

Docket No. 20190038-EI
Gulf Power Company
Petition for Limited Proceeding for Recovery of Incremental Storm Restoration Costs
Related to Hurricane Michael, by Gulf Power Company.

Witness: **Direct Testimony of Carl Vinson,**
Appearing on Behalf of the Staff of the Florida Public Service Commission

Date Filed: June 26, 2020

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

3 **DIRECT TESTIMONY OF CARL VINSON**

4 **DOCKET NO. 20190038-EI**

5 **JUNE 26, 2020**

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

7 A. My name is Carl Vinson. My business address is 2540 Shumard Oak Boulevard,
8 Tallahassee, Florida, 32399-0850.

9 **Q. By whom are you presently employed?**

10 A. I am employed by the Florida Public Service Commission (Commission) as the
11 Supervisor of the Performance Analysis Section within the Office of Auditing and Performance
12 Analysis.

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

14 A. I oversee a team that performs management audits and investigations of Commission-
15 regulated utilities, focusing on the effectiveness of management and company practices,
16 adherence to company procedures, and the adequacy of internal controls.

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

18 A. I earned a Bachelor of Business Administration degree in Finance from Stetson
19 University in 1980. Prior to my employment with the Commission, I worked for five years at
20 Ben Johnson Associates, a consulting firm serving public utility commissions and offices of
21 public counsel across the country. Since 1989, as part of Commission staff, I have conducted and
22 overseen numerous management audits (also known as “operational audits”) and investigations
23 of regulated utilities. As is the case in this docket, all of these audits provided assessments of the
24 adequacy and appropriateness of management internal controls over various operational areas of
25 regulated electric, gas, telecom, or water utilities.

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

3 A. Yes. I filed testimony regarding audits of project management internal controls over
4 nuclear construction projects of Duke Energy Florida, LLC and Florida Power & Light Company
5 in Docket Nos. 20080009-EI, 20090009-EI, 20150009-EI, and 20170009-EI. I also filed
6 testimony in Docket No. 20050045-EI addressing Florida Power & Light Company's vegetation
7 management, lightning protection, and pole inspection processes.

8 **Q. Please describe the purpose of your testimony in this docket.**

9 A. My testimony presents the attached audit report entitled *Review of Gulf Power*
10 *Company's Storm Cost Management and Payment Processing Practices for Hurricane Michael*
11 (Exhibit CV-1). This report was prepared by the Performance Analysis Section under my
12 direction. The purpose of the audit was to review, examine, and assess the methods by which
13 Gulf Power Company (Gulf) controlled, incurred, and paid for portions of its Hurricane Michael
14 storm costs. It also provides an assessment of the current procedures that will govern the
15 incurring and payment of costs in Gulf's future post-storm restoration and recovery efforts.

16 **Q. Are you sponsoring any exhibits?**

17 A. Yes. Exhibit CV-1, which presents the report, is attached to my testimony.

18 **Q. Please summarize the areas examined by your review.**

19 A. The objectives of the audit were to examine the following regarding Gulf's Hurricane
20 Michael storm restoration and recovery costs:

21 Vendor storm cost invoice preparation and submission

22 Review and approval of vendor storm cost invoices

23 Invoice dispute, correction, and resolution

24 Staffing and training of payment processing personnel

25 Consistency of invoice with contract terms and conditions

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Overrides and exceptions to procedures and contract terms

Operating systems supporting invoice payment processing

Work planning and deployment of contractors and mutual assistance resources

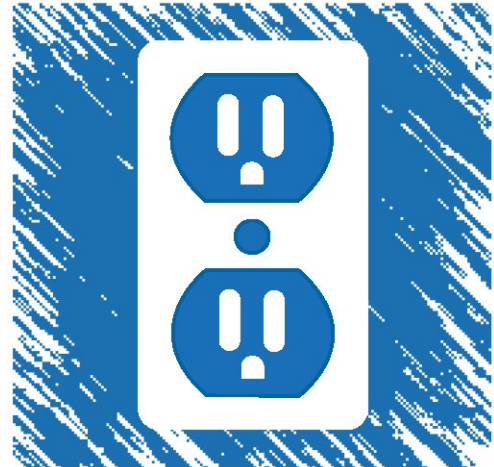
Oversight and work monitoring of contractors and mutual assistance resources

Recordkeeping of contractor and mutual assistance work hours and costs

Self-assessment and implementation of lessons learned

Q. Does this conclude your testimony?

A. Yes.



REVIEW OF
Gulf Power Company's
Storm Cost Management and
Payment Processing Practices
for Hurricane Michael

