

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

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**DATE:** January 16, 2020

**TO:** Office of Commission Clerk

**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis

**RE:** Docket No.: 20190038-EI  
Company Name: Gulf Power Company  
Company Code: EI804  
Audit Purpose: A19: Storm Restoration for Hurricane Michael  
Audit Control No.: 2019-323-1-1

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Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There are no confidential work papers associated with this audit.

LMD/cmm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File.

State of Florida



## Public Service Commission

Office of Auditing and Performance Analysis  
Bureau of Auditing  
Tallahassee District Office

### Auditor's Report

Gulf Power Company  
Storm Recovery Cost Audit – Hurricane Michael

**As of October 31, 2019**

Docket No. 20190038-EI  
Audit Control No. 2019-323-1-1  
**January 10, 2020**

A handwritten signature in black ink, appearing to read "Debra M.", with a long horizontal flourish extending to the right.

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Debra M. Dobiac  
Audit Manager

A handwritten signature in blue ink, appearing to read "Marisa N.", with a long horizontal flourish extending to the right.

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Marisa N. Glover  
Reviewer

## Table of Contents

|  |   |
|--|---|
| Purpose.....   | 1 |
| Objectives and Procedures.....                                 | 2 |
| Audit Findings   |   |
| None.....  | 5 |
| Exhibits   |   |
| 1: Gulf's Hurricane Michael Final Storm Restoration Costs..... | 6 |

## Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated November 18, 2019. We have applied these procedures to the attached schedules prepared by Gulf Power Company in support of its filing for storm recovery costs in Docket No. 20190038-EI.

The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definitions

Gulf or Utility refers to Gulf Power Company.

#### Background

On November 15, 2019, Gulf filed a petition to facilitate an evaluation of Hurricane Michael storm costs. According to the petition, Gulf incurred \$427,674,776 in storm restoration costs and follow-up work related to Hurricane Michael from October 1, 2018 through October 31, 2019. After deducting Hurricane Michael non-incremental costs, related capital, third-party reimbursements, and below-the-line costs, the remaining total incremental storm losses amounted to \$314,612,139. After accounting for the pre-storm reserve balance, additional post-storm reserve accruals, replenishing the storm reserve, and interest, Gulf requests that the total storm amount to be recovered is \$295,748,645.

### **Expense**

#### Payroll, Overtime, and Related Costs

**Objectives:** The objectives were to determine whether regular payroll, overtime, and related costs were properly stated, recorded in the period incurred, and related to Hurricane Michael.

**Procedures:** We determined regular payroll, overtime, and related costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to payroll records. No exceptions were noted.

#### Contractors

**Objectives:** The objectives were to determine whether contractor costs were properly stated, recorded in the period incurred, and related to Hurricane Michael.

**Procedures:** We determined contractor costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to purchase orders, invoices, or contracts. No exceptions were noted.

#### Line Clearing

**Objectives:** The objectives were to determine whether line clearing costs were properly stated, recorded in the period incurred, and related to Hurricane Michael.

**Procedures:** We determined line clearing costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected

a judgmental sample of costs for detail testing and traced the amounts to purchase orders, invoices, or contracts. No exceptions were noted.

### Vehicle and Fuel

**Objectives:** The objectives were to determine whether vehicle and fuel costs were properly stated, recorded in the period incurred, and related to Hurricane Michael.

**Procedures:** We determined vehicle and fuel costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to source documents. No exceptions were noted.

### Materials and Supplies

**Objectives:** The objectives were to determine whether materials and supplies were properly stated, recorded in the period incurred, and related to Hurricane Michael.

**Procedures:** We determined materials and supplies from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to purchase orders, invoices, or inventory records. No exceptions were noted.

### Logistics

**Objectives:** The objectives were to determine whether logistics costs were properly stated, recorded in the period incurred, and related to Hurricane Michael.

**Procedures:** We determined logistics costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to purchase orders, invoices, or employee expense reports. No exceptions were noted.

### Other Costs

**Objectives:** The objectives were to determine whether other costs were properly stated, recorded in the period incurred, and related to Hurricane Michael.

**Procedures:** We determined other costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to purchase orders, invoices, or contracts. No exceptions were noted.

### **Other**

#### Capitalizable Costs

**Objectives:** The objectives were to determine whether the capitalizable costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143(1)(d), Florida Administrative Code (F.A.C.).

**Procedures:** We determined capitalizable costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We requested a detailed description of the capitalizable costs, and tested these costs to determine if the Utility included for recovery only those costs that are allowed by the applicable Rule. No exceptions were noted.

#### Third-Party Reimbursements

**Objectives:** The objective was to determine whether third-party reimbursement costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143 (1)(b), F.A.C.

