparison of  
3 the amount of regular payroll that was included in base rates. FPL simply makes the  
4 adjustment based on a percentage of the payroll budgeted for the respective cost centers  
5 that was included in O&M. This approach ignores the requirement under Rule 25-  
6 6.0143, F.A.C., to exclude regular payroll included in base rates and focuses rather on  
7 what was "budgeted" payroll included in O&M – a methodology that is not compliant  
8 with the ICCA methodology contemplated by the Rule.

9  
10 **Q. DID YOU ASK FPL WHY IT INCLUDED REGULAR COSTS AS PART OF**  
11 **ITS REQUEST FOR STORM COST RECOVERY?**

12 A. Yes, I did. The Company's response to Citizens' Interrogatory No. 5 stated that, based  
13 on the ICCA, regular payroll normally recovered through base rate O&M cannot be  
14 charged to FPL's Storm Reserve. However, FPL also claimed that regular payroll  
15 normally recovered through capital or clauses can be charged to the Storm Reserve  
16 based on paragraphs 21 and 22 of Order No. PSC-06-0464-FOF-EI. FPL attempted to  
17 further explain its position in its response to Citizens' Interrogatory No. 8, where it  
18 added the following:

19 FPL included \$6.299 million of regular payroll and related costs in its final  
20 cost report for Hurricane Matthew filed on October 16, 2017. As shown in  
21 Attachment No. 1 to FPL's response to OPC's First Set of Interrogatories  
22 No. 5, FPL excluded \$2.169 million from the total amount of regular  
23 payroll as it represents costs normally recovered through base rate O&M.  
24 In addition, FPL also excluded \$3.099 million of regular payroll related to  
25 capitalized costs. The remaining \$1.031 million (\$1.024 million retail  
26 jurisdictional) relates to the capital or clause portion of regular payroll that  
27 would have normally been performed absent the storm but were not  
28 charged to those recovery mechanisms because the work associated with  
29 that payroll related to storm recovery. Thus, unless the \$1.031 million is

1 recovered through the storm charge, FPL will not have a chance to recover  
 2 it. This amount is recoverable under the incremental cost and capitalization  
 3 approach as explained in paragraphs 21 and 22 of FPSC Order No. PSC-  
 4 06-0464-FOF-EI.  
 5  
 6

7 The problem with FPL's response is that it ignores the requirement to compare the  
 8 actual amount of regular payroll costs to the amount of payroll that was included in  
 9 base rates for O&M. Rule 25-6.0143, F.A.C., does not state that the current "budgeted"  
 10 amount of payroll costs is a valid methodology for determining if the payroll costs are  
 11 "normally" recovered through base rates, or, as discussed above, is an acceptable  
 12 methodology for determining what costs were incremental or non-incremental payroll.  
 13 In addition, FPL's response provides no evidence of the amount of capital dollars  
 14 and/or clause dollars to which the purported qualification applies. It is insufficient to  
 15 merely classify regular payroll as capital dollars and/or clause dollars in order to make  
 16 those costs eligible for storm cost recovery where there is such a significant variance  
 17 between the base rate regular payroll in O&M expense (i.e. the amount collected in  
 18 2016 of \$610,638,151) and the actual regular payroll in O&M expense (i.e. the amount  
 19 actually spent in 2016 of \$493,011,189). Moreover, FPL's position fails to comply  
 20 with Rule 25-6.0143, F.A.C.  
 21

22 **Q. WERE ANY PAYROLL COSTS INCLUDED IN FPL'S REQUEST FOR**  
 23 **HURRICANE MATTHEW RECOVERY INCURRED IN 2017?**

24 **A.** Yes, there were. FPL's response to Citizens' Interrogatory No. 7 indicated that  
 25 approximately \$72,000 in payroll costs it is requesting were incurred in 2017.

1 **Q. WOULD THAT IMPACT ANY RECOMMENDATION YOU ARE MAKING**  
2 **WITH RESPECT TO REGULAR PAYROLL?**

3 A. No, it would not. It is still considered non-incremental as the base rate and actual  
4 differential would not reverse.

5  
6 **Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO THE COMPANY'S**  
7 **REQUEST FOR REGULAR PAYROLL COSTS?**

8 A. As shown on Exhibit No. HWS-2, Schedule B, Page 1 of 3, I am recommending the  
9 distribution request for regular payroll be reduced by \$1.417 million (\$1.417 million  
10 jurisdictional) and total regular payroll costs be reduced by \$1.034 million (\$1.027  
11 million jurisdictional).

12  
13 **Q. HOW CAN THE REGULAR PAYROLL FOR DISTRIBUTION BE REDUCED**  
14 **BY MORE THAN WHAT IS INCLUDED IN THE COMPANY'S REQUEST?**

15 A. The Company's regular payroll request was calculated as a net adjustment of  
16 capitalization costs in the amount of \$3.099 million and non-incremental costs in the  
17 amount of \$2.265 million. This resulted in regular payroll for some functions being  
18 negative. Since the regular payroll cannot be considered as part of the cost subject to  
19 storm recovery because it is actually non-incremental, the regular payroll costs cannot  
20 be capitalized. That capitalization must be applied solely to overtime payroll. As a  
21 result, the adjustment to the Company's amounts as presented in its Exhibit KO-1 would  
22 be a reduction of \$1.417 million on a jurisdictional basis for distribution and \$1.027  
23 million in total.

1 **Q. WHAT DO YOU MEAN REGULAR PAYROLL CANNOT BE CAPITALIZED,**  
2 **THEREFORE, THE CAPITALIZATION OF PAYROLL MUST BE SOLELY**  
3 **OVERTIME PAYROLL?**

4 A. FPL determined that its personnel performed some level of restoration work that must  
5 be capitalized. Since regular payroll is clearly non-incremental, there are no regular  
6 payroll dollars that can be capitalized. Thus, the only option is to assign the  
7 capitalization to FPL's overtime restoration costs.

8

9 **Q. WHAT DID YOU DETERMINE IN YOUR REVIEW OF THE OVERTIME**  
10 **PAYROLL REQUESTED BY FPL?**

11 A. I found that the payroll overtime charged to O&M expense in 2016 exceeded the  
12 amount which was included in base rates. Therefore, the overtime costs charged to the  
13 storm reserve are incremental.

14

15 **Q. PLEASE EXPLAIN YOUR STATEMENT THAT THE EXCLUSION OF**  
16 **REGULAR PAYROLL WOULD MEAN THE CAPITALIZATION MUST BE**  
17 **APPLIED TO OVERTIME PAYROLL.**

18 A. FPL's filing did not reflect any reduction to overtime for capitalization. As I stated  
19 earlier, since all the regular payroll was non-incremental, these costs are not storm  
20 restoration recoverable costs and, thus cannot be capitalized. Therefore, any  
21 capitalization of payroll must be applied to the overtime payroll.

1 **Q. WHAT PRIMARY FACTOR SHOULD THE COMMISSION CONSIDER**  
2 **WHEN MAKING A DETERMINATION AS TO WHETHER THE**  
3 **COMPANY'S OVERTIME PAYROLL SHOULD BE CAPITALIZED?**

4 A. The primary factor the Commission should consider is that FPL's own filing indicated  
5 some of its Company labor should be capitalized. The fact that regular payroll is all  
6 non-incremental means that it is being recovered through regular base rates and there  
7 is no amount remaining to be capitalized. Additionally, when the Company responded  
8 to the need to restore service to its customers, those restoration activities presumably  
9 included overtime for FPL employees. It would be unrealistic to assume FPL  
10 employees performed restoration work, but did not do some of the work at overtime  
11 rates. Thus, the amount of capitalized FPL labor costs should be applied to the overtime  
12 payroll dollars in FPL's request prior to being included as part of the overtime FPL  
13 labor costs to be recovered in storm restoration costs.

14  
15 **Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO THE COMPANY'S**  
16 **REQUEST?**

17 A. First, as shown on Exhibit No. HWS-2, Schedule B, Page 2 of 3, I am recommending  
18 the distribution overtime payroll be reduced by \$3.006 million (\$3.005 million  
19 jurisdictional) and reduced in total by \$3.099 million (\$3.089 million jurisdictional).  
20 This, again, is the Company's calculated payroll adjustment for capitalization. I am  
21 also recommending the Company's overtime payroll be adjusted to reflect an  
22 appropriate capitalization rate.

1 Q. PLEASE EXPLAIN WHAT YOU MEAN BY AN APPROPRIATE  
2 CAPITALIZATION RATE?

3 A. The capitalization rate FPL proposes to use for storm restoration is the same as it uses  
4 in the normal course of business under normal conditions<sup>2</sup>. Yet, that capitalization rate  
5 is not appropriate, as the storm restoration work performed is being done under  
6 abnormal conditions. Under normal conditions, restoration is done at both regular pay  
7 rates and overtime pay rates because; restoration work under normal conditions is  
8 typically "scheduled to be completed such that overtime is not required."<sup>3</sup> However,  
9 after an extraordinary storm, the work is increased and the incremental work is done at  
10 overtime rates. FPL's use of a normal capitalization rate ignores this very important  
11 fact and thus significantly understates the costs that should be capitalized. In addition,  
12 the Company used a payroll rate of \$140.45 per hour for normal work conditions which  
13 includes labor overhead, vehicle costs and miscellaneous costs.<sup>4</sup> The problem with  
14 using FPL's normal condition rate for capitalization is that the 2016 overall average  
15 overtime rate for FPL personnel to replace distribution poles and to install transformers  
16 and conductors is \$61 per hour.<sup>5</sup> To the extent capital work is performed by FPL  
17 personnel under the abnormal conditions of storm restoration, the typical crew size for  
18 an accessible pole replacement would be a three man crew.<sup>6</sup> Three crew members at  
19 \$61 per hour amount is \$183 per hour just for the payroll alone. Clearly the \$140.45  
20 per hour rate is inadequate for purposes of calculating the capitalized labor costs,

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<sup>2</sup> Company response to Citizens' Interrogatory No. 48.

<sup>3</sup> Company response to Citizens' Interrogatory No. 77.

<sup>4</sup> Company response to Citizens' Interrogatory No. 84.

<sup>5</sup> Company response to Citizens' Interrogatory No. 79.

<sup>6</sup> Company response to Citizens' Interrogatory No. 78.

1 especially when factoring in the adders, such as overhead, vehicle costs and  
2 miscellaneous costs that are presumably included in the average rate being utilized by  
3 FPL.

4  
5 **Q. WHAT RATE ARE YOU RECOMMENDING IN CALCULATING THE**  
6 **OVERTIME COST ASSOCIATED WITH FPL PERSONNEL?**

7 A. The rate used should reflect the average overtime rate of \$61 per person and should  
8 include a three man crew. That rate should be then grossed up for labor overheads.  
9 Once that grossed up, or loaded rate, is determined, it should be multiplied by the  
10 number of hours FPL has determined to be capital related hours. This is the method  
11 that should be applied to calculate the loaded labor costs. Once that is determined, a  
12 vehicle cost should be added. I have made this calculation on Exhibit No. HWS-2,  
13 Schedule B, Page 3 of 3. I determined the estimated cost for FPL overtime plus  
14 overheads to be \$4,699,801 and estimated the vehicle cost to be \$995,127 resulting in  
15 a total overtime cost for capitalization in the amount of \$5,694,928. Since I already  
16 recommended the reclassification of the \$3.099 million of capitalization which FPL  
17 classified as regular payroll, I am recommending an additional adjustment of  
18 \$2,595,928.

19

20 **IV. CONTRACTOR COSTS**

21 **Q. WHAT IS INCLUDED IN THE STORM RESTORATION COSTS FOR**  
22 **CONTRACTORS AND WHAT AMOUNT OF CONTRACTOR COSTS WERE**  
23 **CAPITALIZED?**

1 A. The Company identified \$162.402 million in contractor costs associated with  
 2 Hurricane Matthew on its Exhibit KO-1. Based on this exhibit, there are \$3.673 million  
 3 in contractor costs being capitalized, which results in a restoration request of \$158.728  
 4 million to be recovered from ratepayers. In its supplemental filing of Exhibit KO-2,  
 5 FPL updated the contractor costs to \$165.797 million and the capitalized amount to  
 6 \$6.816 million. As discussed earlier, FPL used a formula for capitalization of costs  
 7 which, based on the Company's overtime rates, understates the amount that should be  
 8 capitalized. Applying the same formula for capitalization of contractor costs will also  
 9 understate the amount capitalized for these costs, which results in more costs being  
 10 charged to the storm reserve or otherwise recovered immediately from ratepayers,  
 11 rather than being capitalized as part of the restoration costs.

12  
 13 **Q. WHY DOES IT MATTER WHETHER THE CAPITALIZATION COSTS ARE**  
 14 **ACCURATE?**

15 A. The primary concern is who pays for what when. If the Company is allowed to  
 16 understate the capital amount, current ratepayers will pay for capital costs that will  
 17 benefit future ratepayers. This is referred to as intergenerational inequity. Current  
 18 ratepayers should not bear the total costs of plant that will be used over thirty to forty  
 19 years by future customers who are not receiving service from FPL today. Because FPL  
 20 is understating its capitalized plant, it is accelerating recovery of that plant expense that  
 21 should be capitalized as part of the restoration costs it is seeking to recover immediately  
 22 instead of over the life of the plant. The cost of that plant should be spread over the  
 23 life of that capital asset being installed and not over a one-, two- or three-year period  
 24 as part of the storm restoration expense. Under Generally Accepted Accounting

1 Principles ("GAAP"), the cost of plant to be capitalized is the actual cost. Under the  
2 circumstances of this docket (i.e. storm restoration), it is difficult to capture the actual  
3 cost; however, that does not justify making an improper estimate of the replacement  
4 plant using an understated cost per hour. FPL's capitalization formula does not comply  
5 with GAAP requirements for capitalization of plant based on actual costs, and an  
6 adjustment must be made to reflect this error. Therefore, I am recommending a  
7 jurisdictional adjustment of \$21.710 million for the capitalization of contractor cost.

8  
9 **Q. DO YOU HAVE ANY CONCERNS WITH HOW THE CONTRACTOR COSTS**  
10 **WERE TRACKED?**

11 A. Yes, I do. I am concerned about the lack of documentation regarding the mobilization,  
12 demobilization and standby time for the contractors. FPL's response to Citizens'  
13 Interrogatory No. 25 states it cannot identify how much time is related to mobilization  
14 and demobilization because "these costs are not typically identified with specificity by  
15 contractors and/or tracked by FPL." I disagree with this response with respect to  
16 identifying mobilization/demobilization costs, and take exception with the tracking  
17 explanation based on my experience in analyzing storm costs and my review of the  
18 documentation supplied by FPL as support for costs which indicates otherwise. First,  
19 in the Company's response to Citizens' Interrogatory No. 70, it states that each  
20 contractor crew has an assigned FPL representative. In addition, that response states  
21 the assigned representative who oversees the execution of a contractor crew's work  
22 assignments moves with the crew to each newly assigned location. Furthermore, in its  
23 response to Citizens' Interrogatory No. 80, FPL states that an FPL Production Lead  
24 (PL) is assigned to each contractor to oversee and coordinate the work in the field.