June 2020

By Authority of
The Florida Public Service Commission
Office of Auditing and Performance Analysis
Performance Analysis Section

REVIEW OF

**Gulf Power Company's
Storm Cost Management and
Payment Processing Practices
for Hurricane Michael**

Bob Casey
Public Utility Analyst II
Project Manager

David Rich
Public Utility Analyst IV

Lynn Fisher
Public Utility Analyst I

June 2020

By Authority of
The Florida Public Service Commission
Office of Auditing and Performance Analysis
Performance Analysis Section

PA-19-09-002

TABLE OF CONTENTS

CHAPTER	Page
1.0 EXECUTIVE SUMMARY	
1.1 Purpose and Objectives.....	1
1.2 Scope and Methodology.....	1
1.3 Observations.....	2
2.0 BACKGROUND AND PERSPECTIVE	
2.1 Impact of Hurricane Michael.....	5
2.2 2017 Storm Settlement Agreement.....	5
2.3 Gulf Invoice Review and Payment Processes.....	7
3.0 COMMISSION AUDIT STAFF ANALYSIS	
3.1 Review of Invoicing and Contractor Management Controls.....	8
3.2 Invoice Sample Review.....	9
3.3 Invoice Sample Evaluation Criteria.....	9
3.4 Commission Audit Staff Observations.....	12

1.0 Executive Summary

1.1 Purpose and Objectives

The Florida Public Service Commission's (FPSC or Commission) Office of Auditing and Performance Analysis initiated this operational audit at the request of the Commission's Division of Accounting and Finance. The purpose of the audit was to review and examine processes and internal controls in use by Gulf Power Company (Gulf or Company). Commission audit staff assessed Gulf's compliance with its procedures and internal controls and their effectiveness in reviewing, processing, and paying invoices associated with Hurricane Michael.

The objectives of this audit were met by examining and assessing the adequacy of the processes for:

- ◆ Vendor storm cost invoice preparation and submission
- ◆ Review and approval of vendor storm cost invoices
- ◆ Invoice dispute, correction, and resolution
- ◆ Staffing and training of payment processing personnel
- ◆ Consistency of invoice with contract terms and conditions
- ◆ Overrides and exceptions to procedures and contract terms
- ◆ Operating systems supporting invoice payment processing
- ◆ Work planning and deployment of contractors and mutual assistance resources
- ◆ Oversight and work monitoring of contractors and mutual assistance resources
- ◆ Recordkeeping of contractor and mutual assistance work hours and costs
- ◆ Self-assessment and implementation of lessons learned

1.2 Scope and Methodology

The scope of the review focused on the processes by which Gulf incurred these costs, processed the resulting invoices, and paid vendors.

As authorized by Sections 350.117(2) and (3), Florida Statutes (F.S.), management audits are conducted by staff to assess utility performance and the adequacy of operations and controls:

(2) The commission may perform management and operation audits of any regulated company. The commission may consider the results of such audits in establishing rates; however, the company shall not be denied due process as a result of the use of any such management or operation audit.

(3) As used in this section, "management and operation audit" means an appraisal, by a public accountant or other professional person, of management performance, including a testing of adherence to governing policy and profit capability; adequacy

of operating controls and operating procedures; and relations with employees, customers, the trade, and the public generally.

Commission audit staff's standard of review for internal controls is primarily the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the *Internal Control - Integrated Framework* developed by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Internal controls assessments focus on the COSO framework's five key elements of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Commission audit staff's work is performed in compliance with Institute of Internal Auditors Performance Standards 2000 through 2500.

The information in this audit report was gathered through responses to document requests and on-site interviews with key employees responsible for processing, verifying, and approving invoices paid for Hurricane Michael. Specific information collected and reviewed from Gulf included:

- ◆ Policies and procedures used for procuring labor, services and materials, and the review and approval of storm cost invoices
- ◆ Governing documents under which Hurricane Michael storm costs were incurred (e.g., master service agreements, contracts, purchase orders, vendor guidelines and instructions)
- ◆ Analysis of a statistical sample of Hurricane Michael storm cost invoices, including all supporting documentation used for processing and paying contractor costs, logistics, materials, and fuel
- ◆ Internal and external reviews or audits performed to verify Hurricane Michael costs
- ◆ Documents filed in FPSC Docket Nos. 20190038-EI and 20160170-EI¹

1.3 Observations

Commission audit staff developed the following observations regarding key areas of operations related to storm cost controls and payment.

