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I N D E X

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2	NUMBER:	ID	ADMITTED
3	3, 4, 11, 12, 13 - (as identified on the Comprehensive Exhibit List)		225
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5	5, 29, 30 - (as identified on the Comprehensive Exhibit List)		260
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11	21, 22, 26, 32 - (as identified on the Comprehensive Exhibit List)		225
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15	32 - Amended response to Office of Public Counsel's First Request for Production of Documents, No. 5	198	225
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1 P R O C E E D I N G S

2 (Transcript follows in sequence from
3 Volume 1.)

4 CHAIRMAN GRAHAM: Mr. Butler.

5 MR. BUTLER: Thank you, Mr. Chairman. FPL
6 calls it's next witness, Ms. Ousdahl, who was sworn
7 at the outset.

8 EXAMINATION

9 BY MR. BUTLER:

10 Q Ms. Ousdahl, would you please state your name
11 and business address for the record.

12 A I'm Kim Ousdahl --

13 CHAIRMAN GRAHAM: Your microphone.

14 MR. BUTLER: Mic on --

15 CHAIRMAN GRAHAM: Microphone.

16 MR. BUTLER: Microphone on.

17 THE WITNESS: I thought my voice was loud
18 enough. Thank you.

19 Kim Ousdahl. My business address is 700
20 Universe Boulevard, Juno Beach, Florida 33408.

21 BY MR. BUTLER:

22 Q By whom are you employed and in what capacity?

23 A Florida Power & Light, as vice president and
24 chief accounting officer.

25 Q Did you prepare and cause to be filed 18 pages

1 of prepared direct testimony in this proceeding on
2 February 20, 2018?

3 A Yes, I did.

4 Q And did you also prepare and cause to be
5 prepared 16 pages of prepared rebuttal testimony in this
6 proceeding on May 2, 2018?

7 A I did.

8 Q And was an errata sheet filed for your
9 rebuttal testimony on May 10, 2018?

10 A Yes, it was.

11 Q Okay. With the changes on the errata sheet
12 and subject to the adjustments in your Exhibit KO-2
13 corrected -- if I asked you the same questions contained
14 in your prefiled direct and rebuttal testimony today,
15 would your answers be the same?

16 A They would.

17 MR. BUTLER: Mr. Chairman, I would ask that
18 Ms. Ousdahl's prefiled direct testimony and
19 rebuttal testimony be inserted into the record as
20 though read.

21 CHAIRMAN GRAHAM: We will insert Ms. Ousdahl's
22 direct and rebuttal testimony into the record as
23 though read.

24 MR. BUTLER: Thank you.

25 (Prefiled direct and rebuttal testimony

1 inserted into the record as though read.)

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I. INTRODUCTION

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3 **Q. Please state your name and business address.**

4 A. My name is Kim Ousdahl, and my business address is Florida Power & Light
5 Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

6 **Q. By whom are you employed and what is your position?**

7 A. I am employed by Florida Power & Light Company (“FPL” or the “Company”) as
8 Vice President and Chief Accounting Officer.

9 **Q. Please describe your duties and responsibilities in that position.**

10 A. I am responsible for all financial accounting, as well as internal and external
11 reporting, for FPL. As a part of these responsibilities, I ensure that the Company’s
12 financial reporting complies with requirements of Generally Accepted Accounting
13 Principles (“GAAP”) and multi-jurisdictional regulatory accounting requirements.

14 **Q. Please describe your educational background and professional experience.**

15 A. I graduated from Kansas State University in 1979 with a Bachelor of Science Degree
16 in Business Administration, majoring in Accounting. That same year, I was
17 employed by Houston Lighting & Power Company in Houston, Texas. During my
18 tenure there, I held various accounting and regulatory management positions. Prior to
19 joining FPL in June 2004, I was the Vice President and Controller of Reliant Energy.
20 I am a Certified Public Accountant (“CPA”) licensed in the State of Texas and a
21 member of the American Institute of CPAs, the Texas Society of CPAs, and the
22 Florida Institute of CPAs.

23

1 **Q. Are you sponsoring any exhibits in this case?**

2 A. Yes. I am sponsoring the following exhibits:

- 3 • KO-1 – Hurricane Matthew Final Costs and Incremental Cost and
4 Capitalization Approach (“ICCA”) Adjustments; and
5 • KO-2 – Update to Exhibit KO-1, to be filed on or before March 15, 2018.

6 **Q. What is the purpose of your testimony?**

7 A. The purpose of my testimony is to support the calculation of the Hurricane Matthew
8 recoverable amount FPL is seeking for cost recovery in this proceeding and to
9 demonstrate that FPL’s storm restoration and recovery accounting processes and
10 controls are well established, documented, and implemented by personnel that are
11 suitably trained, to ensure proper storm accounting and ratemaking. Specifically, my
12 testimony will show that:

- 13 1. FPL has effective and appropriate controls and accounting procedures for
14 storm events;
- 15 2. FPL’s accounting for Hurricane Matthew was in accordance with the ICCA
16 methodology required under Rule 25-6.0143, Florida Administrative Code
17 (“F.A.C.”); and
- 18 3. FPL’s calculation of the proposed recovery amount is in accordance with the
19 provisions of FPL’s 2012 Stipulation and Settlement Agreement approved by
20 the Florida Public Service Commission (“FPSC” or the “Commission”) in
21 Order No. PSC-2013-0023-S-EI, Docket No. 20120015-EI (“2012 Stipulation
22 and Settlement Agreement”).
- 23

1 **Q. Please summarize your testimony.**

2 A. FPL's long standing control processes and procedures were employed for Hurricane
3 Matthew, and those control processes continue to ensure proper storm accounting and
4 ratemaking. The ICCA methodology was applied to each storm cost type to
5 determine the amount recoverable from FPL's customers. FPL identified correcting
6 adjustments after the Company filed the Hurricane Matthew cost report on October
7 16, 2017, and those adjustments are incorporated into the final calculation of
8 recoverable costs reflected in Exhibit KO-1. The final storm recoverable amount has
9 been calculated in accordance with the 2012 Stipulation and Settlement Agreement
10 that was in effect at the time of Hurricane Matthew and therefore, the amounts
11 reflected on Exhibit KO-1 (as reduced by Exhibit KO-2) are appropriately
12 recoverable from customers.

13

14 **II. STORM ACCOUNTING PROCESS AND CONTROLS**

15

16 **Q. Please describe the accounting guidance and process that FPL uses for storm**
17 **costs.**

18 A. FPL's storm accounting process adheres to Accounting Standards Codification 450,
19 Contingencies ("ASC 450"), which prescribes that an estimated loss from a loss
20 contingency is recognized only if the available information indicates that (1) it is
21 probable an asset has been impaired or a liability has been incurred at the reporting
22 date, and (2) the amount of the loss can be reasonably estimated. FPL incurs a
23 liability for a qualifying event, such as a hurricane, because it has an obligation to

1 customers to restore power and repair damage to its system. Therefore, once a
2 hurricane event has transpired, FPL makes an assessment of the estimated cost to
3 restore the system to pre-event conditions and accrues that liability in full when the
4 amount can be reasonably estimated under ASC 450. Storm restoration costs will
5 eventually be expensed, capitalized, or charged against FPL's storm reserve based on
6 the application of the ICCA methodology found in Rule 25-6.0143, F.A.C.

7 **Q. How does FPL track storm restoration costs?**

8 A. FPL establishes unique functional (i.e., distribution, transmission, etc.) internal orders
9 ("IOs") for each storm to aggregate the total amount of storm restoration costs
10 incurred for financial reporting and regulatory recovery purposes. The Company uses
11 these IOs to account for *all* costs directly associated with restoration, including costs
12 that will not be recoverable from FPL's storm reserve based on the Commission's
13 requirements under the ICCA methodology. All storm restoration costs charged to
14 storm IOs are captured in Federal Energy Regulatory Commission ("FERC") Account
15 186, Miscellaneous Deferred Debits. All costs charged to FERC Account 186 are
16 subsequently cleared and charged to the storm reserve, operations and maintenance
17 ("O&M") expense, capital, or below-the-line expense.

18 **Q. When did FPL begin charging costs related to Hurricane Matthew to the storm**
19 **IOs?**

20 A. Due to the expected risk of significant outages and substantial infrastructure damages,
21 FPL began making financial commitments associated with securing resources prior to
22 Hurricane Matthew's anticipated impact. On October 4, 2016, in accordance with
23 FPL's Storm Accounting Policy and with authorization from FPL's President and

1 CEO, FPL established and activated storm IOs to begin tracking costs for Hurricane
2 Matthew. An email communication was sent to all business units to inform them that
3 storm IOs had been activated for purposes of collecting storm restoration charges.
4 Attached to the email, FPL also provided: (1) a listing of IOs by function and
5 location, (2) guidance on recording time for payroll, and (3) guidance on the types of
6 costs eligible to be charged to storm IOs. The pre-landfall costs charged to the storm
7 IOs include the acquisition of external resources (e.g., line and vegetation crews),
8 mobilization and pre-staging of internal and external resources, opening of staging
9 and processing sites, reserving lodging, and securing FPL's existing operational
10 facilities in preparation for the impacts of the storm.

11 **Q. What operational internal controls are in place during a restoration event to**
12 **ensure storm accounting procedures are followed?**

13 A. Finance and accounting employees are key to storm restoration accounting and
14 controls. As reflected in the testimony of FPL witness Miranda, the FPL Command
15 Center organization recognizes the critical role and responsibilities of these
16 employees. Finance or accounting representatives are assigned to each staging and
17 processing site (referred to as "Finance Section Chiefs") to ensure active, real-time
18 financial controls are in effect and adhered to during the restoration event.
19 Responsibilities of the Finance Section Chiefs include ensuring procedural
20 compliance with internal cost controls, providing guidance and oversight to ensure
21 prudent spending, collecting and analyzing data real-time such as timesheets, and
22 assisting with the proper accounting of mutual aid resources. Representatives from
23 FPL's Human Resources department also are embedded at many sites and perform

1 internal control support tasks such as providing guidance on the proper information to
2 include on timesheets.

3
4 In addition, each business unit has a finance representative (referred to as a “Business
5 Unit Coordinator”) performing a storm controllership function for their respective
6 business units, which includes communicating the storm IO instructions to the
7 personnel directly supporting storm restoration, ensuring that appropriate costs are
8 charged to the storm IOs as well as preparing cost estimates before, during, and after
9 the restoration is complete. FPL performs extensive training each year in advance of
10 storm season for both the Finance Section Chiefs and the Business Unit Coordinators
11 that includes live training and drills during FPL’s “dry run” storm event. Costs
12 associated with the annual training are not charged to the storm reserve.

13 **Q. Does FPL’s Accounting department complete its review of all storm restoration**
14 **costs recorded by each business unit once restoration is complete?**

15 A. Yes. Post storm restoration, the Accounting department reviews the storm cost
16 recorded by each business unit for reasonableness. Accounting then applies the
17 ICCA methodology to ensure proper ratemaking and recording to the financial
18 statements.

1 **III. ANALYSIS OF HURRICANE MATTHEW STORM COSTS**

2

3 **Q. How did FPL apply the ICCA methodology to its total storm restoration costs**
4 **for Hurricane Matthew?**

5 A. All Hurricane Matthew storm costs are accumulated in FERC Account 186, including
6 charges that are considered non-incremental or capital. There are separate storm IOs
7 for each function and location charged during storm restoration. Using the ICCA
8 methodology, non-incremental amounts are calculated for the costs collected in these
9 IOs and subsequently credited from FERC Account 186 and debited to either a base
10 rate O&M expense or below-the-line expense. Capital costs also are identified and
11 subsequently credited from FERC Account 186 and debited to FERC Account 107,
12 Construction Work in Progress. After non-incremental and capital costs are removed
13 from FERC Account 186, the remaining balance, representing incremental storm
14 charges, is jurisdictionalized by using retail separation factors that were authorized by
15 the 2012 Stipulation and Settlement Agreement¹, and credited from FERC Account
16 186 and debited to FERC Account 228.1, Accumulated provision for property
17 insurance. The non-retail incremental storm charges also are credited from FERC
18 Account 186 and charged to expense, leaving a zero balance in FERC Account 186.

19 **Q. What is the total amount of retail incremental storm costs for Hurricane**
20 **Matthew?**

21 A. As reflected on Exhibit KO-1, line 53, the total amount of retail incremental storm
22 costs for Hurricane Matthew is \$291.8 million. This amount represents \$310.3

¹ Because Hurricane Matthew occurred in October 2016, cost recovery is governed by FPL's 2012 Stipulation and Settlement Agreement.

1 million of incurred Hurricane Matthew storm restoration costs less \$4.8 million of
2 non-incremental costs, \$0.3 million in third-party reimbursements, and \$13.0 million
3 of capital costs, resulting in total incremental costs of \$292.2 million (system). Once
4 jurisdictional factors are applied at the functional level, the total amount of storm
5 costs eligible for recovery from retail customers associated with Hurricane Matthew
6 is \$291.8 million (“Retail Recoverable Costs”).

7 **Q. What types of costs are included in FPL’s Retail Recoverable Costs charged to**
8 **the storm reserve for Hurricane Matthew?**

9 A. In accordance with Rule 25-6.0143, F.A.C., the categories of costs outlined below
10 were properly included in the calculation of the total Retail Recoverable Costs
11 reflected on Line 53 of Exhibit KO-1:

- 12 • **Regular Payroll and Related Costs:** Includes \$1.0 million of regular payroll
13 and related payroll overheads for employee time spent in direct support of
14 storm restoration and is net of amounts normally recovered through capital or
15 clauses. This amount excludes bonuses and incentive compensation.
- 16 • **Overtime Payroll and Related Costs:** Includes \$14.6 million of overtime
17 payroll and payroll tax overheads for employee time spent in direct support of
18 storm restoration.
- 19 • **Contractor Costs and Line Clearing:** Includes \$186.2 million of costs for
20 mutual aid utilities, line contractors and vegetation contractors, including
21 mobilization and de-mobilization costs.
- 22 • **Vehicle and Fuel:** Includes \$3.1 million for incremental fuel used by FPL and
23 contractor vehicles for storm restoration activities.

- 1 • **Materials and supplies:** Includes \$2.8 million in materials and supplies used
2 to repair and restore service and facilities to pre-storm condition. This does
3 not include that portion of materials and supplies used in the Hurricane
4 Matthew restoration activities that are included in the capital cost.
- 5 • **Logistics Costs:** Includes \$81.7 million of costs for staging and processing
6 sites, meals, lodging, buses and transportation, and rental equipment used by
7 employees and contractors in direct support of storm restoration.

8 **Q. How did FPL determine the non-incremental costs it incurred for Hurricane**
9 **Matthew?**

10 **A.** Once all costs were incurred and recorded to FERC Account 186, the Accounting
11 department completed a detailed review in order to determine amounts which were
12 not incremental under the ICCA methodology. Per the ICCA methodology, non-
13 incremental costs are those that are included in normal base rate operations. Below is
14 a summary of non-incremental costs incurred for Hurricane Matthew as defined in
15 Rule 25-6.0143, F.A.C., which have been removed from the total costs recorded to
16 FERC Account 186 (see Lines 14-25 on Exhibit KO-1).

- 17 • **Regular Payroll:** In general, regular payroll costs recovered through base O&M
18 are non-incremental. However, regular payroll normally recovered through
19 capital or cost recovery clauses can be charged to the storm reserve based on
20 paragraphs 21 and 22 of Order No. PSC-2006-0464-FOF-EI, Docket No.
21 20060038-EI: “otherwise, the costs would effectively be disallowed because
22 there is no provision to recover those costs in base rate operation and
23 maintenance costs...”

1
2 FPL determines the non-incremental payroll by calculating the Company's
3 budgeted base O&M payroll percentage as compared to total budgeted payroll,
4 including cost recovery clauses and capital by cost center, and then multiplying
5 that percent by total actual payroll costs incurred (excluding overtime) for
6 employees directly supporting storm restoration. The total amount of non-
7 incremental payroll for Hurricane Matthew is \$2.3 million.

- 8 • **Vegetation Management:** Based on Rule 25-6.0143(1)(f)(8), F.A.C., storm-
9 related tree trimming expenses must be excluded if the Company's total tree
10 trimming expense in a storm restoration month is less than the average expense
11 for the same month in the prior three years. The tree trimming expenses during
12 October 2016, in which Hurricane Matthew restoration work was performed,
13 exceeded the three-year average for October in prior years. FPL has included in
14 its incremental costs only the portion of the tree trimming storm costs that
15 exceeded the prior three-year average, with the rest charged to O&M expense.
16 Based on this methodology, \$0.2 million was non-incremental, all of which was
17 related to the Distribution function.
- 18 • **Vehicle Utilization:** All FPL-owned vehicle utilization costs charged to storm
19 IOs, totaling \$1.6 million, are considered non-incremental.
- 20 • **Fuel:** Fuel costs incurred by FPL directly related to storm restoration are charged
21 to the storm IOs. While Rule 25-6.0143, F.A.C., does not speak directly to
22 recovery of fuel costs, FPL has conservatively applied the same methodology
23 described above for vegetation management. The fuel expenses during October

1 2016, in which Hurricane Matthew restoration work was performed, exceeded
2 the three-year average for October in prior years. Only fuel costs that exceeded
3 this prior three-year average were considered incremental for recovery through
4 the storm reserve. FPL determined \$0.3 million was non-incremental, all of
5 which is reflected in the Distribution function.