1 According to the Company, this PL monitors the contractors' work performed on a  
2 real-time basis and reviews/signs the contractors' daily timesheets. Based on this  
3 evidence provided by the Company, FPL's claim that it does not track mobilization or  
4 demobilization, or have any way to do so, does not appear to be an accurate statement  
5 of its processes or its chain of command.  
6

7 Second, in response to Citizens' Interrogatory No. 66, FPL states that it does not pay  
8 contractors for standby, and that it does not specifically track or aggregate standby  
9 costs. However, this response was later amended and states as follows:

10 Standby time (e.g., time associated with being pre-staged at an FPL  
11 facility waiting for the storm to pass/safe working conditions) for  
12 contractors is contractually limited (e.g., contracts establish a maximum  
13 cap for the number of standby hours per day that can be charged and the  
14 rate of pay for standby time for embedded contractors is lower than their  
15 rate of pay for non-standby time). For mutual assistance utilities,  
16 consistent with mutual aid agreements, standby time could be  
17 reimbursable should their specific work rules require payment for  
18 standby time. FPL notes that its efficient use of standby time has proven  
19 to be effective and beneficial for FPL customers. For example, the pre-  
20 staging of resources has been a key driver for reducing overall  
21 restoration time.  
22

23 FPL oversees and manages all time charged (standby and non-standby)  
24 by contractors/mutual assistance utilities with the same oversight and  
25 approval requirements. Based on FPL's experience, standby time is  
26 limited, thus FPL has not had a need to track, aggregate or analyze these  
27 costs. Therefore, these costs are not available. However, since FPL's  
28 contracts, processes and oversight of standby time effectively minimize  
29 standby time/costs, FPL believes these costs to be reasonable.  
30

31 The Company also stated in response to Citizens' POD No. 13 that it has no documents  
32 responsive to a request for any analysis made that summarizes the costs incurred for  
33 standby time of contractors or mutual assistance aid. My concern is with the  
34 accountability of the standby time. It is nonsensical for FPL to assert that standby time

1 is minimized, but then to also assert it is unable to provide any support for that claim.  
2 It is also not credible that FPL claims the amount of standby is capped in contracts; yet,  
3 it has no means of enforcing the contract limitations because the standby time is not  
4 monitored. As noted above, the Company stated that it has a FPL PL assigned to each  
5 contractor to oversee and coordinate the work in the field. According to the Company,  
6 this PL monitors the contractor work performed on a real-time basis and reviews/signs  
7 the contractors' daily timesheets.

8  
9 **Q. WHY DO YOU DISAGREE WITH FPL'S CLAIM THAT CONTRACTORS DO**  
10 **NOT SPECIFICALLY IDENTIFY MOBILIZATION AND**  
11 **DEMOBILIZATION, AND WHY DO YOU TAKE EXCEPTION TO FPL'S**  
12 **RESPONSE TO CITIZENS' INTERROGATORY NO. 80?**

13 A. First, as shown on Exhibit No. HWS-2, Schedule C, Page 3 of 3, a number of the  
14 contractors' time sheets identified mobilization and demobilization. Second, the  
15 Company's response to Citizens' Interrogatory No. 37 states it is FPL's policy that  
16 outside contractor time must be approved by an FPL representative. The line and tree  
17 contractors submit timesheets for approval which are collected and approved by an FPL  
18 PL. These timesheets are then reviewed for accuracy and compliance by FPL's  
19 Payment Support Services, prior to being processed for payment. Furthermore, FPL's  
20 response states it has a robust process in place that is intended to ensure that only signed  
21 time sheets are paid. If the time sheets are reviewed and monitored as FPL has  
22 represented, then it obviously knows that the mobilization and demobilization  
23 information exists. In addition, FPL's response to Citizens' Interrogatory No. 62 shows  
24 a timeline of the contractors' mobilization and demobilization; therefore, the evidence

1 clearly indicates FPL tracks these activities, and thus knows when these activities  
2 occur.

3  
4 **Q. WHAT IS YOUR CONCERN WITH RESPECT TO FPL'S**  
5 **REPRESENTATIONS ABOUT STANDBY TIME?**

6 A. Standby time can be used to determine how prepared FPL is for storm restoration  
7 activities and whether it is monitoring this significant cost element of restoration in an  
8 efficient manner. If contractor crews are standing by waiting for assignment for an  
9 excessive amount of time, then the Company is not properly monitoring crew activities  
10 and/or managing its resources efficiently. As stated previously, in its response to  
11 Citizens' Interrogatory No. 66, FPL stated that it does not specifically track or  
12 aggregate standby costs. However, FPL's response to Citizens' Interrogatory No. 98  
13 explains that FPL's Accounts Payable ("AP") department provides a Contractor Storm  
14 Crew Invoice template for all vendors to use. Therefore, tracking aggregate standby  
15 costs can be achieved by analyzing the invoices. The invoice template facilitates the  
16 payment process by creating a standard billing template that simplifies the invoice  
17 verification and payment process for FPL. Thus, a means exists for tracking and  
18 evaluating these costs because FPL creates the document used by its contractors for  
19 summarizing time and dollars for payment. Because the document is generated by  
20 FPL, it obviously provides the means for summarizing standby and  
21 mobilization/demobilization time. More importantly, in fact, the current invoice  
22 template, attached as Exhibit No. HWS-3, already includes specific lines for standby  
23 and mobilization/demobilization time.

1 Q. WHY IS THERE A CONCERN WITH THE ACCOUNTABILITY OF  
2 CONTRACTORS' TIME?

3 A. Citizens' Interrogatory No. 89 asked FPL whether it maintains any type of log and/or  
4 memo that can be utilized to verify time sheets submitted with a contractor's request  
5 for payment. The Company's response was that it does not maintain any separate log  
6 to verify timesheets, and that the signature on the timesheet is verification from the  
7 storm staging site that the work was actually performed. However, there were  
8 discrepancies on the timesheets I reviewed. For example, based on the time sheets that  
9 were provided, the timesheets indicate a single FPL representative was responsible for  
10 thirty or more crew members. That means each FPL representative was in charge of at  
11 least six crews of five. It is inconceivable that six crews would be located at one  
12 common job site throughout restoration work. Thus, how could one FPL representative  
13 fully account for all crew members under his or her oversight? Furthermore, I noted  
14 two other inconsistencies: (1) some of the time sheets were signed, while other time  
15 sheets were not; and (2) the name of the FPL representative was not identified on all  
16 time sheets. I also found it notable that every one of the internal invoices approved for  
17 payment was approved by the same person. It is very improbable that one person could  
18 verify all the costs related to the submitted invoices are appropriate. Based on these  
19 discrepancies, it is suspect that FPL's review process is as "robust" as claimed.

20  
21 Q. ARE YOU MAKING ANY RECOMMENDATION WITH RESPECT TO  
22 ACCOUNTING FOR CONTRACTOR TIME?

23 A. Yes, I am. I am recommending FPL be required to separately identify the amount of  
24 hours and costs that are associated with mobilization/demobilization and with standby

1 time. This is important information that is beneficial not only to the Company, but also  
2 to the Commission. This information provides critical insight into how FPL is planning  
3 and controlling costs before, during, and after the storm restoration. It is simply not  
4 acceptable for FPL to state that it needs to fix the problem, but then ignore the cost.  
5 This is especially true from the ratepayers' perspective.

6  
7 **Q. ARE YOU RECOMMENDING A DISALLOWANCE OF COSTS FOR**  
8 **EXCESSIVE STANDBY AND/OR MOBILIZATION/DEMobilIZATION?**

9 A. I am not making a specific recommendation at this time. However, I believe that the  
10 Commission has the authority and a basis upon which to make an adjustment on its  
11 own and disallow a portion of these costs because the Company has failed to meet its  
12 burden to properly justify the time and cost for standby and  
13 mobilization/demobilization.

14  
15 **Q. IS THERE ANY DISPUTE REGARDING WHETHER CONTRACTORS**  
16 **PERFORMED CAPITAL-RELATED WORK?**

17 A. No, there is not. In its response to Citizens' Interrogatories Nos. 16 and 17, FPL clearly  
18 states that capital work is performed by contractors.

19  
20 **Q. ARE THERE ANY OTHER CONCERNS WITH HOW FPL TRACKED**  
21 **CONTRACTOR TIME TO BE CAPITALIZED?**

1 A. Yes, there are. Capital work performed by both FPL employees and contractors is a  
 2 significant cost element in both the immediate restoration activities and subsequent  
 3 "follow-up" activities for which FPL is seeking storm cost recovery. In its response  
 4 to Citizens' Interrogatory Nos. 17, FPL states that it is unable to provide the specific  
 5 number of poles set by contractors because that information is not specifically  
 6 identified/tracked during emergency response events. Based on this response, FPL does  
 7 not appear to track this "capitalizable" pole setting activity for contractors during the  
 8 immediate restoration time period. Thus, FPL failed to track and, subsequently,  
 9 account for this important capital activity during the restoration time period.

10

11 **Q. HOW DID FPL DETERMINE THE AMOUNT OF CAPITALIZED**  
 12 **CONTRACTOR COSTS IN THIS CASE?**

13 A. FPL's response to Citizens' Interrogatory No. 46 states:

14 FPL surveys damage remaining post restoration by using either visual  
 15 patrols or thermovision. This identification of damage is used to create  
 16 work requests in FPL's Work Management System to assign the work  
 17 and, from the design of the repairs, FPL obtains an estimated CMH  
 18 (construction man hour) to perform the work. FPL uses its current  
 19 standard contractor dollar/CMH in order to develop its estimate for the  
 20 contractor part of the follow-up restoration work. All follow-up work is  
 21 incremental to FPL's normal workload, and the majority of this work is  
 22 contracted out.  
 23

24 In its response to Citizens Interrogatory No. 83, FPL further states that:

25 The referenced estimated CMH rate is obtained by developing a blended  
 26 rate for Company personnel and contractors. For capital storm  
 27 restoration and follow-up work, the contractor percentages are  
 28 approximately 83% and more than 97% respectively. The difference in  
 29 capital storm restoration percentages between Company personnel and  
 30 contractors is the result of the number of contractor line personnel being  
 31 about five times higher than the number of Company personnel, as well  
 32 as to the pay differential between Company personnel and contractors.

1 Q. IS IT APPROPRIATE TO USE THE CMH RATE IN DETERMINING THE  
2 CONTRACTOR HOURS IN COST CALCULATION WHEN THE COMPANY  
3 IN ITS RESPONSE TO INTERROGATORY NO. 108 STATES THE CMH  
4 RATE WAS NOT USED?

5 A. Yes, it is appropriate to use the CMH rate since FPL stated that it does not specifically  
6 identify and/or track contractor capital work during emergency response events<sup>7</sup>. The  
7 use of a calculated rate is common because contractors do not specifically identify the  
8 amount of time required to perform capital work and companies do not track the time  
9 required to perform the capital work. Only recently has FPL claimed to have the actual  
10 costs for contractors for “follow up” work. On April 4, 2018, FPL provided four  
11 responses to questions that were generated because of the Company’s Exhibit KO-2  
12 filed on March 15, 2018. In its response to Citizens’ Interrogatory No. 108, FPL  
13 provides an explanation of the initial contractor capital work related to “follow up” and  
14 another correction to the filing reclassifying capital costs between materials and  
15 supplies and contractors. That correction is reflected in the revised Exhibit KO-2  
16 attached to the response. However, most notably is FPL’s response to part b of  
17 Citizens’ Interrogatory No. 108 which states:

18 The CMH estimator is not used to determine the actual amount of  
19 Contractor capitalizable costs for Hurricane Matthew. Instead, as  
20 explained in FPL’s response to OPC’s Second Set of Interrogatories No.  
21 46, the CMH estimator is used to develop an estimate for the portion of  
22 contractor costs related to follow-up restoration work. (Emphasis  
23 added).

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<sup>7</sup> FPL’s response Citizens’ Interrogatory No.17,

1 In response to Citizens' Interrogatory No. 109, FPL states:

2 Amounts shown on Exhibit KO-2 reflect actuals through February 2018.  
3 Therefore, there is no need to estimate the capitalizable portion of  
4 follow up work nor is there a need to estimate how much work will be  
5 performed by contractors. Actual results are now known. (Emphasis  
6 added).

7

8 In response to Citizens' Interrogatory No. 110, FPL further states that the CMH  
9 estimator was only used to estimate the portion of "follow up" work to be performed  
10 by contractors. Again, there is a reference to "follow up" work performed by  
11 contractors. The problem with FPL's responses are that these responses suggest that  
12 all the capital, or the majority of capitalized contractor costs, are associated with  
13 "follow up" work.

14

15 Q. WHY IS CAPITALIZATION OF CONTRACTOR LABOR COSTS RELATED  
16 ONLY TO "FOLLOW UP" WORK PROBLEMATIC?

17 A. That would mean FPL has ignored the fact that the vast majority of capital work was  
18 performed during the storm restoration, and as FPL's response to Citizens'  
19 Interrogatory No.83 attests, contractors perform 83% of the capital restoration. As a  
20 result, my adjustment for capitalized contractor costs could be too conservative because  
21 the Company has represented that the amount of contractor capitalization is  
22 predominately related to follow-up work.

1           Moreover, FPL's response to Citizens' Interrogatory No. 83 seems to contradict  
2 its response to Citizens' Interrogatory No.17, which states:

3                         While FPL knows that contractors installed some of the replaced  
4 distribution poles, FPL is unable to provide the specific number  
5 of poles set by contractors, as this information is not specifically  
6 identified/tracked during emergency response events.

7  
8           These responses appear to conflict because FPL first claims it knows the actual costs  
9 for the capital work performed by contractors, but then states it does not track the  
10 capital work performed during the emergency events. The only logical explanation for  
11 the inconsistent responses is that FPL may know what is capitalized as part of "follow  
12 up" work, but it has not fully evaluated the information to identify what capital work  
13 the contractors performed during the restoration time period, even though FPL claims  
14 that 83% of that capital restoration is performed by contractors. Therefore, it is  
15 appropriate for the Commission to extrapolate the amount of contractor costs which  
16 should be capitalized for contractor activities performed during the restoration period.

17

18 **Q. IS THERE A CONCERN AS TO THE AMOUNT OF CONTRACTOR COSTS**  
19 **THAT WERE CAPITALIZED?**

20 A. Yes, there is. My concern is that, while the average hourly rate utilized by FPL for  
21 capitalization may represent the cost for its personnel performing capital work during  
22 normal restoration, as discussed earlier, this does not represent the total costs for FPL's  
23 personnel to perform storm restoration work. Since contractor rates and hours are  
24 greater than the rates and hours for FPL's personnel, the average hourly rate FPL

1 utilized for contractors does not represent the total cost of outside contractors  
2 performing capital restoration costs. Based upon my analysis, the cost for contractor  
3 capitalization is significantly understated. Use of an understated FPL rate for  
4 contractors, which even understates the capitalized work that FPL itself performed, is  
5 even more of a problem because when costs are capitalized, the actual cost recorded is  
6 understated even more.