**Procedures:** We determined third-party reimbursements from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We requested a detailed description of the third-party reimbursements, and tested these costs to determine if the Utility included for recovery only those costs that are allowed by the applicable Rule. No exceptions were noted.

#### Below-the-Line Costs

**Objectives:** The objective was to determine whether below-the-line costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143 (1)(b), F.A.C.

**Procedures:** We determined below-the-line costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We requested a detailed description of the below-the-line costs, and tested these costs to determine if the Utility included for recovery only those costs that are allowed by the applicable Rule. No exceptions were noted.

#### Non-Incremental Costs

**Objectives:** The objective was to determine whether non-incremental costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143, F.A.C.

**Procedures:** We determined non-incremental costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We requested a detailed description of the non-incremental costs, and tested these costs to determine if the Utility included for recovery only those costs that are allowed by the applicable Rule.. No exceptions were noted.

#### Jurisdictional Factors

**Objectives:** The objective was to determine the jurisdictional factors used by the Utility.

**Procedures:** We determined that Gulf used the jurisdictional factors calculated for 2019 in its filing. We verified the calculation using support documentation provided by the Utility. No further work was performed.

Audit Findings

**None**

## Exhibits

### Exhibit 1: Gulf's Hurricane Michael Final Storm Restoration Costs

Gulf Power Company  
Hurricane Michael Incremental Cost and Capitalization Approach Adjustment  
through October 31, 2019  
(\$000s)

