



BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

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IN RE: PETITION FOR LIMITED )  
PROCEEDING FOR RECOVERY )  
OF INCREMENTAL STORM )  
RESTORATION COSTS ) DOCKET NO. 20190038-EI  
RELATED TO HURRICANE )  
MICHAEL, BY GULF POWER )  
COMPANY )

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Direct Testimony of Michael P. Gorman

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,  
3 Chesterfield, MO 63017.

4

5 Q WHAT IS YOUR OCCUPATION?

6 A I am a consultant in the field of public utility regulation and a Managing Principal of  
7 Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.

8

9 Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

10 A This information is included in Appendix A to my testimony.

11

12 Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

13 A I am appearing in this proceeding on behalf of the Federal Executive Agencies  
14 ("FEA").

15

1 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A I will respond to the development of the incremental recoverable costs for the  
3 Hurricane Michael costs as outlined in Gulf Power Company (“Gulf Power” or  
4 “Company”) witness Mitchell Goldstein’s Direct Testimony. Mr. Goldstein states that  
5 Gulf Power’s accounting for Hurricane Michael was in accordance with the  
6 Incremental Cost and Capitalization Approach (“ICCA”) methodology required under  
7 Rule 25-6.0143, Florida Administrative Code (“F.A.C.”). He refers to this as “the  
8 Rule” in his testimony.

9

10 **Q WHAT ISSUES DO YOU TAKE WITH MR. GOLDSTEIN’S DEVELOPMENT OF**  
11 **INCREMENTAL HURRICANE COSTS?**

12 A I have two concerns with his development of incremental costs as laid out on his  
13 Exhibit MG-1, pages 1 and 2. First, I take issue with his inclusion of Regular Payroll  
14 and Related Costs as an incremental cost related to hurricane damage costs.  
15 Second, I take issue with the way he includes a carrying charge, or interest expense,  
16 on the recoverable hurricane costs.

17

18 **Q PLEASE DESCRIBE WHAT COSTS MR. GOLDSTEIN HAS INCLUDED AS**  
19 **INCREMENTAL IN THE DEVELOPMENT OF HIS TOTAL SYSTEM STORM**  
20 **LOSSES TO BE RECOVERED FROM CUSTOMERS?**

21 A As outlined on his Exhibit MG-1, page 1, he recommends recovery of \$295,749,000  
22 of incremental costs related to storm damage. Included in that under storm  
23 restoration costs is “Regular Payroll and Related Costs.” He defines Regular Payroll  
24 and Related Costs as “Represents total payroll charged to the business unit (function)  
25 being supported.” He gives an example as “an employee that works in Legal but is

1 supporting Distribution during storm restoration would allocate their time to  
2 Distribution.”

3  
4 **Q HAS MR. GOLDSTEIN ADEQUATELY JUSTIFIED THESE REGULAR PAYROLL  
5 AND RELATED COSTS AS INCREMENTAL COSTS?**

6 A No. While employees' assignments may have changed as a result of the hurricane,  
7 their costs are not incremental to the utility. Indeed, whether an employee's costs are  
8 included in Legal fees or other places, they are included in the Company's  
9 development of cost-based rates. Therefore, Gulf Power's payroll costs are already  
10 being paid by customers in their electric bills, and these costs are not incremental or  
11 caused by the hurricane damage. Hence, including regular payroll costs as  
12 incremental storm-related costs is not reasonable, because it provides Gulf Power an  
13 ability to recover regular payroll costs twice – once through base rates, and a second  
14 time through incremental hurricane damage costs.

15  
16 **Q PLEASE DESCRIBE YOUR CONCERN WITH THE DEVELOPMENT OF THE  
17 CARRYING CHARGE MR. GOLDSTEIN PROPOSES ON HIS EXHIBIT MG-1,  
18 PAGE 2 OF 2.**

19 A My concern here deals with the interest rate being applied to the total incremental  
20 costs, as opposed to the after-tax incremental costs. The carrying charge should  
21 apply to the after-tax costs, because that represents the amount of out-of-pocket cash  
22 cost to the utility that must be financed. To the extent the utility, or its parent  
23 company, can use write-offs and extraordinary expenses associated with hurricane  
24 damage costs to reduce their income tax liability, then the carrying charge applied to  
25 these unrecovered plant costs should be based on an after-tax basis.