7  
8 **Q. WHAT ANALYSIS DID YOU PERFORM TO EVALUATE THE COMPANY'S**  
9 **CONTRACTOR COSTS IN THIS CASE?**

10 A. I analyzed the respective hourly rates for FPL employees versus the average hourly  
11 contractor rate. The Company's response to Citizens' Interrogatory No. 47 indicates  
12 the average blended hourly capitalization rate (i.e. purportedly both FPL employees  
13 and contractors) for FPL is \$140.45. This rate includes labor, vehicle costs and  
14 miscellaneous costs. First, ignoring vehicle costs and miscellaneous costs, the \$140.45  
15 hourly rate applies to approximately three FPL employees performing the capital  
16 work<sup>8</sup>. Applying the regular average FPL payroll rate of \$38 an hour<sup>9</sup> times 1.1657<sup>10</sup>  
17 to account for the overhead costs, equates to an average rate of \$133 per hour ( $\$38 \times 3$   
18  $\times 1.1657$ ). The capitalization rate of \$140.45 barely covers regular labor costs let alone  
19 the purported vehicle costs and miscellaneous costs. The fact that contractor crews  
20 perform this work and their crews typically range from 4 to 5 means the hourly rate of  
21 \$140.45 is not representative of the number of personnel involved. As shown on

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<sup>8</sup> FPL's response to Citizens Interrogatory No. 78.

<sup>9</sup> FPL's response to Citizens Interrogatory No. 79.

<sup>10</sup> FPL's response to Citizens Interrogatory No. 10.

1 Exhibit No. HWS-2, Schedule C, Page 3 of 3, I have estimated the average hourly  
2 contractor rate is approximately [REDACTED]<sup>A</sup> an hour. If just [REDACTED]<sup>B</sup> contractor employees were  
3 doing the capital work, the hourly rate would be [REDACTED]<sup>B</sup> and that does not  
4 include contractor vehicle costs, which are substantial. Assuming, as FPL stated in its  
5 response to Citizens' Interrogatory No. 83, that contractor time is 83% to 97% of the  
6 capital time, the average hourly rate, excluding vehicle costs and miscellaneous costs,  
7 would be approximately [REDACTED]<sup>A</sup> [REDACTED]<sup>B</sup>. That is almost three times [REDACTED]<sup>C</sup>  
8 [REDACTED]<sup>A</sup> the hourly rate proposed by FPL. Once you factor in vehicle costs and  
9 miscellaneous costs, it would substantially exceed three times the Company's proposed  
10 hourly rate.

11  
12 **Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO WHAT THE**  
13 **COMPANY REFLECTED AS CAPITALIZED?**

14 A. Yes, I am. The capitalized amount for distribution costs for contractor labor should be  
15 increased from \$6.072 million (\$6.071 million jurisdictional) to \$25.456 million  
16 (\$25.451 million jurisdictional), and the total capitalization should be increased from  
17 \$6.815 million (\$6.800 million jurisdictional) to [REDACTED]<sup>A</sup> million ([REDACTED]<sup>B</sup> million  
18 jurisdictional), or a reduction to total restoration costs of \$21.756 million (\$ 21.710  
19 million jurisdictional). This reduces the Company's request for distribution function  
20 recovery for contractors from \$153.895 million to \$134.511 million, which is a  
21 reduction of \$19.384 million (\$19.381 million jurisdictional).

1 Q. HOW DID YOU DETERMINE YOUR ADJUSTMENT?

2 A. On Exhibit No. HWS-2, Schedule C, Page 2 of 3, I first determined the actual hours  
3 utilized by FPL to calculate its adjustment on capitalization by dividing the  
4 capitalization cost by \$140.45, which is the FPL CMH rate. Next, I multiplied the  
5 contractor average hourly rate of [REDACTED]<sup>A</sup> by [REDACTED]<sup>B</sup> which is a conservative contractor  
6 personnel level. This resulted in an hourly rate of [REDACTED]<sup>A</sup> for a contractor crew. I  
7 multiplied that by the hours capitalized by FPL, which resulted in a cost of [REDACTED]<sup>A</sup>  
8 million as shown on Exhibit No. HWS-2, Schedule C, Page 2 of 3, line 11. I deducted  
9 capitalization of \$6.816 million that was proposed by FPL which results in my  
10 adjustment of \$21.756 million.

11

12 V. LINE CLEARING COSTS

13 Q. WHAT IS THE AMOUNT OF COSTS BEING REQUESTED FOR LINE  
14 CLEARING?

15 A. The Company has requested \$27.861 million for line clearing costs as part of its  
16 Hurricane Matthew request. Based on the guidelines set forth in Rule 25-6.0143,  
17 F.A.C., FPL has excluded \$187,000 as being non-incremental, leaving \$27.673  
18 million in its request for recovery.

19

20 Q. ARE YOU MAKING ANY RECOMMENDATION WITH RESPECT TO LINE  
21 CLEARING COSTS?

22 A. Consistent with the determination of contractor costs, I am recommending the  
23 Commission require FPL to identify the amount of hours and costs that are associated  
24 with mobilization/demobilization and with standby time. This is important information

1 that is beneficial to not only to the Company, but also to the Commission. This  
2 information provides critical insight into how FPL is planning and controlling costs  
3 before, during, and after the restoration process. It is simply not sufficient for FPL to  
4 state that it needs to fix the problem, but then ignore the cost. This is especially true  
5 from the ratepayers' perspective.

6

7 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO LINE CLEARING**  
8 **COSTS?**

9 A. No, I am not making a specific recommendation at this time. However, I believe that  
10 the Commission has the authority and a basis upon which to make an adjustment on its  
11 own and disallow a portion of these costs because the Company has failed to meet its  
12 burden to properly justify the time and cost for standby and  
13 mobilization/demobilization with respect to line clearing costs.

14

15 **VI. VEHICLE & FUEL COSTS**

16 **Q. WHAT IS FPL REQUESTING FOR VEHICLE AND FUEL COSTS?**

17 A. FPL's Exhibit KO-1 identifies vehicle and fuel costs of \$4.970 million. The Company  
18 has excluded \$1.871 million because that amount is considered non-incremental. There  
19 is no amount listed as being capitalized.

20

21 **Q. DID FPL CONSIDER VEHICLE COSTS AS PART OF ITS**  
22 **CAPITALIZATION?**

23 A. Yes, it did. Based on FPL's response to Citizens' Interrogatory No. 47, the average  
24 hourly capitalization rate is \$149.45, which includes labor, vehicle costs and

1 miscellaneous costs. When the capitalization was booked, it was booked against  
2 payroll and contractor costs.

3

4 **Q. DO YOU HAVE ANY CONCERNS WITH THE LEVEL OF VEHICLE AND**  
5 **FUEL COSTS BEING REQUESTED?**

6 A. After a review of the costs and the supporting detail provided, I have not identified any  
7 issues that would require an adjustment to the Company's request concerning vehicle  
8 and fuel costs. However, I do have a concern that the Company cannot identify how  
9 much of the \$140.45 hourly rate is considered vehicle costs.

10

11 **Q. HOW DO YOU KNOW THE COMPANY CANNOT IDENTIFY WHAT**  
12 **AMOUNT OF THE HOURLY CAPITALIZATION RATE IS FOR VEHICLE**  
13 **COSTS?**

14 A. Citizens' Interrogatory No. 84 specifically requested whether the labor, vehicle and  
15 miscellaneous could be separated. FPL's response stated:

16 The costs for Labor, Vehicle, and Miscellaneous ("LVM") used for  
17 distribution capital estimates *cannot be separated*, as it is a system-  
18 generated amount calculated by FPL's Work Management System  
19 ("WMS"). LVM amounts are generated by WMS, utilizing an effective  
20 LVM rate, developed by dividing 12 months of actual LVM costs by  
21 actual as-built construction man hours. The effective LVM rate is  
22 updated annually. The construction man hours are based on labor  
23 studies for the type of work being performed. (Emphasis added).

24

25

26

27

28

The fact that FPL purportedly cannot identify the specific vehicle rate presents a  
problem as the vehicle rate amount could impact whether my adjustment for the LVM  
of \$140.45 per hour is too conservative because the proper cost for labor (the highest

1 component of the hourly rate) could actually be higher than what I have estimated it to  
2 be.

3

4 **VII. MATERIALS & SUPPLIES**

5 **Q. WHAT DID YOU DETERMINE FROM YOUR REVIEW OF THE**  
6 **MATERIALS AND SUPPLIES COSTS THAT WERE INCLUDED IN THE**  
7 **COMPANY'S REQUEST FOR RECOVERY?**

8 A. FPL's Exhibit KO-2 includes \$7.071 million of materials and supplies, of which the  
9 Company has capitalized \$4.920 million, for a net restoration request of \$2.151 million.  
10 The amounts capitalized and requested for storm recovery appear to be reasonable, and  
11 I am not recommending any adjustment.

12

13 **VIII. LOGISTICS**

14 **Q. WHAT ARE LOGISTIC COSTS THAT ARE INCLUDED IN FPL'S**  
15 **REQUEST?**

16 A. In its response to Citizens' Interrogatory No. 24, the Company identifies logistic costs  
17 as costs related to the establishment and operation of storm restoration sites, and to  
18 support employees who are working on storm restoration (i.e., lodging, meals,  
19 transportation buses). The request for recovery is \$81.673 million. FPL did not  
20 consider any of these costs to be non-incremental or costs which should be capitalized.

21

22 **Q. DO YOU HAVE ANY CONCERNS WITH THE LOGISTIC COST**  
23 **REQUESTED?**

1 A. Yes, I do. The logistic costs are significant and include various billings, primarily for  
2 staging, lodging, and catering. In my review, I noted that one vendor billed \$17.975  
3 million for lodging. The invoices included no details as to what was included, where  
4 the lodging was located, or for whom the lodging was billed. One-line invoices do not  
5 provide sufficient detail to support a request for these costs. In addition, because  
6 logistics costs serve as added costs for FPL employees and contractors, a strong  
7 argument could be made that some portion is a capital cost.

8

9 **Q. ARE YOU PROPOSING AN ADJUSTMENT TO THE COMPANY'S**  
10 **LOGISTIC EXPENSE?**

11 A. Yes, I am. As I stated, there is a concern with the \$17.975 million paid to a single  
12 vendor for lodging.<sup>11</sup> Assuming that a hotel room could be reserved for \$200 per night,  
13 that would equate to 89,875 rooms. That may be reasonable based on the personnel  
14 involved if there were no additional costs for lodging; however, that is not the case.  
15 The various contractors and tree crews also included bills for overnight lodging.  
16 Furthermore, the evidence shows that another vendor who was paid for staging  
17 included costs for mobile sleepers in their staging costs. That staging vendor accounted  
18 for 35.9% of the logistic costs. Absent supporting detail that this vendor's charges for  
19 lodging is reasonable and justified, I am recommending a disallowance of the entire  
20 \$17.975 million (\$17.971 jurisdictional) as FPL has failed to meet its burden to show  
21 these costs were prudent and reasonable.

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<sup>11</sup> See Confidential Exhibit No. HWS-2, Schedule G, Page 2 of 2, Lines 1-6.

1           **IX. OTHER COSTS**

2   **Q.   WHAT IS INCLUDED IN THE "OTHER COST" CATEGORY**  
3           **CLASSIFICATION?**

4   **A.**   The majority of other costs represents freight, catering, communications, security and  
5           miscellaneous items.<sup>12</sup> The Company's Exhibit KO-2, Page 1 of 2, indicates the cost  
6           for other was \$4.929 million. After deducting \$506,000 for non-incremental and  
7           \$1.584 million for capitalization, there is a net \$2.838 million included in FPL's request  
8           for recovery related to the "other cost" category.

9  
10 **Q.   ARE YOU RECOMMENDING AN ADJUSTMENT TO THE OTHER COST**  
11           **CATEGORY?**

12 **A.**   No, I am not.

13  
14           **X. NON-INCREMENTAL COSTS**

15 **Q.   ARE YOU MAKING ANY RECOMMENDATIONS REGARDING THE**  
16           **MANNER IN WHICH NON-INCREMENTAL COSTS SHOULD BE**  
17           **DETERMINED IN FUTURE REQUESTS?**

18 **A.**   Yes, I am. In my professional opinion, Rule 25-6.0143, F.A.C., is clear that regular  
19           payroll is payroll that is included in a utility's base rate. That figure must first be  
20           established before the Commission can determine whether a utility's request for storm  
21           cost recovery includes incremental regular payroll. Therefore, the Commission should

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<sup>12</sup> FPL's response to Citizens Interrogatory No. 26.

1 require FPL to follow the requirements of that rule in any future docket for storm  
2 recovery.

3

4 **XI. CAPITALIZABLE COSTS**

5 **Q. ARE YOU MAKING ANY RECOMMENDATIONS TO IMPROVE THE**  
6 **METHOD OF RECOVERING STORM COSTS?**

7 A. Yes, I am. FPL currently uses the same formula for capitalizing costs, whether the  
8 work is performed by its personnel or outside contractors. This is not appropriate  
9 because the pay rates are significantly different between the two, and the crew size is  
10 generally different. Thus, this results in a significant overall hourly rate differential.  
11 FPL should develop different capitalization rates for its Company personnel and for its  
12 contractors. The assignment of the rates can then be based on the 83% to 97%  
13 utilization of contractors identified in FPL's response to Citizens' Interrogatory No. 83.  
14 Applying the LVM hours estimator used for distribution capital estimates that is a  
15 system-generated amount calculated by FPL's WMS for restoration work to be  
16 capitalized, the Company could properly assign approximately 90% to contractors and  
17 10% to its Company personnel. The cost adjustment for the respective cost categories  
18 could then be applied appropriately. It definitely was not done this way in this  
19 proceeding which results in a less than reasonable or understated rate for capitalization  
20 for FPL. As I discussed in detail earlier in my testimony, understating capitalization  
21 creates intergenerational inequities wherein current ratepayers are paying the total costs  
22 for certain assets (i.e. poles) that will benefit future ratepayers over the next 30 to 40  
23 years.

1 Q. WHY DO YOU CLAIM THE COST ASSIGNMENT WAS NOT DONE BASED  
2 ON THE COMPANY'S REPRESENTATIONS REGARDING  
3 CONTRACTORS?

4 A. FPL's capitalization for its payroll was \$3.099 million, and the capitalization for  
5 contractors was \$6.816 million. Since the Company used the same hourly rate for  
6 capitalization of both of these costs, the split is 31.26% ( $\$3.099/\$9.915$ ) for FPL and  
7 68.74% ( $\$6.816/\$9.915$ ) for contractors. That is significantly different from the 83%  
8 to 97% range FPL indicated for its contractors.