Exhibit MG-1, Page 1 of 2

| LINE NO | Storm Costs By Function(A)         |  |                  |                 |                      | Total (6) | Calculation of Recoverable Storm Amount (7) |
|---------|------------------------------------|--|------------------|-----------------|----------------------|-----------|---|
|         | System & Other (1)                 | Transmission (2)   | Distribution (3) | General (B) (4) | Customer Service (5) |           |   |
| 1       | Storm Reserve Balance (Pre-Storm)  |  |                  |                 |                      |           | \$(48,000)                                  |
| 2       |                                    |  |                  |                 |                      |           |   |
| 3       | <b>Storm Restoration Costs</b>     |  |                  |                 |                      |           |   |
| 4       |                                    | \$193  | \$894            | \$4,572         | \$50                 | \$1,255   | \$6,964                                     |
| 5       |                                    | 160  | 600              | 4,342           | 23                   | 976       | 6,302                                       |
| 6       |                                    | 782  | 22,555           | 213,694         | 331                  | 0         | 237,343                                     |
| 7       |                                    | 0  | 1,376            | 18,298          | 0                    | 0         | 19,673                                      |
| 8       |                                    | 0  | 71               | 637             | 0                    | 0         | 727   |
| 9       |                                    | 1,789  | 1,651            | 26,509          | 9                    | 0         | 29,957                                      |
| 10      |                                    | 93   | 14,558           | 107,111         | 32                   | 0         | 121,796                                     |
| 11      |                                    | 17   | 60               | 4,836           | 0                    | 0         | 4,913                                       |
| 12      |                                    | \$3,015  | \$41,945         | \$380,018       | \$445                | \$2,232   | \$427,675                                   |
| 13      |                                    |  |                  |                 |                      |           |   |
| 14      | <b>Less: Non-Incremental Costs</b> |  |                  |                 |                      |           |   |
| 15      |                                    | \$193  | \$401            | \$2,646         | \$50                 | \$1,255   | \$4,544                                     |
| 16      |                                    | 0  | 5                | 70              | 23                   | 0         | 98  |
| 17      |                                    | 0  | 0                | 0               | 331                  | 0         | 331   |
| 18      |                                    | 0  | 498              | 290             | 0                    | 0         | 788   |
| 19      |                                    | 0  | 15               | 171             | 0                    | 0         | 186   |
| 20      |                                    | 0  | 0                | 0               | 9                    | 0         | 9   |
| 21      |                                    | 0  | 0                | 0               | 32                   | 0         | 32  |
| 22      |                                    | 0  | 1                | 6               | 0                    | 0         | 7   |
| 23      |                                    | 0  | 30               | 221             | 0                    | 0         | 251   |
| 24      |                                    | \$193  | \$951            | \$3,403         | \$445                | \$1,255   | \$6,247                                     |
| 25      |                                    | Total Non-Incremental Costs Sum of Lines 15 - 24   |                  |                 |                      |           |   |
| 26      |                                    |  |                  |                 |                      |           |   |
| 27      |                                    |  |                  |                 |                      |           |   |
| 28      | <b>Incremental Storm Losses</b>    |  |                  |                 |                      |           |   |
| 29      |                                    | \$0  | \$493            | \$1,927         | \$0                  | \$0       | 1,420                                       |
| 30      |                                    | 160  | 795              | 4,272           | 0                    | 976       | 6,204                                       |
| 31      |                                    | 782  | 22,555           | 213,694         | 0                    | 0         | 237,011                                     |
| 32      |                                    | 0  | 877              | 18,008          | 0                    | 0         | 18,885                                      |
| 33      |                                    | 0  | 55               | 486             | 0                    | 0         | 541   |
| 34      |                                    | 1,789  | 1,651            | 26,509          | 0                    | 0         | 29,948                                      |
| 35      |                                    | 93   | 14,558           | 107,111         | 0                    | 0         | 121,764                                     |
| 36      |                                    | 17   | 29               | 4,668           | 0                    | 0         | 4,654                                       |
| 37      |                                    | \$2,822  | \$41,014         | \$376,615       | \$0                  | \$976     | \$421,427                                   |
| 38      |                                    | Less: Third-Party Reimbursements (F)   |                  |                 |                      |           |   |
| 39      |                                    | 0  | 117              | 4,837           | 0                    | 0         | 4,954                                       |
| 40      |                                    | Net Incremental Restoration Costs Incurred Lines 37 - 39   |                  |                 |                      |           |   |
| 41      |                                    | \$2,822  | \$40,897         | \$371,777       | \$0                  | \$976     | \$416,473                                   |
| 42      |                                    | Less: Capitalizable Costs, excluding Third-Party Reimbursements  |                  |                 |                      |           |   |
| 43      |                                    | 1,492  | 11,758           | \$8,611         | 0                    | 0         | 101,861                                     |
| 44      |                                    | Total Incremental Storm Losses Lines 41 - 43   |                  |                 |                      |           |   |
| 45      |                                    | \$1,350  | \$29,140         | \$283,166       | \$0                  | \$976     | \$314,612                                   |
| 46      |                                    | Jurisdictional Factor (G)  |                  |                 |                      |           |   |
| 47      |                                    | 0.9720   | 0.9741           | 0.9963          | 0.9841               | 1.0000    |   |
| 48      |                                    | Retail Recoverable Costs Lines 45 * 47   |                  |                 |                      |           |   |
| 49      |                                    | \$1,293  | \$28,384         | \$282,124       | \$0                  | \$976     | \$312,777                                   |
| 50      |                                    | Balance of Storm Reserve after Funding Estimated Storm Costs ("Eligible Restoration Costs") (Lines 1 - 49)   |                  |                 |                      |           |   |
| 51      |                                    |  |                  |                 |                      |           |   |
| 52      |                                    | Less: Additional 2018 Accruals to Storm Reserve (Post-Storm)   |                  |                 |                      |           |   |
| 53      |                                    |  |                  |                 |                      |           |   |
| 54      |                                    | Plus: Interest on Unamortized Reserve Balances   |                  |                 |                      |           |   |
| 55      |                                    |  |                  |                 |                      |           |   |
| 56      |                                    | Plus: Amount to Replenish Reserve to Level at Settlement Agreement Implementation Date, December 31, 2016 ("Implementation Storm Reserve Balance") |                  |                 |                      |           |   |
| 57      |                                    |  |                  |                 |                      |           |   |
| 58      |                                    | Subtotal - System Storm Losses to be Recovered from Customers (Lines 51 - 53 - 55 - 57)  |                  |                 |                      |           |   |
| 59      |                                    |  |                  |                 |                      |           |   |
| 60      |                                    | Regulatory Assessment Fee Multiplier   |                  |                 |                      |           |   |
| 61      |                                    |  |                  |                 |                      |           |   |
| 62      |                                    | Total System Storm Losses to be Recovered from Customers ("Recoverable Storm Amount") (Lines 59 * 61)  |                  |                 |                      |           |   |
| 63      |                                    |  |                  |                 |                      |           |   |

**Notes:**

- (A) Storm costs are as of October 31, 2019. Totals may not add due to rounding.
- (B) General plant function reflects restoration costs associated with employee assistance.
- (C) Represents total payroll charged to the business unit (function) being supported. For example, an employee that works in Legal but is supporting Distribution during storm restoration would allocate their time to Distribution.
- (D) Includes other miscellaneous costs, including reserve equipment in FERC Account 368, Line Transformers and removed as Capital Costs in Line 43 above.
- (E) Represents regular payroll normally recovered through base rate O&M and not charged to the Storm Reserve.
- (F) Reimbursement from AT&T for net poles and a PowerSouth tap replaced by Gulf during restoration as a result of the storm.
- (G) Jurisdictional Factors are based on factors approved in Docket No. 160166-EL.