1           Indeed, this is similar to developing a rate of return on rate base by  
2 recognizing plant investment can be funded by both investor capital, which includes a  
3 carrying charge, and cost-free capital such as accumulated deferred income taxes.

4           In developing the cost recovery for the incremental hurricane damage costs,  
5 the Company would recover 100% of the costs. However, in calculating the carrying  
6 charge, the charge should only apply to the after-tax balance, because the Company  
7 can reduce this carrying charge by immediately writing off hurricane costs as they are  
8 incurred. This adjustment will lower the cost that has to be passed on to customers  
9 while providing Gulf Power 100% recovery of qualifying incremental hurricane costs.

10           For this reason, I recommend Mr. Goldstein's Exhibit MG-1, page 2 of 2 be  
11 adjusted to calculate a carrying interest charge on the unamortized balance based on  
12 the after-tax component of this. This can be accomplished by adjusting  
13 Mr. Goldstein's Exhibit MG-1, page 2 under Column 11 by using the monthly average  
14 interest rate calculation multiplied by the after-tax amount of average un-recovered  
15 eligible restoration costs shown under Column 6, or Column 6 times (1 minus  
16 composite tax rate). This would reduce the monthly interest as he has calculated it by  
17 approximately the Company's federal income tax rate, or 21%.

18  
19 **Q       DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

20 **A**Yes, it does.  
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1 **Qualifications of Michael P. Gorman**

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

3 A Michael P. Gorman. My business address is 16690 Swingley Ridge Road,  
4 Suite 140, Chesterfield, MO 63017.

5

6 **Q PLEASE STATE YOUR OCCUPATION.**

7 A I am a consultant in the field of public utility regulation and a Managing Principal with  
8 the firm of Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory  
9 consultants.

10

11 **Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK  
12 EXPERIENCE.**

13 A In 1983 I received a Bachelor of Science Degree in Electrical Engineering from  
14 Southern Illinois University, and in 1986, I received a Master's Degree in Business  
15 Administration with a concentration in Finance from the University of Illinois at  
16 Springfield. I have also completed several graduate level economics courses.

17 In August of 1983, I accepted an analyst position with the Illinois Commerce  
18 Commission ("ICC"). In this position, I performed a variety of analyses for both  
19 formal and informal investigations before the ICC, including: marginal cost of  
20 energy, central dispatch, avoided cost of energy, annual system production costs,  
21 and working capital. In October of 1986, I was promoted to the position of Senior  
22 Analyst. In this position, I assumed the additional responsibilities of technical leader  
23 on projects, and my areas of responsibility were expanded to include utility financial  
24 modeling and financial analyses.

1           In 1987, I was promoted to Director of the Financial Analysis Department. In  
2 this position, I was responsible for all financial analyses conducted by the Staff.  
3 Among other things, I conducted analyses and sponsored testimony before the ICC  
4 on rate of return, financial integrity, financial modeling and related issues. I also  
5 supervised the development of all Staff analyses and testimony on these same  
6 issues. In addition, I supervised the Staff's review and recommendations to the  
7 Commission concerning utility plans to issue debt and equity securities.

8           In August of 1989, I accepted a position with Merrill-Lynch as a financial  
9 consultant. After receiving all required securities licenses, I worked with individual  
10 investors and small businesses in evaluating and selecting investments suitable to  
11 their requirements.

12           In September of 1990, I accepted a position with Drazen-Brubaker &  
13 Associates, Inc. ("DBA"). In April 1995, the firm of Brubaker & Associates, Inc. was  
14 formed. It includes most of the former DBA principals and Staff. Since 1990, I have  
15 performed various analyses and sponsored testimony on cost of capital,  
16 cost/benefits of utility mergers and acquisitions, utility reorganizations, level of  
17 operating expenses and rate base, cost of service studies, and analyses relating to  
18 industrial jobs and economic development. I also participated in a study used to  
19 revise the financial policy for the municipal utility in Kansas City, Kansas.