1.3.1 Invoice Processing and Payment Procedures

Observation 1: Commission audit staff believes that Gulf's invoice requirements procedure provided adequate direction for processing Hurricane Michael invoices under Southern Company invoice review guidelines

¹Docket No. 160170-EI, *In re: Petition for approval of 2016 depreciation and dismantlement studies, approval of proposed depreciation rates and annual dismantlement accruals and Plant Smith Units 1 and 2 regulatory asset amortization, by Gulf Power Company.*

and Edison Electric Institute/Southeastern Electric Exchange invoicing guidelines.

Observation 2: Commission audit staff believes Gulf's invoice checking, correction, and approval processes were effective.

Observation 3: Commission audit staff believes Gulf provided adequate staffing and expertise for invoice and payment processing and oversight to provide acceptable accuracy and efficiency.

1.3.2 Contractor Deployment and Management

Observation 4: Gulf has adopted FPL's recently-revised *Contractor Statement of Work* laying out policies and processes regarding contractor mobilization and demobilization, standby time, and guaranteed labor hours. Daily standby time is capped at 10 hours, and no minimum daily hours are assumed or guaranteed. Commission audit staff believes this change may reduce labor costs and enhance Gulf's monitoring of vendor performance.

Observation 5: Gulf's adoption of process improvements outlined in FPL's Hurricane Irma Settlement Process Provisions addresses minimum daily labor hours. The settlement provides that the Company will establish a policy to limit work time to 16 hours on, with 8 hours of rest, with no minimum hours. Commission audit staff notes that this change may reduce labor costs.

Observation 6: Gulf's adoption of process improvements outlined in FPL's Hurricane Irma Settlement Process Provisions includes use of FPL's iStorm tool for tracking and crew management, resource requirements, resource rates, mobilization and demobilization pricing, and standby pricing. The iStorm tool is planned for use in timesheet entry and approval. Commission audit staff believes these changes may reduce time recording and billing errors, and enhance Gulf's monitoring of vendor performance.

Observation 7: Gulf's adoption of process improvements outlined in FPL's Hurricane Irma Settlement Process Provisions addresses base camp provision of meals and fuel. FPL's iStorm app will require approval for exceptions where meals or fuel must be obtained away from base camp. Commission audit staff believes this closer control over vendor expenses may reduce meal costs and fueling time.

Observation 8: Gulf’s adoption of improvements outlined in FPL’s Hurricane Irma Settlement Process Provisions includes continued participation in the Edison Electric Institute and Southeastern Electric Exchange mutual aid groups. Gulf states it plans to continue to participate in these groups. Commission audit staff notes that Gulf’s statement may satisfy this particular settlement requirement.

1.3.3 Lessons-Learned Assessment and Implementation of Improvements

Observation 9: Gulf’s ongoing transition to NextEra Energy processes and procedures and the adoption of several process improvements included in FPL’s Hurricane Irma Settlement has accelerated incorporation of lessons learned by both Gulf and FPL from recent storms. Gulf states it continues to pursue process efficiencies based upon its own Hurricane Michael lessons learned.

2.0 Background and Perspective

2.1 Impact of Hurricane Michael

Hurricane Michael caused over 120,000 Gulf customer outages on October 10, 2018. The Company's transmission and distribution systems experienced widespread physical damage. Approximately 7,000 poles, 200 miles of line, and 4,000 transformers were replaced on the distribution system. More than 600 miles of transmission lines were impacted requiring repair and/or replacement of more than 100 miles of line and 200 structures, along with at least 30 substations. Some areas required a complete rebuild of the electric system.

On February 5, 2019, pursuant to Section 366.076(1), F.S. and the provisions of the Stipulation and Settlement Agreement approved by Order No. PSC-2017-0178-S-EI, Gulf filed its Petition for Limited Proceeding for Recovery of Incremental Storm Restoration Costs Related to Hurricane Michael. By Order No. PSC-2019-0221-PCO-EI, issued on June 3, 2019, the Commission approved the requested 2019 Interim Storm Restoration Recovery Charge for a period of 60 months and required Gulf to submit documentation of the actual storm costs for review and true up of any excess or shortfall. Gulf submitted its actual storm costs on November 15, 2019, requesting \$295.7 million in recovery.

2.2 2017 Storm Settlement Agreement

On October 12, 2016, Gulf filed a petition with the Commission for an increase in rates.² On March 20, 2017, prior to the start of the hearing, Gulf and the interveners filed a Stipulation and Settlement Agreement resolving all issues, including storm damage.³

Under this 2017 Stipulation and Settlement Agreement, Gulf is entitled to request recovery of the storm reserve deficit and replenish its storm reserve to the balance as of December 31, 2016, which was \$40.8 million. The following paragraph of the settlement agreement applied to future storm recovery.

