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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 20190110-EI

PETITION FOR LIMITED PROCEEDING
FOR RECOVERY OF INCREMENTAL STORM
RESTORATION COSTS RELATED TO
HURRICANE MICHAEL AND APPROVAL OF
SECOND IMPLEMENTATION STIPULATION,
BY DUKE ENERGY FLORIDA, LLC.

_____ /

DOCKET NO. 20190222-EI

PETITION FOR LIMITED PROCEEDING
FOR RECOVERY OF INCREMENTAL STORM
RESTORATION COSTS RELATED TO HURRICANE
DORIAN AND TROPICAL STORM NESTOR, BY
DUKE ENERGY FLORIDA, LLC.

_____ /

DOCKET NO. 20210016-EI

PETITION FOR LIMITED PROCEEDING TO
APPROVE 2021 SETTLEMENT AGREEMENT,
INCLUDING GENERAL BASE RATE INCREASES,
BY DUKE ENERGY FLORIDA, LLC.

_____ /

VOLUME 1

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PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: CHAIRMAN GARY F. CLARK
COMMISSIONER ART GRAHAM
COMMISSIONER ANDREW GILES FAY
COMMISSIONER MIKE LA ROSA

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DATE: Tuesday, May 4, 2021
TIME: Commenced: 1:39 p.m.
Concluded: 3:10 p.m.
PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida
REPORTED BY: DEBRA R. KRICK
Court Reporter

PREMIER REPORTING
112 W. 5TH AVENUE
TALLAHASSEE, FLORIDA
(850) 894-0828

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4 BERNIER, ESQUIRE, 106 East College Avenue, Suite 800,
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6 Duke Energy Florida, LLC (DEF).

7 RICHARD GENTRY, PUBLIC COUNSEL; CHARLES
8 REHWINKEL, DEPUTY PUBLIC COUNSEL; ANASTACIA PIRRELLO,
9 ESQUIRES, Office of Public Counsel, c/o The Florida
10 Legislature, 111 West Madison Street, Room 812,
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14 ESQUIRES, Moyle Law Firm, P.A., The Perkins House, 118
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16 appearing on behalf of Florida Industrial Power Users
17 Group (FIPUG).

18 JAMES W. BREW and LAURA A. WYNN, ESQUIRES,
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21 Washington, DC 20007, appearing on behalf of White
22 Springs Agricultural Chemicals, Inc., d/b/a PCS
23 Phosphate - White Springs (PCS Phosphate).

24

25

1 APPEARANCES CONTINUED:

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3 Xenopoulos & Brew, PC, 1025 Thomas Jefferson Street, NW,
4 Eighth Floor, West Tower, Washington, DC 20007,
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9 and DERRICK PRICE WILLIAMSON and BARRY A. NAUM,
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13 BERNICE I. CORMAN, ESQUIRE, 1250 Connecticut
14 Ave., NW, Suite 700, Washington DC 20036, appearing on
15 behalf of EVgo Services, LLC (EVgo).

16 WALT TRIERWEILER, ASHLEY WEISENFELD and
17 JENNIFER CRAWFORD, ESQUIRES, FPSC General Counsel's
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21 KEITH HETRICK, GENERAL COUNSEL; MARY ANNE
22 HELTON, ESQUIRE, DEPUTY GENERAL COUNSEL, Florida Public
23 Service Commission, 2540 Shumard Oak Boulevard,
24 Tallahassee, Florida 32399-0850, Advisor to the Florida
25 Public Service Commission.

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I N D E X

PUBLIC TESTIMONY:

GEORGE CAVROS

PHILLIP JONES

THOMAS ASHLEY

JUSTIN WILSON

CHRIS KING

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1 P R O C E E D I N G S

2 CHAIRMAN CLARK: All right. I think that we
3 have all the technical issues resolved. My
4 apologies to the parties for getting started a
5 little bit late here, but we will go ahead and call
6 this hearing to order.

7 I will ask staff, if they would, to please
8 read the notice.

9 MR. TRIERWEILER: By notice issued April 16,
10 2021, this time and place has been set for a
11 hearing in Docket Nos. 20210016-EI, 20190110-EI,
12 and 20190222-EI.

13 The purpose of the hearing is more fully set
14 out in the notice.

15 CHAIRMAN CLARK: Thank you, sir.

16 All right. Let's take appearances beginning
17 with Duke.

18 MS. TRIPLETT: Good afternoon, Mr. Chair.
19 Dianne Triplett and Matt Bernier on behalf of Duke
20 Energy, Florida.

21 CHAIRMAN CLARK: Thank you.

22 OPC.

23 MR. REHWINKEL: Good afternoon, Mr. Chairman.
24 Charlse Rehwinkel, Anastacia Pirrello, Richard
25 Gentry with the Office of Public Counsel, and

1 Marshall Willis is available but not speaking.

2 CHAIRMAN CLARK: Thank you, Mr. Rehwinkel.

3 FIPUG.

4 MR. MOYLE: Good afternoon, Mr. Chairman. Jon
5 Moyle appearing on behalf of the Florida Industrial
6 Power Users Group. I am with the Moyle Law Firm.

7 CHAIRMAN CLARK: Thank you, Mr. Moyle.

8 PCS Phosphate.

9 MR. BREW: Good afternoon, Chairman and
10 Commissioners. My name is James Brew. I am
11 appearing for White Springs Agricultural Chemicals,
12 PCS Phosphate, and I would also like to note an
13 appearance for Laura Baker.

14 CHAIRMAN CLARK: Thank you, Mr. Brew.

15 Nucor.

16 MR. LAVANGA: Good afternoon, Mr. Chairman and
17 Commissioners. My name is Mike Lavanga. I am with
18 the law firm Stone Mattheis Xenopoulos & Brew. I
19 am here on behalf of Nucor Steel Florida. I would
20 also like to make an appearance for my colleague
21 Pete Mattheis.

22 Thank you.

23 CHAIRMAN CLARK: All right. Thank you, sir.

24 Walmart.

25 MS. EATON: Good afternoon, Mr. Chairman.

1 This is Stephanie Eaton. I am appearing on behalf
2 of Walmart, and I am at the firm of Spilman Thomas
3 & Battle.

4 CHAIRMAN CLARK: Thank you, Ms. Eaton.
5 EVgo.

6 MS. CORMAN: Good afternoon. This is Bernice
7 Corman on behalf of EVgo. Thank you.

8 CHAIRMAN CLARK: All right. And staff.

9 MR. TRIERWEILER: Walt Trierweiler, Ashley
10 Weisenfeld and Jennifer Crawford on behalf of
11 Commission staff.

12 MS. HELTON: And finally, Mary Anne Helton is
13 here as your Advisor, along with your General
14 Counsel, Keith Hetrick.

15 CHAIRMAN CLARK: All right. Thank you
16 everyone.

17 Did we get everyone making an appearance
18 today?

19 All right. Staff, do we have any preliminary
20 matters?

21 MR. TRIERWEILER: State buildings are
22 currently closed to the public, and other
23 restrictions on gatherings remain in place due to
24 COVID-19. Accordingly, this hearing is being
25 conducted remotely, and all parties and witnesses

1 will present argument and testimony by
2 communications media technology.

3 Members of the public who want to observe or
4 listen to this hearing may do so by accessing the
5 live video broadcast, which is available from the
6 Commission website. Upon completion of the
7 hearing, the archived video will also be available.

8 Staff additionally notes that each person
9 participating today needs to keep their phone or
10 device muted when not speaking, and only unmute
11 when they are called upon to speak. If they do not
12 keep their phone muted, or put their phone on hold,
13 they may be disconnected from the proceeding and
14 will have to call back in. Also, telephonic
15 participants should speak directly into their phone
16 and not use the speaker function.

17 The hearing today is to address whether it is
18 in the public interest to approve the 2021
19 settlement agreement filed by Duke, OPC, FIPUG,
20 Nucor and PCS Phosphate.

21 The signatories assert that the 2021
22 settlement agreement is intended to completely
23 resolve all matters contained in Duke's petition
24 for basic rates in Docket No. 20210016-EI, and
25 petitions to recover incremental storm restoration

1 costs in Docket Nos. 20190110-EI, and 20190222-EI
2 for Hurricane Dorian and Tropical Storm Nestor.
3 The 2021 settlement agreement is a comprehensive
4 settlement that extends or replace goes the
5 provisions within Duke's 2017 revised and restated
6 settlement agreement.