- 6 • **Thank You Advertisements:** Public service announcements regarding key
7 storm-related issues such as safety and service restoration estimates are
8 recoverable through the storm reserve; however, thank-you advertisements
9 directed to customers and mutual aid utilities cannot be charged to the storm
10 reserve. Thank-you advertising totaling \$0.3 million for Hurricane Matthew was
11 charged to below-the-line expense and reflected in the Marketing and
12 Communication function.

- 13 • **Legal Claims:** Certain claims were paid that primarily related to property
14 damage caused by FPL personnel and contractors during restoration. None of
15 the cost of claims is recoverable through the storm reserve; therefore, claims
16 totaling \$0.2 million were charged to O&M and reflected in the General
17 function.

- 18 • **Childcare:** Childcare provided to the children of employees on storm duty is not
19 recoverable under the ICCA methodology. These costs totaling \$0.02 million
20 were charged to O&M.

21 **Q. Did FPL receive, or does it expect to receive, any insurance recoveries associated**
22 **with storm damage resulting from Hurricane Matthew?**

23 A. No. FPL does not have insurance for its transmission or distribution (“T&D”) assets.

1 In addition, FPL could not make a property insurance claim for non-T&D assets as a
2 result of Hurricane Matthew because no loss exceeded the deductible amount for
3 insured assets.

4 **Q. Did FPL receive any third-party reimbursements for storm-related costs?**

5 A. Yes. AT&T reimbursed FPL approximately \$0.3 million for 115 poles replaced by
6 FPL on its behalf, and this amount reduced FPL's incremental recoverable costs from
7 the storm.

8 **Q. How did FPL determine the capital costs incurred for Hurricane Matthew?**

9 A. All costs related to storm restoration work (including follow-up work) are initially
10 charged to FERC Account 186, and estimated capital costs are then reclassified to
11 FERC Account 107, Construction Work In Progress ("CWIP"). Initially, FPL
12 employs a storm accounting capital estimation process derived from the amount of
13 materials and supplies assets issued during a storm less returns. Once restoration is
14 complete, FPL utilizes its distribution estimation system to calculate the total amount
15 of capital costs for the Distribution function in accordance with FPL's capitalization
16 policy, which includes both materials and labor. The capital costs for other functional
17 areas are determined based on an estimate of the work performed and are then
18 likewise recorded to the balance sheet in accordance with FPL's capitalization policy.

19
20 Once the capital jobs are completed, the CWIP account is credited and the appropriate
21 functional plant account in FERC Account 101, Plant In Service, is debited based on
22 the estimated normalized cost of installed units of property. Retirements of fixed
23 assets removed during restoration are recorded when the new incurred capital costs
24 are placed in service via a new discrete IO.

1 **Q. What jurisdictional separation factors have been applied to the Incremental**
2 **Storm Losses reflected on Line 48 of Exhibit KO-1 to determine the amount of**
3 **Retail Recoverable Costs to charge to the storm reserve?**

4 A. The jurisdictional separation factors from FPL's 2013 Test Year filed in Docket No.
5 20120015-EI have been applied to jurisdictionalize the Hurricane Matthew
6 Incremental Storm Losses on Line 48 of Exhibit KO-1. Under paragraph 5(a) of the
7 2012 Stipulation and Settlement Agreement, storm cost recovery must follow the rate
8 design method set forth in Order No. PSC-2006-0464-FOF-EI, Docket No.
9 20060038-EI, which states in paragraph 72: "FPL then allocated the total costs
10 described above among the FPL customer rate classes in the manner in which these
11 costs or their equivalent were allocated in the cost-of-service study filed by FPL in
12 connection with FPL's last rate case, as required by Section 366.8260(2)(b)2.h.,
13 Florida Statutes." In addition, Paragraph 3(b) of the 2012 Stipulation and Settlement
14 Agreement approved the cost of service allocations in the MFRs accompanying the
15 2012 Rate Petition. Therefore, FPL used these cost of service allocations to calculate
16 the amount of Retail Recoverable Costs related to Hurricane Matthew.

17 **Q. What is the storm reserve balance after recording the total incremental retail**
18 **storm costs for Hurricane Matthew of \$291.8 million?**

19 A. As shown on Line 1 on Exhibit KO-1, the pre-storm reserve balance was \$93.1
20 million as of September 30, 2016. The \$291.8 million of Retail Recoverable Costs
21 for Hurricane Matthew charged to the storm reserve created a deficiency of \$198.7
22 million (the "Eligible Restoration Costs").

1 **Q. What is the total Recoverable Storm Amount FPL is requesting approval to**
2 **recover in this proceeding?**

3 A. As reflected on Line 65 on Exhibit KO-1, the total Recoverable Storm Amount that
4 FPL is requesting approval to recover is \$316.7 million. This amount represents the
5 sum of Eligible Restoration Costs of \$198.7 million, replenishment of its storm
6 reserve to \$117.1 million, and interest on the unrecovered deficit in the storm reserve
7 of \$0.6 million, all of which have been grossed up for regulatory assessment fees.

8 **Q. Is this calculation in compliance with FPL's 2012 Stipulation and Settlement**
9 **Agreement?**

10 A. Yes. Under FPL's 2012 Stipulation and Settlement Agreement, FPL is entitled to
11 request recovery of the storm reserve deficit and replenish its storm reserve to the
12 balance as of the settlement's implementation date, which was \$117.1 million.

13 **Q. Has FPL's Hurricane Matthew storm cost calculation been audited by the**
14 **FPSC?**

15 A. Yes. The FPSC staff completed an audit of FPL's final costs for Hurricane Matthew
16 filed in this docket on October 16, 2017, and filed an audit report on January 5, 2018.

17 **Q. What were the results of the FPSC audit?**

18 A. The FPSC audit staff reviewed the final costs for Hurricane Matthew and found that
19 FPL had correctly recorded all of those costs with a few limited exceptions.
20 Specifically, the audit staff identified three audit findings in its audit report, the
21 results of which have been removed from FPL's total amount of Incremental Storm
22 Losses reflected on Line 48 on Exhibit KO-1. The three audit findings related to \$0.9
23 million of overtime payroll and related payroll taxes, \$0.02 million of duplicate

1 charges, and \$0.1 million of regular payroll and overhead charges, all of which were
2 inadvertently charged to the storm reserve. The \$0.9 million overtime payroll
3 adjustment and \$0.1 million regular payroll adjustment were self-identified by FPL in
4 its responses to OPC's First Set of Interrogatories, Question Nos. 9 and 7,
5 respectively. The duplicate charge adjustment was identified by FPL while
6 preparing a response to an audit inquiry. The aggregate impact of these adjustments
7 represents less than 0.4% of the total Hurricane Matthew Retail Recoverable Costs
8 and has been removed from the Recoverable Costs in Exhibit KO-1.

9 **Q. Did FPL identify any other required adjustments to the storm costs that are**
10 **reflected on Exhibit KO-1?**

11 A. Yes. In FPL's response to OPC's First Set of Interrogatories, Question No. 18, FPL
12 identified that it had inadvertently classified \$3.3 million of Distribution follow-up
13 work as Contractor costs on Line 3 of its final cost report filed on October 16, 2017.
14 The proper classification of these costs is reflected in the amounts reported on Lines 4
15 through 11 on Exhibit KO-1. These reclassifications had no impact on the total
16 Hurricane Matthew recoverable amount FPL is seeking to recover in this proceeding.

17 **Q. Has FPL determined whether any adjustments are required after the**
18 **preparation of the Final Cost Report?**

19 A. Yes. Subsequent to September 30, 2017, the cut-off date of the final cost report filed
20 on October 16, 2017, FPL substantially completed its follow up work and returned
21 unused materials to stores. At the completion of Hurricane Matthew restoration
22 work, FPL estimates that there will be a reduction of approximately \$0.5 million to
23 the total Retail Recoverable Costs shown on Exhibit KO-1. Because the restoration

1 work is now substantially complete, FPL will record no further entries for Hurricane
2 Matthew to the storm reserve after February 28, 2018. Therefore, at that time the
3 actual amount of the reduction can be finalized. FPL will file a supplement to my
4 direct testimony, in the form of an exhibit designated as Exhibit KO-2, on or before
5 March 15, 2018, in the same form as Exhibit KO-1 and reflecting the cost reduction.

6 **Q. Does this conclude your direct testimony?**

7 A. Yes.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Florida Power & Light
Company for Limited Proceeding for
Recovery of Incremental Storm Restoration
Costs Related to Hurricane Matthew

Docket No. 20160251-EI

Filed: May 10, 2018

ERRATA SHEET OF KIM OUSDAHL

May 2, 2018 - Rebuttal Testimony

<u>PAGE #</u>	<u>LINE #</u>	<u>CHANGE</u>
6	15	Replace “debit” with “credit”

I. INTRODUCTION

1

2

3 **Q. Please state your name and business address.**

4 A. My name is Kim Ousdahl, and my business address is Florida Power & Light
5 Company (“FPL or “the Company”), 700 Universe Boulevard, Juno Beach,
6 Florida 33408.

7 **Q. Did you previously submit direct testimony in this proceeding?**

8 A. Yes.

9 **Q. Are you sponsoring any rebuttal exhibits in this case?**

10 A. Yes. I am sponsoring the following exhibits:

- 11 • KO-2 (Corrected) – Corrected Hurricane Matthew Final Costs and
12 Incremental Cost and Capitalization Approach (“ICCA”) Adjustments;
- 13 • KO-3 – Annual Transmission and Distribution Storm Damage
14 Feasibility Reports for 2013 – 2017; and
- 15 • KO-4 – Pre-Matthew Storm Reserve Activity for January 2013-
16 September 2016.

17 **Q. What is the purpose of your rebuttal testimony?**

18 A. The purpose of my rebuttal testimony is to address certain adjustments to
19 FPL’s recoverable storm costs recommended by Office of Public Counsel
20 (“OPC”) witness Schultz. The recommended adjustments are inconsistent
21 with Rule 25-6.0143, Use of Accumulated Provision Accounts 228.1, 228.2
22 and 228.4, Florida Administrative Code (“F.A.C”) (“the Rule”), prior Florida
23 Public Service Commission (the “Commission” or “FPSC”) orders, and

1 historical practice, and should be rejected. In addition, I am providing a
2 corrected Exhibit KO-2 which reflects additional immaterial reductions to
3 recoverable costs and corrections to the categorization of costs that have been
4 identified in the course of discovery and the preparation of my rebuttal
5 testimony.

6 **Q. Please summarize your rebuttal testimony.**

7 A. I will demonstrate that, contrary to witness Schultz's assertions, the Company
8 has accounted for and presented Hurricane Matthew storm costs for recovery
9 in accordance with the Rule and FPL's 2012 Settlement Agreement.
10 Specifically, I will address recommendations by witness Schultz to adjust
11 FPL's requested storm cost recovery in this docket related to: 1) costs charged
12 to the storm reserve for storm events prior to Hurricane Matthew; 2) the
13 calculation of incremental regular payroll; and 3) increasing the capitalization
14 of storm costs. Lastly, I will describe and provide the impact of FPL's
15 identified adjustments reflected on my corrected Exhibit KO-2.

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II. REPLENISHMENT OF THE STORM RESERVE

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Q. On page 44, lines 6 through 17 of witness Schultz’s testimony, he recommends removing \$24.026 million from FPL’s requested storm cost recovery that relate to costs charged to the storm reserve for storms prior to Hurricane Matthew, because FPL allegedly failed to meet its burden of proof regarding these costs. Is this adjustment appropriate?

A. No. FPL has fully complied with the Rule and the 2012 Settlement Agreement with respect to the recording of costs for prior storms and the calculation of the recoverable amount in this proceeding. It is important to first review and understand the Rule and historical practice to ascertain the process for incremental storm cost recovery in Florida. The Rule, effective in 2007, established an orderly process for recovery of incremental storm costs by utilities. Part (1)(b) of the Rule directs that charges to the storm reserve be made for costs not recoverable by insurance. Part (1)(c) explains that utilities must maintain records of the charges to the account. Part (1)(d) describes how to apply the ICCA methodology and includes a notice provision in the event storm costs are expected to exceed \$10 million. There is no requirement in the Rule for a utility to submit detailed documentation for those storms.

Part (1)(g) outlines the conditions for which approval for recording certain specific and limited types of charges to the account must be granted in advance by the Commission. However, this provision makes clear that all

1 other costs previously listed in part (1)(e) are chargeable to the storm reserve
2 using the ICCA methodology *without* preapproval. Finally, in part (1)(m), the
3 Rule provides for the annual reporting of amounts recorded to the storm
4 reserve. Each year that the Rule has been in effect, FPL has prepared and
5 submitted to the Commission the required annual report, referred to as the
6 Annual Transmission and Distribution Storm Damage Feasibility Report. The
7 annual reports for the period 2013 through 2017 are provided in Exhibit KO-
8 3. These same reports were also included in FPL's response to OPC's 4th Set
9 of Interrogatories, Question No. 107.

10 **Q. On pages 40 through 42, witness Schultz states that FPL's filing in this**
11 **docket did not clearly state FPL's request to replenish the storm reserve**
12 **for \$24.026 million associated with prior storm events prior to Hurricane**
13 **Matthew in this filing. Do you agree?**

14 A. No. Appendix A in FPL's December 29, 2016 petition that initiated this
15 proceeding clearly identified a \$93.1 million pre-storm debit balance in the
16 storm reserve and asked to replenish the reserve to the \$117.1 million level
17 that existed on the implementation date of the 2012 Settlement Agreement. In
18 fact, witness Schultz himself acknowledges in his response to FPL's First Set
19 of Interrogatories No. 23, that he does not dispute that FPL's pre-Hurricane
20 storm reserve balance was \$93.105 million. The difference between those
21 figures is the \$24.026 million that witness Schultz is now challenging. In
22 Order No. PSC-2017-0055-PCO-EI (the "Interim Storm Order"), the
23 Commission approved FPL's recovery request, including replenishment of the

1 storm reserve. At the February 7, 2017 Commission Conference Agenda,
2 OPC stated that “the hearing process cannot move forward until those costs
3 for *Hurricane Matthew* are finalized and complete,” and FPL agreed they
4 would provide final costs for *Hurricane Matthew* for a “review of the actual
5 costs that FPL incurred for reasonableness and compliance with the rule
6 requirements on which costs are eligible for recovery.” (See pages 4 and 5 of
7 February 7, 2017 agenda conference transcript; emphasis added). Neither the
8 Commission nor OPC took issue with FPL’s request to include the storm
9 reserve replenishment for recovery in this docket, nor did OPC seek
10 supporting documentation. The Commission only required additional detail
11 regarding the costs associated with Hurricane Matthew, which was
12 subsequently provided on October 16, 2017.

13 **Q. On page 43, lines 6 through 10 of witness Schultz’s testimony, he states**
14 **that FPL is required to provide supporting documentation for the proper**
15 **level of storm reserve replenishment in this proceeding. Do you agree**
16 **that FPL’s filing is deficient?**

17 A. No, I do not. As explained above, the Rule provides an orderly and timely
18 process for the Company to report its charges to the storm reserve. FPL has
19 followed that process each and every year as it recorded charges to the storm
20 reserve. As previously explained, the Rule makes clear that no preapproval
21 for these charges is required. Likewise, the 2012 Settlement Agreement
22 provides no support for witness Schultz’s position. The 2012 Settlement

1 Agreement clearly states that FPL is authorized to replenish its storm reserve
2 to the level that existed as of the implementation date (\$117.1 million).

3 The interim storm recovery mechanism originated in FPL's base rate case
4 settlement agreement in 2010. As part of its review of the then-new
5 mechanism, Staff posed a series of data requests asking both FPL and the
6 intervenor signatories (including OPC) how they would interpret and apply it.
7 In response to Question 2 of Staff's Data Request No. 5 in Docket No.
8 20080677-EI, FPL and the intervenor signatories agreed that, when the storm
9 reserve was fully depleted by a storm, FPL would be entitled to utilize the
10 mechanism both to recover the storm costs in excess of the available reserve
11 and to replenish the storm reserve to the level at the implementation date. No
12 party asserted that this recovery was conditioned on including in FPL's storm
13 charge petition detail about how the storm reserve had been depleted before
14 that storm. In effect, witness Schultz is requesting the addition of a new term
15 to the 2012 Settlement Agreement.

16 **Q. Has the Company provided additional information regarding the \$24.026**
17 **million of activity in the storm reserve from January 1, 2013 to just prior**
18 **to Hurricane Matthew?**

19 A. Yes. FPL recently responded to Staff's First Request for Production of
20 Documents, Question No. 3, which requested support for the \$24.026 million
21 of non-Hurricane Matthew charges against FPL's storm reserve. Exhibit KO-
22 4 is the detail of pre-Matthew storm reserve activity for the period January 1,
23 2013 to just prior to Hurricane Matthew that was included in this discovery

1 response. It contains support for the \$24.026 million including incremental
2 costs by storm and cost type, and other activity recorded to the storm reserve.

