BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Re: Petition for limited proceeding for recovery of incremental storm restoration costs related to Hurricane Michael, by Gulf Power Company.	DOCKET NO. 20190038-EI FILED: August 10, 2020

PRE-HEARING STATEMENT OF THE OFFICE OF PUBLIC COUNSEL

The Citizens of the State of Florida, through the Office of Public Counsel, ("OPC"), pursuant to the Order Establishing Procedure in this docket, Order No. PSC-2020-0013-PCO-EI, hereby submit this Prehearing Statement.

APPEARANCES:

J.R. Kelly
Public Counsel

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Associate Public Counsel

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c/o The Florida Legislature
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On behalf of the Citizens of the State of Florida

1. WITNESSES:

Lane Kollen - All issues

2. EXHIBITS:

Witness	Proffered by	Exhibit No.	Description
Lane Kollen	OPC	LK-1	Résumé of Lane Kollen
Lane Kollen	OPC	LK-2	Gulf's Response to Citizens' Interrogatory No. 38 - Amended
Lane Kollen	OPC	LK-3	Gulf’s Response to Citizens’ Interrogatory No. 22, No. 26 and No. 83 - Amended Exhibit LK-3
Lane Kollen	OPC	LK-4	Gulf's Response to Citizens' Interrogatory No. 66 - Amended
Lane Kollen	OPC	LK-5	Gulf's Response to Citizens' Interrogatory No. 66 - Supplemental
Lane Kollen	OPC	LK-6	Gulf's Response to Citizens' Interrogatory No. 90

3. STATEMENT OF BASIC POSITION

Gulf has the burden of demonstrating that the costs it submits for recovery are reasonable and prudent in amount and incurrence. The interim recovery pursuant to Paragraph 7 of the 2017 Stipulation and Settlement Agreement (approved in Order No. PSC-20170178-S-EI) does not endow any presumption of correctness to the amounts submitted by Gulf. Only costs expressly subject to recovery under rule 25-6.0143, F.A.C. (“Rule”) are validly subject to Commission approval in this docket. Further, Gulf is prohibited from including certain costs in the storm account pursuant to other provisions of the Rule. Pursuant to the Incremental Cost and Capitalization Approach (“ICCA”) methodology, as stated in the Rule, the costs charged to cover storm-related damages must not include any costs that "normally would be charged to non-cost recovery clause operating expenses in the absence of a storm." Specifically, OPC recommends, first, the disallowance of all regular (non-incremental) payroll expense. Second, OPC recommends the disallowance from the storm account of approximately $20 million for line contractor work performed in 2019, because the information provided to OPC indicates that these costs were incurred to "rebuild" certain assets and not to "restore service." In other words, they should have been capitalized and are not properly recovered as an expense. For this reason they are not eligible for recovery under rule 25-6.0143, F.A.C. Third, OPC supports a reduction in material and supplies costs for that would normally be charged to a non-recovery clause in the absence of a storm. Finally, OPC opposes the recovery of any carrying charge on the unamortized balance in the storm reserve, because rule 25-6.0143, F.A.C. does not contemplate such charge. Overall OPC recommends the Commission disallow $35.461 million of the costs Gulf requested for recovery in this docket. With the referenced disallowances deducted from the costs requested, OPC would not opposed the recovery of the remaining requested costs.

4. STATEMENT OF FACTUAL ISSUES AND POSITIONS

ISSUE 1: In undertaking storm-recovery activities, was the total payroll expense Gulf Power Company ("Gulf") has requested to include for storm recovery reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

OPC: No. Gulf included $2.420 million in its claimed total company costs for regular payroll expense after reduction for "non-incremental" costs and failed to remove all straight time labor costs. It excluded only 30% of the distribution straight time labor costs and 20% of the transmission straight time labor costs based on the portions of the straight time labor costs for the distribution and transmission functions that were expensed in its 2018 budget. Pursuant to the Incremental Cost and Capitalization Approach ("ICCA") methodology and the specific prohibitions listed in rule 25-6.0143(1)(f), F.A.C., Gulf should not have included these costs in the storm account, so $0 should be approved for regular payroll expense.

Gulf also included $6.204 million in its claimed total company costs for overtime payroll expense after reduction for "non-incremental" costs. The OPC has no disagreement with this amount of claimed costs in Gulf's filing. Therefore, $6.204 million should be approved for total payroll expense.

ISSUE 2: **In undertaking storm-recovery activities, were the contractor costs Gulf has included for storm recovery reasonable and prudent, in incurrence and amount? If not, what amount should be approved?**

OPC: No. Gulf included $237.011 million for line contractor costs after reduction for "non-incremental" costs and before consideration of capitalized costs. The amount of contractor costs included by Gulf for storm recovery was unreasonable due to several factors. First, Gulf failed to exclude the line contractor "costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm" pursuant to the ICCA limitations set forth in rule 25-6.0143(1), F.A.C. The total company contractor costs should be reduced by $0.070 million to reflect this change. Second, Binder 6 invoices were overstated and overpaid by $0.668 million on a total company basis to provide for availability whether or not services were provided. Third, overbillings were confirmed by Gulf in regards to Binder 115 invoices in the amount of $0.006 million on a total company basis. Fourth, overbillings were confirmed by Gulf in regards to Binder 100 invoices in the amount of $0.046 million on a total company basis. Finally, Gulf included $20.009 million total company contractor costs incurred in 2019 in its claimed costs. Gulf generally characterized these costs as costs to "rebuild," whereas it characterized other costs as costs for "storm restoration." Gulf did not capitalize any of these 2019 incurred costs as part of its request. The total company reductions recommended by the OPC summed to $20.800 million. Gulf's $237.011 million for line contractors in its claimed total company costs before consideration of capitalized costs should be reduced to $216.211 million.