7 Next, staff recommends that the Commission
8 address ChargePoint's motion for reconsideration of
9 the denial of its petition to intervene.
10 ChargePoint did not file a contemporaneous request
11 for oral argument in accordance with our rules;
12 however, the Commission has discretion to hear oral
13 argument on the motion for reconsideration if it
14 wishes to do so.

15 Mr. Chairman.

16 CHAIRMAN CLARK: Thank you, Mr. Trierweiler.
17 Commissioners, is there any desire for oral
18 arguments?

19 Seeing none, I will entertain a motion.

20 Commissioner Fay.

21 COMMISSIONER FAY: Thank you, Mr. Chairman.

22 Just a quick comment. I did review the motion
23 that was filed in addition to the Prehearing
24 Officer's order and the case law that's presented
25 related to these motions, and I thought it was very

1 clear. It didn't meet the standards of requiring
2 new issue of law or fact, so with that, Mr.
3 Chairman, I would move for denial.

4 CHAIRMAN CLARK: Do I have a second? Is there
5 a second?

6 COMMISSIONER LA ROSA: I will second that,
7 Chairman.

8 CHAIRMAN CLARK: Thank you, Commissioner La
9 Rosa.

10 Motion and a second to deny the request.

11 Any discussion?

12 All in favor say aye.

13 (Chorus of ayes.)

14 CHAIRMAN CLARK: Opposed?

15 (No response.)

16 CHAIRMAN CLARK: Motion carried.

17 All right. Are there any additional
18 preliminary matters, Mr. Trierweiler?

19 MR. TRIERWEILER: Staff is aware of no other
20 preliminary matters, Mr. Chairman.

21 CHAIRMAN CLARK: All right. Let's move into
22 the area and time reserved for public comment. I
23 think we have a couple of folks that have signed up
24 to speak today.

25 Just a couple of reminders from those that

1 will be providing public testimony. This is your
2 opportunity to express your thoughts regarding the
3 settlement. We are very interested in your
4 concerns and comments.

5 This is an official hearing, and the record is
6 going to be transcribed. As such, you will be
7 sworn in prior to presenting your comments.

8 Please note also that your comments are
9 subject to cross-examination.

10 Each member of the public something to be
11 allocated three minutes for their comments, and all
12 individuals that have been afforded an opportunity
13 to speak will conclude the public comment section
14 of this hearing.

15 Just a reminder, as normal, keep your phone
16 muted until you are speaking. And please do not
17 use the speaker function. It makes it very
18 difficult for us to be able to understand. If you
19 get disconnected, please dial back in immediately.
20 We will try to hold off and wait for you for a
21 couple of minutes.

22 We appreciate the professional nature of these
23 proceedings, and ask that you do the same. Be
24 courteous to others who have taken the time to call
25 in today.

1 bills in the wake of COVID, and ceases power
2 disconnections on days with heat indexes of 104
3 degrees. Unfortunately, too many families are
4 still struggling to pay their electricity bills,
5 and too often these bills are unnecessarily high
6 because their homes lack basic energy efficiency
7 measures that reduce energy waste and make their
8 homes more safe and secure.

9 And while the MOU will provide relief to
10 Duke's low-income customers in the near term, more
11 permanent solutions are necessary, and we open hope
12 that this commission will take the opportunity this
13 year to update its energy efficiency goal setting
14 practices in order to align them more closely to
15 the standard industry practice.

16 Having said that, Southern Alliance for Clean
17 Energy believes that the settlement agreement
18 before you today has earned your approval because,
19 as a whole, it's in the public interest. A common
20 thread that appears to run through the agreement is
21 that it aims to mitigate customer bill impact.
22 It's not a Christmas list of everything the utility
23 wants, but rather it's measured and balanced in its
24 request. Nowhere is this more evident than in the
25 provisions lowering the company's return on equity

1 to 9.85 percent.

2 Additionally, the company is leaning into a
3 cleaner energy future. It's accelerating the
4 retirement of the coal unit Crystal River plant by
5 eight years. Although, we would have preferred a
6 slightly more ambitious retirement timeline.
7 Moreover, the company continues its investment in
8 electric vehicle infrastructure to support the
9 growing customer demand for EV charging ports. The
10 investment is welcome in this state because a
11 rising tide lifts all boats.

12 Commissioners, the EV market needs a range of
13 utility investment approaches to support EV
14 infrastructure deployment across a range of
15 customer settings. Duke's EV provision does just
16 that. For instance, it includes a residential off
17 peak charging incentive. It provides rebates for
18 charging installations by third parties. And
19 finally, it provides for utility owned and operated
20 public fast charging stations.

21 The utility owned fast charging component is
22 critical in gilling gaps both in geography and
23 demographics, and along evacuation routes, and we
24 look forward to working with during Duke to ensure
25 equitable placement of its charging infrastructure.

1 The EV provision, like the settlement
2 agreement, is measured and balanced. We believe
3 that the settlement agreement, as a whole, is
4 clearly in the public interest and respectfully
5 request that you approve it.

6 Thank you.

7 CHAIRMAN CLARK: Thank you very much, Mr.
8 Cavros.

9 Next up is Mr. Phillip Jones. Mr. Jones, are
10 you on the line?

11 MR. JONES: Yes, I am, Mr. Chairman.

12 Whereupon,

13 PHILLIP JONES

14 was called as a witness, having been first duly sworn to
15 speak the truth and testified as follows:

16 MR. JONES: I do.

17 CHAIRMAN CLARK: Thank you.

18 You are recognized.

19 MR. JONES: Thank you. Chairman Clark,
20 Commissioner La Rosa, Commissioner Graham,
21 Commissioner Fay, I am pleased to be able to speak
22 today. We are going to speak only with respect to
23 the transportation electrification programs
24 included in the overall settlement agreement.

25 The Alliance for Transportation

1 Electrification is a national multi-sector
2 nonprofit organization that advocates for EV
3 adoption and TE, transportation electric,
4 electrification infrastructure around the country.

5 There is an urgent need and ever increasing
6 need for EV adoption and infrastructure both in the
7 state of Florida and throughout the southeast.
8 These needs have been recognized by the Legislature
9 in SB 7018 by the Governor, and by the recently
10 submitted EV Master Plan by FDOT.

11 The programs proposed by Duke, as George said,
12 represents a balanced approach on the success of
13 these Phase I pilots, and seeks to improve upon
14 this foundational work.

15 Most important to this commission proceeding
16 is a consideration of the potential benefits of
17 Duke's TE programs to the general body of Duke
18 ratepayers in the entire state of Florida versus
19 the program's cost. We enumerated many of those in
20 our written comments, and I won't repeat them here,
21 but there is good news. If these programs are
22 successful in moving load to off peak, this will --
23 it should produce downward pressure on rates over
24 time.

25 This is called beneficial electrification

1 across the country, and it has been much discussed
2 in NARUC and energy conferences around the country,
3 and it has been proven out in places like Michigan,
4 Minnesota, New Jersey, California, many other
5 states.

6 The DEF programs are well in the mainstream of
7 best practices of other utilities in the country
8 and Commission practice. The Commission may ask
9 why utilities should be involved at all, either for
10 make ready investments, what we call make ready,
11 third-party rebates or the modest ownership and
12 operation program in this settlement agreement. In
13 fact, ChargePoint may argue against utility
14 ownership. They will say that utilities represent
15 unfair competition that will crowd out third-party
16 capital.

17 Our response is pretty simple. The needs are
18 so great, and the potential benefits are so large,
19 as the previous speaker said, a rising tide will
20 lift all boats. This is a rapidly growing market
21 and we need an all-hands-on-deck approach. In
22 fact, in this settlement agreement, up to 4,800
23 ports at CNI locations are being provided by Duke
24 for the third-party market. Duke is only
25 increasing its owned and operated charging stations

1 to about 100.

2 So the need in Florida is -- is much larger
3 than what Duke proposes by an order of magnitude,
4 so this pie is going to grow. I urge you to
5 approve the settlement agreement today. We believe
6 it's in the public interest, and would be good both
7 for Duke Energy Florida and, frankly, the entire
8 state of Florida.

