

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition by Gulf Power Company  
for Limited Proceeding for Recovery of  
Incremental Storm Restoration Costs Related  
to Hurricane Michael

Docket No: 20190038-EI

Date: August 10, 2020

**GULF POWER COMPANY'S  
PREHEARING STATEMENT**

Gulf Power Company (“Gulf” or the “Company”), pursuant to Order Nos. PSC-2020-0013-PCO-EI, PSC-2020-0050-PCO-EI and PSC-2020-0204-PCO-EI, files with the Florida Public Service Commission (the “Commission”), its Prehearing Statement, and states:

1) **GULF WITNESSES**

A. **Direct Testimony**

<b><u>WITNESS</u></b>	<b><u>SUBJECT MATTER</u></b>	<b><u>ISSUE #</u></b>
Paul A. Talley	Provides an overview of Gulf’s emergency preparedness and restoration process. Describes the details of the work completed and costs incurred by Gulf’s T&D organization in connection with Hurricane Michael and explains Gulf’s Hurricane Michael storm preparations prior to the storm making landfall; the intense response and restoration efforts that commenced as soon as storm conditions subsided enough to allow work to be done safely; and the storm-related follow-up activities that continued past the initial restoration period that were essential to restoring Gulf’s facilities to their pre-storm condition. Discusses Gulf’s highly successful performance in restoring service to customers who experienced outages due to Hurricane Michael, one of the most destructive storms to make landfall in the continental United States and the only Category 5 hurricane to ever make landfall in the panhandle of Florida. The testimony supports both the prudence of Gulf’s activities associated with the restoration process and the reasonableness of the Hurricane Michael T&D restoration costs.	1,2,3,4,5,6

<p>Mitchell Goldstein<sup>1</sup></p>	<p>Gulf’s financial control processes ensure proper storm accounting and ratemaking. All costs associated with contractor and logistics invoices and employee expenses were evaluated in a thorough invoice review process to determine the correct and final amount of costs incurred, by function and type of activity. The Incremental Cost and Capitalization Approach (“ICCA”) methodology was applied to storm costs in accordance with Rule 25-6.0143 (the “Rule”) to determine the amount recoverable from Gulf’s customers. The final storm recoverable amount of \$295.0 million has been calculated in accordance with the ICCA methodology and the 2017 Stipulation and Settlement Agreement that was in effect at the time of Hurricane Michael’s impact; therefore, the amounts are appropriately recoverable from customers.</p> <p>Establishes that Gulf followed a robust and comprehensive review process, including receipt, review, and follow-up analysis to ensure that, where appropriate, all Hurricane Michael invoices (which, for purposes of my testimony, include contractor, line clearing, logistics, employee expenses and other expenses) were rejected, adjusted or paid. Gulf reviewed approximately 4,500 invoices related to Hurricane Michael restoration activities in connection with this invoice review process. This comprehensive process allowed Gulf to reduce costs by more than \$6.6 million, some of which is reflected as modifications to invoices, while in other cases vendors have reimbursed the Company for amounts identified through Gulf’s review process.</p>	<p>1,2,3,4,5,6,7,8</p>
<p>Shane Boyett</p>	<p>States that the Proposed Storm Charges are designed to recover final storm restoration costs related to Hurricane Michael and to replenish Gulf’s storm reserve as contemplated in paragraph 7 of Gulf’s 2017 Stipulation and Settlement Agreement that resolved all issues in consolidated Docket Nos. 160186-EI and 160170-EI. These costs have been allocated to each retail rate class</p>	<p>7,9,10,11</p>

<sup>1</sup> Mitchell Goldstein adopts the direct testimony and exhibits originally filed and sponsored by Tracy Clark.

	based on the rate class allocations. States that the annual retail storm restoration recovery amount in the residential class factor of \$8 per 1,000 kWh was selected to strike a fair balance between mitigating rate impact to customers and timely recovery of costs. The Proposed Storm Charges will allow the Company to recover Hurricane Michael restoration costs and replenish the storm reserve over a period of approximately 53 months which began in July 2019 with the Commission’s approval of Gulf’s Interim Storm Restoration Charges.	
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**B. Rebuttal Testimony**