Storm Damage.

(a) Nothing in this Agreement shall preclude Gulf Power from petitioning the Commission to seek recovery of costs associated with any (1) tropical systems named by the National Hurricane Center or its successor or (2) other catastrophic storm events causing damage to Gulf's generation, transmission or distribution system in the aggregate dollar amount of at least 75% of the property damage reserve balance on April 1, 2017, without the application of any form of earnings test or measure and irrespective of previous or current base rate earnings. Consistent

²Docket No. 160170-EI, *In re: Petition for approval of 2016 depreciation and dismantlement studies, approval of proposed depreciation rates and annual dismantlement accruals and Plant Smith Units 1 and 2 regulatory asset amortization, by Gulf Power Company.*

³Document Nos. 03681-17 and 03713-17 (Stipulation and Settlement Agreement).

with the rate design methods approved in this agreement, the Parties agree that recovery of storm costs from customers under this paragraph 7 will begin, on an interim basis, sixty days following the filing of a cost recovery petition and tariff sheets with the Commission and will be based on a 12-month recovery period if the storm costs do not exceed \$4.00/1,000 kWh on monthly residential customer bills. In the event the storm costs exceed that level, any additional costs in excess of \$4.00/1,000 kWh may be recovered in a subsequent year or years as determined by the Commission. All storm related costs subject to recovery under this paragraph 7 shall be calculated and disposed of pursuant to Commission Rule 25-6.0143, F.A.C. and will be limited to: (i) costs resulting from a tropical system named by the National Hurricane Center or its successor or other catastrophic storms creating significant damage to Gulf's generation, transmission, or distribution systems such as tornados or ice storms in the aggregate dollar amount of at least 75% of the property damage reserve balance on April 1, 2017; (ii) the estimate of incremental storm restoration costs above the level of storm reserve prior to the storm; and (iii) the replenishment of the storm reserve to the level as of December 31, 2016. The Parties to this Agreement are not precluded from participating in any such proceedings and opposing the amount of Gulf Power's claimed costs or whether the proposed recovery is consistent with this paragraph 7, but the Parties cannot oppose the mechanism agreed to herein.

(b) The Parties agree that the \$4.00/1,000 kWh cap in this paragraph 7 shall apply in aggregate for a calendar year for the purpose of the recovery set forth in 7(a) above; provided, however, that Gulf may petition the Commission to allow Gulf to increase the initial 12 month recovery at rates greater than \$4.00/1,000 kWh, or for a period longer than 12 months, in the event Gulf incurs in excess of \$100 million of storm recovery costs that qualify for recovery in a given calendar year, inclusive or the amount needed to replenish the storm reserve to the level that existed as of December 31, 2016. All Parties reserve their right to oppose such a petition

(c) Any proceeding to recover costs under this paragraph 7 shall not be a vehicle for a "rate case" type inquiry concerning the expenses, investment, or financial results of operations of the Company and shall not apply any form of earnings test or measure or consider previous or current base rate earnings.

(d) Gulf further will be authorized, at its discretion, to suspend its current authorized property damage reserve accrual during any period from the approval of this agreement until the conclusion of Gulf's next general base rate proceeding or until the balance in Gulf's property damage reserve falls below \$0, whichever shall first occur.

(e) The provisions of this paragraph 7 shall remain in effect and shall continue in effect at least until the Company's base rates are next reset by the Commission in a general base rate proceeding.

2.3 Gulf Invoice Review and Payment Processes

Gulf maintains that it followed a robust and comprehensive invoice review process, including receipt, review, and follow-up analysis to ensure that, where appropriate, all Hurricane Michael invoices were either rejected, adjusted, or paid. Gulf established a three-layer invoice review process for Hurricane Michael costs.

- ◆ Gulf formed a team of five employees and six consultants to oversee the accurate and timely review of the invoices. Gulf reports that more than 10,000 review hours were committed to this process.
- ◆ At the request of Southern Company's Board of Directors, a Storm Cost review was performed to ensure contract compliance, invoice accuracy and vendor payment.
- ◆ At Gulf's request, NextEra Energy's internal audit (IA) group conducted an assessment of the controls surrounding Gulf's invoice review process.

Gulf reviewed approximately 4,500 invoices related to Hurricane Michael restoration activities. Upon receipt, invoices were logged to allow for tracking and monitoring as the invoices proceeded through the review process. Gulf's team of invoice reviewers was charged with the responsibility of reviewing and validating invoices to relevant supporting documents, such as contracts, labor and equipment rates, timesheets and expense receipts.