3 This storm reserve activity is summarized as follows:

- 4 • \$34.4 million reduction in the reserve for incremental storm costs for
5 five storms that occurred between 2013 and September 2016 of which
6 \$20.1 million relates to Hurricane Hermine.
- 7 • \$5.4 million increase in the reserve for adjustments to incremental
8 costs related to Tropical Storm Debby, Hurricane Sandy, and
9 Hurricane Isaac, which all occurred prior to January 1, 2013.
10 Accounting for one storm event may occur over multiple years
11 requiring FPL to record adjustments after the fact. Months, if not
12 years, may elapse before FPL will receive all third party invoices and
13 reimbursements.
- 14 • \$5.0 million increase in the reserve mainly due to earnings on storm
15 fund investments, and administrative and service fees associated with
16 servicing FPL's storm securitization bonds.

17 **Q. Should the Commission approve FPL's request for the replenishment of**
18 **the storm reserve to \$117.1 million?**

19 A. Yes. The Company has complied with the Rule and the 2012 Settlement
20 Agreement, and has consistently followed its own storm policies and practices
21 which conform to the Rule and prior storm orders. Therefore, FPL should be
22 authorized to recover its incremental storm costs charged against the reserve
23 in accordance with those requirements.

III. INCREMENTAL STORM COSTS

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3 **Q. Witness Schultz asserts throughout his testimony that FPL has not**
4 **appropriately applied the ICCA methodology under the Rule to calculate**
5 **incremental costs related to Hurricane Matthew. Do you agree with his**
6 **assertions?**

7 **A.** No, I do not. FPL has appropriately accounted for storm restoration costs for
8 Hurricane Matthew consistent with the Rule, which codifies its ICCA
9 methodology. The calculations performed by FPL are in accordance with the
10 Rule and consistent with the accounting for every storm event charged to the
11 storm reserve for over ten years.

12 **Q. Did the FPSC conduct an audit to review FPL's application of the ICCA**
13 **methodology related to Hurricane Matthew storm costs?**

14 **A.** Yes. As reflected in Staff witness Brown's testimony, the FPSC conducted an
15 audit to review incremental storm costs and revenues collected under the
16 interim storm charge related to Hurricane Matthew. The final audit report,
17 which is attached as Exhibit DDB-1 to witness Brown's testimony, reflects no
18 findings regarding the Company's application of the ICCA methodology for
19 Hurricane Matthew storm costs.¹ Therefore, the Commission auditors have
20 acknowledged and validated that FPL followed the requirements of the ICCA

¹ The Commission audit included three findings -- all self-identified by the Company -- which resulted in a reduction in recoverable costs due to recording errors. None of these issues involved the proper application of the ICCA methodology.

1 methodology to calculate incremental storm costs for recovery in this
2 proceeding.

3 **Q. Does the Rule provide guidance on how to calculate incremental regular**
4 **payroll storm costs under the ICCA methodology?**

5 A. Not specifically. However, the Rule provides general direction in part
6 (1)(f)(1) which prohibits “base rate recoverable regular payroll and regular
7 payroll-related costs for utility managerial and non-managerial personnel”
8 from being charged to the reserve as well as part (1)(d) which states in
9 pertinent part that “....costs charged to cover storm-related damages shall
10 exclude those costs that normally would be *charged* to non-cost recovery
11 clause operating expenses in the absence of a storm.” (Emphasis added)

12 **Q. What guidance did the Company rely on to support its use of current**
13 **period budgeted data for calculating non-incremental costs?**

14 A. The Company relied upon the Rule and multiple Commission Orders which
15 support the appropriateness of the calculations of non-incremental costs,
16 including:

- 17 • Order No. PSC-2005-0937-FOF-EI, Docket No. 20041291-EI, which
18 required FPL to use the budgeted amount of regular payroll for the
19 year in which the storm occurred as the baseline to determine the
20 incremental amount of regular payroll for the 2004 storms;
- 21 • Paragraphs 21 and 22 of Order No. PSC-2006-0464-FOF-EI, Docket
22 No. 20060038-EI, which allowed recovery of regular payroll
23 normally recovered through capital or cost recovery clauses; and

1 (Emphasis added). This methodology was first prescribed in the Final Order
2 in FPL's 2004 Storm Docket No. 20060038-EI, was subsequently codified in
3 the instant Rule, and has been consistently applied in each of the following
4 years. Mr. Schultz completely ignores this requirement of the Rule in his
5 testimony.

6 **Q. If the Commission were to consider revising the ICCA methodology to**
7 **eliminate the limitation to normal capitalizable storm costs, do you agree**
8 **the approach presented by witness Schultz in Exhibit HWS-2 is**
9 **appropriate?**

10 A. No. Witness Schultz erred in the calculations on Schedules B and C in his
11 Exhibit HWS-2. Those errors include:

- 12 • Estimating actual capital contractor costs for the entire Hurricane
13 Matthew event based on the total FPL estimate of capital contractor
14 costs, which includes both restoration capital and follow up capital. In
15 order to develop a reasonable estimate of total capital cost incurred in
16 a storm event, one must develop separate estimates of restoration
17 capital and follow up capital, as the labor costs and construction man
18 hours ("CMH") hours are different and not consistent for the two types
19 of work.
- 20 • Deriving total capitalizable CMH by using a "normal" FPL hourly
21 labor rate. There is no need to resort to a derivation, as the capital
22 CMH for restoration is readily available in FPL's Work Management
23 System and should be utilized directly as the basis for capital

1 determination. In addition, if one were to rely on a derivation, it
2 would be inappropriate to use the FPL labor rate to derive capital
3 CMH for contractors.

4 • Using an anecdotally estimated crew size in the calculation. Witness
5 Schultz's use of a crew size of four in his calculation is arbitrary and
6 unnecessary. A proper calculation could instead utilize all-in capital
7 cost per CMH by employees versus contractors, without having to rely
8 on an unsubstantiated crew size estimate.

9

10 V. IDENTIFIED ADJUSTMENTS

11

12 **Q. Has FPL identified any adjustments to the final costs and ICCA that was**
13 **filed on March 15, 2018?**

14 A. Yes. Since the filing of Exhibit KO-2 on March 15, 2018, FPL has identified
15 and incorporated the following immaterial adjustments totaling \$41 thousand
16 into the corrected Exhibit KO-2 that is attached to my rebuttal testimony.

17 • Adjustments for Pre-Matthew storm charges

18 ○ Logistics – FPL incorrectly included \$21 thousand in lodging
19 costs associated with Hurricane Matthew that were incurred
20 prior to October 4, 2016, the date when FPL opened the
21 Hurricane Matthew internal order to which storm costs could
22 be charged. Based on FPL's storm accounting policy, these
23 costs should not have been included for storm cost recovery

- 1 purposes and have been removed from FPL's storm recovery
2 request in corrected Exhibit KO-2.
- 3 ○ Payroll – FPL incorrectly included \$7 thousand of regular
4 payroll and \$12 thousand of overtime payroll associated with
5 Hurricane Matthew which was incurred prior to the opening of
6 the Hurricane Matthew internal order. These costs have been
7 removed from FPL's storm recovery request in this proceeding.
- 8 • Reporting misclassification for capitalized follow-up work
- 9 ○ As stated in FPL's response to OPC's 5th Set of Interrogatories,
10 Question No. 108, "...the amount of capitalizable contractor
11 costs reflected on Line 33 of Exhibit KO-2 includes an
12 adjustment of \$0.464 million to reduce capitalizable costs
13 associated with the materials and supplies true-up on Line 9 in
14 column 4 on page 2 of Exhibit KO-2." This reporting
15 misclassification has been corrected, which has no impact on
16 the total amount of recoverable storm costs.
- 17 ○ FPL inadvertently overstated both total contractor follow up
18 storm restoration costs by \$2.9 million and capitalized costs
19 related to the Distribution function on Exhibit KO-2 by the
20 same amount. The amount of capital costs of \$2.9 million was
21 misclassified across various cost types. FPL has corrected
22 these offsetting misclassifications resulting in no impact to its
23 requested recovery.

1 ○ FPL inadvertently overstated both total contractor costs and
2 capitalized costs related to the Steam & Other function on
3 Exhibit KO-2 by the same amount. FPL has corrected these
4 offsetting misclassifications resulting in no impact to its
5 requested recovery.

6 **Q. Does this conclude your rebuttal testimony?**

7 A. Yes.

1 BY MR. BUTLER:

2 Q Ms. Ousdahl, are you also sponsoring Exhibits
3 KO-1 through KO-4?

4 A Yes, I am.

5 MR. BUTLER: And I would note, Mr. Chairman,
6 that those are identified as Exhibits 3, 4, and 11
7 through 13, on the comprehensive exhibit list.

8 CHAIRMAN GRAHAM: Duly noted.

9 BY MR. BUTLER:

10 Q And were Exhibits KO-1 through KO-4 prepared
11 under your direction, supervision, or control?

12 A Yes, they were.

13 MR. BUTLER: Mr. Chairman, Ms. Ousdahl,
14 sponsors or co-sponsors some of the staff hearing
15 exhibits. So, I will turn it over to Ms. Brownless
16 at this point.

17 CHAIRMAN GRAHAM: Sure.

18 Ms. Brownless.

19 EXAMINATION

20 BY MS. BROWNLESS:

21 Q Good evening, Ms. Ousdahl. Do you have a copy
22 of the comprehensive exhibit list, Exhibit No. 1?

23 A Yes, I do.

24 Q Thank you. And have you had an opportunity to
25 review Staff Exhibits 14 through 19, 21 through 22, 26

1 through 27, and 30, that have been identified as being
2 sponsored or co-sponsored by you?

3 A I have.

4 Q And are those staff exhibits true and correct,
5 to the best of your knowledge and belief?

6 A Yes, they are.

7 Q And would your answers be the same with regard
8 to those staff exhibits today as they were at the time
9 that you prepared them?

10 A Yes, with the adjustments in the revised KO-2,
11 which are --

12 Q Okay.

13 A -- immaterial changes, yes.

14 Q Yes, ma'am.

15 And have you had an opportunity to review the
16 CD prepared by staff?

17 A I did.

18 Q Okay. And I have given you, today, an
19 exhibit. Have I given you an opportunity to look at
20 that?

21 A Um --

22 Q If you can take a minute, does that look like
23 the amended version of Exhibit No. 15?

24 A Oh, the document that was not on the CD, yes.

25 Q Yes, ma'am.

1 **And is that true and correct, to the best of**
2 **your knowledge and belief?**

3 A Yes. Yes.

4 **Q And with this response, does the CD and this**
5 **response correctly reflect your responses to Staff**
6 **Exhibits 14 through 19, 21 through 22, 26 through 27 and**
7 **30.**

8 A Yes, I identified the responses. There's
9 voluminous information attached, but it looks to be the
10 submittal that we made, yes.

11 **Q Thank you.**

12 **And have you had an opportunity to review what**
13 **has been marked as Exhibit No. 29, the joint motion for**
14 **approval of the settlement agreement and the attached**
15 **settlement agreement?**

16 A Yes, I've reviewed the settlement agreement.

17 **Q And is that a true and correct executed copy**
18 **of the settlement agreement?**

19 A I believe that it is.

20 MS. BROWNLESS: Thank you, ma'am.

21 MR. BUTLER: Are you finished?

22 MS. BROWNLESS: Yes. I guess what we should
23 do is ask that the amended response to the Office
24 of Public Counsel's first request for production of
25 documents, No. 5, be admitted for identification as

1 Exhibit No. 32.

2 CHAIRMAN GRAHAM: We will label that as
3 Exhibit 32.

4 (Whereupon, Exhibit No. 32 was marked for
5 identification.)

6 MR. MOYLE: Are they just identifying that
7 now, or are they moving it --

8 CHAIRMAN GRAHAM: They're just identifying it
9 now, but if you have an objection, you might as
10 well go ahead and get it out there now.

11 MR. MOYLE: Well, it just -- I'm a little
12 unsure, curious as to why it's showing up today at
13 hearing. I mean, typically, we don't have -- you
14 know, there's orders that say you've got to pre-
15 identify your exhibits and things like that --

16 MS. BROWNLESS: I can tell you it was --

17 MR. MOYLE: And this is being trotted out now.

18 MS. BROWNLESS: It was simply a clerical
19 error. It was an error on our part. FP&L amended
20 the response to OPC's POD No. 5, and when the
21 response was amended, we put the first page in, but
22 neglected to provide the attachment. And so, it
23 was simply a clerical error on our part.

24 MR. MOYLE: That helps. Thank you.

25 CHAIRMAN GRAHAM: You don't think it's a late-

1 filed exhibit?

2 MR. MOYLE: You know, if it is, it's a pretty
3 boring late-filed exhibit.

4 (Laughter.)

5 MR. BUTLER: I would note also that it was
6 provided to the parties in discovery. It just
7 did- -- got inadvertently left off the CD as such.

8 MR. MOYLE: Yeah.

9 CHAIRMAN GRAHAM: Okay. Mr. Butler, I think
10 we're back to you.

11 MR. BUTLER: Thank you.

12 CONTINUED EXAMINATION

13 BY MR. BUTLER:

14 **Q Ms. Ousdahl, would you please provide a**
15 **summary of your direct and rebuttal testimony.**

16 A Good afternoon, Commissioners. I'm Kim
17 Ousdahl, vice president and chief accounting officer of
18 FPL. My direct testimony supports the calculation of
19 the recoverable storm amount of 317 million for which
20 FPL is seeking recovery in this proceeding.

21 I demonstrate that our accounting processes
22 and controls are effective and appropriate for these
23 storm events. I also demonstrate that FPL's accounting,
24 specifically for Hurricane Matthew storm costs, is in
25 compliance with this Commission's ICCA methodology that

1 is required under the rule, and in accordance with the
2 provision of FPL's 2012 stipulation and settlement
3 agreement.

4 Financing and accounting employees are key to
5 storm-restoration accounting and controls. We are
6 embedded in every stage in the restoration side and,
7 together with our human resources representatives,
8 ensure the dynamic financial controls are in place, out
9 in the field, during restoration.

10 FPL employees assigned to storm restoration
11 are provided clear guidance on the appropriate
12 activities eligible to be charged to the storm, internal
13 orders, which are used to capture all of the storm-
14 related costs.

15 Post-restoration, the company performs a
16 thorough review of all storm costs charged to the
17 account and applies the incremental cost methodology to
18 determine those costs that can be charged to the
19 reserve. Based on this review, amounts are charged to
20 the reserve, O & M expense, capital, or below the line,
21 as is appropriate.

22 As reflected on my K- -- Exhibit KO-1, and
23 later revised in KO-2, we estimated the total amount of
24 storm-restoration costs for this storm to be
25 310 million.

1 This amount was reduced by five million for
2 non-incremental costs; 13 million for capital
3 restoration and follow-up; and 290,000 for third-party
4 reimbursements to derive the amount of incremental costs
5 to be recovered from customers.

6 After jurisdictional factors were applied to
7 the total amount, we charged 292 million to the storm
8 reserve, which had a balance, prior balance, of 93
9 million before Hurricane Matthew. And that difference
10 resulted in our deficit of 199 million.

11 The total recoverable storm amount that we are
12 requesting recovery of represents the sum of that
13 199 million for the deficit, 117 million to replenish
14 the reserve, and 600,000 for interest on the unrecovered
15 deficit, all of which have been grossed up properly for
16 regulatory assessment fees and now total 317 million.

17 Our calculation of incremental costs charged
18 to the reserve was audited by the Commission. And the
19 final audit report reflected that FPL had correctly
20 recorded all Hurricane Matthew costs, with a few
21 exceptions. All were self-identified by FPL and removed
22 from the recoverable storm cost to be recovered from
23 customers.

24 Commissioners, I also filed rebuttal
25 testimony, which addressed certain adjustments to FPL's

1 recoverable storm costs that were recommended by the OPC
2 Witness Schultz. I believe those to be inconsistent
3 with the rule, prior Commission orders, and historical
4 practice and -- and recommended rejection of those
5 recommendations.

6 This concludes my summary.

7 MR. BUTLER: Thank you, Ms. Ousdahl. I tender
8 the witness for cross-examination and for
9 questioning regarding the proposed settlement
10 agreement.

11 CHAIRMAN GRAHAM: Thank you.

12 OPC.

13 MS. CHRISTENSEN: No questions.

14 MR. LaVIA: Hi, Chairman Brown [sic]. Jay
15 LaVia for the Retail Federation. No questions.

16 CHAIRMAN GRAHAM: Welcome.

17 MR. LaVIA: Thank you.

18 CHAIRMAN GRAHAM: You look all -- you look all
19 rested and refreshed.

20 MR. LaVIA: Tagging in for the afternoon.

21 CHAIRMAN GRAHAM: Mr. Moyle.

22 MR. MOYLE: Thank you.

23 EXAMINATION

24 BY MR. MOYLE:

25 Q Good -- good afternoon.

1 A Good afternoon.

2 Q Staff asked you a question, if you could
3 identify the settlement agreement, right? And -- and
4 you said, yeah, you -- you're familiar with it; is that
5 right? I mean, you didn't sign it, right?