9  
10 Q. WOULD YOU EXPLAIN HOW THE RATE PER HOUR IS SIGNIFICANTLY  
11 DIFFERENT BETWEEN CONTRACTORS AND FPL'S PERSONNEL?

12 A. The cost for contractors will be higher because they utilize larger crews (generally four  
13 to five) and the contractors' hourly pay rates are higher on average. For example, FPL  
14 may use a three man crew with overtime hourly rates of \$61 per hour. Escalating that  
15 cost for overhead expenses at 18% results in an hourly rate of \$216 for the crew ( $(\$61$   
16  $\times 3 = \$183) \times 1.18$ ). On the other hand, if the contractor's average hourly rate per  
17 person for its crew members is hypothetically \$140 and four crew members are  
18 performing the restoration work, the contractor cost rate would be \$560 per hour. There  
19 is no overhead added to the contractor rate because it is built into the hourly rate. This  
20 difference in rates is significant and should not be ignored because the actual cost is for  
21 capital work that is performed predominately by contractors. For FPL's side of the  
22 table, there will be a modest additional hourly cost increase per hour for FPL's vehicle  
23 costs and miscellaneous costs. However, adding significantly to the contractor's costs  
24 is a vehicle cost which generally is billed hourly and will include two or more vehicles,

1 and possibly a trailer. Therefore, the hourly cost differential between FPL's costs and  
2 the contractors' costs will grow even more when adding in the vehicle costs and other  
3 costs.

4  
5 **XII. OTHER STORM COSTS**

6 **Q. DO YOU HAVE A CONCERN WITH FPL REQUESTING RESTORATION OF**  
7 **THE STORM RESERVE FOR COSTS OTHER THAN FOR HURRICANE**  
8 **MATTHEW?**

9 **A.** Yes, I do. FPL's October 16, 2017 filing included a request to recover Hurricane  
10 Matthew costs in the amount of \$292.847 million, of which \$282.260 million was  
11 related to distribution costs. That filing made no mention of restoring the reserve for  
12 other storms. On February 20, 2018, the Company filed testimony and exhibits  
13 requesting recovery of \$316.652 million. FPL supplemented its request on March 15,  
14 2018 in a filing that requested recovery of \$316.500 million. The primary difference  
15 between the first filing and the last filing is that the March 15, 2018 filing includes  
16 \$24.026 million for restoration of the storm reserve for other storms that occurred prior  
17 to Hurricane Matthew. On FPL's Exhibit KO-1, Page 1 of 2, the Company indicated  
18 the storm reserve pre-Hurricane Matthew was \$93.105 million, and argues it should be  
19 allowed to increase the reserve by \$24.026 million to \$117.131 million the level as of  
20 January 2013.<sup>13</sup> FPL claims this request is appropriate because this represents the level  
21 of the storm reserve as of the Implementation Date of the 2012 Stipulation and

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<sup>13</sup> See, Order No. PSC-2013-0023-S-EI, issued January 14, 2013, in Docket No. 20120015-EI.

1 Settlement Agreement.<sup>14</sup> The Company also stated in its response to Citizens'  
2 Interrogatory No. 107 that the original filing on December 29, 2016 used the same  
3 format as reflected in Exhibit KO-1, Page 1 of 2, where the beginning reserve of  
4 \$93.105 million was listed as well as the implementation reserve balance of \$117.131  
5 million. The response further states that nothing in the 2012 Stipulation and Settlement  
6 Agreement obligated FPL to provide as part of its Hurricane Matthew interim storm  
7 cost recovery request the detail that OPC has requested to support the difference of  
8 \$24.026 million.

9  
10 **Q. IS THE COMPANY CORRECT IN ITS REPOSE TO CITIZENS'**  
11 **INTERROGATORY NO. 107?**

12 **A.** The Company is correct in part, and incorrect in part. FPL is correct that the December  
13 29, 2016 filing did include a similar schedule as Exhibit KO-1, Page 1 of 2. In fact, the  
14 Company stated in that filing it was seeking replenishment of the storm reserve.  
15 However, FPL's October 16, 2017 filing did not indicate that costs for replenishment  
16 were to the January 2013 levels. In addition, the December 29, 2016 filing does not  
17 list the recovery of the pre-Hurricane Matthew reserve deficiency as an issue to be  
18 determined. The only issues identified by FPL were the costs associated with  
19 Hurricane Matthew. Where FPL is incorrect is that it assumes it has no obligation to  
20 provide supporting cost documentation for the replenishment of the storm reserve  
21 balance from \$93.105 million to the implementation date balance of \$117.131 million.

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<sup>14</sup> FPL's response to Citizens Interrogatory No. 107.

1 In its response to Citizens' Interrogatory No. 107, the Company included some wording  
2 from Paragraph 5 of the 2012 Stipulation and Settlement Agreement (approved in  
3 Order No. PSC-2013-0023-S-EI, Docket No. 20120015-EI). However, the Company  
4 conveniently left out part of the paragraph that makes this an issue in this proceeding.

5 The full statement is as follows:

6 All storm related costs subject to interim recovery under this Paragraph 5 shall  
7 be calculated and disposed of pursuant to Commission Rule 25-6.0143,  
8 F.A.C., and will be limited to costs resulting from a tropical system named by  
9 the National Hurricane Center or its successor, to the estimate of incremental  
10 costs above the level of storm reserve prior to the storm and to the  
11 replenishment of the storm reserve to the level as of the Implementation Date.  
12 *The Parties to this Agreement are not precluded from participating in any*  
13 *such proceedings and opposing the amount of FPL's claimed costs but not the*  
14 *mechanism agreed to herein. (Emphasis added.)*  
15

16  
17 The logical interpretation of this language is that, not only does Rule 25-6.0143, F.A.C.,  
18 apply to specific storm requests, but it also applies to the generic request for  
19 replenishment, and that the amount of any costs requested by FPL must be supported  
20 and may be opposed.

21

22 **Q. ARE YOU DISPUTING THE COMPANY'S RIGHT TO REQUEST**  
23 **RECOVERY OF THE STORM RESERVE DEFICIENCY PRE-HURRICANE**  
24 **MATTHEW?**

25 **A.** No, I am not. However, as I indicated above, when the final amounts for Hurricane  
26 Matthew were determined and FPL made its filing on October 16, 2017, there should  
27 have been some indication that FPL also wanted to recover the deficiency necessary to

1 bring the storm reserve to the January 2013 level as part of its request for recovery.  
2 Yet, there was none.

3 **Q. IN YOUR OPINION, IS FPL REQUIRED TO PROVIDE DOCUMENTATION TO**  
4 **SUPPORT THIS ADDITIONAL REQUEST TO BRING THE STORM**  
5 **RESERVE TO THE JANUARY 2013 LEVEL?**

6 A. Yes, it is. FPL has the burden of proof to demonstrate and support that previously  
7 charged costs were appropriately recovered from the storm reserve pursuant to Rule  
8 25-6.0143, F.A.C. Specifically, Rule 25-6.0143(1)(c), F.A.C., states that “[t]he records  
9 supporting the entries to this account [Account No. 228.1] shall be so kept that the  
10 utility can furnish full information as to each storm event included in this account.”

11

12 **Q. IN YOUR OPINION, DID FPL MEET ITS BURDEN TO SHOW THAT THE**  
13 **\$24,000,000 WAS APPROPRIATELY CHARGED TO ACCOUNT 228.1, THE**  
14 **STORM RESERVE?**

15 A. No, it did not. In FPL’s filing on February 20, 2018, the only testimony related to the  
16 recovery of the deficiency were two questions and answers on page 16 of Company  
17 witness Kim Ousdahl’s testimony and the inclusion of the calculation of recoverable  
18 costs on line 65 of Exhibit KO-1, Page 1 of 2. This request for recovery of the reserve  
19 deficiency must be justified, and the costs must be supported by some level of detail,  
20 otherwise the Company’s request is no more than an unsubstantiated demand for a

1       \$24.026 million check. FPL bears the burden to provide justification and support for  
2       what it is requesting for recovery from its ratepayers.

3       **Q.    IS IT YOUR POSITION THAT, BASED ON HOW THE COMPANY HAS**  
4       **PRESENTED ITS REQUEST FOR THE \$24.026 MILLION, THAT FPL HAS**  
5       **FAILED TO JUSTIFY THESE COSTS?**

6       A.    Yes, that is correct. As I indicated previously in my testimony, there are concerns with  
7       respect to the request for Hurricane Matthew recovery as to (1) whether some of the  
8       requested costs for Hurricane Matthew are non-incremental, (2) whether the  
9       capitalization dollars should have been applicable to overtime pay, and (3) whether the  
10      capitalization of contractor costs were accurate and adequate. Among other things,  
11      these same issues could apply to whatever storm costs were charged against the reserve  
12      prior to Hurricane Matthew. Because FPL did not provide any detail as to storm costs  
13      that were charged against the reserve or the types of costs for those storms, there is no  
14      way for the Commission, Staff or the OPC to evaluate these costs. Since there is no  
15      detail associated with the respective storm costs charged against the reserve prior to  
16      Hurricane Matthew, the Company has failed to meet its burden to prove that these costs  
17      were appropriate for recovery and these costs should be denied.

18

19      **Q.    DID THE STAFF AUDIT ADDRESS THE PRIOR COSTS CHARGED TO THE**  
20      **STORM RESERVE PRIOR TO HURRICANE MATTHEW?**

1 A. No, it does not. The Staff audit does not appear to address these pre-Hurricane Matthew  
2 storm costs charged against the storm reserve. In reviewing the Staff's audit report  
3 dated December 5, 2017, replenishment is only casually mentioned as part of the  
4 general background paragraph. The audit's objective for the respective costs is specific  
5 as to whether the costs "were properly stated, recorded in the period incurred, and were  
6 related to Hurricane Matthew." There is no language indicating the Audit Staff  
7 concluded either that the cost associated with the replenishment was audited or that it  
8 was found to be appropriate.

9  
10 **Q. WHAT ARE YOU RECOMMENDING REGARDING HOW THE**  
11 **COMMISSION SHOULD ADDRESS THE RESERVE DEFICIENCY COSTS**  
12 **THAT ARE BEING REQUESTED?**

13 A. The \$24.026 million should be excluded from this request. In addition, if FPL seeks  
14 recovery of these costs as part of a subsequent petition, the Commission should order  
15 the Company to include (a) details of the storm costs that were charged to the reserve,  
16 and (b) supporting schedules detailing the costs for the respective storms.

17

18 **XIII. RECOMMENDATIONS**

19 **Q. ARE YOU MAKING ANY RECOMMENDATIONS TO IMPROVE THE**  
20 **PROCEDURE FOR SEEKING RECOVERY OF STORM COSTS?**

21 A. Yes, I am. In addition to my previous recommendation regarding record keeping  
22 associated with mobilization/demobilization and with standby time, I am

1 recommending the Commission require additional filing requirements when a utility  
 2 seeks to recover storm costs. FPL incurred a significant amount of costs during the  
 3 process of restoring service to customers after Hurricane Matthew. Currently, the  
 4 Company assembles a preliminary filing which summarizes the costs, and then  
 5 subsequently it files up-dated information and testimony. In my opinion, time is of the  
 6 essence for recovery of these costs for FPL; therefore, I recommend that when the  
 7 Company submits its request for cost recovery, the supporting cost documentation and  
 8 testimony should be provided simultaneously with the petition seeking cost recovery.  
 9 This would significantly reduce the need for additional discovery and provide support  
 10 for the recovery that is being requested from ratepayers. For example, in  
 11 Massachusetts, when a company seeks recovery for storm costs, it is required to include  
 12 all supporting documentation at the time the petition for cost recovery is filed. I believe  
 13 this is a good model for Florida to implement.

14

15 **Q. BASED ON YOUR TESTIMONY, PLEASE SUMMARIZE YOUR**  
 16 **RECOMMENDED ADJUSTMENTS?**

17 **A.** My recommended adjustments, on a jurisdictional basis, are as follows:

- 18 • A reduction of \$1.027 million to FPL's request for regular payroll expense;
- 19 • A reduction of \$5.677 million to FPL's request for overtime payroll expense to properly  
 20 reflect the capitalization of restoration work;
- 21 • A reduction of \$21.710 million to FPL's request related to recapitalization of  
 22 contractor costs;
- 23 • A reduction of \$14,000 to account for the mathematical error due to incorrect  
 24 application of the jurisdictional rate to the updated distribution costs;

- 1     • A reduction of \$17.971 million to logistic costs for lack of support;
- 2     • A reduction of \$24.026 million for non-Hurricane Matthew replenishment of the storm
- 3         reserve; and
- 4     • I also recommend that the Commission consider additional reductions to the costs for
- 5         contractor labor and line clearing because FPL failed to meet its burden to properly
- 6         justify the time and cost for standby and mobilization/demobilization.

7     For the quantified amounts identified above, I recommend a total reduction of \$70.419<sup>15</sup>

8     million to FPL's overall storm restoration and reserve replenishment request.

9

10  **Q.    DOES THAT CONCLUDE YOUR TESTIMONY?**

11  **A.    Yes it does.**

---

<sup>15</sup> The individual adjustments do not precisely add to the total recommended adjustment due to rounding.

**CERTIFICATE OF SERVICE**

**I HEREBY CERTIFY** that a true and correct copy of the foregoing Direct Testimony and Exhibits of Helmuth W. Schultz, III has been furnished by electronic mail on this 5th day of April, 2018, to the following:

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QUALIFICATIONS OF HELMUTH W. SCHULTZ, III

Mr. Schultz received a Bachelor of Science in Accounting from Ferris State College in 1975. He maintains extensive continuing professional education in accounting, auditing, and taxation. Mr. Schultz is a member of the Michigan Association of Certified Public Accountants

Mr. Schultz was employed with the firm of Larkin, Chapski & Co., C.P.A.s, as a Junior Accountant, in 1975. He was promoted to Senior Accountant in 1976. As such, he assisted in the supervision and performance of audits and accounting duties of various types of businesses. He has assisted in the implementation and revision of accounting systems for various businesses, including manufacturing, service and sales companies, credit unions and railroads.

In 1978, Mr. Schultz became the audit manager for Larkin, Chapski & Co. His duties included supervision of all audit work done by the firm. Mr. Schultz also represents clients before various state and IRS auditors. He has advised clients on the sale of their businesses and has analyzed the profitability of product lines and made recommendations based upon his analysis. Mr. Schultz has supervised the audit procedures performed in connection with a wide variety of inventories, including railroads, a publications distributor and warehouse for Ford and GM, and various retail establishments.

Mr. Schultz has performed work in the field of utility regulation on behalf of public service commission staffs, state attorney generals and consumer groups concerning regulatory matters before regulatory agencies in Alaska, Arizona, California, Connecticut, Delaware, District of Columbia, Florida, Georgia, Kentucky, Kansas, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New York, Nevada, North Dakota, Ohio, Pennsylvania, Rhode Island, Texas, Utah, Vermont and Virginia. He has presented expert testimony in regulatory hearings on behalf of utility commission staffs and intervenors on numerous occasions.