<u>WITNESS</u>	<u>SUBJECT MATTER</u>	<u>ISSUE #</u>
Paul A. Talley	Responds to portions of the direct testimony of Office of Public Counsel (“OPC”) witness Lane Kollen regarding Gulf’s preparation for and management of its Hurricane Michael storm restoration. Explains that witness Kollen’s “Process Recommendations” go well beyond the relief requested by Gulf in this docket, purport to dictate the terms and conditions of Gulf’s contracts with vendors, and suggest an approach to storm cost recovery proceedings inconsistent with the Rule. Directly responds to and rebuts each of the unsupported assertions identified as they relate to the operational aspects of Gulf’s preparations for and response to Hurricane Michael, from the time prior to the event through the execution and completion of work to repair or replace storm-related damage, and explains why the “Process Recommendations” have no place in this proceeding.	1,2,3,4,5,6
Mitchell Goldstein	Responds to the proposed adjustments to Gulf’s recoverable Hurricane Michael storm costs that have been recommended by OPC witness Lane Kollen, and by Federal Executive Agencies (“FEA”) witness Michael P. Gorman. Explains the appropriate accounting used by Gulf to support recovery of its prudently incurred costs. Addresses the adjustments that Gulf agreed to make in its discovery responses, and explains why the Commission should reject the proposed disallowances suggested by witnesses	1,2,3,4,5,6,7,8

	Kollen and Gorman, and approve the relief requested by Gulf.	
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## 2) **EXHIBITS**

<b>Witness</b>	<b>Proffered By</b>	<b>Exhibit #</b>	<b>Description</b>
Paul A. Talley	Gulf Power	PAT-1	Weather Advisory 1 – Hurricane Michael
Paul A. Talley	Gulf Power	PAT-2	Weather Advisory 8 – Hurricane Michael
Paul A. Talley	Gulf Power	PAT-3	Weather Advisory 21 – Hurricane Michael
Paul A. Talley	Gulf Power	PAT-4	Satellite Image of Hurricane Michael
Paul A. Talley	Gulf Power	PAT-5	Estimated Restoration Time Map
Paul A. Talley	Gulf Power	PAT-6	Gulf Power T&D Hurricane Michael Restoration Cost
Paul A. Talley	Gulf Power	PAT-7	Gulf’s Response to OPC's INT. No. 46 - Amended
Paul A. Talley	Gulf Power	PAT-8	Gulf’s Response to OPC's INT. No. 59 - Amended
Mitchell Goldstein	Gulf Power	MG-1	Hurricane Michael Incremental Cost and Capitalization Approach Adjustments
Mitchell Goldstein	Gulf Power	MG-2	Hurricane Michael Incremental Cost and Capitalization Approach Adjustments (Revised July 9, 2020)
Mitchell Goldstein	Gulf Power	MG-3	Gulf’s Response to OPC's Interrogatory No. 59 – Amended
Shane Boyett	Gulf Power	CSB-1	Calculation of Proposed Storm Restoration Recovery Surcharges
Shane Boyett	Gulf Power	CSB-2	Proposed Revisions to Gulf Power’s Tariff Sheets

In addition to the above pre-filed exhibits, Gulf reserves the right to utilize any exhibit introduced by any party. Gulf additionally reserves the right to introduce any additional exhibit necessary for rebuttal, cross-examination, or impeachment at the final hearing.

## 3) **STATEMENT OF BASIC POSITION**

Hurricane Michael intensified rapidly from a mere disturbance on October 5, 2018 into a catastrophic Category 5<sup>2</sup> hurricane that ravaged the Northwest Florida Gulf Coast on October 10, 2018, before cutting a devastatingly destructive path northward through Northwest Florida and beyond. The storm was the third strongest (in terms of barometric pressure) and fourth strongest (in terms of wind speed) hurricane to ever make landfall in the continental U.S. It was the strongest storm to ever make landfall in Northwest Florida.

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<sup>2</sup> At the time Gulf filed its initial petition in this proceeding, official reports listed Michael as a high-end Category 4 storm. In the intervening months, the storm was reclassified as a Category 5 hurricane.