3.0 Commission Audit Staff Analysis

The overall focus of storm cost recovery dockets is to ensure that only prudently-incurred costs are reimbursed to utilities by customers. Of necessity, charges billed by vendors and contractors must be examined to ensure that the proper amounts were paid.

Commission audit staff notes that in addition to ensuring that invoices and payments were accurate, it is important to ensure that the costs were incurred under appropriate oversight and controls provided by the utility. A systemic lack of effective contractor management can inflate costs well beyond the impact of even numerous smaller invoicing or payment processing errors.

At the same time, during storm recovery efforts, Commission audit staff recognizes the tension between the utility's urgent need to efficiently marshal resources while simultaneously prioritizing rapid restoration of service to customers. It is unavoidable that these two needs compete, posing difficult choices for Florida investor-owned utilities.

Commission audit staff believes process improvements identified in prior cost recovery dockets for 2017 and 2018 storms have focused on contractor and work management issues more than on the actual invoice payment processes. In any event, the cumulative impact of lessons learned, agreements to implement Storm Restoration Cost Process Improvements to control costs, and creative initiatives by the utilities should yield substantial benefits in mitigating the cost impacts of future storms. By addressing these issues, the Commission and Florida utilities are appropriately rethinking embedded industry practices to the benefit of ratepayers.

3.1 Review of Invoicing and Contractor Management Controls

Commission audit staff closely reviewed the settlement and stipulations of Docket No. 20160170-EI and other recent storm cost recovery cases. This allowed the audit team to develop perspective on utility practices and the issues that arise regarding storm costs.

Audit staff issued numerous data requests to obtain information regarding Gulf's Hurricane Michael restoration work management and invoice processing practices. These requests yielded copies of written procedures, descriptions of process internal controls, copies of paid invoices, and associated supporting documentation.

On-site interviews with key Gulf management personnel were used to document how the restoration work and associated storm recovery costs were managed. This provided a foundational understanding of how costs were incurred, how vendors' work was tracked, and how payment processing was executed. Audit staff gathered information on company post-mortem analysis and lessons-learned from previous storms, and documented Gulf's process improvements either implemented to date, or under consideration for future implementation.

Data requests and teleconferences with Company personnel continued as Commission audit staff began detailed examination of invoices and company documentation of costs incurred.

3.2 Invoice Sample Review

To observe and verify the processes and controls described by the Company in interviews and data request responses, Commission audit staff used a sampling approach. This detailed examination of selected vendor invoices included the following tasks:

- ◆ Testing adherence to procedures
- ◆ Assessing adequacy of documentation used during invoice review and payment
- ◆ Evaluating Gulf's success in preventing and correcting processing errors
- ◆ Assessing adequacy of internal control protections

Commission audit staff's objective was to select and examine a sample of invoices to accomplish the above tasks. By its nature, analysis of a statistical sample provides an accurate depiction of the characteristics of an entire population.

To provide coverage of Gulf's storm cost dollars, audit staff selected its sample of vendor invoices from Gulf's three highest incremental cost categories: contractor, mutual aid IOU, and logistics costs. Together, these three categories account for 84% of Gulf's \$427,675,000 gross storm related restoration costs.

To maximize its focus on more complex and impactful invoices, Commission audit staff's sample selection excluded all invoices of \$25,000 or less within these three selected categories. After removing the \$25,000 and below invoices, audit staff determined the necessary sample size. Applying parameters of a 95% confidence level and an error rate of plus-or-minus 10%, a sample size of 89 invoices was calculated. Commission audit staff selected the sample invoices using a random number generator. Gulf provided each selected invoice and the supporting documentation used in processing and payment.

3.3 Invoice Sample Evaluation Criteria

To evaluate the sample invoices, Commission audit staff developed a set of attributes and checkpoints to assess process adequacy in the two key areas: adherence to company procedures and adequacy of internal controls. Overall, the attributes considered encompassed general best business practices employed in purchasing and project management.

Additionally, evaluation of the sample invoices was performed considering the Storm Restoration Cost Process Improvements included in Settlement Agreements⁴ between three IOUs and the Office of Public Counsel during 2018 and 2019. This gave perspective regarding the sufficiency of processes used during Hurricane Michael and Dorian, and also an indication of the potential value of implementing these Storm Restoration Cost Process Improvements.