20           At BAI, I also have extensive experience working with large energy users to  
21 distribute and critically evaluate responses to requests for proposals ("RFPs") for  
22 electric, steam, and gas energy supply from competitive energy suppliers. These  
23 analyses include the evaluation of gas supply and delivery charges, cogeneration  
24 and/or combined cycle unit feasibility studies, and the evaluation of third-party  
25 asset/supply management agreements. I have participated in rate cases on rate

1 design and class cost of service for electric, natural gas, water and wastewater  
2 utilities. I have also analyzed commodity pricing indices and forward pricing methods  
3 for third party supply agreements, and have also conducted regional electric market  
4 price forecasts.

5 In addition to our main office in St. Louis, the firm also has branch offices in  
6 Phoenix, Arizona and Corpus Christi, Texas.

7

8 **Q HAVE YOU EVER TESTIFIED BEFORE A REGULATORY BODY?**

9 A Yes. I have sponsored testimony on cost of capital, revenue requirements, cost of  
10 service and other issues before the Federal Energy Regulatory Commission and  
11 numerous state regulatory commissions including: Arkansas, Arizona, California,  
12 Colorado, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas,  
13 Louisiana, Michigan, Mississippi, Missouri, Montana, New Jersey, New Mexico, New  
14 York, North Carolina, Ohio, Oklahoma, Oregon, South Carolina, Tennessee, Texas,  
15 Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming, and  
16 before the provincial regulatory boards in Alberta and Nova Scotia, Canada. I have  
17 also sponsored testimony before the Board of Public Utilities in Kansas City, Kansas;  
18 presented rate setting position reports to the regulatory board of the municipal utility  
19 in Austin, Texas, and Salt River Project, Arizona, on behalf of industrial customers;  
20 and negotiated rate disputes for industrial customers of the Municipal Electric  
21 Authority of Georgia in the LaGrange, Georgia district.

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1 Q PLEASE DESCRIBE ANY PROFESSIONAL REGISTRATIONS OR  
2 ORGANIZATIONS TO WHICH YOU BELONG.

3 A I earned the designation of Chartered Financial Analyst (“CFA”) from the CFA  
4 Institute. The CFA charter was awarded after successfully completing three  
5 examinations which covered the subject areas of financial accounting, economics,  
6 fixed income and equity valuation and professional and ethical conduct. I am a  
7 member of the CFA Institute’s Financial Analyst Society.

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FLORIDA PUBLIC SERVICE COMMISSION**

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MICHAEL, BY GULF POWER )  
COMPANY )  
\_\_\_\_\_

DOCKET NO. 20190038-EI

STATE OF MISSOURI     )  
                                  )  
COUNTY OF ST. LOUIS    )     SS

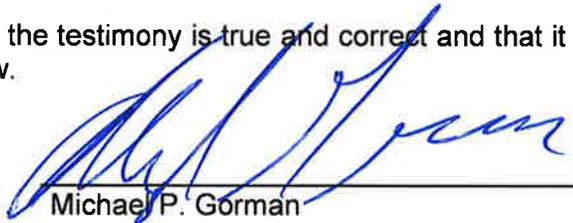
**Affidavit of Michael P. Gorman**

Michael P. Gorman, being first duly sworn, on his oath states:

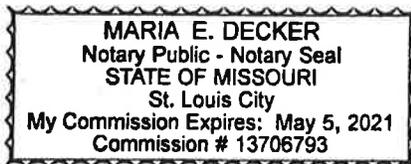
1. My name is Michael P. Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Federal Executive Agencies in this proceeding on their behalf.

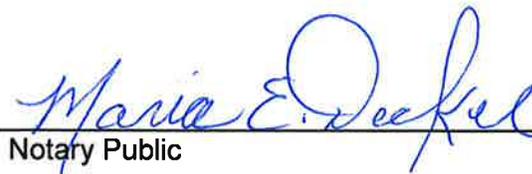
2. Attached hereto and made a part hereof for all purposes is my direct testimony which was prepared in written form for introduction into evidence in the Florida Public Service Commission Docket No. 20190038-EI.

3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.

  
\_\_\_\_\_  
Michael P. Gorman

Subscribed and sworn to before me this 11th day of June, 2020.



  
\_\_\_\_\_  
Notary Public

## CERTIFICATE OF SERVICE

I HERBY CERTIFY that the foregoing has been served by electronic mail to the following this 11<sup>th</sup> day of June 2020.

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*/s/ Ebony M. Payton*  
*FEA Paralegal*