Partial list of utility cases participated in:

U-5331	Consumers Power Co. Michigan Public Service Commission
Docket No. 770491-TP	Winter Park Telephone Co.

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Florida Public Service Commission

Case Nos. U-5125  
and U-5125(R)

Michigan Bell Telephone Co.  
Michigan Public Service Commission

Case No. 77-554-EL-AIR

Ohio Edison Company  
Public Utility Commission of Ohio

Case No. 79-231-EL-FAC

Cleveland Electric Illuminating  
Public Utility Commission of Ohio

Case No. U-6794

Michigan Consolidated Gas Refunds  
Michigan Public Service Commission

Docket No. 820294-TP

Southern Bell Telephone and Telegraph Co.  
Florida Public Service Commission

Case No. 8738

Columbia Gas of Kentucky, Inc.  
Kentucky Public Service Commission

82-165-EL-EFC

Toledo Edison Company  
Public Utility Commission of Ohio

Case No. 82-168-EL-EFC

Cleveland Electric Illuminating Company,  
Public Utility Commission of Ohio

Case No. U-6794

Michigan Consolidated Gas Company Phase II,  
Michigan Public Service Commission

Docket No. 830012-EU

Tampa Electric Company,  
Florida Public Service Commission

Case No. ER-83-206

Arkansas Power & Light Company,  
Missouri Public Service Commission

Case No. U-4758

The Detroit Edison Company - (Refunds),  
Michigan Public Service Commission

Case No. 8836

Kentucky American Water Company,

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Kentucky Public Service Commission

Case No. 8839	Western Kentucky Gas Company, Kentucky Public Service Commission
Case No. U-7650	Consumers Power Company - Partial and Immediate Michigan Public Service Commission
Case No. U-7650	Consumers Power Company - Final Michigan Public Service Commission
U-4620	Mississippi Power & Light Company Mississippi Public Service Commission
Docket No. R-850021	Duquesne Light Company Pennsylvania Public Utility Commission
Docket No. R-860378	Duquesne Light Company Pennsylvania Public Utility Commission
Docket No. 87-01-03	Connecticut Natural Gas State of Connecticut Department of Public Utility Control
Docket No. 87-01-02	Southern New England Telephone State of Connecticut Department of Public Utility Control
Docket No. 3673-U	Georgia Power Company Georgia Public Service Commission
Docket No. U-8747	Anchorage Water and Wastewater Utility Alaska Public Utilities Commission
Docket No. 8363	El Paso Electric Company The Public Utility Commission of Texas

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Docket No. 881167-EI	Gulf Power Company Florida Public Service Commission
Docket No. R-891364	Philadelphia Electric Company Pennsylvania Office of the Consumer Advocate
Docket No. 89-08-11	The United Illuminating Company The Office of Consumer Counsel and the Attorney General of the State of Connecticut
Docket No. 9165	El Paso Electric Company The Public Utility Commission of Texas
Case No. U-9372	Consumers Power Company Before the Michigan Public Service Commission
Docket No. 891345-EI	Gulf Power Company Florida Public Service Commission
ER89110912J	Jersey Central Power & Light Company Board of Public Utilities Commissioners
Docket No. 890509-WU	Florida Cities Water Company, Golden Gate Division Florida Public Service Commission
Case No. 90-041	Union Light, Heat and Power Company Kentucky Public Service Commission
Docket No. R-901595	Equitable Gas Company Pennsylvania Consumer Counsel
Docket No. 5428	Green Mountain Power Corporation Vermont Department of Public Service
Docket No. 90-10	Artesian Water Company Delaware Public Service Commission
Docket No. 900329-WS	Southern States Utilities, Inc.

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Case No. PUE900034	Florida Public Service Commission Commonwealth Gas Services, Inc. Virginia Public Service Commission
Docket No. 90-1037* (DEAA Phase)	Nevada Power Company - Fuel Public Service Commission of Nevada
Docket No. 5491**	Central Vermont Public Service Corporation Vermont Department of Public Service
Docket No. U-1551-89-102	Southwest Gas Corporation - Fuel Before the Arizona Corporation Commission  Southwest Gas Corporation - Audit of Gas Procurement Practices and Purchased Gas Costs
Docket No. U-1551-90-322	Southwest Gas Corporation Before the Arizona Corporation Commission
Docket No. 176-717-U	United Cities Gas Company Kansas Corporation Commission
Docket No. 5532	Green Mountain Power Corporation Vermont Department of Public Service
Docket No. 910890-EI	Florida Power Corporation Florida Public Service Commission
Docket No. 920324-EI	Tampa Electric Company Florida Public Service Commission
Docket No. 92-06-05	United Illuminating Company The Office of Consumer Counsel and the Attorney General of the State of Connecticut
Docket No. C-913540	Philadelphia Electric Co. Before the Pennsylvania Public Utility Commission

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Docket No. 92-47	The Diamond State Telephone Company Before the Public Service Commission of the State of Delaware
Docket No. 92-11-11	Connecticut Light & Power Company State of Connecticut Department of Public Utility Control
Docket No. 93-02-04	Connecticut Natural Gas Corporation State of Connecticut Department of Public Utility Control
Docket No. 93-02-04	Connecticut Natural Gas Corporation (Supplemental) State of Connecticut Department of Public Utility Control
Docket No. 93-08-06	SNET America, Inc. State of Connecticut Department of Public Utility Control
Docket No. 93-057-01**	Mountain Fuel Supply Company Before the Public Service Commission of Utah
Docket No. 94-105-EL-EFC	Dayton Power & Light Company Before the Public Utilities Commission of Ohio
Case No. 399-94-297**	Montana-Dakota Utilities Before the North Dakota Public Service Commission
Docket No. G008/C-91-942	Minnegasco Minnesota Department of Public Service
Docket No. R-00932670	Pennsylvania American Water Company Before the Pennsylvania Public Utility Commission
Docket No. 12700	El Paso Electric Company

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Public Utility Commission of Texas

Case No. 94-E-0334

Consolidated Edison Company  
Before the New York Department of Public  
Service

Docket No. 2216

Narragansett Bay Commission  
On Behalf of the Division of Public Utilities and  
Carriers,  
Before the Rhode Island Public Utilities  
Commission

Case No. PU-314-94-688

U.S. West Application for Transfer of Local  
Exchanges  
Before the North Dakota Public Service  
Commission

Docket No. 95-02-07

Connecticut Natural Gas Corporation  
State of Connecticut  
Department of Public Utility Control

Docket No. 95-03-01

Southern New England Telephone Company  
State of Connecticut  
Department of Public Utility Control

Docket No.  
U-1933-95-317

Tucson Electric Power  
Before the Arizona Corporation Commission

Docket No. 5863\*

Central Vermont Public Service Corporation  
Before the Vermont Public Service Board

Docket No. 96-01-26\*\*

Bridgeport Hydraulic Company  
State of Connecticut  
Department of Public Utility Control

Docket Nos. 5841/ 5859

Citizens Utilities Company  
Before Vermont Public Service Board

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Docket No. 5983	Green Mountain Power Corporation Before Vermont Public Service Board
Case No. PUE960296**	Virginia Electric and Power Company Before the Commonwealth of Virginia State Corporation Commission
Docket No. 97-12-21	Southern Connecticut Gas Company State of Connecticut Department of Public Utility Control
Docket No. 97-035-01	PacifiCorp, dba Utah Power & Light Company Before the Public Service Commission of Utah
Docket No. G-03493A-98-0705*	Black Mountain Gas Division of Northern States Power Company, Page Operations Before the Arizona Corporation Commission
Docket No. 98-10-07	United Illuminating Company State of Connecticut Department of Public Utility Control
Docket No. 99-01-05	Connecticut Light & Power Company State of Connecticut Department of Public Utility Control
Docket No. 99-04-18	Southern Connecticut Gas Company State of Connecticut Department of Public Utility Control
Docket No. 99-09-03	Connecticut Natural Gas Corporation State of Connecticut Department of Public Utility Control
Docket No. 980007-0013-003	Intercoastal Utilities, Inc. St. John County - Florida
Docket No. 99-035-10	PacifiCorp dba Utah Power & Light Company Before the Public Service Commission of Utah

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Docket No. 6332 **	Citizens Utilities Company - Vermont Electric Division Before the Vermont Public Service Board
Docket No. G-01551A-00-0309	Southwest Gas Corporation Before the Arizona Corporation Commission
Docket No. 6460**	Central Vermont Public Service Corporation Before the Vermont Public Service Board
Docket No. 01-035-01*	PacifiCorp dba Utah Power & Light Company Before the Public Service Commission of Utah
Docket No. 01-05-19 Phase I	Yankee Gas Services Company State of Connecticut Department of Public Utility Control
Docket No. 010949-EI	Gulf Power Company Before the Florida Office of the Public Counsel
Docket No. 2001-0007-0023	Intercoastal Utilities, Inc. St. Johns County - Florida
Docket No. 6596	Citizens Utilities Company - Vermont Electric Division Before the Vermont Public Service Board
Docket Nos. R. 01-09-001 I. 01-09-002	Verizon California Incorporated Before the California Public Utilities Commission
Docket No. 99-02-05	Connecticut Light & Power Company State of Connecticut Department of Public Utility Control
Docket No. 99-03-04	United Illuminating Company State of Connecticut Department of Public Utility Control

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Docket Nos. 5841/ 5859	Citizens Utilities Company Probation Compliance Before Vermont Public Service Board
Docket No. 6120/6460	Central Vermont Public Service Corporation Before the Vermont Public Service Board
Docket No. 020384-GU	Tampa Electric Company d/b/a/ Peoples Gas System Before the Florida Public Service Commission
Docket No. 03-07-02	Connecticut Light & Power Company State of Connecticut Department of Public Utility Control
Docket No. 6914	Shoreham Telephone Company Before the Vermont Public Service Board
Docket No. 04-06-01	Yankee Gas Services Company State of Connecticut Department of Public Utility Control
Docket Nos. 6946/6988	Central Vermont Public Service Corporation Before the Vermont Public Service Board
Docket No. 04-035-42**	PacifiCorp dba Utah Power & Light Company Before the Public Service Commission of Utah
Docket No. 050045-EI**	Florida Power & Light Company Before the Florida Public Service Commission
Docket No. 050078-EI**	Progress Energy Florida, Inc. Before the Florida Public Service Commission
Docket No. 05-03-17	The Southern Connecticut Gas Company State of Connecticut Department of Public Utility Control

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Docket No. 05-06-04	United Illuminating Company State of Connecticut Department of Public Utility Control
Docket No. A.05-08-021	San Gabriel Valley Water Company, Fontana Water Division Before the California Public Utilities Commission
Docket NO. 7120 **	Vermont Electric Cooperative Before the Vermont Public Service Board
Docket No. 7191 **	Central Vermont Public Service Corporation Before the Vermont Public Service Board
Docket No. 06-035-21 **	PacifiCorp Before the Public Service Commission of Utah
Docket No. 7160	Vermont Gas Systems Before the Vermont Public Service Board
Docket No. 6850/6853 **	Vermont Electric Cooperative/Citizens Communications Company Before the Vermont Public Service Board
Docket No. 06-03-04** Phase 1	Connecticut Natural Gas Corporation Connecticut Department of Public Utility Control
Application 06-05-025	Request for Order Authorizing the Sale by Thames GmbH of up to 100% of the Common Stock of American Water Works Company, Inc., Resulting in Change of Control of California- American Water Company Before the California Public Utilities Commission
Docket No. 06-12-02PH01**	Yankee Gas Company State of Connecticut Department of Public Utility Control

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Case 06-G-1332**	Consolidated Edison Company of New York, Inc. Before the NYS Public Service Commission
Case 07-E-0523	Consolidated Edison Company of New York, Inc. Before the NYS Public Service Commission
Docket No. 07-07-01	Connecticut Light & Power Company Connecticut Department of Public Utility Control
Docket No. 07-035-93	Rocky Mountain Power Company Before the Public Service Commission of Utah
Docket No. 07-057-13	Questar Before the Public Service Commission of Utah
Docket No. 08-07-04	United Illuminating Company Connecticut Department of Public Utility Control
Case 08-E-0539	Consolidated Edison Company of New York, Inc. Before the NYS Public Service Commission
Docket No. 080317-EI	Tampa Electric Company Before the Florida Public Service Commission
Docket No. 7488**	Vermont Electric Cooperative, Inc. Before the Vermont Public Service Board
Docket No. 080318-GU	Peoples Gas System Before the Florida Public Service Commission
Docket No. 08-12-07***	Southern Connecticut Gas Company Connecticut Department of Utility Control
Docket No. 08-12-06***	Connecticut National Gas Company Connecticut Department of Utility Control
Docket No. 090079-EI	Progress Energy Florida, Inc. Before the Florida Public Service Commission

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Docket No. 7529 **	Burlington Electric Company Before the Vermont Public Service Board
Docket No. 7585****	Green Mountain Power Corporation Alternative Regulation Before the Vermont Public Service Board
Docket No. 7336****	Central Vermont Public Service Company Alternative Regulation Before the Vermont Public Service Board
Docket No. 09-12-05	Connecticut Light & Power Company Connecticut Department of Utility Control
Docket No. 10-02-13	Aquarion Water Company of Connecticut Connecticut Department of Utility Control
Docket No. 10-70	Western Massachusetts Electric Company Massachusetts Department of Public Utilities
Docket No. 10-12-02	Yankee Gas Services Company Connecticut Department of Utility Control
Docket No. 11-01	Fitchburg Gas & Electric Light Company Massachusetts Department of Public Utilities
Case No.9267	Washington Gas Light Company Maryland Public Service Commission
Docket No. 110138-EI	Gulf Power Company Before the Florida Public Service Commission
Case No.9286	Potomac Electric Power Company Maryland Public Service Commission
Docket No. 120015-EI	Florida Power & Light Company Before the Florida Public Service Commission

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Docket No. 11-102***	Western Massachusetts Electric Company Massachusetts Department of Public Utilities
Docket No. 8373****	Green Mountain Power Company Alternative Regulation Before the Vermont Public Service Board
Docket No. 110200-WU	Water Management Services, Inc. Before the Florida Public Service Commission
Docket No. 11-102/11-102A	Western Massachusetts Electric Company Massachusetts Department of Public Utilities
Case No.9311	Potomac Electric Power Company Maryland Public Service Commission
Case No.9316	Columbia Gas of Maryland, Inc. Maryland Public Service Commission
Docket No. 130040-EI**	Tampa Electric Company Before the Florida Public Service Commission
Case No.1103	Potomac Electric Power Company Public Service Commission of the District of Columbia
Docket No. 13-03-23	Connecticut Light & Power Company Connecticut Public Utility Regulatory Authority
Docket No. 13-06-08	Connecticut Natural Gas Corporation Connecticut Public Utility Regulatory Authority
Docket No. 13-90	Fitchburg Gas & Electric Light Company Massachusetts Department of Public Utilities
Docket No. 8190**	Green Mountain Power Company Before the Vermont Public Service Board