9 Thank you, Mr. Chairman.

10 CHAIRMAN CLARK: Thank you very much, Mr.
11 Jones.

12 Next is Thomas Ashley from Greenlots.

13 Mr. Ashley.

14 MR. ASHLEY: Good afternoon.

15 Whereupon,

16 THOMAS ASHLEY

17 was called as a witness, having been first duly sworn to
18 speak the truth and testified as follows:

19 MR. ASHLEY: I do.

20 CHAIRMAN CLARK: You are recognized.

21 MR. ASHLEY: So as stated, Thomas Ashley. I
22 am Vice-President of Policy and Market Development
23 for Greenlots. And while working remotely
24 currently, I am associated with Greenlots' global
25 headquarters, the address of which is 767 South

1 Alameda Street, Suite 200, in Los Angeles,
2 California, 90021.

3 Greenlots submitted public comments in writing
4 last week which are focused, as the prior commenter
5 said, on the electric vehicle program, and I would
6 summarize those comments as following:

7 Greenlots is a leading provider of electric
8 vehicle charging software and services.
9 Unfortunately, a sustainable and competitive market
10 for the deployment of public charging
11 infrastructure remains aspirational at this time,
12 and it is unlikely to arise prior to the adoption
13 of a critical mass of electric vision. Greenlots,
14 therefore, recognizes the need for a strong utility
15 role to deploy EV charging stations and the related
16 infrastructure at this stage of the market.

17 Duke Energy's portfolio contained within the
18 electric vehicle program provides incentives that
19 directly support a range of business models,
20 including those represented by -- by Greenlots and
21 other market participants who also provided comment
22 on the settlement.

23 And in sum, Greenlots strongly supports the
24 full electric vehicle program as filed, including
25 the company owned subprogram, and urges the

1 Commission's approval of the settlement.

2 Thank you.

3 CHAIRMAN CLARK: All right. Thank you very
4 much, Mr. Ashley.

5 Next up Mr. Alan Jenkins with ChargePoint.

6 MR. JENKINS: Mr. Wilson will give our points
7 for ChargePoint.

8 CHAIRMAN CLARK: Mr. Wilson, are you on the
9 line?

10 MR. WILSON: I am.

11 Whereupon,

12 JUSTIN WILSON

13 was called as a witness, having been first duly sworn to
14 speak the truth and testified as follows:

15 MR. WILSON: I do.

16 CHAIRMAN CLARK: All right. You are
17 recognized.

18 MR. WILSON: Thank you, Mr. Chair. I will try
19 and be brief here.

20 I would draw the Commission's attention to
21 comments filed previously in this docket, some
22 comments submitted by ChargePoint that include in
23 the first couple of pages a summary of
24 recommendations.

25 At the outset, I will express my

1 disappointment in the Commission's vote to deny
2 ChargePoint's intervention in this docket and
3 subsequent request to reconsider that.

4 ChargePoint is a provider of electric vehicle
5 hardware and software services, and our customers
6 are customers throughout Florida and throughout the
7 United States. We have a primary objective to make
8 sure that we have a sustainable long-term
9 competitive market for electric vehicle charging
10 services.

11 In the instance before us today, what we have
12 is a petition filed by the utility that has not
13 provided an opportunity for other participants in
14 that market to intervene, and to provide comment,
15 although maybe on a limited basis here, but not to
16 provide the robust comments that we see in other
17 states when electric vehicle programs are being
18 considered.

19 Earlier today, the Commission has heard from
20 those on the EV charging aspects that have signed a
21 memorandum of understanding with Duke that -- from
22 an association of which Duke is a member, and from
23 a provider to Duke's current electric vehicle
24 program.

25 There are other market views out there. These

1 are those traditional providers who may seek to
2 offer EV charging services that could be crowded
3 out from the risk free capital that Duke could
4 deploy in their service territory.

5 So I ask that the Commission -- or my
6 recommendation is that the Commission deny the EV
7 charging issues in this proceeding and allow Duke
8 Energy Florida to refile the EV charging components
9 in a separate proceeding that allows for that
10 robust dialogue about the intrusion into the
11 electric vehicle charging market from the regulated
12 monopoly; otherwise, to deny the full 2021
13 settlement.

14 In addition, we make some other
15 recommendations on the specifics of the proposal
16 that you have before you, and I hope that the
17 Commission would consider those recommendations
18 today.

19 Thank you very much, Mr. Chair and members of
20 the Commission.

21 CHAIRMAN CLARK: Thank you very much,
22 Mr. Wilson.

23 Next up is Chris King. Mr. King, are you on
24 the line?

25 MR. KING: Yes. Good afternoon.

1 CHAIRMAN CLARK: Mr. King.

2 Whereupon,

3 CHRIS KING

4 was called as a witness, having been first duly sworn to
5 speak the truth and testified as follows:

6 MR. KING: I do.

7 CHAIRMAN CLARK: Okay. You are recognized for
8 three minutes, sir.

9 MR. KING: Thank you.

10 So I am Chris King, Senior Vice-President of
11 eMobility Siemens Corporation. My focus in these
12 comments is EV programs and the settlement as well.

13 A couple of words on Siemens. We are a global
14 technology company based in Germany, but we employ
15 over 50,000 Americans with good paying jobs, and
16 about 5,000 of those are actually in Florida. We
17 are totally committed to clean technology and clean
18 energy, and have committed to net zero at the
19 corporation by 2030, and are about halfway there
20 already.

21 And regarding EV charging, we are the leading
22 provider of software services and equipment for EV
23 charging for all types of vehicles.

24 Regarding the settlement agreement, first of
25 all we strongly support the adoption of the

1 agreement as we believe it's in the public
2 interest. It will promote EV adoption with its
3 accompanying benefits. Those include environment
4 benefits, of course, but we also like to highlight
5 the economic benefits.

6 We performed a study and published a paper
7 with -- jointly with Chairman Tim Echols of the
8 Georgia Commission regarding those benefits. And
9 if you look at the lifetime fueling of an electric
10 vehicle, on average, the fueling will be about
11 \$11,000, which would be a savings of about 50
12 percent for the EV driver; but of that, about
13 \$3,500 is directly related to better use of the
14 distribution and transmission grid by essentially
15 moving more electronics through the grid without
16 having to reinforce the grid, provided the charging
17 is kept top peak as is proposed in the program.

18 So to sum up. That \$3,500 is additional
19 revenue that comes to the utility that does not
20 have additional costs associated with it, and
21 that's where you get the downward pressure on rates
22 that's been discussed.

23 Turning back to the program, we believe it's
24 appropriately sized for the market, and we think
25 Duke's participation in the market will increase

1 competition -- will increase competition in the
2 market in a couple of ways; one, by growing that
3 market, and the fact that Duke is going to be
4 buying products and services from the market. They
5 are not going to be building the chargers
6 themselves. They will be buying them from
7 providers like us at ChargePoint and others in the
8 market.

9 And then just finally on the highway corridor
10 DC fast charging. A major problem in the market is
11 range anxiety, and that will go a ways toward
12 helping reduce range anxiety.

13 Range anxiety is the biggest barrier to EV
14 adoption and the biggest reason that some EV
15 chargers, a small percentage, but some EV chargers
16 are choosing not to continue owning EVs over the
17 longer term. So this is not only an important
18 need, but it's also urgent and immediate.

19 So just to sum up. We believe the settlement
20 is in the interest of Florida's ratepayers and
21 respectfully suggest it should be adopted.

22 Thank you.

23 CHAIRMAN CLARK: All right. Thank you very
24 much, Mr. King.

25 I failed to allow an opportunity for cross by

1 the different parties, so I am going to go back and
2 go through the party list, and if any of the
3 parties have any cross for any of the witnesses we
4 will take that up at the time, and then we will
5 move to straight to Commission questions.

6 Duke, any cross?

7 MS. TRIPLETT: No, sir.

8 CHAIRMAN CLARK: Thank you.

9 OPC?

10 MR. REHWINKEL: No.

11 CHAIRMAN CLARK: FIPUG?

12 MR. MOYLE: Mr. Chairman, as tempting as it
13 would be to ask my friend Mr. Cavros some questions
14 under oath on cross, we don't have any for anybody.