6 A No.

7 Q No.

8 Did you negotiate it?

9 A I did not.

10 Q You -- your information that you have from it
11 is derived the same way a Commissioner's information
12 would be, in that, they would read it and say, oh, it
13 says that -- you know, whatever it says, correct?

14 A I was asked questions of the negotiating team
15 during the time the agreement was being --

16 Q Yeah.

17 A -- negotiated.

18 Q But you -- you weren't in any of the
19 discussions with the Office of Public Counsel with
20 respect to --

21 A I was not. That's correct.

22 Q Help me understand, with respect to the
23 replenishment. I -- in your opening, I think you said
24 you were seeking 117 million to replenish the reserve;
25 is that right?

1 A That's correct.

2 Q Okay. And what would that replenish it to?

3 A The amount that was represented by the reserve
4 balance at the settlement-agreement date, implementation
5 date of January 2nd, 2013.

6 Q What's that number?

7 A That's the \$117 million.

8 Q That -- that's the target number, the
9 117 million?

10 A That's correct.

11 Q And then, how -- how much money are you asking
12 the Commission to award in this case, to get you to that
13 117?

14 A Well, it's a function of the balance that
15 existed before the storm --

16 Q Right.

17 A -- the losses during the storm, and that
18 replenishment amount, which totals the now-\$316 million.

19 Q Okay. So, just walk me through these numbers
20 again, so the record is clear, if you would.

21 A It might help you to look at Exhibit KO-2,
22 where those numbers are laid out. If you look at the
23 column on the far-right-hand side, we start with the
24 balance before Matthew. We had a \$93-million balance
25 remaining in the reserve.

1 You want me to keep going or --

2 **Q Yeah. Hold on one second, if you would.**

3 **You had 93 --**

4 A Right.

5 **Q -- in the reserve.**

6 A And then, we incurred losses of \$291 million
7 after applying the incremental methodology, as required
8 by the Commission.

9 **Q Okay.**

10 A So, that was our -- you know, our recoverable
11 costs of the event. That leaves us a balance to be
12 recovered of 198 million -- see that math -- because we
13 had the residual 93 million in the reserve. We lost
14 291. So, now we need to recover 198.

15 We have a little bit of interest during the
16 recovery period. And then we have the storm-
17 replenishment amount that we are entitled to recover
18 under the settlement agreement -- the 2012 settlement
19 agreement --

20 **Q And the storm --**

21 A -- which is how you derive --

22 **Q What line is the storm-replenishment amount**
23 **on?**

24 A I'm sorry?

25 **Q The storm-replenishment amount?**

1 A Your question is?

2 Q How much is it?

3 A 117 million. It's on Line -- if the print was
4 a little smaller, it would really be great -- 59 of
5 Exhibit KO-2.

6 Q And where did that number come from? How did
7 you -- how did you come up with that number? You
8 referenced the settlement agreement -- that the reserve
9 balance was in a January 2nd, 2013, settlement
10 agreement; is that right?

11 A That's correct.

12 Q Were you involved in those negotiations?

13 A Which negotiations?

14 Q The re- -- negotiations that resulted in the
15 settlement agreement of January 2nd, 2013.

16 A I was not a negotiating party. I didn't sit
17 at the table. Again, I answered questions for our
18 negotiators.

19 Q Do you know -- do you know where that -- that
20 number came from?

21 A Yes, that's --

22 MR. BUTLER: Mr. Chairman, I'm going to object
23 to this line of questioning. Mr. Moyle was a
24 signatory to that settlement agreement. He agreed
25 that that was the level that we were going to be

1 replenishing the reserve to.

2 And from both his opening statement, his
3 questions to Mr. Miranda, and where he's going
4 here, it seems that he is questioning whether that
5 replenishment amount was appropriate.

6 And I think he made a comment to the effect
7 that, you're not bound by a settlement agreement.
8 Putting that aside, I think he's bound by a
9 settlement agreement that he signed. So, with
10 that, I would object to this line of questions.

11 CHAIRMAN GRAHAM: I haven't heard him say he
12 was opposed to it. I just hear him asking
13 questions about the agreement, unless you've heard
14 something different than I did.

15 MR. BUTLER: Well, he seems to be asking where
16 that number came from, what -- you know, what the
17 provenance is of this figure. And it's -- the
18 provenance is a settlement that he signed.

19 CHAIRMAN GRAHAM: Well --

20 MR. BUTLER: Just seems like an irrelevant
21 line of questions.

22 CHAIRMAN GRAHAM: I mean -- but I understand
23 that -- but he wants to put that -- and I'm
24 guessing -- and let me know if I'm going wrong --
25 he's putting into the record that settlement

1 agreement and asking questions of it. I didn't
2 hear him say he was either for or against it.

3 I understand where you're coming from, that he
4 was -- he signed on to it. And I didn't hear him
5 say he's opposing it.

6 MR. BUTLER: If he's not opposing it, then I
7 don't object to the questions; although, I wonder
8 how they're relevant.

9 CHAIRMAN GRAHAM: Mr. Moyle?

10 MR. MOYLE: I think -- I think your -- your
11 hearing is accurate on this. I mean, it's not a --
12 not a huge secret. I -- the agreements we signed,
13 that FIPUG signed, we stick to. You know, we
14 signed this agreement, but again, they're before
15 you, asking you to replenish it to an amount
16 that -- you know, that's dated.

17 And I'm able to ask, where did that number
18 come from. And if nobody knows where that number
19 came from, then I think that's a problem with the
20 record, from their perspective. You know, that's
21 one of the issues with black-box settlements.

22 You've got to have some facts. She's here
23 supporting that. I don't think she knows where the
24 number came from. And that's -- I'm just trying to
25 develop the record.

1 MR. BUTLER: It is abundantly clear to me, at
2 least, that Mr. Moyle plans to challenge that
3 figure. He's playing with the nuance between what
4 he signed and what you're bound by.

5 I think he is obligated to not pursue this
6 line of questions by being a signatory to the
7 agreement. And I think it's inappropriate for him
8 to be questioning the replenishment to 117 million,
9 pursuant to an agreement that he signed.

10 CHAIRMAN GRAHAM: Mary Anne?

11 MS. HELTON: Can I --

12 CHAIRMAN GRAHAM: Sure.

13 MS. HELTON: -- confer with Ms. Brownless for
14 a minute?

15 CHAIRMAN GRAHAM: Sure.

16 (Discussion off the record.)

17 CHAIRMAN GRAHAM: See, you know if you've got
18 them debating it, I can't answer it. Maybe it's
19 friendly cross.

20 MS. HELTON: We want to check and confirm that
21 what's stated here is actually what's in that
22 settlement agreement. So, if we can just have your
23 indulgence for a couple of moments, I will pull it
24 up on my iPad.

25 CHAIRMAN GRAHAM: Sure.

1 We'll go ahead and take another five-minute
2 break.

3 (Brief recess.)

4 CHAIRMAN GRAHAM: Are we ready, Mary Anne?

5 MS. HELTON: Yes.

6 CHAIRMAN GRAHAM: Okay. Hold on.

7 MS. HELTON: Thank you for your indulgence,
8 Mr. Chairman. The settlement agreement that we're
9 talking about, that Mr. Moyle was a party to, was
10 the settlement agree- -- the excuse me -- the
11 settlement agreement associated with the rate case
12 that was filed in Docket No. 120015-EI. And that
13 was in December of 2013.

14 MS. BROWNLESS: No.

15 MS. HELTON: I'm sorry.

16 MS. BROWNLESS: No.

17 MS. HELTON: My lack of caffeine for the
18 afternoon is now showing.

19 CHAIRMAN GRAHAM: December 2012?

20 MS. HELTON: Yes, but it -- yes, December of
21 2012. What confused me was it actually -- the
22 order was issued in 2013, so it's a 2013 order
23 number. My apologies.

24 So, in Subsection 5 -- or Section 5 of that
25 settlement agreement, Mr. Moyle, on behalf of

1 FIPUG, agreed that Florida Power & Light was
2 entitled to, in future storms, recover in its
3 storm-reserve account an amount up to what was the
4 amount of the storm as of the implementation date
5 of the settlement, which was January the 3rd, 2013.

6 And that amount is the amount reflected on the
7 discovery exhibit that we're -- that's -- which is
8 at issue, which is \$117,131,304. So, I believe
9 that Mr. Moyle should not be able to ask questions
10 about that amount.

11 However, I do believe that Mr. Moyle should be
12 able to ask questions about what makes up the
13 23 million that was the amount that was short in
14 the reserve at the time of Matthew.

15 CHAIRMAN GRAHAM: So, the objection is --

16 MS. HELTON: It depends on what Mr. Moyle was
17 asking about. If he was asking about the 117, I
18 don't think he gets to ask about that. If
19 Mr. Moyle is asking what went into the 23 million,
20 then I believe that Mr. Moyle is able to ask about
21 that.

22 MR. MOYLE: I -- I've had a few conversations
23 with my colleagues here, and -- and I think -- I
24 mean, the question I -- that I wanted to ask her, I
25 guess, Mr. Butler, was, if she knows the basis

1 for -- for that number. And it's a -- and I think
2 she said yes, and probably somebody told it to her
3 because she already testified that she wasn't in
4 the negotiations.

5 And you're objecting and saying that I
6 shouldn't be able to ask her that question as to
7 the basis of -- of her knowledge?

8 MR. BUTLER: I'm objecting to the question
9 about the basis for a number that's, you know,
10 specified in the settlement agreement. The
11 settlement agreement is -- as just described, you
12 know, provides for us to be able to replenish to
13 the level as of January 2, 2013. That's what we
14 did. I mean, that's the \$117 million.

15 I think what was just described is, obviously,
16 there's a difference between that figure and the
17 93 million that was in the reserve before Hurricane
18 Matthew. And Public Counsel's witness had had some
19 questions about, you know, what made up that sort
20 of reduction in the settlement -- excuse me -- in
21 the reserve amount before Hurricane Matthew.

22 But the 117 million is, in my view, Jon, what
23 you agreed to. And that's my objection. You
24 agreed to it then. I don't think it's a valid
25 thing for you to be inquiring as to the basis for

1 it now because it's just -- it was what was in the
2 settlement agreement.

3 MR. MOYLE: Yeah. Let me -- maybe,
4 Mr. Chairman, if I could try to come at it, you
5 know, in a different -- in a different tack.

6 CHAIRMAN GRAHAM: Is your mic on?

7 MR. MOYLE: Yeah. Maybe there's a way I can
8 come at it in a different tack. Some of this is
9 time that's passed, and the dates are a little
10 confusing with respect to exactly what settlement
11 is binding when. I mean, the first settlement, we
12 signed, yes; the second one, we did not.

13 So, let -- let me -- let me just see if I can
14 rephrase or come at it a little differently.

15 MR. BUTLER: Yeah, just on that point, to be
16 clear, this was a storm in 2016. The 2012
17 settlement was in effect from beginning of 2012
18 through the end of 2016. It was the settlement
19 that controls this proceeding here today.

20 I agree that Mr. Moyle did not sign the 2016
21 settlement agreement, but that applies to years
22 starting January 2017 and beyond. It's not what we
23 are talking about today.

24 CHAIRMAN GRAHAM: Well -- well, for
25 simplicity's sake, Mr. Moyle, you can ask your

1 questions or go about trying to ask your questions.
2 If Mr. Butler says that's within the agreement,
3 then we're going to go ahead and sustain that
4 objection and move on.

5 MR. MOYLE: Yeah. It's a little confusing,
6 too, because we're having the case right now. I
7 mean, you guys are deciding the case now, so --
8 anyway. But let me --

9 CHAIRMAN GRAHAM: Well, that may be one of the
10 disadvantages of signing a black-box agreement.

11 (Laughter.)

12 MR. MOYLE: Which -- which I learned on the
13 second go-round and we haven't signed, so --
14 anyway.

15 BY MR. MOYLE:

16 Q Ms. Ousdahl, you filed rebuttal testimony
17 that -- you're aware OPC's witness questioned whether
18 you -- whether FPL should be able to replenish the storm
19 reserve; is that right?

20 A No, that's not correct. He didn't question
21 whether or not we should be able to replenish.

22 Q What do you think he did in his testimony?
23 Which, I think, is in the record.

24 A He made the -- he had the opinion that we had
25 not properly supported our request for the incremental

1 \$24 million; the 24 million being the difference between
2 the balance in the reserve pre-Matthew and the
3 \$117-million replenishment amount.

4 Q All right. And so, OPC, through their
5 witness, questioned whether you should be able to
6 replenish that -- that 24 million; is that fair?

7 A Again, he wasn't questioning replenishment.
8 He was -- as I recall his testimony, he was -- he -- he
9 asserted that we had not provided support for that
10 incremental difference.

11 Q Let me direct your attention to an exhibit
12 that's been marked as 31. This was the exhibit that we
13 previously referred to. There were some questions that
14 were punted to you. And I would like to speak with you
15 about those.

16 If you would, go to the third document in.
17 It's 00008.

18 A Okay.

19 Q Regular payroll dollars are being charged to
20 the -- to the hurricane account; is that right?

21 A We initially capture all the costs of the
22 storm in a deferred account, 186, and then we clear only
23 the incremental portion in compliance with the rule to
24 the reserve.

25 Q And -- and what exactly is the incremental

1 **amount?**

2 A The incremental amount is the portion of, in
3 this case, base and regular payroll that would have
4 typically been charged to something other than O & M;
5 so, clause recoverable, base payroll, or capital --
6 capitalizable base payroll.

7 That portion is recoverable, under the
8 Commission's rule.

9 **Q Are there -- are -- when you say regular**
10 **payroll dollars -- I mean, what is meant by that -- by**
11 **that phrase?**

12 A That phrase is used in the rule, and it means
13 employee payroll other than overtime.

14 **Q Are regular payroll dollars recovered in base**
15 **rates?**

16 A Yes. There's an estimate of all costs of
17 service, including regular payroll in any base-rate
18 filing.

19 **Q And -- and are these payroll dollars that are**
20 **being recovered in the hurricane clause also being**
21 **recovered in base rates?**

22 A No, they are not.

23 **Q Why -- why do you say that?**

24 A That's the purpose of the rule is to isolate
25 out that portion that's incremental, such that companies

1 aren't being able to double-dip. That's very
2 specifically proscribed.

3 Q I think the question in Hearing Staff
4 Exhibit 00058 was punted to you. And this question
5 relates to a summary and description of the cost charged
6 to the storm by day from October 4th, 2016, through
7 September 30th, 2017?

8 A Yes, I'm with you.

9 Q And the response says, "FPL does not track
10 detailed storm costs by day and asset location."

11 Why -- why -- why do you not track storm costs
12 on a daily basis, in terms of being able to go back
13 and -- and look at it and say, well, how much were the
14 costs this day, this day, and this day?

15 A Yeah. You know, we capture a whole lot of
16 information in a lot of detail. And -- and Witness
17 Miranda was trying to explain that to you; that there's
18 all sorts of detailed information on any activity that
19 the company engages in, but that doesn't necessarily
20 mean that information is all loaded into a system, a
21 financial system, to be sorted and reported.

22 I think he gave you the example on
23 mob-/demob-. So, you can manually aggregate a lot of
24 this information. Say, off of an invoice -- you might
25 have a mutual-aid invoice that has every single dollar

1 that that company charged you.

2 We'll review that detail. We'll make sure we
3 should pay that invoice, but we're not going to isolate
4 out each piece of that information in our financial
5 system such that we can press a button and report it.

6 And that's sort of the tension here in these
7 cases. It's very challenging. We want to give you all
8 the information you need to make decisions, but we don't
9 want to build a system that costs a tremendous amount of
10 money and has to be maintained to provide that kind of
11 information on an ongoing basis.

12 So, we capture detail, but we can't
13 necessarily discretely report it in every dimension that
14 you might like to see it.

15 **Q How many -- how many storms have you been**
16 **involved with, in terms of seeking recovery?**

17 A I've been here since 2004 -- at the company
18 since 2004.

19 **Q So --**

20 A A lot.

21 **Q Yeah. A lot.**

22 **How long do storm accounts typically stay**
23 **open?**

24 A We have corrections and changes in the
25 accounting for individual storms that can go on

1 sometimes many years beyond the event.

2 Q Is this -- is this account -- this account is
3 closed now, correct?

4 A We've cut it off for purp- -- yes. Yes. In
5 this case, we've closed the IO, yes.

6 Q Is Irma closed?

7 A I don't know the answer to that. We're
8 compiling information for that filing. So, I'm not
9 certain. There could -- I'm -- I'm sure there's follow-
10 up work going on.

11 Q What, if any, positions did FPL compromise
12 with respect to its litigation position in the
13 settlement agreement?

14 A I don't understand the question.

15 Q I'm sorry?

16 A I don't understand your question.

17 Q I think, in someone's opening statement -- the
18 record would -- would reflect this, but I thought -- I
19 thought FPL may have mentioned that the settlement was a
20 compromise. And I'm just curious as to what positions
21 FPL compromised that benefited ratepayers, if you know.

22 A Sounds like a judgment. I -- I mean, I -- I
23 can read the settlement agreement. We all can. We
24 think it was a meeting of the minds of the parties and
25 provides benefit to settle the case, provides a refund

1 to customers.