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Docket No. 8191**	Green Mountain Power Company Alternative Regulation Before the Vermont Public Service Board
Case No.9354**	Columbia Gas of Maryland, Inc. Maryland Public Service Commission
Docket No.2014-UN-132**	Entergy Mississippi Inc. Mississippi Public Service Commission
Docket No. 13-135	Western Massachusetts Electric Company Massachusetts Department of Public Utilities
Docket No. 14-05-26	Connecticut Light & Power Company Connecticut Public Utility Regulatory Authority
Docket No. 13-85	Massachusetts Electric Company and Nantucket Electric Company D/B/A/ as National Grid Massachusetts Department of Public Utilities
Docket No. 14-05-26RE01***	Connecticut Light & Power Company Connecticut Public Utility Regulatory Authority
Docket No.2015-UN-049**	Atmos Energy Corporation Mississippi Public Service Commission
Case No.9390	Columbia Gas of Maryland, Inc. Maryland Public Service Commission
Docket No. 15-03-01***	Connecticut Light & Power Company Connecticut Public Utility Regulatory Authority
Docket No. 15-03-02***	United Illuminating Company Connecticut Department of Public Utility Control
Case No.9418***	Potomac Electric Power Company Maryland Public Service Commission

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Case No.1135*** Docket No. 15-03-01***	Washington Gas Connecticut Light & Power Company Connecticut Public Utility Regulatory Authority
Case No.1137	Washington Gas Public Service Commission of the District of Columbia
Docket No. 160021-EI	Florida Power & Light Company Before the Florida Public Service Commission
Docket No. 160062-EI	Florida Power & Light Company Before the Florida Public Service Commission
Docket No. 15-149	Western Massachusetts Electric Company Massachusetts Department of Public Utilities
Docket No. 8710	Vermont Gas Systems Inc. Before the Vermont Public Service Board
Docket No. 8698	Vermont Gas Systems Inc. Alternative Regulation Before the Vermont Public Service Board
Docket No. 16-06-042	United Illuminating Company Connecticut Department of Public Utility Control
Docket No. A.16-09-001	Southern California Edison Before the California Public Utilities Commission
Case No. 17-1238-INV**	Vermont Gas Systems Inc. Before the Vermont Public Utility Commission
Case No. 17-3112-INV**	Green Mountain Power Company Before the Vermont Public Utility Commission
Docket No. 17-10-46**	Connecticut Light & Power Company Connecticut Public Utility Regulatory Authority

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Docket No. 20170141-SU

**KW Resort Utilities Corp.  
Before the Florida Public Service Commission**

Docket No. 2017-0105

**The Hawaii Gas Company  
Before the Hawaii Public Utility Commission**

- \* Certain issues stipulated, portion of testimony withdrawn.
- \*\* Case settled.
- \*\*\* Assisted in case and hearings, no testimony presented
- \*\*\*\* Annual filings reviewed and reports filed with Board.

Florida Power & Light  
 Storm Restoration Costs Related to Hurricane Matthew  
 Summary  
 (000's)

Docket No. 20160251-EI  
 Exhibit No. HWS-2  
 Schedule A

Line No.	Description	Steam & Other	Nuclear	Trans.	Distribution	General	Customer Service	Total
<b>Company Requested</b>								
1	Regular Payroll & Related Costs	(24)	45	111	1,417	(281)	(234)	1,034
2	Overtime Payroll & Related Costs	326	1,537	654	10,761	658	700	14,636
3	Contractors	82	2,969	1,488	153,894	277	272	158,982
4	Line Clearing	0	0	11	27,662	0	0	27,673
5	Vehicle & Fuel	0	0	145	2,949	5	0	3,099
6	Materials & Supplies	20	58	42	1,672	359	0	2,151
7	Logistics	1	0	123	81,237	185	128	81,674
8	Other	34	5	193	1,349	1,106	151	2,838
9	Incremental Storm Costs Per Co.	439	4,614	2,767	280,941	2,308	1,016	292,087
10	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
11	Requested Recoverable Retail Costs	431	4,529	2,498	280,899	2,273	1,016	291,647
<b>Per OPC</b>								
12	Regular Payroll & Related Costs	0	0	0	0	0	0	0
13	Overtime Payroll & Related Costs	324	1,537	485	5,237	658	700	8,941
14	Contractors	(1,530)	2,209	1,488	134,511	277	272	137,227
15	Line Clearing	0	0	11	27,662	0	0	27,673
16	Vehicle & Fuel	0	0	145	2,949	5	0	3,099
17	Materials & Supplies	20	58	42	1,673	359	0	2,152
18	Logistics	1	0	123	63,262	185	128	63,699
19	Other	34	5	193	1,349	1,107	151	2,839
20	Incremental Storm Costs Per OPC.	(1,151)	3,809	2,487	236,643	2,591	1,251	245,630
21	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
22	Requested Recoverable Retail Costs	(1,130)	3,740	2,245	236,595	2,552	1,251	245,253
23	OPC Retail Adjustment (L.22 - L.11)	(1,561)	(789)	(253)	(44,304)	279	235	(46,393)
24	Reserve Replenishment Adjustment							(24,026)
25	Total Adjustment							(70,419)

Note: Line 11 reflects the requested amount for distribution and not the corrected amount.

Florida Power & Light  
 Storm Restoration Costs Related to Hurricane Matthew  
 Regular Payroll  
 (000's)

Docket No. 20160251-EI  
 Exhibit No. HWS-2  
 Schedule B  
 Page 1 of 3

Line No.	Description	Steam & Other	Nuclear	Trans.	Distribution	General	Customer Service	Total
1	Regular Payroll & Related Costs	32	206	446	5,075	364	175	6,298
2	Company Update 2/20/18	1	0	0	95	0	0	96
3	Company Update 3/15/18				2			2
4	Co. Rev. Reg. PR & Related Costs	33	206	446	5,172	364	175	6,395
5	Less: Non-Incremental Costs	56	162	244	749	645	409	2,265
6	Less : Capitalized Costs	1	0	92	3,006	0	0	3,099
7	Company Requested Reg. PR	(24)	45	111	1,417	(281)	(234)	1,034
8	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
9	Retail Recoverable Cost Per Co.	(24)	44	100	1,417	(277)	(234)	1,027
10	Co. Rev. Reg. PR & Related Costs	33	206	446	5,172	364	175	6,395
11	Non-Incremental Costs	(33)	(206)	(446)	(5,172)	(364)	(175)	(6,396)
12	Capitalized Costs	0	0	0	0	0	0	0
13	Regular Payroll & Related Costs	0	0	0	0	0	0	0
14	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
15	Retail Costs Per OPC	0	0	0	0	0	0	0
16	OPC Retail Adjustment (L.15 - L. 9)	24	(44)	(100)	(1,417)	277	234	(1,027)
17	Capitalization Assigned to Overtime	(1)	0	(92)	(3,006)	0	0	(3,099)

Source: Line 1 is from attachment to October 16, 2017 letter.  
 Lines 4, 5, 6, 7 and 8 are from Company Exhibit KO-2, Page 1 of 2.

Florida Power & Light  
 Storm Restoration Costs Related to Hurricane Matthew  
 Overtime Payroll  
 (000's)

Docket No. 20160251-EI  
 Exhibit No. HWS-2  
 Schedule B  
 Page 2 of 3

Line No.	Description	Steam & Other	Nuclear	Trans.	Distribution	General	Customer Service	Total
1	Overtime Payroll & Related Costs	326	1,537	654	11,658	658	700	15,533
2	Company Update 2/20/18	0	0	0	(897)	0	0	(897)
3	Company Update 3/15/18	0	0	0	0	0	0	0
4	Co. Rev. OT, PR & Related Costs	326	1,537	654	10,761	658	700	14,636
5	Less: Non-Incremental Costs	0	0	0	0	0	0	0
6	Less : Capitalized Costs	0	0	0	0	0	0	0
7	Company Requested OT, PR	326	1,537	654	10,761	658	700	14,636
8	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
9	Retail Recoverable Cost Per Co.	320	1,509	590	10,759	648	700	14,527
10	Co. Rev. OT, PR & Related Costs	326	1,537	654	10,761	658	700	14,636
11	OPC Reclassification Adjustment	(1)	0	(92)	(3,006)	0	0	(3,099)
12	OPC Added Adjustment	(1)	0	(77)	(2,518)	0	0	(2,596)
13	Overtime Payroll & Related Costs	324	1,537	485	5,237	658	700	8,941
14	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
15	Retail Costs Per OPC	318	1,509	438	5,236	648	700	8,849
16	OPC Retail Adjustment (L.15 - L. 9)	(2)	0	(153)	(5,523)	0	0	(5,677)

Source: Line 1 is from attachment to October 16, 2017 letter.  
 Line 2 is discussed in response to OPC Interrogatory No. 9.  
 Lines 4, 5, 6, 7 and 8 are from Company Exhibit KO-2, Page 1 of 2.

Florida Power & Light  
 Storm Restoration Costs Related to Hurricane Matthew  
 Overtime Payroll

Docket No. 20160251-EI  
 Exhibit No. HWS-2  
 Schedule B  
 Page 3 of 3

Line No.	Description	Amounts	Amounts	Source
1	Regular Payroll & Related Costs Capitalized		3,099,000	Co. Exhibit KO-2
2	Hourly Labor Rate (LVM)		140.45	Citizens' ROG No. 84
3	Capitalized Hours		22,065	Line 1 / Line 2
4	Overtime Hourly Rate	\$61		Citizens' ROG No. 79
5	Overhead Rate 16.57%	1.1657		Citizens' ROG No. 10
6	Labor and Overhead	71		Line 4 x Line 5
7	FPL Employees	3		Citizens' ROG No. 78
8	Calculated Labor & Payroll Overhead Rate	213	213	
9	Estimated Labor & Overhead Cost		4,699,801	Line 3 x Line 8
10	Non-incremental Vehicle Expense per Co.	3,099,000		Co. Exhibit KO-2
11	Non-incremental Overtime Expense per Co.	14,636,000		Co. Exhibit KO-2
12	Estimated Vehicle Cost Percentage	21.17%	995,127	Line 10 / Line 11
13	OPC Estimated Loaded Overtime Cost (LVM)		5,694,928	
14	Co. Estimated Loaded Regular Payroll Rate (LVM)		3,099,000	
15	Additional Adjustment for Capitalized Overtime		(2,595,928)	

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Florida Power & Light  
 Storm Restoration Costs Related to Hurricane Matthew  
 Contractors  
 (000's)

Docket No. 20160251-EI  
 Exhibit No. HWS-2  
 Schedule C  
 Page 1 of 3

Line No.	Description	Steam & Other	Nuclear	Trans.	Distribution	General	Customer Service	Total
1	Contractors	705	3,207	1,482	159,713	332	272	165,711
2	Company Update 2/20/18	(2)	0	0	(3,253)	(55)	0	(3,310)
3	Company Update 3/15/18	(116)	0	6	3,507	0	0	3,397
4	Co. Revised Contractor Costs	587	3,207	1,488	159,967	277	272	165,798
5	Less: Non-Incremental Costs	0	0	0	0	0	0	0
6	Less : Capitalized Costs	505	238	0	6,072	0	0	6,815
7	Company Requested for Contractors	82	2,969	1,488	153,895	277	272	158,983
8	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
9	Retail Recoverable Cost Per Co.	81	2,915	1,344	153,864	273	272	158,748
10	Co. Revised Contractor Costs	587	3,207	1,488	159,967	277	272	165,798
11	Co. Capitalization Adjustment	(505)	(238)	0	(6,072)	0	0	(6,815)
12	OPC Capitalization Adjustment	(1,612)	(760)	0	(19,384)	0	0	(21,756)
13	OPC Contractor Costs	(1,530)	2,209	1,488	134,511	277	272	137,227
14	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
15	Retail Costs Per OPC	(1,502)	2,169	1,344	134,484	273	272	137,039
16	OPC Retail Adjustment (L.15 - L. 9)	(1,583)	(746)	0	(19,381)	0	0	(21,710)

Source: Line 1 is from attachment to October 16, 2017 letter.  
 Lines 4, 5, 6, 7 and 8 are from Company Exhibit KO-2, Page 1 of 2.

Florida Power & Light  
 Storm Restoration Costs Related to Hurricane Matthew  
 Contractors

Docket No. 20160251-EI  
 Exhibit No. HWS-2  
 Schedule C  
 Page 2 of 3

CONFIDENTIAL

Line No.	Description	Amounts	Amounts	Source
1	Regular Payroll & Related Costs Capitalized		6,816,000	Co. Exhibit KO-2
2	Hourly Labor Rate (LVM)		140.45	Citizens' ROG No. 84
3	Capitalized Hours		48,530	Line 1 / Line 2
4	Average Contractor Rate	[REDACTED]		Schedule C, Page 3
5	Contractor Employees	[REDACTED]		
6	Calculated Labor & Payroll Overhead Rate	[REDACTED]	[REDACTED]	Line 4 x Line 5
7	Estimated Labor & Overhead Cost		[REDACTED]	Line 3 x Line 8
8	Vehicle Expense	0		
9	Meals, Per Diem	0		
10	Estimated Vehicle/ Miscellaneous Cost		0	
11	OPC Estimated Loaded Overtime Cost (LVM)		[REDACTED]	
12	Co. Estimated Capitalization Rate (LVM)		6,816,000	
13	Adjustment for Contractor Capitalization		(21,756,361)	