ISSUE 3: **In connection with the restoration of service associated with storm-related electric power outages affecting customers, were the line clearing costs Gulf included for storm recovery reasonable and prudent, in incurrence and amount? If not, what amount should be approved?**

OPC: Yes. The OPC has no disagreement with the amount of claimed line clearing costs in its filing. The Company included $18.885 million for line clearing costs in its claimed total company costs before consideration of capitalized costs, which is the amount that should be approved

ISSUE 4: **In connection with the restoration of service associated with storm-related electric power outages affecting customers, were the vehicle and fuel costs Gulf included for storm reasonable and prudent, in incurrence and amount? If not, what amount should be approved?**

OPC: Yes. The OPC has no disagreement with the amount of claimed vehicle and fuel costs in its filing. The Company included $0.541 million for vehicle and fuel line clearing costs in its claimed total company costs before consideration of capitalized costs, which is the amount that should be approved.

ISSUE 5: In connection with restoration of service associated with storm-related electric power outages affecting customers, were the materials and supplies costs Gulf included for storm recovery reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

OPC: No. The Company included $24.994 million for materials and supplies costs in its claimed total company costs before consideration of capitalized costs and after the reflection of third party reimbursements. The amount of materials and supplies costs included by Gulf for storm recovery was unreasonable because Gulf failed to exclude "costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm" pursuant to the ICCA limitations set forth in rule 25-6.0143(1)(f), F.A.C. The OPC supports a total reduction of company costs by $4.043 million to reflect this change. Gulf's $24.994 million for materials and supplies costs in its claimed total company costs before consideration of capitalized costs and after the reflection of third party reimbursements should be reduced to $20.951 million, which is the amount that should be approved.

ISSUE 6: In connection with the restoration of service associated with storm-related electric power outages affecting customers, were the logistic costs Gulf included for storm recovery reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

OPC: Yes. The OPC has no disagreement with the amount of claimed logistics costs in its filing. The Company included $121.764 million for logistics costs in its claimed total company costs before consideration of capitalized costs, which is the amount that should be approved.

ISSUE 7: What is the correct amount to be included in storm recovery to replenish the level of Gulf's storm reserve?

OPC: The OPC has no disagreement with the amount of storm recovery claimed by Gulf to replenish the level of Gulf's storm reserve prior to Hurricane Michael. The Company included $40.808 million prior to the gross-up for regulatory assessment fees for this purpose, which is the amount that should be included in storm recovery to replenish the level of Gulf's storm reserve.

ISSUE 8: What is the appropriate carrying charge, if any, on the unamortized balance in the storm reserve?

OPC: No carrying charge is appropriate in this docket. Gulf included carrying charges of $8.304 million on the unamortized balance in the storm reserve prior to the gross-up for regulatory assessment fees. The OPC recommends $0 be included for carrying charges, or interest. Rule 25-6.0143, F.A.C., does not authorize or even address interest. The Initial Order in this docket approved the Interim Recovery pursuant to the 2017 Stipulation and Settlement Agreement, but it did not authorize interest. The Initial Order simply states that the Commission will consider interest, along with final expenditures and over/under recovery, in this subsequent proceeding. If the Commission authorizes recovery of interest, such interest should only reflect the actual interest on the unrecovered storm costs, not an estimate of the interest which would likely be outdated and/or excessive. Further, Gulf has been able to reduce its current income tax expense and the accompanying financing requirements due to its ability to deduct the remaining tax basis of assets that were replaced (due to the casualty loss deduction) and its ability to deduct the claimed costs before recovery through the storm surcharge. These savings resulted from avoided financing costs at Gulf's grossed-up rate of return. The Commission should not approve the recovery of carrying charges, interest. However, if the Commission approve such recovery of interest, the amount approved should reflect an offset for the avoided financing costs, even if the net result is negative.

ISSUE 9: What is the total amount of storm-related costs and storm reserve replenishment Gulf is entitled to recover?

OPC: Gulf included $295.749 million as the amount to be recovered from customers due to the effects from Hurricane Michael through the storm surcharge. The OPC recommends that amount be reduced by $35.461 million. Accordingly, Gulf should not be allowed to recover more than $260.288 million in storm restoration costs..

ISSUE 10: Should the Commission approve Gulf Power Company's proposed tariff and associated charge?

OPC: No. While the OPC has no disagreement with Gulf's proposed tariff itself, the associated charge should be reduced to reflect the impact of the OPC's recommendations.

ISSUE 11: If applicable, how should any under-recovery or over-recovery be handled?

OPC: The over-recovery of $35.461 million should be reflected as a one-time credit to customers' bills.

ISSUE 12: Should the docket be closed?

OPC: No. The docket should not be closed until final Commission resolution of all remaining issues.

5. STIPULATED ISSUES:

None at this time.

6. PENDING MOTIONS:

OPC has not filed any pending motions.

7. STATEMENT OF PARTY'S PENDING REQUESTS OR CLAIMS FOR CONFIDENTIALITY:

None at this time.

8. OBJECTIONS TO QUALIFICATION OF WITNESSES AS AN EXPERT:

None at this time.

9. STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE:

There are no requirements of the Order Establishing Procedure with which the Office of Public Counsel cannot comply at this time.

Dated this 10th day of August, 2020.

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CERTIFICATE OF SERVICE
DOCKET NO. 20190038-EI

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by electronic mail on this 10th day of August 2020, to the following:

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