2 **Q Do you have any -- anything else to share**
3 **besides that with respect to, you know, what compromises**
4 **were made?**

5 A Well, we believe we have \$316 million that's
6 recoverable. We're going to recover 21,700,000 less
7 than that.

8 **Q I'm sorry. Say that again, please?**

9 A We've sought recovery of \$360 million.

10 **Q 300 and --**

11 A We're going to recover an amount 21,700,000
12 less than that, as I read the settlement.

13 **Q Yeah, but -- but isn't -- isn't that really**
14 **going to just be reclassified, that 21 million?**

15 A A portion of that is going to be charged to
16 the balance sheet and a portion of it will be charged to
17 expense.

18 **Q All right. So, it's not -- it's not like**
19 **there's a compromise to say, you know, we're walking**
20 **away from 21 million, correct?**

21 A We're not going to write off the portion
22 that's charged to the balance sheet. We're going to
23 finance it. We're not going to receive cash recovery.
24 So, the company is going to finance that --

25 **Q Yeah. And when you --**

1 A -- investment.

2 Q -- capitalize something -- I mean, we -- we
3 had a discussion earlier today, in the Vero case, and --
4 when you capitalize something, you can earn on it,
5 correct?

6 A You recover your costs. So, if you're
7 financing that investment for customers, you're going to
8 recover the cost of that financing. That cost includes
9 a debt component and an equity component --

10 Q Right. And --

11 A -- and other.

12 Q And the equity component -- that's sometimes
13 referred to as the profit -- profit, correct?

14 A Yes, it's our equity cost of capital.

15 Q Okay. And have you done any analysis, or
16 could you do an analysis today -- if there was, you
17 know, \$20 million that's being reclassified as capital,
18 would FPL earn more money on that as -- classifying it
19 as capital and being able to earn your return on equity
20 on the \$20 million as compared to just expensing that?

21 A If it's expensed, because it's recovered from
22 customers, there's no cost of capital for us to outlay.
23 There's no -- no cost we've incurred. We've been
24 reimbursed. So, therefore, there is no equity cost of
25 capital earned.

1 If we don't recover those costs, they're
2 invested and charged to the balance sheet. We're going
3 to earn a return of and on. That's our cost.

4 **Q And there's \$6 million that, I guess, was**
5 **over-collected; is that right?**

6 A Yes, that -- Witness Cohen sponsors that
7 testimony, but yes.

8 **Q Right.**

9 A The 5.9 million.

10 **Q And that's -- that's not something that was**
11 **negotiated. I mean, if you over-collected it, you just**
12 **refund it back, correct?**

13 A That's correct.

14 **Q Do you believe it's best, when executing a**
15 **settlement agreement, to try to get more parties to sign**
16 **the agreement as compared to fewer?**

17 A I don't have an opinion on that.

18 **Q Do you have an opinion about anything else in**
19 **the settlement agreement?**

20 A I don't -- I don't know how to answer that
21 question. Do I have an opinion on anything else in our
22 settlement agreement in this case?

23 **Q Right.**

24 A I think it's very beneficial for customers and
25 all parties. That's why we're here.

1 **Q** **It's beneficial for FPL. Why -- why is it**
2 **beneficial for ratepayers?**

3 **CHAIRMAN GRAHAM: I think that was asked and**
4 **answered.**

5 **THE WITNESS: Thank you.**

6 **MR. MOYLE: I missed it, if it was.**

7 **CHAIRMAN GRAHAM: \$21 million.**

8 **MR. MOYLE: Yeah.**

9 **CHAIRMAN GRAHAM: That was her answer.**

10 **BY MR. MOYLE:**

11 **Q** **But again, that 21 million is -- is**
12 **reclassification. I mean, it's not a refund. It's not**
13 **taking 21 million and putting it back.**

14 **A** **It's a refund to customers. It is a refund.**

15 **MR. MOYLE: All right. No further questions.**

16 **CHAIRMAN GRAHAM: Staff.**

17 **MS. BROWNLESS: I have no questions for her.**

18 **CHAIRMAN GRAHAM: Commissioners.**

19 **Redirect.**

20 **FURTHER EXAMINATION**

21 **BY MR. BUTLER:**

22 **Q** **Ms. Ousdahl, was one of the positions of**
23 **Public Counsel's witness in this proceeding that more of**
24 **FPL's Hurricane Matthew storm-restoration costs should**
25 **be capitalized?**

1 A Yes.

2 Q Would you consider the reclassification of
3 20 million in the settlement to be a compromise on that
4 position?

5 A Yes.

6 Q Okay.

7 A Directionally.

8 Q Will FPL be recovering a return on the
9 capitalized portion during the remaining term of its --

10 A I'm --

11 Q -- settlement agreement?

12 A I'm sorry, John. Would you repeat --

13 Q I'm sorry. Will FPL be return- -- recovering
14 any return on that additional capitalized amount during
15 the remainder of the current rate base -- or rate-case
16 settlement agreement?

17 A Not a cash recovery, no. That was my point
18 earlier. We have to finance that cost.

19 Q And will the capital amount nonetheless be
20 depreciated during the settlement agreement?

21 A Yes.

22 MR. BUTLER: That's all the rest -- redirect
23 that I have. Thank you.

24 CHAIRMAN GRAHAM: Okay. Exhibits.

25 MR. BUTLER: Okay. Here -- just one second.

1 Sorry.

2 FPL would move admission of Exhibits 3, 4, and
3 11 through 13.

4 CHAIRMAN GRAHAM: Any objections to Exhibits
5 3, 4, and 11 through 13? Seeing, none, we'll enter
6 those into the record.

7 (Whereupon, Exhibit Nos. 3, 4, 11, 12, and 13
8 were admitted into the record.)

9 MS. BROWNLESS: And staff would ask that
10 Exhibit 22, 32, and 26 be moved into the record.

11 CHAIRMAN GRAHAM: That was -- say again?

12 MS. BROWNLESS: 22, 26, and 32.

13 CHAIRMAN GRAHAM: What about 21?

14 MS. BROWNLESS: 21 also is prepared by
15 Ms. Cohen, so we can't move that at this time.

16 CHAIRMAN GRAHAM: Okay. I didn't see her name
17 on there. I just saw a Miranda and Ousdahl.

18 MR. BUTLER: Yeah, 21 --

19 MS. BROWNLESS: Oh, I'm sorry. 21. Thank
20 you, sir.

21 CHAIRMAN GRAHAM: Okay. So, we'll enter 21 as
22 well in the record.

23 MR. BUTLER: Yes.

24 (Whereupon, Exhibit Nos. 21, 22, 26, and 32
25 were admitted into the record.)

1 MR. BUTLER: Thank you. May Ms. Ousdahl be
2 excused?

3 MR. MOYLE: The -- Mr. Chairman, the only
4 thing I'm going to object to is the entering of the
5 settlement agreement. I mean, she -- she didn't --
6 she doesn't have any knowledge of that settlement
7 agreement. It's hearsay to her.

8 It's just like if you got it and you were
9 going to enter it and sponsor it. So, I would -- I
10 would register that objection with respect to the
11 settlement agreement.

12 CHAIRMAN GRAHAM: Which one -- which one was
13 that?

14 MR. MOYLE: Staff asked her the question
15 about, are you familiar with the settlement
16 agreement, so --

17 CHAIRMAN GRAHAM: Which exhibit are we talking
18 about?

19 MS. BROWNLESS: Mr. Moyle, you realize you've
20 already agreed to move that into the record as part
21 of your Exhibit 31, did you not?

22 MR. MOYLE: I think I may have.

23 MS. BROWNLESS: I think you may have.

24 MR. MOYLE: Never mind.

25 CHAIRMAN GRAHAM: Ms. Brownless, what about

1 Exhibit 19?

2 MS. BROWNLESS: Let's see. Hold on a minute.
3 Let me look.

4 I think, perhaps, is that an exhibit that you
5 just sponsored by yourself, Ms. Ousdahl?

6 CHAIRMAN GRAHAM: It has both Miranda and
7 Ousdahl on -- on the list that I'm looking at.

8 MS. BROWNLESS: Got it. Thank you.

9 CHAIRMAN GRAHAM: So, yes?

10 MS. BROWNLESS: Yes, sir.

11 CHAIRMAN GRAHAM: Any objections? We'll --

12 MR. BUTLER: No.

13 CHAIRMAN GRAHAM: -- enter that into the
14 record as well.

15 MS. BROWNLESS: I'm sorry. I didn't hear
16 that.

17 CHAIRMAN GRAHAM: I said, we'll enter that
18 into the record as well.

19 MS. BROWNLESS: Yes, please.

20 (Whereupon, Exhibit No. 19 was admitted into
21 the record.)

22 CHAIRMAN GRAHAM: Okay.

23 MR. BUTLER: May Ms. Ousdahl be excused?

24 CHAIRMAN GRAHAM: Yes.

25 MR. BUTLER: Thank you.

1 CHAIRMAN GRAHAM: Ms. Brownless, as
2 Commissioner Brown just told me that 14 through 18
3 are also Miranda and Ousdahl.

4 MS. BROWNLESS: Well, usually, what we do is
5 put these all in at the end, and that's what I was
6 going to do at the end, but that's fine. Any
7 exhibit that there's just Mr. Miranda and
8 Ms. Ousdahl on can be moved into the record at this
9 time.

10 CHAIRMAN GRAHAM: Okay. So, 14 through 18 --

11 MS. BROWNLESS: Thank you, sir.

12 CHAIRMAN GRAHAM: -- if there's no objection.

13 MR. MOYLE: No objection.

14 CHAIRMAN GRAHAM: We'll enter those into the
15 record as well.

16 (Whereupon, Exhibit Nos. 14 through 18 were
17 admitted into the record.)

18 MS. BROWNLESS: Let's see. 21 --

19 CHAIRMAN GRAHAM: And 27.

20 MS. BROWNLESS: Yes, sir.

21 (Whereupon, Exhibit No. 27 was admitted into
22 the record.)

23 MS. BROWNLESS: So, let me go back and just go
24 from the top here.

25 CHAIRMAN GRAHAM: Right now, what I have moved

1 into the record is 1, 3, 4, 6, 7, 11, 12, 13, 14,
2 15, 16, 17, 18, 19, 21, 22, 26, 27 --

3 MS. BROWNLESS: 20, also, Mr. Miranda.

4 CHAIRMAN GRAHAM: 20, 21, 22, 26, 27. That's
5 what I have.

6 MS. BROWNLESS: And 23, Mr. Miranda.

7 CHAIRMAN GRAHAM: 23. And --

8 COMMISSIONER FAY: 28?

9 CHAIRMAN GRAHAM: 23 and 28.

10 MS. BROWNLESS: Yes, sir.

11 CHAIRMAN GRAHAM: And also, we are going to
12 enter Mr. DeVarona, his direct testimony, into the
13 record.

14 MS. BROWNLESS: Yes, sir.

15 CHAIRMAN GRAHAM: And does he have rebuttal
16 testimony as well?

17 MS. BROWNLESS: No, sir, he has no --

18 CHAIRMAN GRAHAM: Okay. So, we'll enter his
19 direct testimony into the record as though read.

20 MS. BROWNLESS: Right.

21 (Prefiled direct testimony inserted into the
22 record as though read.)

23

24

25

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Florida Power & Light
Company for Limited Proceeding for
Recovery of Incremental Storm Restoration
Costs Related to Hurricane Matthew

Docket No. 20160251-EI

Filed: May 10, 2018

ERRATA SHEET OF EDUARDO DEVARONA

February 20, 2018 – Direct Testimony

<u>PAGE #</u>	<u>LINE #</u>	<u>CHANGE</u>
5	1	Replace \$5,013,000 with \$5,002,000
5	2	Replace \$3,460,000 with \$3,458,000
5	4	Replace \$1,118,000 with \$797,000
19	11	Replace \$1.1 million with \$0.8 million

1 **Q. Are you sponsoring any exhibits in this case?**

2 A. No.

3 **Q. What is the purpose of your direct testimony?**

4 A. The purpose of my testimony is to provide an overview of FPL's non-T&D
5 activities, restoration efforts and cost details related to Hurricane Matthew.
6 Through this discussion, I support the reasonableness and prudence of those
7 activities and the associated costs for which FPL is seeking recovery.

8

9 **II. FPL's NON-T&D STORM RESTORATION ACTIVITIES**

10

11 **Q. Please provide an overview of FPL's non-T&D business units that**
12 **engaged in storm preparation and restoration activities related to**
13 **Hurricane Matthew, together with the associated costs.**

14 A. As outlined in the testimony of FPL witness Miranda, the great majority of the
15 work associated with FPL's preparations for, response to and restoration
16 following Hurricane Matthew falls within the T&D functional areas.
17 However, virtually every other business unit within FPL was engaged in pre-
18 storm planning and preparation as well as restoration activities, all of which
19 contributed to the overall success of the restoration efforts. Included within
20 the family of non-T&D business units that contributed to this effort, together
21 with associated costs, are the following:

22

23

- 1 • Nuclear - \$5,013,000
- 2 • General - \$3,460,000
- 3 • Customer Service - \$1,481,000
- 4 • Power Generation Division (“PGD”) - \$1,118,000

5

6 The costs referenced above are detailed on FPL witness Ousdahl’s Exhibit
7 KO-1.

8

9 These costs were necessary as part of storm preparation and the execution of
10 storm restoration efforts and support functions. The majority of these costs are
11 related to payroll (regular and overtime) and for services performed by outside
12 contractors. The activities and associated costs of each of these business units
13 are addressed separately in my testimony.

14 **Q. Please describe your review of the activities and associated costs of the**
15 **various business units discussed in your testimony.**

16 A. In addition to my direct interactions and coordination with the non-T&D
17 business units before, during and after Hurricane Matthew, I met with
18 representatives of each of the business units to understand in greater detail the
19 nature of the work and the associated costs incurred in performing these
20 functions.

21

22

1 **Q. Are you familiar with the pre-storm season training undertaken by the**
2 **various business units addressed in your testimony?**

3 A. Yes. Although I briefly address those activities in my testimony, as FPL
4 witness Ousdahl describes, costs associated with storm preparedness and
5 training activities are not charged to the storm reserve.

6

7

III. NUCLEAR

8

9 **Q. Please provide an overview of FPL's nuclear operations in Florida.**

10 A. FPL has four nuclear units in Florida – two at the Turkey Point Nuclear
11 Generating Center (1,632 MW) in Miami-Dade County and two at the St.
12 Lucie Nuclear Power Plant (1,821 MW FPL share) in St. Lucie County.

13 **Q. Please explain the responsibilities of the Nuclear business unit in**
14 **preparing for extreme weather events.**

15 A. Each of the nuclear plants has an emergency plan that is used as the basis for
16 storm preparedness and response. As part of this plan, the Nuclear business
17 unit must ensure that each plant and site are secured and adequately staffed for
18 operations before, during, and after the storm. The emergency plan provides
19 for an emergency crew to be stationed to ride out a storm, recognizing that
20 requiring a crew to travel to the plant site during a storm would not be safe.
21 During the storm, crews are housed in safe areas throughout the plant,
22 including a team in the emergency diesel generator building. If the storm

1 impacts the station, emergency crews would respond to start, repair or
2 troubleshoot any plant equipment to the extent it is safe to do so.

3 **Q. Identify any regulatory requirements that must be taken in advance of**
4 **the impact of a hurricane.**

5 A. Pursuant to its Station Blackout requirements, the Nuclear Regulatory
6 Commission (“NRC”) requires FPL to commence a shutdown of its nuclear
7 units two hours prior to the expected onset of hurricane force winds at the site.
8 FPL has procedures at the nuclear sites to implement shutdown activities in
9 accordance with these NRC regulations.

10 **Q. Did FPL shut down either of the nuclear sites prior to the impact of**
11 **Hurricane Matthew?**

12 A. Yes. Due to the requirements mentioned above, St. Lucie Unit 2 was brought
13 off-line the morning of October 6, 2016, before the site began experiencing
14 hurricane force winds. St. Lucie Unit 1 was already off-line in a scheduled
15 refueling outage. Turkey Point Units 3 and 4 remained online because the site
16 did not encounter hurricane force winds from the storm.

17 **Q. What actions were taken at St. Lucie Units 1 and 2 in connection with the**
18 **shutdown?**

19 A. When the hurricane watch or warning was given by the National Hurricane
20 Center, the nuclear plant site filled all necessary fuel and water tanks,
21 completed all scheduled maintenance activities, conducted activities and tasks
22 required to secure the site to weather the storm, and conducted any necessary

1 updates to the training for the operating crew to ensure they were prepared for
2 potential circumstances they could face in the hurricane.

3 **Q. You noted that St. Lucie Unit 1 was already off-line in a scheduled**
4 **refueling outage. Did this fact require the Company to undertake**
5 **additional preparations at the site?**

6 A. Yes. Because a refueling outage at St. Lucie Unit 1 was already in progress, it
7 was necessary to demobilize contractors and safely secure plant equipment
8 and material staged for outage support for the unit before the storm made
9 landfall. For example, large cranes were dismantled and heavy equipment
10 was moved and secured. Numerous site personnel (employees and
11 contractors) were involved in completing these tasks in the short time frame
12 available before the storm arrived.