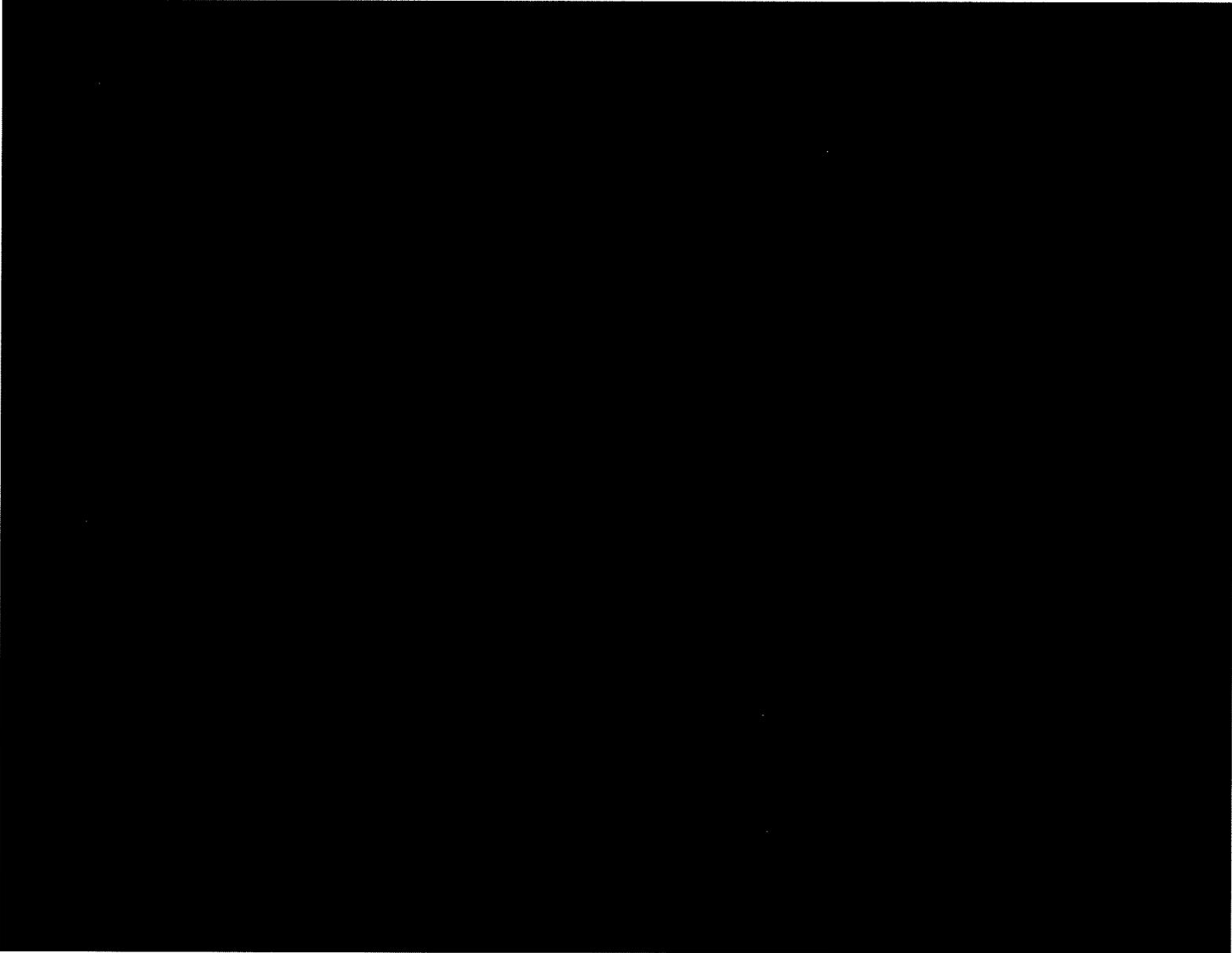
Florida Power & Light  
Storm Restoration Costs Related to Hurricane Matthew  
Contractor Billing Summary

Docket No. 20160251-EI  
Exhibit No. HWS-2  
Schedule C  
Page 3 of 3

CONFIDENTIAL																
A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
Line No.	Invoice Reference	Vendor	Hours	Average Rate	Labor/ Fringe	Corp. A&G	Materials	Expenses	Trans.	Misc.	Total	Duplicates	Description	MOB/ DEMOB	Standby	
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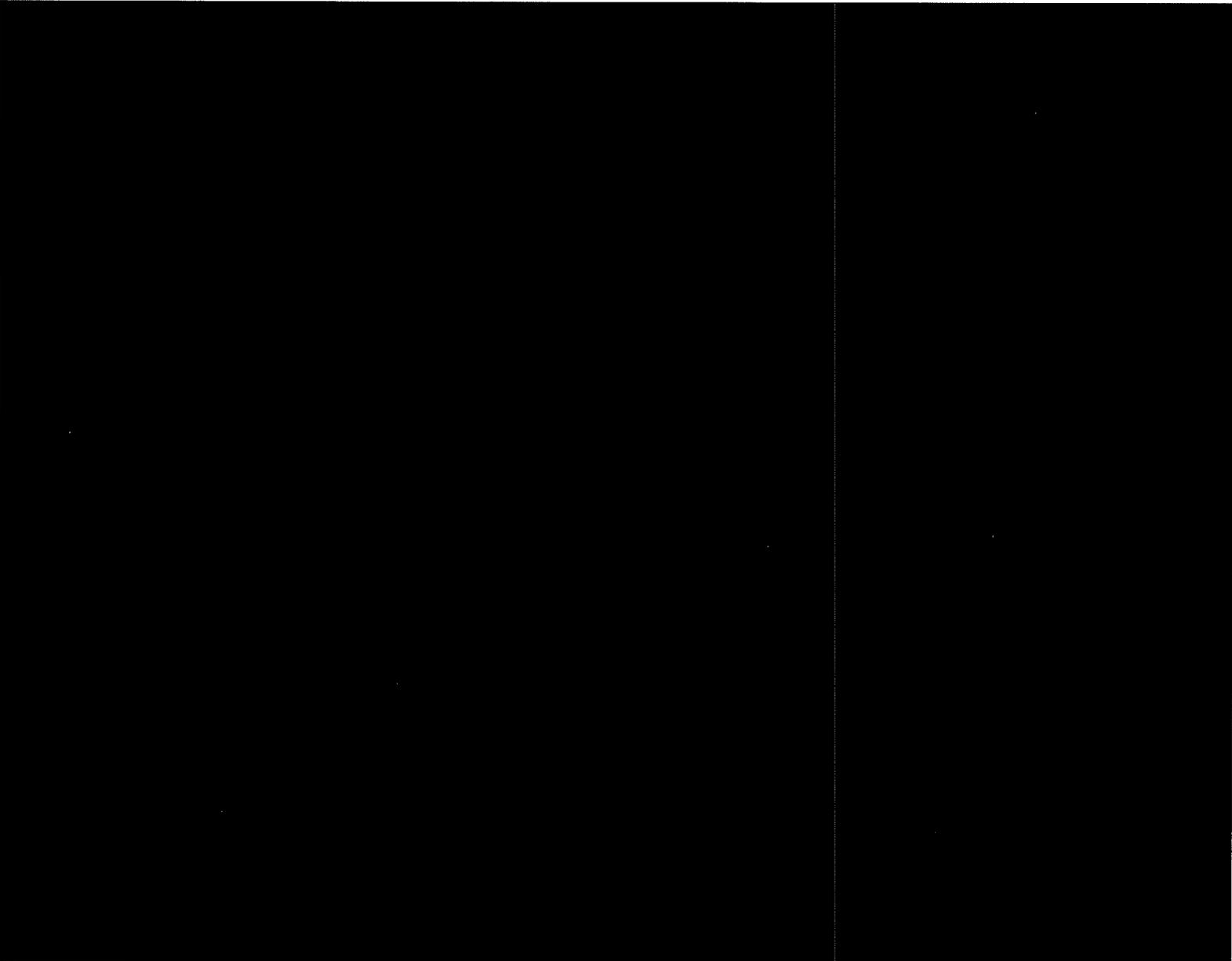
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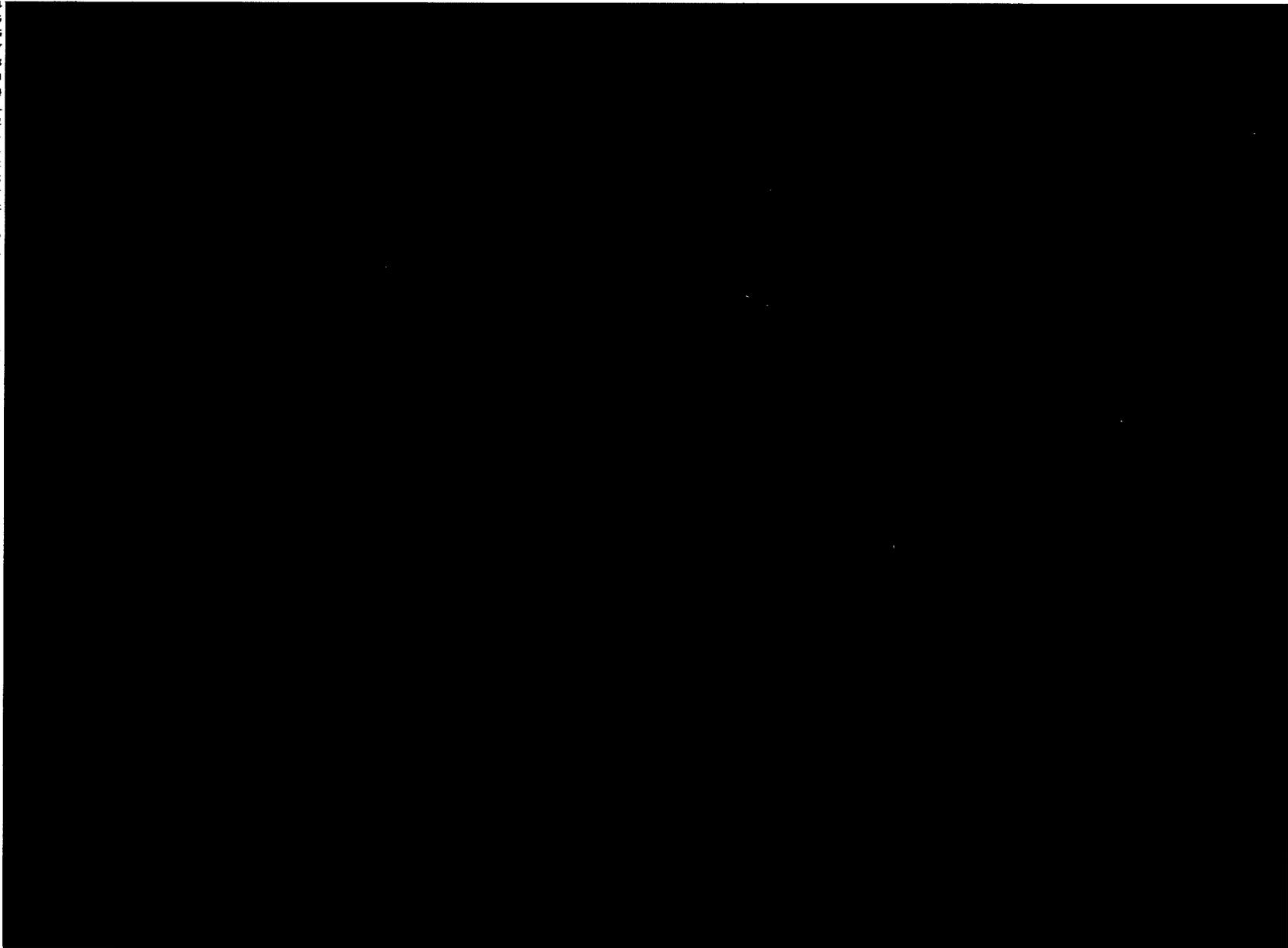
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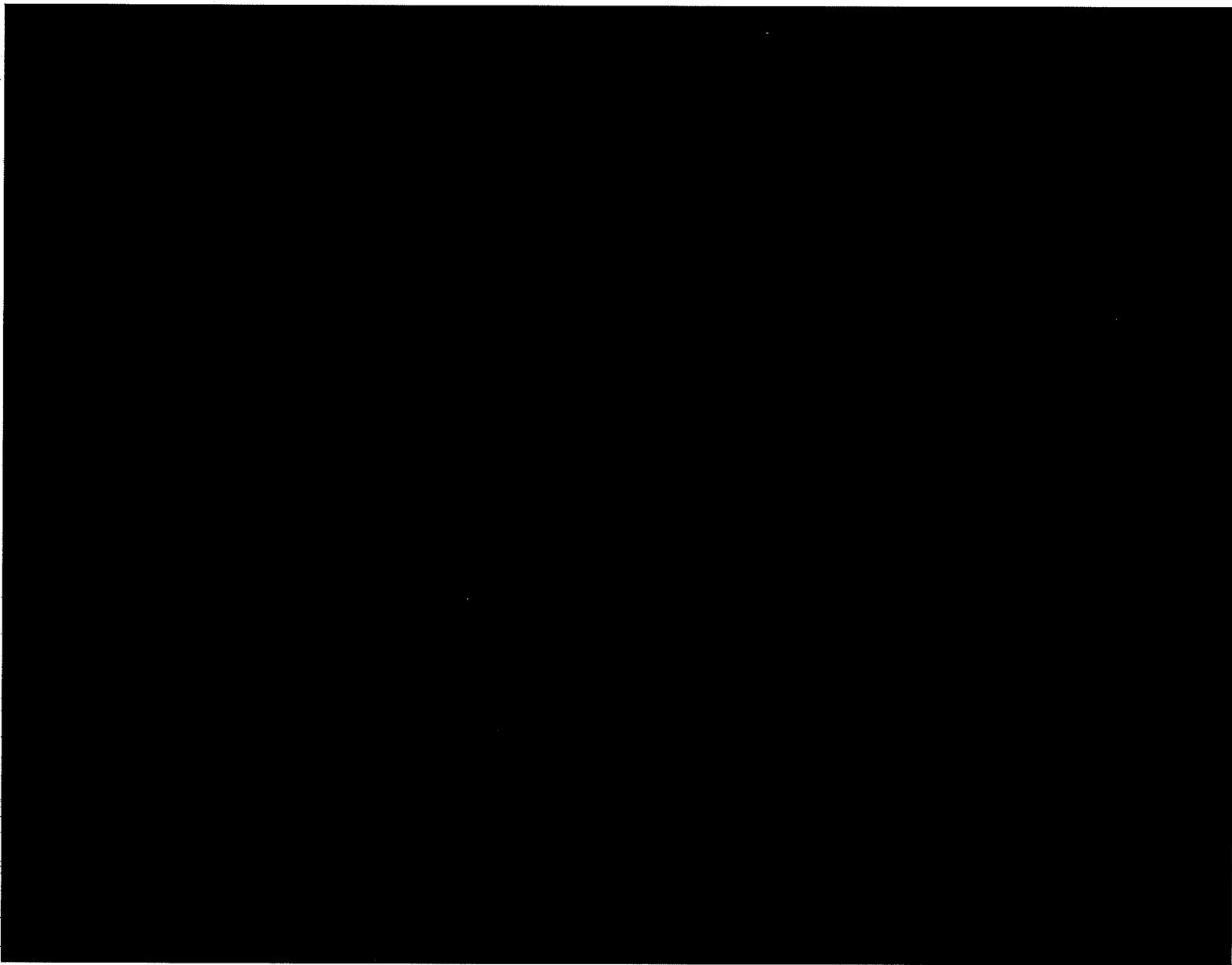
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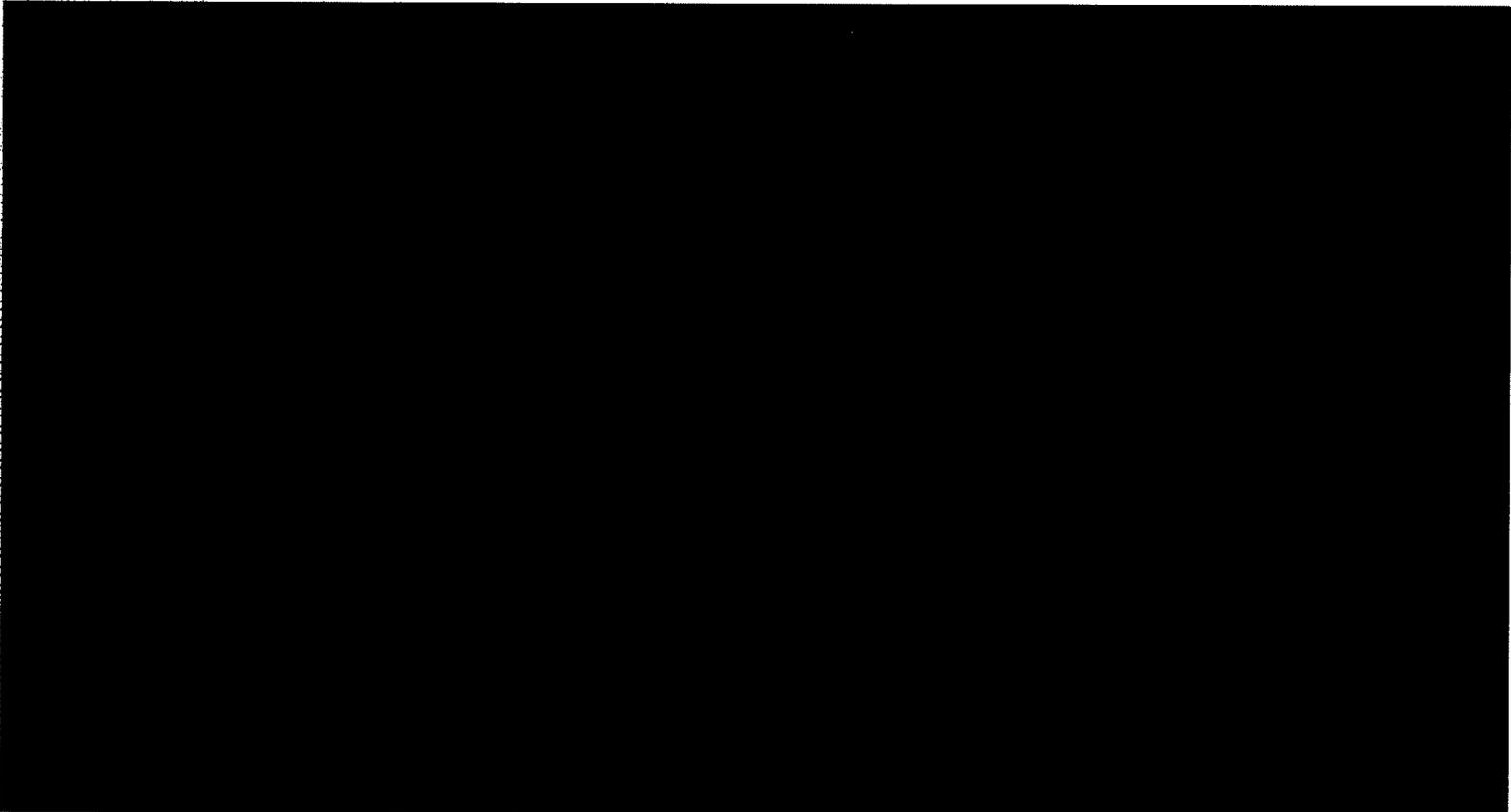
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Duplicated and Differences (17,083,854)  
Costs Verified 129,184,087