⁴Docket No. 20170271-EI *In re: Petition for recovery of costs associated with named tropical storms during the 2015, 2016, and 2017 hurricane seasons and replenishment of storm reserve subject to final true-up, Tampa Electric Company*; Docket No. 20170272-EI *In re: Application for limited proceeding for recovery of incremental storm restoration costs related to Hurricanes Irma and Nate, by Duke Energy Florida, LLC.*; Docket No. 20180049-EI *In re: Evaluation of storm reserve costs for Florida Power & Light Company related to Hurricane Irma.*

3.3.1 Compliance with Gulf Procedures

A basic evaluation of invoice processing accuracy involved simple verification of adherence to Gulf's applicable procedures. This process included a line-by-line review of each invoice received and comparison to contemporaneous records of restoration work completed, including timesheets and meal/accommodation records. Invoices were also compared to vendor contract terms and provisions, among other activities. All reviews were detailed in a log maintained for this purpose, and potential discrepancies were documented and resolved.

Typically, an invoice package contains the vendor's itemized invoice, and some form of records validating charges such as labor timesheets, materials used, and receipts for purchases to be reimbursed. It also usually includes evidence of materials received or approval of work by utility personnel. A key component of the package is evidence that the charges and itemizations in the invoice agree with agreed upon rates and terms. Last, an invoice package should contain evidence of approval for payment and a record of that payment being made.

After verifying that necessary supporting documentation was present, Commission audit staff reviewed the package for evidence of compliance with applicable Gulf standards, requirements, and procedures. Where audit staff noted apparent exceptions, discussions were conducted with Gulf personnel and resolved. Generally minor additions to the audit trail or explanations of transaction details removed all concerns.

Commission audit staff verified that invoiced rates for hourly labor and equipment rentals matched current contract rates and terms. Time records were reviewed for evidence of authorization of work and contractor oversight. Similarly, evidence of supervisory approvals of the verification process was examined, and dual-control protection documented approval for payment and issuing final payment were verified.

Where variances were discovered between invoiced dollar amounts and amounts included in supporting documents, Commission audit staff asked for a reconciliation by Gulf.

3.3.2 Adequacy of Internal Controls

Beyond verifying that invoice processing comported with the Company's existing procedures, Commission audit staff also sought to assess the adequacy of internal process controls. To prevent payment errors or fraud, internal controls must secure each step of transactions that incur costs ultimately passed on to ratepayers. From the moment contractor and mutual aid labor is engaged or materials are ordered, Gulf must complete several verifications. Primarily, the work or materials must be verified as having been provided and acceptable. Gulf processes include requirements for acceptance and related approvals and were observed to be functioning properly.

Once costs are incurred and the vendor has performed, the invoicing and payment process begins. Prior experience in storm cost recovery dockets has made clear that vendor invoicing deficiencies and errors are problematic, particularly during the extraordinary challenges of storm recovery work. Commission audit staff believes that vendor training on invoicing procedures can greatly improve invoicing accuracy and therefore prevent payment errors. Gulf provided its vendor invoicing instructions and described its efforts to communicate the Company's expectations and requirements. These appear to provide appropriate guidance.

Vendor invoice review by Gulf's team of five employees and six contractors appears to be adequately protected by well-executed controls. Processes are in place to check the accuracy of invoiced labor hours and related hourly rates, materials quantities, equipment charges, fuel costs and lodging/meal expenses. Such controls include preparation of a spreadsheet to check computations within invoices.

Commission audit staff questioned instances of incorrect vendor invoices it identified. One instance included multiple invoices from a single vendor, all containing apparent overcharges. Gulf explained that its processing had identified these overcharges, but further review revealed the vendor may have a credible claim against Gulf for a much larger dollar amount in additional billings. Gulf's Executive Management decided that the Company and its customers were best served by paying the overcharges as invoiced without further pressing the issue.

After review of other invoices, combined net overcharges by a vendor of \$5,060.77 were brought to Gulf's attention by Commission audit staff. Gulf stated that it plans to address those amounts via rebuttal testimony in the docket, and may adjust its recovery request before the Commission.

Prior to Hurricane Michael, Gulf was a subsidiary of Southern Company and used Southern Company's Procurement and Payment Guidelines. As a member of the Southeastern Electric Exchange (SEE), Gulf also uses SEE invoicing guidelines. Upon the January 1, 2019 effective date of the merger, Gulf began use of NextEra Energy's policies and procedures governing invoice review processes. Audit staff reviewed Southern Company's invoice review guidelines, SEE guidelines, and NextEra Energy's guidelines to obtain a general understanding for comparison purposes.