13 **Q. Did the nuclear plant sites sustain damage or require restoration work as**
14 **a result of Hurricane Matthew?**

15 A. Yes. The St. Lucie nuclear plant sustained damage to some of the non-nuclear
16 infrastructure; however, the costs to repair that damage were not included in
17 the storm costs that FPL is recovering through the interim storm charge
18 because they were capitalized. Both sites incurred costs for debris removal
19 that were included in storm recovery costs.

20 **Q. Explain the role of Nuclear during restoration following Hurricane**
21 **Matthew.**

22 A. The criteria for restarting the nuclear units following a hurricane are based on
23 reviews performed by the NRC and the Federal Emergency Management

1 Agency (“FEMA”) regarding the ability of FPL, the State of Florida, and local
2 governments to effectively implement their emergency plans. The standard
3 used by the NRC and FEMA to evaluate the ability to restart the plant
4 following an event such as a hurricane is whether there is reasonable
5 assurance that both FPL and the state and local governments can protect the
6 health and welfare of the public in the event of a nuclear power plant accident.

7
8 The plant systems required for operation must be able to perform their
9 intended function; the plant has technical specifications that describe what
10 equipment must be operable. In the community surrounding the plant site, the
11 Alert and Notification System (i.e., sirens) must be operable and the local
12 government must be able to support the implementation of public protective
13 actions such as shelter, evacuation and the monitoring of evacuees.
14 Additionally, the local government must have the essential personnel and
15 equipment in place for emergency operations.

16 **Q. Did Nuclear retain any contractors to assist in restarting St. Lucie Unit**
17 **2?**

18 A. Yes. Contracted support assisted in the unit restoration efforts, which
19 primarily included actions necessary to restart the unit back to full power.

20

21

22

1 **Q. Please identify the costs attributable to the activities undertaken by**
2 **Nuclear.**

3 A. Nuclear incurred approximately \$5 million in storm-related costs, the majority
4 of which were related to storm preparations, storm riders, restart activities,
5 and mobilization and demobilization activities.

6

7

IV. GENERAL

8

9 **Q. Please provide an overview of the business units included in the**
10 **“General” category.**

11 A. The business units grouped in the “General” category primarily include
12 Marketing and Communications (“M&C”), Information Technology (“IT”),
13 Human Resources and Corporate Services (“HRCS”) and External Affairs and
14 Economic Development (“EA”).

15

16 During and after Hurricane Matthew, M&C was responsible for all aspects of
17 communications both internally with employees and externally with
18 customers and stakeholders. More than 30 channels of communication were
19 utilized, including but not limited to email, automated calls, text messaging,
20 media events, news conferences, news releases to the media, and
21 communications to local leaders, state and federal elected officials and
22 regulators, and large commercial customers.

23

1 IT was responsible for the delivery and support of system business solutions,
2 technology infrastructure (client services, mobile services, servers, network,
3 etc.) and both wired and wireless technology.

4

5 HRCS was responsible for overseeing various functions of employee support
6 (e.g., recruiting, payroll and benefit administration, employee relations and
7 training) as well as the maintenance and management of corporate facilities.

8

9 Lastly, EA worked closely and coordinated with local government partners
10 and Emergency Operations Centers (“EOCs”) in FPL’s service territory. EA
11 also provided oversight of the Emergency Response Team (“ERT”) which is
12 the team that staffs all of the local EOCs within the FPL service territory that
13 are activated during a storm or other emergency event.

14 **Q. What did these business units do to prepare for Hurricane Matthew?**

15 A. Each of the business units prepared for storm events throughout the year as
16 part of their participation in annual corporate-level training drills.
17 Additionally, M&C established Core Emergency Response Plans that outlined
18 emergency communication roles, responsibilities, functional processes and
19 messaging for multiple types of incidents, including severe weather. IT was
20 involved in all aspects of establishing and maintaining communications
21 systems and applications to facilitate restoration efforts. HRCS supported the
22 storm efforts with a large focus on employee support and communication,
23 along with the security of FPL facilities. EA ensured a key point of contact for

1 addressing any questions or issues raised by local government officials and
2 established a clear line of communication to limit confusion and increase
3 awareness about restoration efforts. EA also managed the ERT, which reports
4 to the Liaison Officer during emergency and/or extreme weather events.

5

6 The ERT is comprised of approximately 70 employees from various business
7 units who staff the county EOCs. The ERT reports to the EA managers for
8 those locations, coordinates special crews serving the EOCs and submits any
9 requests for information or action to EA at FPL's Command Center.

10 **Q. Please explain the role of M&C, IT, HRCS and EA during the time**
11 **Hurricane Matthew was impacting FPL's service territory.**

12 A. For M&C, communications to customers, stakeholders and employees began
13 96 hours prior to estimated landfall and continued through and after landfall.
14 M&C's preapproved messaging helped customers understand recommended
15 preparation actions and safety considerations. An integrated team of M&C and
16 Care Center employees engaged with customers one on one using replies,
17 comments, and direct messages on Facebook and Twitter.

18

19 IT resources were deployed at FPL facilities and in the field to provide all
20 needed technological support.

21

22 HRCS prepared and safeguarded physical assets and managed increased
23 janitorial demands, completed repairs and clean up at the Company's facilities

1 following the storm, and assisted employees with anything from temporary
2 housing to storm-related finances. Additionally, the HRCS compensation and
3 payroll teams provided communication, policy and procedure updates to
4 employees and answered their inquiries.

5
6 EA proactively and reactively communicated with local elected officials in the
7 impacted counties and oversaw the EOC representatives staffed in the
8 impacted EOCs. Specific outreach activities included sending email updates to
9 local elected stakeholders, fielding and responding to stakeholder questions,
10 concerns and input, and personally meeting with stakeholders as often as
11 possible.

12 **Q. Did any of the business units in the “General” category retain contractors**
13 **to assist?**

14 A. Yes. M&C utilized contractors to provide support for various functions
15 including visual communication support (videography and photography);
16 social media staffing (monitoring, writing and posting content); technical
17 support for digital communications; and media support. M&C contractors
18 provided crucial services in assisting FPL staff to communicate timely
19 information to customers affected by Hurricane Matthew – via television,
20 radio, newspaper and online media outreach. The contractors primarily
21 supported the production of images and messaging regarding the current status
22 of FPL’s massive effort to restore electric service, as well as safety
23 information urging customers to take precautions to prevent potentially

1 severe, life-threatening injuries due to downed power lines and other unsafe
2 conditions caused by the hurricane.

3

4 IT utilized a contractor that provided services to support the Trouble Call
5 Management System (“TCMSII”), which tracks outage tickets and trouble
6 reports during restoration.

7

8 HRCS retained and managed contractors for building services and
9 maintenance. After the storm passed, these assets were returned to normal
10 operations, following damage assessment and necessary repairs. Contractors
11 were also retained for debris removal at corporate offices, substations and
12 service centers and the replacement of any damaged vegetation as required by
13 the towns, cities and counties.

14

15 EA retained contractors to repair localized solar plant sites and clear debris
16 and lines to help open roads immediately after the storm passed so that
17 emergency and restoration personnel could safely navigate the roads as soon
18 as possible.

19 **Q. Please identify the costs attributable to the activities taken by the business
20 units in the “General” category.**

21 A. Total costs incurred by the business units included in the “General” category
22 were approximately \$3.5 million, the majority of which was related to payroll
23 and contractor expenses.

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V. CUSTOMER SERVICE

Q. Please provide an overview of FPL’s Customer Service operations.

A. FPL’s Customer Service organization is responsible for developing and executing policies, processes and systems related to contacts with customers. This includes customer care centers; customer service field operations, which is responsible for account management for large commercial/industrial and governmental customers and other field-related activities; complaint resolution; billing and payment processes; smart meter network operations; development and implementation of FPL’s Demand Side Management programs; and credit and collections activities.

Q. Please explain what Customer Service does to prepare for extreme weather events such as Hurricane Matthew.

A. In preparation for extreme weather events, Customer Service executes on emergency response plans that are established well in advance. These plans are tested annually through both business unit and corporate drills and workshops designed to improve resiliency and effectiveness. In addition, annual training and awareness of storm roles and responsibilities begin in March and extend through the beginning of storm season. Extensive training is conducted in both an instructor-led classroom setting and via online coursework, where applicable.

1 **Q. Please explain Customer Service’s role when Hurricane Matthew was**
2 **impacting FPL’s service territory.**

3 A. During the time Hurricane Matthew was impacting FPL’s service territory,
4 Customer Service primarily handled communications from customers
5 reporting outages and hazardous conditions. Customer Service executed a
6 plan that included increasing staffing at GC Services (FPL’s customer call
7 center partner located in Texas) and having a group of Customer Care
8 employees “ride the storm” at FPL’s Miami call center, allowing them to
9 handle outage-related calls in real time as the storm passed through FPL’s
10 territory. Post landfall, Customer Service employees reported to their storm
11 roles as soon as it was safe to do so. This included increasing staffing at the
12 FPL Customer Care centers by bringing in customer service employees from
13 other departments and extending daily schedules to 12-hour shifts covering 24
14 hours/day.

15
16 In addition, Customer Service advisors worked with FPL’s governmental and
17 major accounts to conduct proactive outreach about power restoration efforts
18 and handled restoration inquiries directly from these customers. Community
19 Action Teams were also deployed post storm to the hardest hit areas to
20 provide customer service support to the community. Customer Service
21 representatives set up and staffed tents in the neighborhoods to assist
22 customers with reporting outages, provide restoration updates and information
23 on local resources (e.g., Red Cross, FEMA), and provide assistance such as

1 cell phone charging stations, WIFI and water. Customer Service assessed the
2 impact Hurricane Matthew had on FPL's Smart Meter network and the
3 communication status of network devices, conducted back-office analyses and
4 field investigations, and repaired or replaced non-communicating devices.
5 During restoration, Customer Service was also responsible, along with Power
6 Delivery, for handling customer complaints related to Hurricane Matthew.

7 **Q. Did Customer Service retain contractors to assist?**

8 A. Yes. As part of its normal business operations, FPL partners with GC
9 Services to handle customer calls and also uses electrical contractor services
10 for smart meter network maintenance and restoration. For Hurricane
11 Matthew, FPL contracted with a vendor to provide business continuity trailers
12 that included a complete mobile-computing environment for Customer Care
13 phone agents to take calls and conduct business operations.

14 **Q. Please identify the costs attributable to the activities taken by Customer
15 Service.**

16 A. Customer Service incurred approximately \$1.5 million in storm-related costs,
17 the majority of which were related to payroll and contractor services.

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VI. PGD

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3 **Q. Please provide an overview of FPL's PGD operations.**

4 A. PGD operates and maintains all non-nuclear power generation for FPL's
5 customers. The fleet includes approximately 21,000 MW of simple and
6 combined-cycle generating units.

7 **Q. Please explain the processes utilized by PGD to prepare for Hurricane
8 Matthew.**

9 A. PGD has an emergency response plan that is used to facilitate storm response
10 efforts. Every plant has site-specific procedures for securing equipment,
11 identifying personnel that will prepare for and ride out the storm at the plant,
12 and performing storm restoration as quickly as possible after the storm.

13 **Q. Please explain the role of PGD during restoration following Hurricane
14 Matthew.**

15 A. PGD's mission was to ensure that any plants shut down or damaged by
16 Hurricane Matthew were restored to provide electric generation to customers
17 safely and as quickly as possible. The only plant that was shut down due to
18 Hurricane Matthew's winds impacting the site was the Cape Canaveral Next
19 Generation Clean Energy Center. The plant was restored to service as soon
20 as the storm passed and post-storm assessments were completed.

21 **Q. Did PGD retain contractors to assist?**

22 A. Yes. PGD retained contractors to assist primarily with embankment
23 stabilization at the Cape Canaveral Next Generation Clean Energy Center.

1 These costs were for permitting, mobilization and demobilization, materials,
2 project management and execution. There were approximately 1,000 tons of
3 rip-rap material deployed for shoreline restoration, and fence repairs were
4 also performed. At FPL's Martin Next Generation Clean Energy Center,
5 contractor costs were primarily associated with cooling pond vegetation
6 removal at the water intakes, but also included design and survey costs for
7 engineering on shoreline restoration. Additionally, contractors were retained
8 for storm preparations and site cleanup support for FPL's Riviera Beach
9 Clean Energy Center and West County Energy Center.

10 **Q. Please identify the costs attributable to the activities undertaken by PGD.**

11 A. PGD incurred approximately \$1.1 million in storm-related costs, the majority
12 of which were related to payroll and contractor services.

13

14

VII. CONCLUSION

15

16 **Q. Were the activities of Nuclear, Customer Service, PGD, and the business**
17 **units discussed in the "General" category reasonable and prudent as part**
18 **of FPL's overall response to Hurricane Matthew?**

19 A. Yes.

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

21 A. Yes.

1 CHAIRMAN GRAHAM: Does that bring us up to
2 zeroing everything out to this time?

3 MS. BROWNLESS: Yes, sir. Thank you.

4 Okay. Let's go with your next witness.

5 MR. RUBIN: Thank you, Mr. Chairman. FPL
6 calls Tiffany Cohen. And she has previously been
7 sworn.

8 CHAIRMAN GRAHAM: Okay.

9 MR. RUBIN: May I proceed?

10 CHAIRMAN GRAHAM: Sure.

11 EXAMINATION

12 BY MR. RUBIN:

13 Q Would you please state your name and business
14 address.

15 A Tiffany Cohen, 700 Universe Boulevard, Juno
16 Beach, Florida 33408.

17 MR. BUTLER: Microphone.

18 Q Microphone? There you go.

19 A Tiffany Cohen, 700 Universe Boulevard, Juno
20 Beach, Florida 33408.

21 Q By whom are you employed and in what capacity?

22 A I'm employed by Florida Power & Light as the
23 director of rates and tariffs.

24 Q Did you prepare and caused to be filed four
25 pages of prefiled direct testimony in this proceeding on

1 **February 20, 2018?**

2 A Yes.

3 Q Did you prepare any rebuttal testimony in this
4 proceeding?

5 A No.

6 Q If I asked you the same questions contained in
7 your prefiled direct testimony, would your answers be
8 the same?

9 A Yes.

10 MR. RUBIN: Chairman Graham, FPL would ask
11 that the prefiled direct testimony of Ms. Cohen be
12 inserted into the record as though read.

13 CHAIRMAN GRAHAM: We will insert Ms. Cohen's
14 prefiled direct testimony into the record as though
15 read.

16 (Prefiled direct testimony inserted into the
17 record as though read.)

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1 **Q. Please state your name and business address.**

2 A. My name is Tiffany C. Cohen, and my business address is Florida Power & Light
3 Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

4 **Q. By whom are you employed and what is your position?**

5 A. I am employed by Florida Power & Light Company (“FPL” or the “Company”) as
6 Director, Rates & Tariffs.

7 **Q. Please describe your duties and responsibilities in that position.**

8 A. I am responsible for developing the appropriate rate design and for administration
9 of the Company’s electric rates and charges. Additionally, I am responsible for
10 the Company’s cost of service and load research studies.

11 **Q. Please describe your educational background and professional experience.**

12 A. I hold a Bachelor of Science Degree in Commerce and Business Administration,
13 with a major in Accounting from the University of Alabama. I obtained a Master
14 of Business Administration from the University of New Orleans. I am also a
15 Certified Public Accountant. Since joining FPL in 2008, I have held positions of
16 increasing responsibility within the Company’s Regulatory Affairs Organization
17 and was promoted to my current role in December 2017. Prior to joining FPL, I
18 was employed at Duke Energy for five years, where I held a variety of positions
19 in the Rates & Regulatory Division, including managing rate cases, Corporate
20 Risk Management, and Internal Audit departments. Prior to joining Duke Energy,
21 I was employed at KPMG, LLP.

1 **Q. Are you sponsoring any exhibits with this testimony?**

2 A. Yes. As discussed below, I will sponsor pending Exhibit TCC-1 – Actual
3 Revenues Under 2017 Interim Storm Charge, which will be filed on or before
4 April 1, 2018.

5 **Q. What is the purpose of your testimony?**

6 A. My testimony provides the Company's proposal to true-up for any final over or
7 under recovery amounts related to the 2017 Interim Storm Restoration Recovery
8 Charge ("2017 Interim Storm Charge") that became effective March 1, 2017 and
9 terminates on February 28, 2018.

10 **Q. Please describe the 2017 Interim Storm Charge.**

11 A. The 2017 Interim Storm Charge was designed to recover estimated storm
12 restoration costs related to Hurricane Matthew and to replenish FPL's storm
13 reserve. It was approved by the Florida Public Service Commission
14 ("Commission" or "FPSC") in Order No. PSC-17-0055-PCO-EI, to become
15 effective for a 12-month period beginning March 1, 2017. The Commission
16 stated in its Order that, "Once the total actual storm costs are known, FPL shall
17 be required to file documentation of the storm costs for Commission review and
18 true up of any excess or shortfall."