15 CHAIRMAN CLARK: Thank you, Mr. Moyle.

16 All right. PCS Phosphate?

17 MR. BREW: Commissioner, we don't have any
18 questions. Thank you.

19 CHAIRMAN CLARK: Thank you, Mr. Moyle.

20 Nucor?

21 MR. LAVANGA: No cross, Mr. Chairman. Thank
22 you.

23 CHAIRMAN CLARK: Thank you.

24 Walmart?

25 MS. EATON: No cross. Thank you.

1 CHAIRMAN CLARK: EVgo?

2 MS. CORMAN: No cross. Thank you.

3 CHAIRMAN CLARK: All right. That takes care
4 of everybody. My apologies for missing that as we
5 went through them individually.

6 Commissioners, do you have any question for
7 any of our speakers today?

8 Commissioner Fay?

9 COMMISSIONER FAY: Thank you, Mr. Chairman.

10 I just want to get just some clarification
11 from, I believe Mr. Wilson from ChargePoint.

12 He spoke to some concerns about the process of
13 the adoption of the charging stations, and I know,
14 as a whole, most of the entities that speak on this
15 do support the expansion of EV infrastructure,
16 which is necessary for the expansion of EV
17 ownership. But the opposition you have to the
18 infrastructure that's being built here, is it -- is
19 it the fact that there is a component of it that
20 would be potentially subsidized, or is it just that
21 you are opposed just to utility ownership period?
22 I just -- I couldn't tell from your comment.

23 MR. WILSON: Mr. Chair and Commissioner, thank
24 you for the question.

25 We are not opposed to utility ownership, to be

1 100 percent clear. We think the questions about
2 how a competitive market develop are -- are much
3 more complex. They are not black and white.

4 In our view of a robust and competitive
5 market, a utility can play a role, and that role,
6 as Duke has provided in one section, which we do
7 suggest some modifications for, could be supplying
8 rebates just to spur the market.

9 In our recommendations there, we do encourage
10 that the rebates in particular for the public
11 charging stations, which would be in competition
12 with Duke's charging stations for EV drivers, be
13 increased to the amount equal that Duke is spending
14 on its EV charging infrastructure.

15 In the case of utility owned and operated
16 assets for EV charging, we make two recommendations
17 there.

18 The first is that we believe that for an open
19 and competitive market, the site host, who will be,
20 you know, putting that charging infrastructure on
21 their properties, be given, first, a choice in the
22 hardware and software services that are used.

23 If you are a site host, let's say a national
24 retailer, or a -- a prominent grocery store, your
25 territory likely covers several utility

1 territories, and maybe even states. And giving
2 those entities who could host EV charging stations
3 the ability to choose hardware that would be the
4 same across all their portfolio could be very
5 helpful in them. It could provide them with a
6 consistent experience for their customers who would
7 be the EV drivers.

8 And then secondly, as is the case in FPL's
9 pilot program, we believe that the site host should
10 be able to be the customer of record when hosting
11 those EV charging stations, and price those
12 services in a competitive manner.

13 In some instances, you know, a site host may
14 be giving up a parking spot and may need to recoup
15 the lost revenue there.

16 In other instances, in the case of a retailer
17 or grocery store, they might want to combine it
18 with a rewards program. Or in other instances they
19 may want to provide that charging for free.

20 And as long as, you know, the utility is able
21 to recover its capital costs, and is kept whole on
22 the energy usage for that charging station, we
23 think that that can help develop a robust
24 competitive market.

25 So in summary, just because I know these are

1 new issues for the Commission, ChargePoint is not
2 against utility ownership. We think that rebate
3 programs can help address some of those issues, but
4 the rebates need to be structured in a way that is
5 equal cross utility owned assets and the rebate
6 programs that are being provided.

7 And then finally, the site host should be
8 given choice in the hardware and software that they
9 deploy on their property, and to be -- have choice
10 in how they price those EV charging services.

11 Thank you very much, Commissioner.

12 COMMISSIONER FAY: Great. Thank you. I
13 appreciate your comments. I know that the Chair
14 might not love that I just gave you another five
15 minutes for your points, but I do -- I think they
16 are relevant. I think the input is appreciated.

17 I -- you know, as we hear public comment from
18 these things, it's key, because this is such a fast
19 growing area, and it's so critical to try to be
20 adaptable for what we can do. And I know
21 California is out in front of it, and some of what
22 they have done is good and some of what they have
23 done is arguably not so good, but it does help us
24 learn the potential options that we may have to
25 benefit the end consumer base at the end of the

1 day.

2 So I do -- I do appreciate your comments on
3 the docket. Thank you for your time.

4 That's all I had, Mr. Chair.

5 CHAIRMAN CLARK: Thank you, Commissioner Fay.

6 Other Commissioners have questions for any of
7 the witnesses?

8 All right. Seeing none. Thank you for taking
9 time out of your schedules for be with us today.
10 Your comments are very helpful and appreciated.

11 This concludes the public comment portion of
12 the hearing.

13 We are going to move in next to opening
14 statements. We are going to begin -- I just remind
15 each of the parties you have agreed to five minutes
16 for your opening statements, and we are going to
17 begin with Duke.

18 Ms. Triplett.

19 MS. TRIPLETT: Thank you, Mr. Chair. If I
20 could just have Ms. Seixas turn her camera on so
21 she's ready so I can meet my five minutes. She's
22 taking some of my five minutes.

23 CHAIRMAN CLARK: Your words are cutting out on
24 me, Ms. Triplett.

25 MS. TRIPLETT: Okay. Let me see if I -- let

1 me get a little closer to the microphone. Is that
2 better?

3 CHAIRMAN CLARK: Yes. Thank you.

4 MS. TRIPLETT: Good afternoon, again, Ms.
5 Triplett.

6 I am pleased to represent Duke Energy Florida
7 in this proceeding to approve the 2021 settlement
8 agreement.

9 This agreement is a fair and balanced deal.
10 Every major customer group, including the OPC,
11 which represents all customers, have either signed
12 onto or support the settlement.

13 Before I complete my opening, I appreciate
14 your indulgence in allowing our state president,
15 Melissa Seixas, to briefly address the Commission
16 with respect to this important matter.

17 CHAIRMAN CLARK: Good afternoon, Ms. Seixas.
18 You are muted. There we go.

19 MS. SEIXAS: Very good.

20 Good afternoon. Thank you, Mr. Chairman, and
21 good afternoon, Commissioners.

22 As Dianne said, I am Melissa Seixas, and I
23 have been state president of Duke Energy Florida
24 for nearly three months, but I am absolutely no
25 stranger to our great state, as I have worked for

1 Duke Energy Florida and its legacy companies for
2 almost 35 years now, and all of my years of service
3 have been here to our customers in the state of
4 Florida. So I am very grateful for the opportunity
5 to introduce myself to you today, and to convey to
6 all of you the importance of this agreement.

7 We believe firmly that it is in our customers'
8 best interest, and provides the necessary financial
9 infrastructure to allow the company to deliver on
10 what our customers have come to expect from us,
11 safe, reliable and increasingly clean energy.

12 I really also want to thank personally the
13 signatories to this agreement, as well as all the
14 other third-party groups with whom we have engaged
15 as part of this process.

16 Collaborative engagement with our customers is
17 of the utmost importance to me, and also to our
18 entire Florida team. And it was open dialogue with
19 all of our signatories that contributed to the
20 strength of the agreement that's before you today.

21 And I would also like to thank your staff for
22 reviewing the agreement in such a timely and
23 thoughtful manner.

24 So again, thank you for the opportunity to
25 spend some time with you today, and I will look

1 forward to spending time with you hopefully in the
2 near future in person, so thank you.

3 CHAIRMAN CLARK: Thank you.

4 MS. TRIPLETT: Thank you.

5 This settlement moderates rate increases and
6 provides rate stability and certainty for our
7 customers over a three-year period. It includes
8 Vision Florida, which will allow the company to
9 explore innovative projects, like hydrogen power
10 and microgrids. The agreement also includes rate
11 design updates and changes, as well as settles two
12 pending storm cost recovery proceedings.

13 While support for the agreement is near
14 unanimous and includes customers from all major
15 rate classes, as well as environmental and clean
16 energy groups, as you have just heard, there are
17 some EV companies that have questions about one
18 part of the settlement regarding electric vehicles.
19 Our EV witness Lang Reynolds will testify today and
20 answer any questions that remain about the EV
21 program.