Supporting documentation for each invoice sampled indicated invoice processing includes a comparison of invoiced charges to applicable rates and other governing contract provisions. Contract provisions may direct the applicability of overtime labor rates, specify limits on per diem and lodging costs, define meal policy, and clarify fuel rules. Audit staff's sample review raised no concerns regarding adequacy of contract protections and compliance with terms and conditions.

Additionally, controls over the payment function after invoice review must guard against fraud and errors. Final approval for payment requires multiple reviews and appears to be executed in keeping with this procedure.

Gulf uses mutual aid resources provided by IOUs such as FPL under ongoing mutual aid agreements. In the absence of a continuing contract, a utility seeking emergency assistance may make use of Edison Electric Institute's (EEI) suggested principles and policies⁵ for emergency assistance contracts. Mutual Assistance is provided at cost by responding companies with no profit included on invoices.

⁵https://www.eei.org/issuesandpolicy/electricreliability/mutualassistance/Documents/MAAgreement+GovPrinc_FINAL_090717.pdf

3.3.3 Settlement Agreement Storm Cost Process Improvements

During 2018 and 2019, within their respective storm cost recovery dockets, three Florida IOUs entered into Settlement Agreements with the Office of Public Counsel. Each settlement sets forth an agreement for the utility to implement several specific process changes related to storm costs. Most pertain to practices intended to reduce storm costs and improve recovery work efficiency.

Though Gulf has not entered into such a settlement, the Company recognized that these process improvements would benefit both Gulf and its ratepayers. As part of its integration as a subsidiary of NextEra Energy, Gulf plans to incorporate the procedures and improvements outlined in FPL's Hurricane Irma Cost Recovery Settlement – Process Provision.⁶ Gulf is working to integrate FPL's iStorm app for tracking and crew management, resource requirements, resource rates, mobilization/demobilization pricing structure, standby pricing structure, usage of the app for entry, recording, and approval of time, and other advancements to mitigate risk in the future.

3.4 Commission Audit Staff Observations

Based upon its review of processes, procedures, internal controls, and sampled invoices, Commission audit staff developed the following observations regarding storm cost controls and payment operations.

3.4.1 Invoice Processing and Payment Procedures

Vendor Invoicing Instructions

As a subsidiary of Southern Company during Hurricane Michael, Gulf was subject to its parent's invoice review guidelines. Gulf states it also follows EEI and SEE invoicing guidelines.

As noted, Gulf began in 2020 to follow NextEra Energy's policies and procedures regarding invoice review and processing. Commission audit staff reviewed both an example of the new instructions for creating and submitting invoices, and examples of the standard terms and conditions that Gulf may provide to a vendor based on the type of work being performed.

Observation 1: **Commission audit staff believes that Gulf's invoice requirements procedure provided adequate direction for processing Hurricane Michael invoices under Southern Company invoice review guidelines and Edison Electric Institute/Southeastern Electric Exchange invoicing guidelines.**

Invoice Checking, Correction, and Approval Procedures

Commission audit staff's sample review of invoices and interactions with Gulf personnel indicated that appropriate attention to detail and accuracy were provided in checking and processing for payment. Functioning as intended, errors were detected and addressed. Exception items noted by Commission audit staff were clarified with supporting evidence and justification.

⁶<http://www.psc.state.fl.us/ClerkOffice/ShowDocket?orderNum=PSC-2019-0319-S-EL.pdf>

Observation 2: Commission audit staff believes Gulf’s invoice checking, correction, and approval processes were effective.

Personnel Staffing and Training

Gulf established a three-layer invoice review process for Hurricane Michael costs to validate the accuracy of invoices and payments. This process included review of invoices by Gulf’s finance team and consultants, Southern Company Internal Auditing, and NextEra Energy’s Internal Auditing.

Observation 3: Commission audit staff believes Gulf applied adequate staffing and expertise for invoice and payment processing and oversight to provide acceptable accuracy and efficiency.

3.4.2 Contractor Deployment and Management

Standby Hours

During Hurricane Michael, no written policy regarding vendor standby hours existed. Therefore, contractors could be paid up to sixteen hours for non-productive time during mobilization/demobilization or standby mode. Gulf management defines “standby” time as pre-storm billable hours that ensure work teams are available immediately after the storm has passed. The Company stated that no standby time billing is allowable once workers begin storm restoration work.

Gulf management stated that standby occurred with only a few crews prior to Hurricane Michael, and Gulf did not differentiate standby time or rates as anything other than regular time. Attempting to determine how many standby hours were billed by contractors would have been an informal attempt by managers and would not have been differentiated by overtime or double time rates.