19 **Q. How will FPL determine any final true-up amount related to the 2017
20 Interim Storm Charge, and what is the Company's proposal to refund or
21 charge customers for any excess or shortfall?**

22 A. FPL will compare the final Recoverable Storm Amount approved for recovery by
23 the Commission to the actual revenue received from the 2017 Interim Storm

1 Charge in order to determine any excess or shortfall in recovery. Interest will be
2 applied to the variance, at the 30-day commercial paper rate contemplated in
3 Rule 25-6.109. Thereafter, FPL will make a compliance filing with the
4 Commission that sets forth the calculation of the appropriate true-up rates to apply
5 to customer bills for a one-month period in order to refund the excess or collect
6 the shortfall. The true-up rates will be designed in a manner that is consistent
7 with the cost allocation used in the original 2017 Interim Storm Charge rates filed
8 and approved in this docket. FPL will apply the true-up rates to customer bills
9 starting on Cycle Day 1 of the first month that is more than 30 days after
10 Commission approval.

11 **Q. How will FPL notify the Commission of the actual revenue received from the**
12 **2017 Interim Storm Charge?**

13 A. FPL will file a supplement to my direct testimony, in the form of an exhibit
14 designated as TCC-1, on or before April 1, 2018, that shows the actual revenue
15 received. I will then sponsor Exhibit TCC-1 at the hearing in this proceeding.

16 **Q. How will FPL notify its customers of the billing change that is going to**
17 **occur?**

18 A. FPL will notify customers of the change in their rates at least 30 days in advance
19 in the form of a message on their bill, with more detailed information regarding
20 the revised 2017 Interim Storm Charge tariff provided on FPL's website,
21 www.FPL.com/rates.

22 **Q. Does this conclude your direct testimony?**

23 A. Yes.

1 BY MR. RUBIN:

2 Q Are you also sponsoring Exhibit TCC-1, filed
3 on March 15, 2018?

4 A Yes.

5 MR. RUBIN: And I note that Ms. Cohen's
6 Exhibit TCC-1 has been premarked on the
7 comprehensive exhibit list as Exhibit 5.

8 CHAIRMAN GRAHAM: Duly noted.

9 BY MR. RUBIN:

10 Q Was Exhibit TCC-1 prepared under your
11 direction, supervision, or control?

12 A Yes.

13 MR. RUBIN: Chairman Graham, Ms. Cohen
14 sponsors or co-sponsors some of the staff hearing
15 exhibits, so I'll turn it over to Ms. Brownless at
16 this time.

17 CHAIRMAN GRAHAM: Sure.

18 MS. BROWNLESS: Thank you.

19 EXAMINATION

20 BY MS. BROWNLESS:

21 Q Do you have a copy of the comprehensive
22 exhibit list, Exhibit 1?

23 A Yes.

24 Q And have you had an opportunity to review
25 Staff Exhibits 14 through 19, 21 through 22, 26 through

1 27, and 30, that have been identified as being sponsored
2 or co-sponsored by you?

3 A Yes.

4 Q Are those staff exhibits true and correct, to
5 the best of your knowledge and belief?

6 A Yes.

7 Q Would your answers be the same with regards to
8 those exhibits today as they were at the time that you
9 prepared them?

10 A Yes.

11 Q Have you had an opportunity to review the CD
12 prepared by staff?

13 A Yes, I have.

14 Q And does the CD correctly reflect your
15 responses to Staff Exhibits 14 through 19, 21 through
16 22, 26 through 27, and 30?

17 A Yes, they do.

18 Q Okay. And have you had an opportunity to
19 review what has been marked as Exhibit 29, the joint
20 motion for approval of settlement agreement and attached
21 settlement agreement?

22 A Yes.

23 Q And is that true and correct, to the best of
24 your knowledge and belief?

25 A Yes.

1 MS. BROWNLESS: Thank you.

2 CONTINUED EXAMINATION

3 BY MR. RUBIN:

4 Q Would you please provide your summary of your
5 testimony to the Commission, Ms. Cohen?

6 A Good afternoon, Chairman and Commissioners.
7 My name is Tiffany Cohen.

8 My summary provides an overview of FPL's
9 proposal to provide a true-up to customers for the final
10 over-recovery related to the 2017 interim storm charge,
11 which was effective on customer bills for the 12-month
12 period ending February 28th, 2018.

13 To calculate the final true-up amount, FPL
14 will compare the final recoverable storm amount approved
15 by this Commission to the actual revenue received from
16 the 2017 interim storm charge, which was \$322,449,167,
17 as shown on Exhibit TCC-1.

18 Interest will, then, be applied to the
19 variance at the 30-day commercial paper rate. FPL will,
20 then, make a compliance filing with the Commission that
21 sets forth the calculation of the appropriate true-up
22 rates to apply to customer bills for a one-month period
23 in order to refund customers.

24 These rates will be designed in a manner
25 consistent with the cost allocation used in the original

1 rates filed and approved in this docket. FPL will apply
2 the true-up rates to customer bills starting on cycle
3 day one, after Commission approval.

4 This concludes my summary. Thank you.

5 MR. RUBIN: FPL tenders Ms. Cohen for cross-
6 examination on her direct testimony and for
7 questions regarding the proposed settlement
8 agreement.

9 CHAIRMAN GRAHAM: Okay. Ms. Cohen, welcome.

10 THE WITNESS: Thank you.

11 CHAIRMAN GRAHAM: And thank you for your brief
12 summary.

13 THE WITNESS: Thank you.

14 CHAIRMAN GRAHAM: I'm sorry. OPC?

15 MS. CHRISTENSEN: No questions.

16 CHAIRMAN GRAHAM: Retail Federation.

17 MR. LaVIA: No questions.

18 CHAIRMAN GRAHAM: Mr. Moyle -- I apologize.

19 MR. MOYLE: That's all right. We got to the
20 same place anyway, so --

21 EXAMINATION

22 BY MR. MOYLE:

23 Q Good afternoon --

24 A Good afternoon.

25 Q -- Ms. Cohen. What role, if any, did you play

1 in negotiating the settlement agreement that's before
2 the Commission?

3 A I was not involved in negotiating the
4 settlement agreement. I calculated the rates on
5 Exhibit 1.

6 Q Okay. So -- so, your -- your counsel has said
7 that you had information about the settlement agreement.
8 That information is limited with respect to the
9 calculation of the rates; is that right?

10 A That's correct. I calculated the rates.

11 Q And -- and with respect to the interest rate
12 that is -- as going to be provided, it's the commercial
13 interest rate; is that right?

14 A It's the commercial paper rate.

15 Q Okay. Do you know what that is, presently?

16 A I don't know offhand. We have a calculation
17 that we set forth. For the month of June '18, we're
18 putting .15417 percent.

19 Q Okay. And that -- that will change in the
20 next month. Whenever it comes, you'll change it; is
21 that right?

22 A Yes.

23 Q Okay. And the over-recovery, you've over-
24 recovered approximately how much, \$6 million?

25 A That's correct.

1 Q Right. And do you know why that was; why that
2 **over-recovery took place?**

3 A It's just that we calculated more than we
4 had -- our sales were higher than what we originally
5 projected over the 12-month period that rates were
6 applied to customer bills.

7 MR. MOYLE: All right. That's all I have.
8 Thank you.

9 CHAIRMAN GRAHAM: Okay. Staff?

10 FURTHER EXAMINATION

11 BY MS. BROWNLESS:

12 Q Attached to the settlement agreement was an
13 **Exhibit No. 1; is that correct?**

14 A Yes, ma'am.

15 Q Okay. And did you prepare and supervise the
16 **preparation of this tariff sheet?**

17 A Yes.

18 Q And does that tariff sheet reflect a refund of
19 **storm costs based on a June 1st date?**

20 A Yes.

21 Q And obviously, a June 1st refund date is no
22 **longer possible. So, have you recalculated this tariff**
23 **sheet with a July 1 re- -- refund date?**

24 A Yes, we did. And we submitted that in
25 discovery.

1 Q Okay. And is that contained in Staff's
2 Exhibit No. 30, response to Staff Interrogatory No. 18?

3 A Yes.

4 Q And would your answer to Staff Interrogatory
5 No. 18 be the same today as it was when you prepared it?

6 A Yes.

7 Q And is it true and correct, to the best of
8 your knowledge and belief?

9 A Yes.

10 Q And is the answer to Exhibit No. 18 -- or
11 Staff Interrogatory No. 18, Exhibit No. 30, correctly
12 reflected on the CD that you reviewed?

13 A Yes.

14 MS. BROWNLESS: Thank you, ma'am.

15 CHAIRMAN GRAHAM: Commissioners?

16 Redirect.

17 MR. RUBIN: No -- no redirect.

18 CHAIRMAN GRAHAM: Okay. Exhibits.

19 MR. RUBIN: FPL moves Exhibit -- admission of
20 Exhibit 5.

21 CHAIRMAN GRAHAM: Ms. Brownless?

22 MS. BROWNLESS: We would like --

23 CHAIRMAN GRAHAM: 29 and 30?

24 MS. BROWNLESS: All the remaining exhibits.

25 CHAIRMAN GRAHAM: No, we still --

1 MS. BROWNLESS: So, let me see.

2 CHAIRMAN GRAHAM: We still have to do Brown.

3 MS. BROWNLESS: Well, that -- for FP&L. So,
4 that would be --

5 CHAIRMAN GRAHAM: I just have 29 and 30.

6 MS. BROWNLESS: Yes, sir, 29 and 30.

7 CHAIRMAN GRAHAM: Any objections to 5, 29, and
8 30?

9 MR. RUBIN: No objection.

10 CHAIRMAN GRAHAM: Okay. We'll enter those
11 into the record.

12 (Whereupon, Exhibit Nos. 5, 29, and 30 were
13 admitted into the record.)

14 CHAIRMAN GRAHAM: And while we're still here,
15 we'll enter Witness Schultz's direct testimony into
16 the record as though read.

17 MS. BROWNLESS: Yes, sir.

18 CHAIRMAN GRAHAM: If there's no objections,
19 we'll do that.

20 (Prefiled direct testimony inserted into the
21 record as though read.)

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25

CONFIDENTIAL

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

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Public Version
DIRECT TESTIMONY

OF

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ON BEHALF OF THE OFFICE OF PUBLIC COUNSEL

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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

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?**

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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.

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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-

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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?**

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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

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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 \$70.419¹
19 million to FPL's overall storm restoration and reserve replenishment request.

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

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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

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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?**

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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

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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.

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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?

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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

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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.

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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.

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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.

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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.

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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 conditions². 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."³ 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.⁴ 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.⁵ 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.⁶ 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,

² Company response to Citizens' Interrogatory No. 48.

³ Company response to Citizens' Interrogatory No. 77.

⁴ Company response to Citizens' Interrogatory No. 84.

⁵ Company response to Citizens' Interrogatory No. 79.

⁶ Company response to Citizens' Interrogatory No. 78.

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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?**

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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

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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.

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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

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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

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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.

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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

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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?**

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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

26

27

28

29

30

31

32

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

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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 events⁷. 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).

⁷ FPL’s response Citizens’ Interrogatory No.17,

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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.

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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

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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 work⁸. Applying the regular average FPL payroll rate of \$38 an hour⁹ times 1.1657¹⁰
17 to account for the overhead costs, equates to an average rate of \$133 per hour ($\38×3
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

⁸ FPL's response to Citizens Interrogatory No. 78.

⁹ FPL's response to Citizens Interrogatory No. 79.

¹⁰ FPL's response to Citizens Interrogatory No. 10.

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1 Exhibit No. HWS-2, Schedule C, Page 3 of 3, I have estimated the average hourly
 2 contractor rate is approximately [REDACTED]^A an hour. If just [REDACTED]^B contractor employees were
 3 doing the capital work, the hourly rate would be [REDACTED]^B 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]^A [REDACTED]^B. That is almost three times [REDACTED]^C
 8 [REDACTED]^A 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]^A million ([REDACTED]^B 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).

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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]^A by [REDACTED]^B which is a conservative contractor
6 personnel level. This resulted in an hourly rate of [REDACTED]^A for a contractor crew. I
7 multiplied that by the hours capitalized by FPL, which resulted in a cost of [REDACTED]^A
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

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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

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

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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?**

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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.¹¹ 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.

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

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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.¹² 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**

¹² FPL's response to Citizens Interrogatory No. 26.

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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.

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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,

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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 2013.¹³ 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

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

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1 Settlement Agreement.¹⁴ 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.

¹⁴ FPL's response to Citizens Interrogatory No. 107.

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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

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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

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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?**

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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

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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;

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- 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 \$70.419¹⁵
- 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.**

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

1 CHAIRMAN GRAHAM: Okay.

2 MR. RUBIN: May Ms. Cohen be excused?

3 CHAIRMAN GRAHAM: Ms. Cohen may be excused.

4 Travel safe.

5 All right. Staff.

6 MS. BROWNLESS: We would call Ms. Brown to the
7 stand, please.

8 EXAMINATION

9 BY MS. BROWNLESS:

10 Q Ms. Brown, were you previously sworn in?

11 A Yes.

12 Q Okay. And can you please state your name for
13 the record.

14 A Donna Brown.

15 Q And who is your current employer and what is
16 your business address?

17 A Florida Public Service Commission, 2540
18 Shumard Oak Boulevard, Tallahassee, Florida.

19 Q Thank you.

20 What is your current position with the PSC?

21 A Public utility analyst.

22 Q And did you file six pages of direct testimony
23 in this case on April 11th, 2018?

24 A Yes.

25 Q If I were to ask you the same questions today

1 as contained in your testimony, would your answers be
2 the same?

3 A Yes.

4 MS. BROWNLESS: Chairman Graham, we would
5 request Ms. Brown's testimony be inserted into the
6 record as though read.

7 CHAIRMAN GRAHAM: We'll insert Ms. Brown's
8 direct testimony into the record as though read.

9 (Prefiled direct testimony inserted into the
10 record as though read.)

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

3 **DIRECT TESTIMONY OF DONNA D. BROWN**

4 **DOCKET NO. 20160251-EI**

5 **April 11, 2018**

6 **Q. Please state your name and business address.**

7 A. My name is Donna D. Brown. My business address is 2540 Shumard Oak Boulevard,
8 Tallahassee, Florida, 32399.

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

10 A. I am employed by the Florida Public Service Commission (FPSC or Commission) as a
11 Public Utility Analyst in the Office of Auditing and Performance Analysis. I have been
12 employed by the Commission since February 2008.

13 **Q. Briefly review your educational and professional background.**

14 A. I graduated from Florida A&M University's School of Business & Industry in 2006 with
15 a Bachelor of Science degree in Accounting.

16 **Q. Please describe your current responsibilities.**

17 A. My responsibilities consist of planning and conducting utility audits of manual and
18 automated accounting systems for historical and forecasted data.

19 **Q. Have you presented testimony before this Commission or any other regulatory**
20 **agency?**

21 A. Yes. I filed testimony in the Fuel and Purchased Power Cost Recovery Clause, Docket
22 Nos. 20110001-EI and 20120001-EI. I also filed testimony in the Gulf Power Rate Case, Docket
23 No. 20160186-EI.

24 **Q. What is the purpose of your testimony today?**

25 A. The purpose of my testimony is to sponsor the staff auditor's report issued January 5,

1 2018, which addresses Florida Power & Light Company's application for limited proceeding for
2 recovery of incremental storm restoration costs and revenues collected related to Hurricane
3 Matthew. A supplemental auditor's report was issued April 5, 2018 which addresses the
4 revenues collected from October 1, 2017 to February 28, 2018. Both reports are filed with my
5 testimony and are identified as Exhibit DDB-1 and DDB-2, respectively.

6 **Q. Were these reports prepared by you or under your direction?**

7 A. Yes.

8 **Q. Please describe the work you performed in these audits.**

9 A. I have summarized the audit work below.

10 Revenues

11 We requested all storm charge revenues by month and by FERC account from October
12 2016 through February 28, 2018, by rate class and reconciled this detail to the general ledger.
13 We verified, based on a sample of two customer bills from each rate class during the period
14 March 2017 through September 2017, that the Utility used the appropriate interim storm
15 restoration recovery charges per Commission Order No. PSC-2017-0055-PCO-EI. No
16 exceptions were noted.

17 Payroll

18 We determined regular payroll, regular overtime, and related benefit costs from Account
19 186 – Deferred Storm Charges by function and reconciled the balances to the storm restoration
20 costs filing. We reviewed policies and procedures for recording incremental costs separate from
21 base costs. We also selected a judgmental sample of costs to test that costs were recorded
22 appropriately. Finding 1 discusses our recommended adjustments to Payroll.

23 Contractors

24 We determined contractor costs from Account 186 – Deferred Storm Charges by function
25 and reconciled the balances to the storm restoration costs filing. We selected a judgmental

1 sample of costs to test and determined that the costs were specifically identifiable to the storm
2 event and storm restoration. No exceptions were noted.

3 Line Clearing

4 We determined line clearing costs from Account 186 – Deferred Storm Charges by
5 function and reconciled the balances to the storm restoration costs filing. We selected a
6 judgmental sample of costs to test and determined that the costs were specifically identifiable to
7 the storm event and storm restoration. No exceptions were noted.

8 Vehicle & Fuel

9 We determined vehicle and fuel costs from Account 186 – Deferred Storm Charges by
10 function and reconciled the balances to the storm restoration costs filing. We selected a
11 judgmental sample of costs to test and determined that the costs were specifically identifiable to
12 the storm event and storm restoration. No exceptions were noted.