By October 9, 2018, Gulf had approximately 3,200 transmission, distribution, vegetation management and support personnel pre-staged either in Pensacola, outside of the Florida panhandle, or en route to arrive on October 10. Gulf ultimately coordinated approximately 8,000 restoration personnel (approximately 1,000 Gulf employees and 7,000 external resources) – the largest restoration workforce that the Company has ever assembled. External resources came from 15 different states and Canada. To support these resources and facilitate the restoration effort, Gulf established eight staging sites, seven of them in Bay County, including one site that was not part of initial preparation plans and was constructed a week into the restoration effort, to facilitate the construction resources that were needed to support the rebuilding efforts in the hardest hit area of Panama City. The rebuilding of this area, from the ground up in many cases, was much more extensive than the restoration work that was encountered in other areas across the system. Due to the extensive damage caused by Hurricane Michael, Gulf’s storm-related work extended into mid-2019.

Gulf has sought recovery of the final/actual recoverable storm amount of \$295.0 million in accordance with the right to replenish the storm reserve included in Gulf’s 2017 Stipulation and Settlement Agreement approved by the Commission in Order No. PSC-17-0178-S-EI (“2017 Stipulation and Settlement Agreement”) as well as the ICCA and other requirements of the Rule. Gulf’s costs were reasonable and prudently incurred in response to Hurricane Michael. Moreover, the Commission staff completed an audit of Gulf’s final costs and found that Gulf correctly recorded all costs, and noted no exceptions.

Gulf’s restoration performance for Hurricane Michael was outstanding, demonstrating our dedication to our customers and the communities we serve. Our goal is to continuously improve in everything we do, as is shown by the way the Company responded to this devastating storm. Prior to Hurricane Michael, Gulf had not been impacted by a major storm event in many years, and many of our employees had never been called upon to fully exercise their storm role during an extreme weather event. The Company’s annual training, drilling and preparation for major storm events provided significant benefits and improvements, all of which contributed to a remarkable restoration performance. Specifically, Gulf completed the major portion of restoration activities in just 13 days, at which time 99% of Gulf’s customers who could receive electric service from Gulf had been restored. OPC’s and FEA’s proposed adjustments to Gulf’s prudent and reasonable storm restoration costs are not supported by these facts or the Rule, not justified and should be rejected by the Commission.

Within 90 days prior to the date Gulf expects to replenish the storm reserve to \$40,808,000, Gulf will make a compliance filing with the Commission to provide notice of its intent to terminate the Proposed Storm Charges. Within 45 days after the Proposed Storm Charges expire, the Company will compare the final Recoverable Storm Amount approved for recovery by the Commission to actual revenues received from the Interim Storm Charge and Proposed Storm Charges in order to determine any excess or shortfall in recovery. Gulf will calculate final true-up rates and file with the Commission for approval to apply final true-up rates to customer bills for a one-month period in order to refund the excess or collect the shortfall. The final true-up rates will be designed in a manner that is consistent with methods ultimately approved by the Commission in this docket. Gulf will apply the true-up rates to customer bills starting on Cycle 1 of the first month that is more than 30 days after the date of Commission approval.

#### 4) STATEMENT OF 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?

**Gulf:** Yes. Gulf utilized the appropriate baseline from which incremental costs are derived in its calculation of incremental costs related to Hurricane Michael. The calculations concerning the appropriate baseline from which costs are derived were performed by Gulf in accordance with the Rule.

The Company relied upon the Rule and multiple Commission Orders which support the appropriateness of the calculations of non-incremental costs, including Order No. PSC-2005-0937-FOF-EI, Docket No. 20041291-EI, which required Florida Power & Light to use the budgeted amount of regular payroll for the year in which the storm occurred as the baseline to determine the incremental amount of regular payroll for the 2004 storm season; Paragraphs 21 and 22 of Order No. PSC-2006-0464-FOF-EI, Docket No. 20060038-EI, which allowed recovery of regular payroll which would otherwise normally be recovered through capital or cost recovery clauses; and Part (1)(f)7 of the Rule which specifically refers to the use of non-budgeted overtime or other non-budgeted incremental call center and customer service costs when calculating incremental costs for those functions.