22 We believe it is a fair program that benefits
23 all customers, and when considered as a whole with
24 the remaining provisions of the settlement
25 agreement, it should be approved.

1 The proposed EV program is right sized and
2 does not inappropriately limit or cycle
3 competition. It builds and improves upon the pilot
4 that you approved in the 2017 settlement. And, in
5 fact, during the pilot, when DEF was allowed to
6 install and own over 500 ports, the charging market
7 in Florida grew quite strongly, and competition
8 has, in fact, increased, with more market operators
9 in the mix and no single operator dominating the
10 market.

11 Here, the proposed EV program, the only EV
12 charging stations that DEF will own are DC fast
13 charge stations exclusively located along highway
14 corridors, including state highways. This location
15 is consistent with the intent of the Legislature in
16 Section 339.287, which recognized that installation
17 of charging stations along state highways will help
18 evacuations during hurricanes and other natural
19 disasters.

20 I would also note that the proposed
21 investments in the EV program are cost-effective,
22 as demonstrated by DEF's responses to staff's data
23 request that have been made part of the record.
24 This shows that the investments benefit all DEF
25 customers and are the appropriate size and scope.

1 Contrary to arguments you may hear from
2 others, there is no basis upon which to increase
3 the amount of the rebate, or otherwise alter the
4 scope of the EV program. Therefore, DEF
5 respectfully asks that you approve the 2021
6 settlement agreement as in the public interest.

7 Thank you.

8 CHAIRMAN CLARK: Thank you very much.

9 All right. Next up, OPC.

10 MS. PIRRELLO: Thank you, Mr. Chairman, and
11 good afternoon, Commissioners, and thank you for
12 considering this settlement today.

13 My name is Anastacia Pirrello on behalf of the
14 Office of Public Counsel. We strongly support the
15 settlement as being in the public interest.

16 In advance of the expiration of the 2017
17 agreement, and with the certainty that Duke would
18 file a new case in early 2021, in the summer of
19 2020, Duke, the OPC and other customers began an
20 intensive process to explore resolving the issues
21 that would have been disputed in the case.

22 Our office's accountants, expert witnesses and
23 attorneys worked through thousands of pages of
24 documents provided by Duke, and engaged in
25 extensive informal discovery as predicate to this

1 negotiation.

2 After five months of a painstaking difficult
3 and methodical negotiation process, Duke, the OPC
4 and other parties settled the case on the timeline
5 that had been established by the parties in August.

6 This agreement represents the best possible
7 overall outcome for the customers of Duke, and is
8 historic for its robust support in the form of MFRs
9 and depreciation dismantlement and storm studies.
10 This has injected a tremendous amount of
11 transparency into the settlement and the rate
12 setting process.

13 I would like to highlight three of the many
14 balanced provisions as significant and overwhelming
15 benefits to the customers.

16 First, the modest rate increases will be
17 phased in over a three-year period beginning around
18 January 1st, 2022, and are only 1.5, 1.1 and 1.7
19 percent in each of the respective years. These
20 increases are hundreds of millions of dollars less
21 than the customer parties believe Duke expected to
22 request from customers over this same period.

23 Additionally, the parties negotiated a return
24 on equity of 9.85 percent. When compared to the
25 10.5 percent ROE that has applied to Duke's rates

1 for the past 12 years, customers will save \$200
2 million over the three-year period on this cost
3 element alone.

4 Finally, this agreement puts the expected \$173
5 million in Department of Energy damages awards to
6 the best use for the existing ratepayers by using
7 it to offset the amount that customers' rates would
8 otherwise have increased.

9 We are confident in telling our clients, the
10 customers, that this settlement agreement
11 represents a certain outcome for them that is
12 overall far superior to that which likely would
13 have resulted in the uncertainties of a protracted
14 litigated case.

15 Our goal is always to zealously represent the
16 interest of the customers as a whole, and to do our
17 part to ensure that the rates set by the Commission
18 are fair, just and reasonable. OPC believes that
19 this historical, fully supported and documented
20 settlement achieves this result, and therefore, is
21 in the public interest.

22 It bears noting, Commissioners, that this
23 agreement was negotiated with the expressed
24 understanding that Commission precedent encourages
25 settlements, and that settlements are considered

1 based on all the provisions taken as a whole.
2 Indeed, the settling parties are aware of the give
3 and take process that resulted in the agreement
4 that the provision in paragraph 35 would be
5 included, and that compromises in the process will
6 not be taken out of the process, cherrypicked, or
7 subjected to separate proceedings.

8 For this reason, we emphasize that the entire
9 settlement it is before you for a public interest
10 determination. In this regard, we submit that the
11 supporting evidence and the terms demonstrate that
12 the settlement in its entirety is in the public
13 interest, produces rates that are fair, just and
14 reasonable, and resolves the issues that have or
15 would have arisen in this docket. We ask you to
16 specifically make these findings in your order
17 approving the settlement.

18 We would like to thank Duke, as well as all
19 the parties who participated in this negotiation
20 for all of the hard work that was put into it. We
21 would especially like to thank your staff, who
22 worked around the clock to review the details of
23 the settlement and the MFRs and the studies, and we
24 thank you for your time and request your approval.

25 CHAIRMAN CLARK: All right. Thank you very

1 much.

2 FIPUG, Mr. Moyle.

3 MR. MOYLE: Good afternoon, Mr. Chairman.

4 Thank you for the opportunity to share some opening
5 comments with you.

6 Before I delve into the couple of matters of
7 substance that I want to talk about. I just want
8 to primarily, for Commissioner La Rosa's benefit, I
9 think this is the first time that I have appeared
10 on behalf of FIPUG before him at the Commission,
11 just to give a little more history of FIPUG, the
12 Florida Industrial Power Users Group. It
13 represents, industrial users, large users of
14 electricity that go 24/7. It's had a rich history
15 of being involved in energy policy matters,
16 primarily at the Commission, but occasionally at
17 the legislative branch as well, and it's been in
18 existence for 40 years, give or take.

19 So my comments today are on behalf of that
20 group, which, as was mentioned in some earlier
21 comments, all of the key parties and customers of
22 Duke were at the table on this, and I think that's
23 an important note that I will emphasize a little
24 bit more later in my comments.

25 I want to talk for a minute, the last time

1 that FIPUG, that I had the privilege of appearing
2 in a rate case before the Commission was in the
3 Peoples Gas rate case that settled and was
4 considered by the Commission in December. And in
5 those comments, we talked about what was happening
6 with respect to the cost of money, the federal
7 funds rate.

8 And those of you who have sat through
9 proceedings dealing with ROE know that that
10 discussion and analysis is largely premised on
11 what's the cost of money, and then how much on top
12 of that cost should be available for a profit to
13 the utility. And in that case, there was a
14 settlement agreement, and the midpoint agreement
15 was 9.9.

16 As you know, right now interest rates are --
17 the federal funds rate, as I understand it, is at
18 nearly a historic low, just above zero. 25 basis
19 points is my understanding of the current rate.
20 And so the 9.85 ROE that was achieved in this
21 settlement, which was a negotiated issue --
22 obviously it was back and forth, and a lot of give
23 and take on a lot of issues, but that, I think, is
24 significant, and I want to just to highlight it.
25 OPC pointed out that it's a \$200 million issue.

1 So I think that's important today for
2 consideration. It's a great opportunity for
3 ratepayers to make some considerable savings, and I
4 am glad that we have that before you today.

5 Also I want to let you know, just to
6 reemphasize. There was a lot of information
7 exchanged by the parties in this case. Duke made
8 their experts available. There was good discussion
9 and information exchanged, and so I think after a
10 lot of hard work we were able finally to bring this
11 in for a landing and bring it before you today.

12 The Commission has a rich history of
13 considering settlement agreements and acting on
14 them favorably. I was watching the Agenda
15 Conference earlier today, and it didn't -- it
16 wasn't a long Agenda Conference, but I noted with
17 interest that two of the matters before you today
18 were the result of settlements agreements. The
19 natural gas case involving St. Joe was a
20 settlement, and the Hurricane Dorian matter was a
21 settlement.

22 And with respect to this settlement, I want to
23 commend Duke again for reaching out to all the
24 parties. The phrase of a collaborative engagement
25 with every major customer group, that was -- that

1 was done. And I think that should give the
2 Commission more comfort when considering a
3 settlement, because the interest of all of the
4 different groups have been heard and recognized;
5 which is, I think, a good thing and should give the
6 Commission comfort to say, well, a lot -- a lot of
7 voices were heard and this is a byproduct of that.