13 Materials & Supplies

14 We determined materials and supply costs from Account 186 – Deferred Storm Charges
15 by function and reconciled the balances to the storm restoration costs filing. We selected a
16 judgmental sample of costs to test and determined that the costs were specifically identifiable to
17 the storm event and storm restoration. No exceptions were noted.

18 Logistics

19 We determined logistics costs from Account 186 – Deferred Storm Charges by function
20 and reconciled the balances to the storm restoration costs filing. We selected a judgmental
21 sample of costs to test and determined that the costs were specifically identifiable to the storm
22 event and storm restoration. No exceptions were noted.

23 Other

24 We determined other costs from Account 186 – Deferred Storm Charges by function and
25 reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of

1 costs to test and determined that the costs were specifically identifiable to the storm event and
2 storm restoration. Finding 2 discusses our recommended adjustments to Other.

3 Non-Incremental Costs

4 We determined non-incremental costs from Account 186 – Deferred Storm Charges by
5 function and reconciled the balances to the storm restoration costs filing. We selected a
6 judgmental sample of costs to test and determined that the costs were specifically identifiable to
7 the storm event and storm restoration. No exceptions were noted.

8 Third-Party Reimbursements

9 We determined third-party reimbursements and reconciled the balances to the storm
10 restoration cost filing. We selected a judgmental sample of costs to test and determined that the
11 costs were specifically identifiable to the storm event and storm restoration. No exceptions were
12 noted.

13 Capitalizable Costs

14 We determined capitalizable costs recorded in Account 186 – Deferred Storm Charges by
15 function and reconciled the balances to the storm restoration costs filing. We tested capitalizable
16 costs to determine if the Utility included for recovery only those costs that are allowed by Rule
17 25-6.0143(1)(d), Florida Administrative Code. No exceptions were noted.

18 Jurisdictional Factors

19 We verified that FPL used the appropriate jurisdictional factors. We requested a detailed
20 explanation of the basis for the jurisdictional factors. We obtained from the Utility the calculated
21 jurisdictional factors used in the final cost calculation for Hurricane Matthew and verified that
22 the factors used are based on factors approved in Docket No. 20120015-EI. No exceptions were
23 noted

24 **Q. Were there any audit findings regarding the historical amounts in the schedules**
25 **prepared by the Utility in support of its filing in the current docket?**

1 A. Yes. There were 3 audit findings which are found in the attached Exhibit DDB-1, pages 8
2 through 10. These are summarized below:

3 **Finding 1 Overtime Payroll**

4 We recommend that Overtime Payroll reflected in the filing should be decreased by
5 \$935,789 to reflect the removal of overtime payroll not related to Hurricane Matthew restoration
6 activities and the subsequent payroll taxes. The Utility provided us with a schedule which noted
7 that \$878,839 overtime payroll was not related to Hurricane Matthew restoration activities. In
8 addition, the applicable amount of payroll taxes which should not be included is \$56,950
9 (\$878,839 times the payroll tax rate of 6.48%).

10 **Finding 2 Other Costs**

11 We recommend that Other Costs reflected in the filing should be decreased by \$19,411 to
12 reflect the duplication of 12 transactions. While gathering support, the Utility noted that some
13 transactions were charged against the Hurricane Matthew Internal Orders (IOs) twice. Due to
14 this discovery, FPL performed a review of all transactions that had been charged to Hurricane
15 Matthew IOs, but not yet paid, and subsequently charged to Account 186. Although these
16 duplicate transactions were recorded in Account 186, only one payment for each transaction was
17 made.

18 **Finding 3 Non-Incremental Costs**

19 We recommend that Non-Incremental Costs reflected in the filing should be increased by
20 \$95,000 to reflect the \$81,000 of regular payroll and \$14,000 of related payroll overheads
21 associated with follow-up work. Audit staff noted that these amounts were included in the detail
22 transactions of Account 186 – Deferred Storm Charges and Account 228 – Storm Damage
23 Reserve, but not included on the final cost report.

24 **Q. As of the date of this testimony, has the Utility responded to your audit findings?**

25 A. Yes. According to the Direct Testimony of Kim Ousdahl, filed February 20, 2018, pages

1 16 and 17, the aggregate amount of these adjustments has been removed from the Recoverable
2 Costs in Exhibit KO-2.

3 **Q. Does that conclude your testimony?**

4 A. Yes, it does.

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1 BY MS. BROWNLESS:

2 Q Have you also attached to Exhibits DDB-1 and
3 DDB-2, identified as Exhibits Nos. 9 -- 8 and 9 on the
4 comprehensive exhibit list to your testimony?

5 A Yes.

6 Q Do you have any changes you would like to make
7 to those exhibits at this time?

8 A No.

9 Q Have you prepared a summary of your testimony?

10 A Yes.

11 Q Could you please present your summary to the
12 Commission at this time.

13 A Good afternoon, Commissioners. I was the
14 auditor responsible for the preparation of two audits of
15 FP&L with regard to the request for Hurricane Matthew
16 storm-restoration costs.

17 These audits are attached as exhibits to my
18 testimony filed as DDB-1 and DDB-2. The purpose of
19 these audits were to verify the storm-recovery costs
20 related to Hurricane Matthew and the revenues collected
21 pursuant to the surcharge allowed by Commission Order
22 No. PSC 20170055PCO-EI, issued February 22nd, 2017.

23 The surcharge was collected from FP&L's
24 customers from March 2017 through February 28th, 2018.

25 MS. BROWNLESS: Thank you.

1 because I look at your testimony, and you're auditing
2 payroll and contractors, and -- and a lot of vehicle
3 and -- and lines -- a lot of times -- I'm familiar with
4 audits. You know, they show up at a -- a business and
5 then they randomly select certain things.

6 Do you do that when you audit, in terms of
7 randomly select certain things to look at? Or does FPL
8 just provide you the information?

9 A I -- I don't quite understand your question.

10 Q So, for example, on Page 2, there's a
11 payroll -- you talk about payroll. Well, let's use
12 contractors. Down on Line 23, you talk about
13 contractors. And I'm curious as to how -- how you
14 determine what to look at.

15 You say that you selected a judgmental sample
16 of costs to test. And what -- what does that mean, a
17 judgmental sample of --

18 A Well --

19 Q -- cost?

20 A Well, for contractors cost -- for the example
21 you -- you've given, we've reviewed all transactions in
22 Account 186, which is the deferred storm charges, by
23 function. And we randomly, judgmentally selected
24 transactions to test.

25 Q And so, how many -- how many -- when you say,

1 randomly you selected, how many did you pull? How many
2 would you pull? How many -- how many transactions would
3 you pull to look at?

4 A I can't recall how many I actually pulled.

5 Q Yeah. Are there -- do you know, are there
6 accounting guidelines that -- that say, here is what --
7 here is how many you should pull in order to conduct
8 a -- an audit? Do you know that?

9 A No, I -- I don't recall that.

10 Q You don't recall that. Yeah.

11 Did -- when you were doing your audit, with
12 respect to contractors, did you come across anything
13 related to mobilization, demobilization, or -- or
14 standby costs?

15 A No. I -- excuse me. We tested the -- for
16 contractors costs, we tested the items per the filing
17 and by cost type.

18 Q So, when you do your audit, you -- you track
19 the FPL filing. You're not going and doing a broader
20 audit, beyond the filing?

21 A We do what's required on the audit-service
22 request. The audit object is required and requested by
23 us, by technical staff.

24 Q Okay. And then, on your attachment, you
25 had -- you made a couple of findings about some

1 recoveries that you thought needed to be noted; is that
2 right? On like, your audit findings on overtime
3 payroll -- right?

4 A Yes.

5 Q Yeah. And you said there should be a
6 reduction of 935,000 -- nearly a million dollars, right?
7 This is on Page 6 of your DDB-1 -- actually, it's Page 8
8 of 11 at the top and Page 6 at the bottom.

9 A Could you repeat the question, please?

10 Q Sure. Sure. You -- you recommended that
11 \$935,000 be reduced; is that right? That was your
12 recommendation, your finding?

13 A Yes.

14 Q Okay. Do you know, was that reduction made as
15 part of the settlement agreement?

16 A The settlement agreement was outside the scope
17 of my audit.

18 Q Okay. And I guess, same question on the next
19 page. There was a \$19,000 reduction that you
20 recommended be made, correct?

21 A Yes.

22 Q And if I asked you whether that was picked up
23 in the settlement agreement -- you wouldn't have
24 information on that, correct?

25 A Correct.

1 MR. MOYLE: Okay. Thank you. That's all I
2 have. Thank you.

3 CHAIRMAN GRAHAM: Commissioners?
4 Redirect?

5 MS. BROWNLESS: Yes, sir.

6 FURTHER EXAMINATION

7 BY MS. BROWNLESS:

8 Q Ms. Brown, you indicated that you conducted
9 the analysis requested on the audit service request; is
10 that right?

11 A Yes.

12 Q Do you have a copy of that audit service
13 request?

14 A Yes.

15 Q Okay. Can you turn to the second page?

16 A Okay.

17 Q The first item there -- is it correct that it
18 says that you will verify the amounts on the
19 Document No. 088472017 and see that -- if they are valid
20 and accurate?

21 A Yes.

22 Q Can you describe what Document No. 088472017
23 is? Do you have a copy of that?

24 A Yes. Yes.

25 Q Okay. And can you describe to the

1 **Commissioners what that is?**

2 A It is the FP&L Docket No. 20160251-EI, final
3 actual Hurricane Matthew storm-restoration costs dated
4 October 20- -- excuse me -- October 16th, 2017, filing.

5 Q Okay. And that consists of a letter and two
6 schedules; is that correct?

7 A Correct.

8 Q And so, basically, your job was to verify the
9 amounts on those schedules, right?

10 A Yes.

11 Q Okay. And you can -- can you describe, when
12 you were looking at these schedules, how you went about
13 verifying those numbers? What is a judgmental audit?
14 What did you do with regard to these numbers?

15 A Could you repeat the question again?

16 Q Sure. Like the first line on the first
17 schedule says "Regular Payroll and Related Costs," and
18 it gives a cumulative dollar figure. And then it says:
19 Storm Costs by Functions; storm and other nuclear
20 transportation distribution; general and customer
21 service.

22 How did you go about verifying those costs?

23 A For -- for the example you've given, payroll,
24 we calculated regular payroll, regular overtime, related
25 costs from Account 186 deferred storm charges by

1 function, and reconciled them to the storm-restoration
2 costs filing.

3 We, then, asked the utility to reconcile the
4 budgeted payroll to the storm-restoration cost filing.
5 We inquired about how payroll, overtime, and overhead
6 costs relating to Hurricane Matthew are calculated, and
7 separated from business-as-usual costs.

8 We, then, requested a sample of regular
9 overtime and overhead transactions --

10 **Q Okay.**

11 **A -- and reconciled the time sheets.**

12 **Q Thank you.**

13 **And you were -- did you also verify non-**
14 **incremental and capitalizable costs so that you could**
15 **determine whether the cost requested in the document we**
16 **just talked about were compliant with Rule 25-6.0143,**
17 **Florida Administrative Code?**

18 **A I'm sorry. I didn't understand your question.**

19 **Q Sure. Did you, then, look at these costs and**
20 **also make sure that the costs were consistent with**
21 **Rule 25-6.043 [sic], Florida Administrative Code,**
22 **capitalizable versus expense costs?**

23 **A For capitalizable costs -- we requested a**
24 **detailed list of all capitalizable costs noted in the**
25 **filing. We compared the costs per the utility filing**

1 and per our numbers. We requested a detailed
2 description of capitalizable costs as well as policies
3 and procedures for recording these costs. And then we
4 selected a judgmental sample to test.

5 Q Okay. And the objective of that was to make
6 sure that they were compliant with the Rule 25-6.0143,
7 correct?

8 A Correct.

9 Q Okay. And did you find them to be compliant?

10 A Yes.

11 Q Okay. You made some findings, exception
12 findings, in your audit report; is that correct?

13 A Yes.

14 Q To your knowledge, did FP&L accept those audit
15 exceptions?

16 A Yes, they did.

17 Q And did they include those in their updated
18 numbers?

19 A I --

20 Q To the best of your knowledge.

21 A I'm not -- I -- I don't know, to the best of
22 my know- -- knowledge about that.

23 Q Okay. But you do know that they accept
24 them -- accepted them.

25 A Yes.

1 MS. BROWNLESS: Thank you.

2 That's all we have. Thank you.

3 CHAIRMAN GRAHAM: Exhibits.

4 MS. BROWNLESS: We would move Ms. Brown's
5 Exhibit 8 and 9.

6 CHAIRMAN GRAHAM: Any objections? If not, we
7 will move those exhibits.

8 (Whereupon, Exhibit Nos. 8 and 9 were admitted
9 into the record.)

10 CHAIRMAN GRAHAM: I mistakenly missed two for
11 Mr. Schultz, 24 and 25. If there's no objections,
12 we'll move those as well.

13 MR. MOYLE: No objection.

14 (Whereupon, Exhibit Nos. 24 and 25 were
15 admitted into the record.)

16 CHAIRMAN GRAHAM: Which, according to my list,
17 that means we have everything from one to 32 all
18 moved into the record.

19 MS. BROWNLESS: Okay. And we have moved 32
20 and put that --

21 CHAIRMAN GRAHAM: Yes.

22 MS. BROWNLESS: -- into the record, sir?
23 Thank you.

24 CHAIRMAN GRAHAM: Would you like to excuse
25 your witness?

1 MS. BROWNLESS: Yes. You may be excused,
2 Ms. Brown. Thank you.

3 CHAIRMAN GRAHAM: Thank you, Ms. Brown.

4 THE WITNESS: Thank you.

5 CHAIRMAN GRAHAM: Okay. Concluding matters.
6 Staff.

7 MS. BROWNLESS: At this time, I guess we would
8 ask, again, Mr. Moyle, would you like to brief?

9 MR. MOYLE: We -- we would.

10 MS. BROWNLESS: Okay. So, we will let you
11 know that briefs will be due on June 28th, and that
12 it is, at this time, this Commission's intent to
13 render a decision at the August 7th agenda.

14 CHAIRMAN GRAHAM: Okay. Is there any other
15 concluding matters before we adjourn?

16 MS. CHRISTENSEN: Commissioner -- excuse me.
17 Patti Christensen with the Office of Public
18 Counsel.

19 Just for clarification, normally we brief the
20 issues that are listed in the prehearing order.
21 There was not a separate issue identified for
22 whether or not the Commission should approve a
23 settlement.

24 Is that an issue that Commission is also
25 requesting that be briefed as part of this?

1 MS. BROWNLESS: Yes.

2 MS. CHRISTENSEN: Or is this just Mr. Moyle
3 briefing the issues in the pre-hearing order? I
4 just --

5 CHAIRMAN GRAHAM: That's a good question.
6 Mary Anne?

7 MS. BROWNLESS: And --

8 CHAIRMAN GRAHAM: Ms. Brownless?

9 MS. BROWNLESS: Yes, you would be able to
10 brief the settlement agreement and the -- whether
11 the settlement agreement is in the public interest,
12 as well as brief the identified issues in the
13 pre-hearing statement -- pre-hearing order.

14 MS. CHRISTENSEN: Could we ask, then, just so
15 we're all briefing the same issue, if staff has a
16 particular issue framing that they would want us to
17 brief on for the settlement, specifically? If we
18 could get that -- the wording of that issue
19 provided to us, and we'll obviously be happy to
20 brief on that issue, but I --

21 MS. BROWNLESS: Pretty simple: Should the
22 settlement agreement be approved.

23 MS. HELTON: And I think you could make that
24 Issue A, prior to any of the other issues. That's
25 sometimes --

1 MS. CHRISTENSEN: Right. Okay.

2 MS. HELTON: -- what the Commission does for
3 dispositive-type issues.

4 MS. CHRISTENSEN: If the Commission wants us
5 to brief, should the settlement should be approved,
6 we will do that as Issue A in our post-hearing
7 brief.

8 CHAIRMAN GRAHAM: Okay. Retail Federation,
9 anything? Mr. --

10 MR. LaVIA: No, sir.

11 CHAIRMAN GRAHAM: Mr. Moyle?

12 MR. MOYLE: No. Thank you for your time.

13 CHAIRMAN GRAHAM: Florida Power & Light?

14 MR. BUTLER: No.

15 CHAIRMAN GRAHAM: All right. Commissioners,
16 anything, for the good of the order?

17 That all being said, once again, briefs are
18 due on the 28th of June. We should have a
19 recommendation in front of us by the agenda
20 conference August 7th.

21 And we are adjourned. Everybody please travel
22 safe.

23 (Whereupon, proceedings concluded at 5:24

24 p.m..)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, ANDREA KOMARIDIS, Court Reporter, do hereby
certify that the foregoing proceeding was heard at the
time and place herein stated.

IT IS FURTHER CERTIFIED that I
stenographically reported the said proceedings; that the
same has been transcribed under my direct supervision;
and that this transcript constitutes a true
transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative,
employee, attorney or counsel of any of the parties, nor
am I a relative or employee of any of the parties'
attorney or counsel connected with the action, nor am I
financially interested in the action.

DATED THIS 14th day of June, 2018.



ANDREA KOMARIDIS
NOTARY PUBLIC
COMMISSION #GG060963
EXPIRES February 9, 2021