The total amount of incremental payroll expense Gulf has requested to include for storm recovery is \$8.6 million which includes \$2.4 million of regular payroll charges and \$6.2 million of overtime payroll and payroll tax overheads for employee time spent in direct support of storm restoration which were not budgeted, were reasonable and prudent, and therefore are incremental and recoverable. (Talley, Goldstein)

**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?

**Gulf:** Yes, costs of \$235.0 million for mutual aid utilities and line contactors that Gulf has included in storm cost recovery were reasonable and prudent, in incurrence and amount. (Talley, Goldstein)

**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?

**Gulf:** Yes, costs of \$18.9 million for line clearing that Gulf has included in storm cost recovery were reasonable and prudent, in incurrence and amount. (Talley, Goldstein)

**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?

**Gulf:** Yes, \$541,000 of vehicle and fuel costs that Gulf has included in storm cost recovery were reasonable and prudent, in incurrence and amount. (Talley, Goldstein)

**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?

**Gulf:** Yes, \$29.9 million of materials and supplies costs that Gulf has included in storm cost recovery were reasonable and prudent, in incurrence and amount. (Talley, Goldstein)

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

**Gulf:** Yes, \$121.8 million of logistics costs that Gulf has included in storm cost recovery were reasonable and prudent, in incurrence and amount. (Talley, Goldstein)

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

**Gulf:** \$40,808,000 is the correct amount to be included in the total storm recovery that will replenish the reserve in accordance with Paragraph 7(a) of the 2017 Rate Case Stipulation and Settlement. (Goldstein, Boyett)

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

**Gulf:** The Company should apply interest to the unamortized balance at the beginning of each month at the 30-day commercial paper rate shown on the Florida Public Service Commission monthly memorandum, consistent with the application of interest in other cost recovery clauses. (Goldstein)

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

**Gulf:** The total amount of storm-related costs and storm reserve replenishment Gulf is entitled to recover is \$295.0 million. (Goldstein, Boyett)

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

**Gulf:** Yes. Gulf's proposed tariff and associated charge will allow Gulf to recover the reasonable and prudent storm-related costs, in incurrence and amount. (Goldstein, Boyett)

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

**Gulf:** Gulf will make a compliance filing with the Commission to provide notice of its intent to terminate the Proposed Storm Charges. Within 45 days after the Proposed Storm Charges expire, the Company will compare the final Recoverable Storm Amount approved for recovery by the Commission to actual revenues received from the Interim Storm Charge and Proposed Storm Charges in order to determine any excess or shortfall in recovery. Gulf will calculate final true-up rates and file with the Commission for approval to apply final true-up rates to customer bills for a one-month period in order to refund the excess or collect the shortfall. The final true-up rates will be designed in a manner that is consistent with methods ultimately approved by the Commission in this docket. Gulf will apply the true-up rates to customer bills starting on Cycle 1 of the first month that is more than 30 days after the date of Commission approval. (Boyett)

**ISSUE 12:** Should the docket be closed?

**Gulf:** The docket should be closed following the establishment of a final Recoverable Storm Amount and the approval of final true-up rates to be applied to customer bills for a one-month period starting on Cycle 1 of the first month that is more than 30 days after the date of Commission approval.

**5) STIPULATED ISSUES**

**Gulf:** None at this time.

**6) PENDING MOTIONS**

**Gulf:** None at this time.

**7) PENDING REQUESTS FOR CONFIDENTIALITY**

1. Gulf's request for confidential classification of information [DN 03217-2020] information included in the direct testimony of OPC witness Lane Kollen.



8) **OBJECTIONS TO WITNESS QUALIFICATIONS AS AN EXPERT**

**Gulf:** None at this time.

9) **REQUEST FOR SEQUESTRATION OF WITNESSES**

**Gulf:** None at this time.

10) **STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE**

There are no requirements of the Order Establishing Procedure with which Gulf cannot comply.

Respectfully submitted 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 service on this 10<sup>th</sup> day of August, 2020 to the following:

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