Observation 4: Gulf has adopted FPL’s recently-revised *Contractor Statement of Work* laying out policies and processes regarding contractor mobilization and demobilization, standby time, and guaranteed labor hours. Daily standby time is capped at 10 hours, and no minimum daily hours are assumed or guaranteed. Commission audit staff believes this change will reduce labor costs and enhance Gulf’s monitoring of vendor performance.

Minimum Daily Labor Hours

During Michael, Gulf indicated that minimum charges of 16 hours per day were allowed in its Michael restoration cost payments. Commission audit staff believes minimum guaranteed hours is a long-standing industry practice. The Company indicated that the extensive damage throughout its system provided more than enough work for every crew each day, and efforts were made to maximize productivity on each shift.

Observation 5: Gulf’s adoption of process improvements outlined in FPL’s Hurricane Irma Settlement Process Provisions addresses minimum daily labor hours. The settlement provides that the Company will establish a policy

to limit work time to 16 hours on, with 8 hours of rest, with no minimum hours. Commission audit staff notes that this change may reduce labor costs.

Contractor Work Monitoring and Recordkeeping

Gulf's Command Center personnel routinely conduct field visits once restoration has begun to validate restoration progress, assess remote work sites, and identify any adjustments that may be required. The Command Center assigns resources to operations managers responsible for managing crews' daily work until they are referred to the Command Center for redeployment or release, as tracked in the resource management system. Timesheets are verified by operations managers as part of the invoice review process. Going forward, Gulf plans to use the iStorm app that FPL is developing to handle the daily approval of contractor timesheets.

Observation 6: Gulf's adoption of process improvements outlined in FPL's Hurricane Irma Settlement Process Provisions includes use of FPL's iStorm tool for tracking and crew management, resource requirements, resource rates, mobilization and demobilization pricing, and standby pricing. The iStorm tool is planned for use in timesheet entry and approval. Commission audit staff believes these changes may reduce time recording and billing errors, and enhance Gulf's monitoring of vendor performance.

Utility-Provided Lodging, Meals, and Fuel

During Michael, Gulf housed some mutual aid and contractor workers at base camp facilities. Meals and fuel were provided at the base camp once crews were on-boarded. However, instances arose where crews had to obtain meals and fuel away from base camp. These exceptions required approval by Gulf personnel.

Observation 7: Gulf's adoption of process improvements outlined in FPL's Hurricane Irma Settlement Process Provisions addresses base camp provision of meals and fuel. FPL's iStorm app will require approval for exceptions where meals or fuel must be obtained away from base camp. Commission audit staff believes this closer control over vendor expenses may reduce meal costs and fueling time.

Coordination with SEE and EEI

During Hurricane Michael, Gulf made use of SEE services for obtaining mutual aid forces. Gulf is a founding member and active participant of the SEE Mutual Assistance Group. The Company also participates with EEI and the National Response Event organization to gain access to other utilities with similar mutual assistance agreements.

Observation 8: Gulf's adoption of improvements outlined in FPL's Hurricane Irma Settlement Process Provisions includes continued participation in the Edison Electric Institute and Southeastern Electric Exchange mutual aid groups. Gulf states it plans to continue to participate in these groups. Commission audit staff notes that Gulf's statement may satisfy this particular settlement requirement.

3.4.3 Lessons-Learned Assessment and Implementation of Improvements

Since 2016, Gulf's system has been impacted by five events that required off-system restoration assistance. For all of these events, the number of crews Gulf utilized for the restoration work was relatively small and Gulf performed a full line-by-line review of the contractor invoices for the associated restoration work. Gulf utilized the lessons learned from those reviews during its review of vendor invoices for Hurricane Michael. Gulf found that the issues associated with the Hurricane Michael invoice review process were very similar to those Gulf had previously encountered. Any issues or questions resulting from Gulf's review of the Hurricane Michael invoices were discussed with the vendor/contractor and corrected if an error had been made.

Observation 9: Gulf's ongoing transition to NextEra Energy processes and procedures and the adoption of several process improvements included in FPL's Hurricane Irma Settlement has accelerated incorporation of lessons learned by both Gulf and FPL from recent storms. Gulf states it continues to pursue process efficiencies based upon its own Hurricane Michael lessons learned.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for limited proceeding for recovery of incremental storm restoration costs related to Hurricane Michael, by Gulf Power Company.

DOCKET NO. 20190038-EI

DATED: June 26, 2020

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the testimony of Carl Vinson on behalf of the staff of the Florida Public Service Commission was electronically filed with the Office of Commission Clerk, Florida Public Service Commission, and copies were furnished by electronic mail to the following on this 26th day of June, 2020.

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