8 So we would urge you to vote favorably in
9 favor of the settlement agreement. It is in the
10 public interest. FIPUG has signed it, and would
11 ask that you favorably approve it today.

12 I would also be remiss if I didn't thank all
13 of the parties and your staff for all the hard work
14 done. And thank you again for the chance to make
15 some opening comments.

16 CHAIRMAN CLARK: Thank you very much, Mr.
17 Moyle.

18 Mr. Brew.

19 MR. BREW: Thank you, Mr. Chairman. I will
20 try to be very brief too.

21 I am Jay Brew. I represent PCS Phosphate in
22 this matter.

23 For background, PCS operates a phosphate
24 mining and fertilizer production facility in
25 Hamilton County, and is one of the largest loads on

1 the Duke Energy system, at well over 100 megawatts,
2 so the cost of electric power is a very big part of
3 their cost of operations.

4 We have also been active in Duke matters for
5 many careers and have been a signatory to prior
6 settlements, as well as this one.

7 Starting quickly with the basics. PCS fully
8 supports the proposed settlement as a comprehensive
9 and integrated whole. It is fair, balanced and
10 produces just and reasonable rates for all Duke
11 Energy consumers.

12 I could stop right there, but there were a
13 couple of things that I wanted to highlight that
14 makes this particular agreement valuable for
15 consumers. And I would note, as Mr. Moyle
16 mentioned, that we did start with the basis of a
17 lot of data provided by -- by Duke, and there was a
18 significant exchange of information as we went
19 through the process. But very quickly one thing I
20 wanted to emphasize that Anastacia mentioned was
21 this agreement allowed us to use, as a rate
22 moderator, roughly \$173 million in monies that Duke
23 expects to receive from the Department of Energy
24 related to nuclear waste disposal that consumers
25 have paid forecast value many, many years.

1 We discussed at least a \$100 million of that
2 last year in the accelerated decommissioning
3 proceeding regarding Crystal River, where the
4 Commission did not specify any particular
5 requirements for the accounting.

6 And so this agreement uses at Lisa 100 million
7 of those dollars as a rate moderator now, at a time
8 when it's particularly important to moderate rate
9 impacts for monies that ratepayers may not have
10 otherwise have seen for decades. And that's a
11 distinctively unique feature of this agreement that
12 I don't think we could ever expect to achieve in
13 a -- by litigating the rate case, which means that,
14 all else being equal, we would be looking at
15 substantially higher rate impacts for all consumers
16 but for this agreement.

17 The second is obviously we are efficiently
18 resolving several dockets at once, both questions
19 regarding the hurricane storm and base rates for
20 several years.

21 I appreciate the efforts of Duke and all the
22 other parties to try to pull all these strings
23 together so that we came up with a comprehensive
24 settlement. I think it does it very well and it's
25 in the best interest of all consumers.

1 I am happy to take any questions.

2 Thank you.

3 CHAIRMAN CLARK: Thank you, Mr. Brew.

4 Nucor.

5 MR. LAVANGA: Yes. Good afternoon again, Mr.
6 Chairman and Commissioners. I am Mike Lavanga for
7 Nucor Steel Florida.

8 This is Nucor Florida's first time appearing
9 before the Florida Public Service Commission, and
10 we are very pleased to be here today.

11 Nucor Corporation is the largest steel maker
12 in the United States, and is also the country's
13 largest recycler. Nucor owns and operates 22 steel
14 mills throughout the country that use electric arc
15 furnaces to melt scraps into steel and create new
16 steel products.

17 Although arc furnace steel making is much more
18 efficient than traditional integrated steel making,
19 the process still uses massive amounts of electric
20 energy. As a result, reliable and reasonably
21 priced electric power is critical to the success of
22 Nucor's operations.

23 Nucor Steel Florida is the newest steel mill
24 in Nucor's fleet, and the mill recently began
25 operations. The plant is located in Frostproof in

1 Polk County, and provides over 200 jobs. The mill
2 produces rebar for use in the construction industry
3 in Florida and the surrounding region. Duke Energy
4 Florida is the electric supplier for the mill.

5 Nucor Florida is the signature to the
6 settlement agreement before the Commission today,
7 and we strongly support this agreement.

8 My comments are -- basically echo what the
9 other parties have said about this agreement.
10 Duke, the Office of Public Counsel, and the other
11 signatory parties engaged in extensive good faith
12 negotiations for many months prior to the filing of
13 the settlement agreement. The result is a
14 settlement that resolves several outstanding
15 matters, advances worthy policy goals, provides
16 rate stability and establishes reasonable --
17 reasonable base rates for Nucor -- for -- I am
18 sorry, for Duke's customers for the term of the
19 settlement. The settlement also avoids the
20 expensive and time-consuming litigation that likely
21 would have resulted from a contested Duke rate
22 filing.

23 All the parties made compromises in developing
24 the settlement, so the agreement should be
25 considered as a whole. While no party got

1 everything they wanted in the settlement
2 negotiations, Nucor strongly believes that the
3 overall settlement is just, reasonable and in the
4 public interest, and we respectfully urge the
5 Commission to approve the settlement.

6 Thank you.

7 CHAIRMAN CLARK: Yes, sir. Thank you very
8 much.

9 Walmart.

10 MS. EATON: Good afternoon, Commissioners.
11 Thank you for the opportunity to speak with you
12 today. Again, my name is Stephanie Eaton, and I am
13 appearing on behalf of Walmart, Inc.

14 Walmart is a retail customer of Duke Energy
15 Florida, having 73 retail units and one
16 distribution center served by Duke Energy Florida,
17 and Walmart purchases more than 200 million
18 kilowatt hours annually from Duke Energy Florida.
19 Therefore, the cost of electric utility service is
20 a significant element in the cost of operation for
21 Walmart and multiple locations throughout the
22 state, including Duke's territory.

23 Moreover, Walmart has its own corporate
24 sustainability goals to reach 100 percent renewable
25 energy by 2035, and zero emissions in its own

1 operations by 2040. Therefore, Walmart actively
2 participated in settlement negotiations over the
3 course of five months with all of the signatory
4 parties you have heard from today, and those
5 negotiations ultimately resulted in the 2021
6 settlement agreement.

7 The proposed terms of the 2021 settlement
8 agreement will directly impact the cost of power
9 supplied by Duke to Walmart's facilities located in
10 Duke's territory, and obviously it would impact
11 Walmart's operating costs.

12 So after reviewing the 2021 settlement
13 agreement and the associated minimum filing
14 requirements that Duke submitted with its filing
15 that relate to Walmart's territory, Walmart does
16 not oppose the approval of the 2021 settlement
17 agreement as filed with the Commission on January
18 14th, 2021, should the Commission determine that it
19 is in the public interest.

20 We appreciate the Commission's consideration
21 of this matter, and I will be available for
22 questions the Commission might have during the
23 proceeding.

24 Thank you.

25 CHAIRMAN CLARK: Thank you very much, Ms.

1 Eaton.

2 EVgo.

3 MS. CORMAN: Hi, I'm Bernice Corman again for
4 EVgo, and we had waived our making an opening
5 statement.

6 Thank you.

7 CHAIRMAN CLARK: Okay. Thank you very much.
8 Let's move to exhibits.

9 MR. TRIERWEILER: It is staff's understanding
10 that the prefiled testimony of all witnesses in
11 Docket Nos. 20190110 and 20190222 has been
12 stipulated to by all the parties.

13 Staff requests that the prefiled testimony in
14 Docket No. 20190110-EI, which consists of the
15 direct testimony of Simon Ojada, Carl Vinson and
16 Helmuth Smutz -- Schultz, I am sorry, the direct
17 and rebuttal testimony of Jason Cutliffe and Tom
18 Morris, and the rebuttal testimony of Geoff Foster
19 be moved in the record as though read.