(a) Services Not Needed p.18,19

X Reference number and amount match listing in Confidential OPC ROG No. 18  
\* Reference number matches, internal invoice and amount differs.  
Y Reference number different but amount matches listing in Confidential OPC ROG No. 18  
Sources: Company response to Confidential OPC POD No. 6 (428 Documents)

Florida Power & Light  
 Storm Restoration Costs Related to Hurricane Matthew  
 Line Clearing  
 (000's)

Docket No. 20160251-EI  
 Exhibit No. HWS-2  
 Schedule D  
 Page 1 of 2

Line No.	Description	Steam & Other	Nuclear	Trans.	Distribution	General	Customer Service	Total
1	Line Clearing	0	0	11	27,497	0	0	27,508
2	Company Update 2/20/18	0	0	0	100	0	0	100
3	Company Update 3/15/18	0	0	0	252	0	0	252
4	Co. Revised Line Clearing Costs	0	0	11	27,849	0	0	27,860
5	Less: Non-Incremental Costs	0	0	0	187	0	0	187
6	Less : Capitalized Costs	0	0	0	0	0	0	0
7	Company Requested Line Clearing	0	0	11	27,662	0	0	27,673
8	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
9	Retail Recoverable Cost Per Co.	0	0	10	27,656	0	0	27,666
10	Co. Rev. Line Clearing Costs	0	0	11	27,849	0	0	27,860
11	Non-Incremental Costs	0	0	0	(187)	0	0	(187)
12	Capitalized Costs	0	0	0	0	0	0	0
13	Line Clearing	0	0	11	27,662	0	0	27,673
14	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
15	Retail Costs Per OPC	0	0	10	27,656	0	0	27,666
16	OPC Retail Adjustment (L.15 - L. 9)	0	0	0	0	0	0	0

Source: Line 1 is from attachment to October 16, 2017 letter.  
 Lines 4, 5, 6, 7 and 8 are from Company Exhibit KO-2, Page 1 of 2.

Florida Power & Light  
Storm Restoration Costs Related to Hurricane Matthew  
Line Clearing

DocId: 316-20160251-41  
Exhibit 16, NYS-2  
Schedule D  
Page 2 of 2

CONFIDENTIAL

Line No.	Invoice Reference	Vendor	Hour	Average Rate	Label/Type	Corp. Ass	Material	Equipment	Truck	Misc	Total	Due Date	Description	Earliest and Latest Dates	AGB/DEMOS	Standard
1																
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3																
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Duplicated and Differences  
Costs Verified (16,466,329)  
16,646,323

K Reference number and amount match response to Confidential OPC ROG No. 20  
\* Reference number matched; amount different from Confidential OPC ROG No. 20  
Y Reference number does not match; amount matched to Confidential OPC ROG No. 20  
Sources: Company response to Confidential OPC PDD No. 7 (79 Documents)

(a) Pivotal Standdown p. 50-52  
(b) Working p. 135

CONFIDENTIAL

Florida Power & Light  
 Storm Restoration Costs Related to Hurricane Matthew  
 Vehicle & Fuel Costs  
 (000's)

Docket No. 20160251-EI  
 Exhibit No. HWS-2  
 Schedule E

Line No.	Description	Steam & Other	Nuclear	Trans.	Distribution	General	Customer Service	Total
1	Vehicle & Fuel	0	0	145	4,774	5	0	4,924
2	Company Update 2/20/18	0	0	0	46	0	0	46
3	Company Update 3/15/18	0	0	0	0	0	0	0
4	Co. Revised Vehicle & Fuel	0	0	145	4,820	5	0	4,970
5	Less: Non-Incremental Costs	0	0	0	1,871	0	0	1,871
6	Less : Capitalized Costs	0	0	0	0	0	0	0
7	Co. Requested Vehicle & Fuel	0	0	145	2,949	5	0	3,099
8	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
9	Retail Recoverable Cost Per Co.	0	0	131	2,948	5	0	3,084
10	Co. Rev. Vehicle & Fuel Costs	0	0	145	4,820	5	0	4,970
11	Non-Incremental Costs	0	0	0	(1,871)	0	0	(1,871)
12	Capitalized Costs	0	0	0	0	0	0	0
13	Vehicle & Fuel Costs	0	0	145	2,949	5	0	3,099
14	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
15	Retail Costs Per OPC	0	0	131	2,948	5	0	3,084
16	OPC Retail Adjustment (L.15 - L.9)	0	0	0	0	0	0	0

Source: Line 1 is from attachment to October 16, 2017 letter.  
 Lines 4, 5, 6, 7 and 8 are from Company Exhibit KO-2, Page 1 of 2.

CONFIDENTIAL

Florida Power & Light  
 Storm Restoration Costs Related to Hurricane Matthew  
 Materials & Supplies  
 (000's)

Docket No. 20160251-EI  
 Exhibit No. HWS-2  
 Schedule F

Line No.	Description	Steam & Other	Nuclear	Trans.	Distribution	General	Customer Service	Total
1	Materials & Supplies	20	58	249	4,048	358	0	4,733
2	Company Update 2/20/18	0	0	0	2,962	1	56	3,019
3	Company Update 3/15/18	0	0	0	(680)	0	0	(680)
4	Co. Revised Materials & Supplies	20	58	249	6,330	359	56	7,072
5	Less: Non-Incremental Costs	0	0	0	0	0	0	0
6	Less : Capitalized Costs	0	0	207	4,657	0	56	4,920
7	Co. Requested Mat. & Supplies	20	58	42	1,673	359	0	2,152
8	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
9	Retail Recoverable Cost Per Co.	20	57	38	1,673	354	0	2,141
10	Co. Rev. Materials & Supplies	20	58	249	6,330	359	56	7,072
11	Non-Incremental Costs	0	0	0	0	0	0	0
12	Capitalized Costs	0	0	(207)	(4,657)	0	(56)	(4,920)
13	Materials & Supplies	20	58	42	1,673	359	0	2,152
14	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
15	Retail Costs Per OPC	20	57	38	1,673	354	0	2,141
16	OPC Retail Adjustment (L.15 - L. 9)	0	0	0	0	0	0	0

Source: Line 1 is from attachment to October 16, 2017 letter.  
 Lines 4, 5, 6, 7 and 8 are from Company Exhibit KO-2, Page 1 of 2.

CONFIDENTIAL

Florida Power & Light  
 Storm Restoration Costs Related to Hurricane Matthew  
 Logistics  
 (000's)

Docket No. 20160251-EI  
 Exhibit No. HWS-2  
 Schedule G  
 Page 1 of 2

Line No.	Description	Steam & Other	Nuclear	Trans.	Distribution	General	Customer Service	Total
1	Logistics	1	0	123	81,247	185	128	81,684
2	Company Update 2/20/18	0	0	0	(10)	0	0	(10)
3	Company Update 3/15/18	0	0	0	0	0	0	0
4	Co. Revised Logistics	1	0	123	81,237	185	128	81,674
5	Less: Non-Incremental Costs	0	0	0	0	0	0	0
6	Less : Capitalized Costs	0	0	0	0	0	0	0
7	Company Requested Logistics	1	0	123	81,237	185	128	81,674
8	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
9	Retail Recoverable Cost Per Co.	1	0	111	81,221	182	128	81,643
10	Co. Rev. Logistics	1	0	123	81,237	185	128	81,674
11	Unjustified	0	0	0	(17,975)	0	0	(17,975)
12	Capitalized Costs	0	0	0	0	0	0	0
13	Logistics Cost	1	0	123	63,262	185	128	63,699
14	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
15	Retail Costs Per OPC	1	0	111	63,249	182	128	63,672
16	OPC Retail Adjustment (L.15 - L. 9)	0	0	0	(17,971)	0	0	(17,971)

Source: Line 1 is from attachment to October 16, 2017 letter.  
 Lines 4, 5, 6, 7 and 8 are from Company Exhibit KO-2, Page 1 of 2.

CONFIDENTIAL

Florida Power & Light  
 Storm Restoration Costs Related to Hurricane Matthew  
 Logistics

Docket No. 20160251-EI  
 Exhibit No. HWS-2  
 Schedule G  
 Page 2 of 2

A	B	C	D	E	CONFIDENTIAL	G	H	I	J	K	L	M
Line No.	Invoice Reference	Vendor	Lodging	Labor	Catering	Staging	Trans	Other	Total	Duplicator		Mob/ O/Mob
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									<u>67,930,658</u>			<u>1,956,464</u>

X Amount matches response to Confidential OPC ROG No. 24 totals  
 ■ Amount different from Confidential OPC ROG No. 24 totals  
 N Vendor not listed for amount in Confidential OPC ROG No. 24  
 Sources: Company response to Confidential OPC POD No. 9

CONFIDENTIAL

Florida Power & Light  
 Storm Restoration Costs Related to Hurricane Matthew  
 Other  
 (000's)

Docket No. 20160251-EI  
 Exhibit No. HWS-2  
 Schedule H

Line No.	Description	Steam & Other	Nuclear	Trans.	Distribution	General	Customer Service	Total
1	Other	34	5	228	2,876	1,613	151	4,907
2	Company Update 2/20/18	0	0	0	3	0	0	3
3	Company Update 3/15/18	0	0	10	9	0	0	19
4	Co. Revised Other	34	5	238	2,888	1,613	151	4,929
5	Less: Non-Incremental Costs	0	0	0	0	506	0	506
6	Less : Capitalized Costs	0	0	45	1,539	0	0	1,584
7	Company Requested Other	34	5	193	1,349	1,107	151	2,839
8	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
9	Retail Recoverable Cost Per Co.	33	5	174	1,349	1,090	151	2,802
10	Co. Revised Other	34	5	238	2,888	1,613	151	4,929
11	Non-Incremental Costs	0	0	0	0	(506)	0	(506)
12	Capitalized Costs	0	0	(45)	(1,539)	0	0	(1,584)
13	Other Costs	34	5	193	1,349	1,107	151	2,839
14	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
15	Retail Costs Per OPC	33	5	174	1,349	1,090	151	2,802
16	OPC Retail Adjustment (L.15 - L. 9)	0	0	0	0	0	0	0

Source: Line 1 is from attachment to October 16, 2017 letter.  
 Lines 4, 5, 6, 7 and 8 are from Company Exhibit KO-2, Page 1 of 2.

CONFIDENTIAL

Florida Power & Light  
 Storm Restoration Costs Related to Hurricane Matthew  
 Capitalizable Costs  
 (000's)

Docket No. 20160251-EI  
 Exhibit No. HWS-2  
 Schedule I

Line No.	Description	Steam & Other	Nuclear	Trans.	Distribution	General	Customer Service	Total
1	Capitalizable Costs	507	238	344	11,838	0	56	12,983
2	Company Update 2/20/18	0	0	0	0	0	0	0
3	Company Update 3/15/18	0	0	0	3,142	0	0	3,142
4	Co. Revised Capital Costs	507	238	344	14,980	0	56	16,125
5	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
6	Retail Capital Cost Per Co.	498	234	311	14,977	0	56	16,075
7	Co. Revised Capital Costs	507	238	344	14,980	0	56	16,125
8	Payroll Adjustment	1	0	77	2,518	0	0	2,596
9	Contractor Adjustment	1,612	760	0	19,384	0	0	21,756
10	OPC Revised Capital Costs	2,120	998	421	36,882	0	56	40,477
11	Total Capital Cost Adjustment	1,613	760	77	21,902	0	0	24,352
12	Jurisdictional Factor	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
13	Retail Capital Cost Per OPC.	1,584	746	70	21,898	0	0	24,297

Source: Line 1 is from attachment to October 16, 2017 letter.  
 Lines 4 and 5 are from Company Exhibit KO-2, Page 1 of 2.