20 CHAIRMAN CLARK: So moved.

21 (Whereupon, prefiled direct testimony of Simon
22 O. Ojada, Docket No. 20190110, was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

COMMISSION STAFF

DIRECT TESTIMONY OF SIMON O. OJADA

DOCKET NO. 20190110-EI

JULY 2, 2020

Q. Please state your name and business address.

A. My name is Simon O. Ojada. My business address is 1313 N. Tampa Street, Suite 220, Tampa, Florida 33602.

Q. By whom are you presently employed and in what capacity?

A. I am employed by the Florida Public Service Commission (FPSC or Commission) as a Public Utility Analyst in the Office of Auditing and Performance Analysis. I have been employed by the Commission since April 1997.

Q. Briefly review your educational and professional background.

A. I received a Bachelor of Science degree from the University of South Florida with a major in Finance in 1991, a Bachelor of Science Degree from Florida Metropolitan University with a major in Accounting in 1994, and a Master of Business Administration with a concentration in Accounting in 1997.

Q. Please describe your current responsibilities.

A. My responsibilities consist of planning and conducting utility audits of manual and automated accounting systems for historical and forecasted data.

Q. Have you previously presented testimony before this Commission?

A. Yes. I filed testimony in the Fuel and Purchased Power Cost Recovery Clause, Docket Nos. 20130001-EI, 20140001-EI, 20150001-EI, 20160001-EI, 20170001-EI, 20180001-EI, and 20190001-EI.

1 **Q. What is the purpose of your testimony today?**

2 A. The purpose of my testimony is to sponsor the staff auditor's report issued on January
3 22, 2020 which addresses Duke Energy Florida, LLC's (DEF or Utility) petition for limited
4 proceeding for recovery of incremental storm restoration costs primarily related to Hurricane
5 Michael. This report is filed with my testimony and is identified as Exhibit SOO-1.

6 **Q. Was this audit prepared by you or under your direction?**

7 A. Yes, it was prepared by me.

8 **Q. Please describe the work performed in this audit.**

9 A. I have separated the audit work into several categories.

10 Payroll, Overtime, and Related Costs

11 We scheduled regular payroll, overtime, and related costs by cost type and storm. We
12 selected a judgmental sample of costs for detail testing and traced the amounts to payroll
13 records. No exceptions were noted.

14 Contractors

15 We scheduled contractor costs by storm. We selected a judgmental sample of costs for
16 detail testing and traced the amounts to purchase orders, invoices, or contracts. No exceptions
17 were noted.

18 Employee Expense

19 We scheduled employee expense by storm. We selected a judgmental sample of costs
20 for detail testing and traced the amounts to invoices and/or other supporting documentation.
21 No exceptions were noted.

22 Internal Fleet Costs

23 We selected a judgmental sample of costs for detail testing and traced the amounts to
24 source documents. No exceptions were noted.

25 Materials and Supplies

1 We scheduled material and supplies by storm. We selected a judgmental sample of
2 costs for detail testing and traced the amounts to purchase orders, invoices, or inventory
3 records. No exceptions were noted.

4 Other Costs

5 We scheduled other operating costs by storm. We selected a judgmental sample of
6 costs for detail testing and traced the amounts to purchase orders, invoices, or contracts. No
7 exceptions were noted.

8 Capitalizable Costs

9 We requested a detailed description of the capitalizable costs, and tested these costs to
10 determine if the Utility included for recovery only those costs that are allowed as per Rule
11 6.0143(1)(d), Florida Administrative Code (F.A.C.). No exceptions were noted.

12 Third-Party Reimbursements

13 We requested a detailed description of any third-party reimbursements or insurance
14 claims. We noted that there were no third-party reimbursements. No exceptions were noted.

15 Non-Incremental Costs

16 We requested a detailed description of the non-incremental costs, and tested these costs
17 to determine if the Utility included for recovery only those costs that are allowed by the
18 applicable Rule. No exceptions were noted

19 Jurisdictional Factors

20 We obtained and reviewed Order No. PSC-2012-0104-FOF-EI, issued March 8, 2012,
21 in Docket No. 20120022-EI, as amended by Order No. PSC-2012-0104A-FOF-EI, issued
22 March 15, 2012. We verified the calculation using support documentation provided by the
23 Utility. No further work was performed.

24 **Q. Please review the audit findings in this report.**

25 A. There were no findings.

1 **Q. Does this conclude your testimony?**

2 **A. Yes.**

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1 (Whereupon, prefiled direct testimony of Carl
2 Vinson, Docket No. 20190110, was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

COMMISSION STAFF

DIRECT TESTIMONY OF CARL VINSON

DOCKET NO. 20190110-EI

JULY 2, 2020

Q. Please state your name and business address.

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

Q. By whom are you presently employed?

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

Q. Please describe your current responsibilities.

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

Q. Briefly review your educational and professional background.

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

1 regulated electric, gas, telecom, or water utilities.

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

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

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

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

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

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

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

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

22 Vendor storm cost invoice preparation and submission

23 Review and approval of vendor storm cost invoices

24 Invoice dispute, correction, and resolution

25 Staffing and training of payment processing personnel

- 1 Consistency of invoice with contract terms and conditions
- 2 Overrides and exceptions to procedures and contract terms
- 3 Operating systems supporting invoice payment processing
- 4 Work planning and deployment of contractors and mutual assistance resources
- 5 Oversight and work monitoring of contractors and mutual assistance resources
- 6 Recordkeeping of contractor and mutual assistance work hours and costs
- 7 Self-assessment and implementation of lessons learned

8 **Q. Does this conclude your testimony?**

9 A. Yes.

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1 (Whereupon, prefiled direct testimony of
2 Helmuth W. Schultz, Docket No. 20190110, was inserted.)

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DIRECT TESTIMONY
OF
Helmuth W. Schultz, III

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket No. 20190110-EI

1

2 **I. STATEMENT OF QUALIFICATIONS**

3 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.**

4 **A.** My name is Helmuth W. Schultz, III. I am a Certified Public Accountant licensed in
5 the State of Michigan and a senior regulatory consultant at the firm Larkin &
6 Associates, PLLC, (“Larkin”) Certified Public Accountants, with offices at 15728
7 Farmington Road, Livonia, Michigan, 48154.

8

9 **Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, P.L.L.C.**

10 **A.** Larkin performs independent regulatory consulting primarily for public service/utility
11 commission staffs and consumer interest groups (public counsels, public advocates,
12 consumer counsels, attorney generals, etc.). Larkin has extensive experience in the
13 utility regulatory field providing expert witnesses in over 600 regulatory proceedings,
14 including water and sewer, gas, electric and telephone utilities.

1 **Q. HAVE YOU PREPARED AN EXHIBIT WHICH DESCRIBES YOUR**
2 **EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE?**

3 **A.** Yes. I have attached Exhibit No. HWS-1, which is a summary of my background,
4 experience and qualifications.

5
6 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC**
7 **COMMISSION AS AN EXPERT WITNESS?**

8 **A.** Yes. I have provided testimony before the Florida Public Service Commission
9 (“Commission” or “FPSC”) as an expert witness in the area of regulatory accounting
10 and storm recovery in numerous cases as listed in Exhibit No. HWS-1.

11
12 **Q. BY WHOM WERE YOU RETAINED, AND WHAT IS THE PURPOSE OF**
13 **YOUR TESTIMONY?**

14 **A.** Larkin was retained by the Florida Office of Public Counsel (“Citizens” or “OPC”) to
15 review the request for recovery of the 2018 storm costs in this docket, which is a request
16 for \$196,234,000 of costs, inclusive of interest, associated with Hurricane Michael and
17 Tropical Storm Alberto, submitted for recovery by Duke Energy Florida, LLC (the
18 “Company” or “Duke”)¹. Accordingly, I am testifying on behalf of the OPC who is
19 the statutory representative of the customers of Duke.

¹ Company Exhibit No. TM-1.

1 **II. CASE BACKGROUND**

2 **Q. PLEASE SUMMARIZE YOUR UNDERSTANDING OF THE COMPANY’S**
3 **REQUEST.**

4 **A.** Docket No. 20190110-EI is described as a petition by Duke for recovery of incremental
5 storm costs during the restoration of service associated with Hurricane Michael and
6 Tropical Storm Alberto. The net costs sought for recovery by Duke for Hurricane
7 Michael and Tropical Storm Alberto are \$190,774,000 and \$571,000, respectively.

8

9 **Q. CAN YOU PLEASE DESCRIBE YOUR UNDERSTANDING OF THE TIMING**
10 **OF DUKE’S RECOVERY OF THE COSTS THAT ARE APPROVED IN THIS**
11 **DOCKET?**

12 **A.** Yes. Through a series of settlements, DEF is effectively already receiving cash
13 recovery of the costs that they claim they should recover in the petition they filed on
14 November 22, 2019. In 2017, Duke entered into a settlement entitled Revised and
15 Restated Stipulation and Settlement Agreement (“RRSSA”). It was approved by the
16 Commission in Order No. PSC-2017-0451-AS-EU. This settlement contains a
17 provision in Paragraph 38.c that is commonly referred to as the Storm Cost Recovery
18 Mechanism or “SCRM.” This provision allows the company to file an *estimated*
19 amount of storm cost recovery as soon as possible on an *interim* basis and upon that
20 initial approval, Duke can begin collecting the storm restoration costs, subject to the
21 determination of final approved costs in the final hearing. Duke did just that and,
22 pursuant to Order No. PSC-2019-0268-PCO-EI, Duke was authorized to recover the
23 estimated Michael and Alberto costs on a purely interim basis. The Commission
24 approved the collection of the \$191 million in revenue without any evidence or proof

1 of expenditures (per the SCRM) with the full expectation that Duke would be required
2 to prove-up its actual costs. It is my understanding that this front-ended cost recovery
3 process was never intended to shift the burden of proof away from Duke and onto the
4 customers, nor was it intended to create a presumption of correctness with the
5 Company's invoices or its estimates.

6

7 **Q. IS IT TRUE THAT THE SCRM MECHANISM MEANS THAT DUKE IS**
8 **EFFECTIVELY RECOVERING THE COST FOR HURRICANE MICHAEL**
9 **AND TROPICAL STORM ALBERTO NOW?**

10 **A.** Yes, that is absolutely true. Another provision in the RRSSA, Paragraph 16, required
11 Duke to return the tax savings associated with the December 2017 Tax Cuts and Jobs
12 Act ("TCJA") to customers, net of certain accelerated depreciation costs. This net tax
13 savings amount is \$154.7 million annually. Less than two weeks after the execution of
14 the RRSSA, Hurricane Irma struck Florida, and Duke and the signatories subsequently
15 agreed to use the TCJA savings to pay for the restoration costs. This has resulted in
16 recovery of approximately \$352 million in costs associated with Hurricane Irma at the
17 rate of \$154.7 million per year. The original intent of this post-RRSSA stipulation was
18 to also include the replenishment of the storm reserve in the amount of \$132 million in
19 the recovery using the customers' TCJA funds. Unfortunately, in October 2018,
20 Hurricane Michael struck and created additional significant costs. The parties then
21 decided, pursuant to another stipulation, that the replenishment of the storm reserve
22 would be deferred until after the cost of Michael was fully recovered. This means that
23 in the Spring of 2020 (after Irma was fully paid for) the customers' annual tax savings
24 began paying the cost of Michael at the rate of approximately \$12.9 million per month.

1 In effect, Duke is currently receiving full cost recovery (including a carrying cost in the
2 form of a short-term debt rate) of Hurricane Michael storm restoration costs.

3

4 **Q. DOES THIS CREATE A CONCERN FOR YOU AND WHAT IS YOUR**
5 **RECOMMENDED METHOD OF ADDRESSING THIS CONCERN?**

6 **A.** Yes. I believe that the SCRM approach, while a reasonable method of recovery that
7 keeps customer bills moderated, has created a situation where the Company has an
8 inadequate incentive to control costs in the times immediately preceding, during and
9 after a storm event. Some of my adjustments are designed to correct this situation and
10 to hold the Company to its burden of proof in instances where it has failed to
11 demonstrate that it adhered to at least a minimum standard of care in controlling costs.
12 I also demonstrate where Duke has inadequately justified the costs it seeks to classify
13 as recoverable under the SCRM in order to retain the revenues it is recovering
14 associated with those costs. I am recommending that the Commission order Duke to
15 refund any dollars that have been over-collected as a result of the Commission's July
16 2019 provisional, interim rate approval, where the invoice and contractor management
17 process has not been prudently managed or when the Company has failed to meet its
18 burden of proof.

19 **Q. PLEASE SUMMARIZE WHAT THE COMPANY HAS INCLUDED IN ITS**
20 **REQUEST TO THE FLORIDA PUBLIC SERVICE COMMISSION?**

21 **A.** On April 30, 2019 Duke filed a petition seeking recovery of \$221 million (retail) before
22 interest and regulatory assessment fees in incremental storm restoration costs related to
23 Hurricane Michael beginning the first billing cycle of July 2019. On November 22,

1 2019, Duke filed a revised petition along with direct testimony requesting recovery of
2 \$191 million as Recoverable Storm Costs plus estimated interest costs of \$5 million for
3 a total of \$196 million. The revised petition also included a new request for \$571,000
4 of costs associated with Tropical Storm Alberto. As I discussed earlier, the use of a
5 series of negotiated mechanisms delayed the actual beginning date of cash recovery of
6 the storm restoration costs for these storm events to the Spring of 2020.

7

8 **Q. ARE YOU AWARE OF DUKE SUBMITTING A SUPPLEMENTAL FILING IN**
9 **MAY 2020?**

10 **A.** Yes, I am. I reviewed that filing and, while my schedules are based on the filing made
11 in November 2019, some of the changes made by Duke are already incorporated into
12 my recommendations. For example, the \$1.7 million adjustment to distribution costs
13 for invoices not applicable to restoration in Florida were the result of the discovery
14 process. I have also reflected the \$940,000 reclassification, again something identified
15 during discovery. There is an adjustment to overhead charges of \$718,000 for
16 transmission which is very similar to an adjustment where I recommend an increase in
17 restoration costs. The other changes consist of a \$499,000 increase in transmission
18 contractor costs, a net increase of \$100,000 in various other transmission costs and a
19 \$400,000 decrease to distribution contractor costs to account for a reduction in an
20 estimated cost. The increases requested by Duke are a concern since its filing of what
21 is effectively a second supplemental petition on May 19, 2020 did not provide an
22 opportunity for follow up discovery and is, in fact, not supported by any documentation
23 supplied to date. The decrease is also a concern since, as is discussed throughout my

1 testimony, Duke has been recovering costs from ratepayers based on the earlier filed
2 costs and this is evidence as to why there is a need for an in-depth review of costs.

3

4 **Q. WILL YOU BE ADDRESSING THE ENTIRETY OF THE COMPANY'S**
5 **REQUEST?**

6 **A.** Yes, I am. The type of costs requested will be discussed by classification as well as
7 the overall appropriateness of the request to keep all of the revenues provisionally
8 authorized. I will discuss the appropriateness of the request first. I will then discuss
9 the requested recovery of the storm costs. To the extent any of the storm costs are
10 determined to be inappropriate, the current provisional collection of costs must be
11 reduced by refunding the recommended disallowance. I have not challenged the
12 interest costs. Finally, I will identify the total amount that the Commission should find
13 has been over-collected and should, therefore, be refunded to customers.

14

15 **III. STORM RESTORATION COSTS**

16

17 **Q. HOW HAVE YOU PRESENTED YOUR ANALYSIS OF STORM**
18 **RESTORATION COSTS?**

19 **A.** My analysis of costs is presented in a format similar to that shown on the Company's
20 summary provided on Company Exhibit No. TM-2. That summary separates the costs
21 by type of cost. My analysis also includes separate schedules analyzing the various
22 cost categories.

1 **Q. PLEASE BRIEFLY DESCRIBE THE ISSUES YOU WILL BE ADDRESSING**
2 **IN THIS PROCEEDING.**

3 **A.** I am addressing the sufficiency of Duke's evidence offered in support of its provisional,
4 interim recovery of costs related to payroll, overhead, benefits, contractors, line
5 clearing, materials and supplies, logistics and other items as reflected in its petition. In
6 addition to evaluating recoverability of costs through the SCRM, I will address the
7 capitalization of costs. As part of my analysis, I relied on my experience in analyzing
8 storm costs in other jurisdictions, past review of storm costs in Florida, and Rule 25-
9 6.0143, Florida Administrative Code ("F.A.C."), which addresses what costs can be
10 included and excluded from a utility's request for recovery of storm related costs.
11 Additionally, I factored into my analysis and consideration the Company's application
12 of the Storm Cost Settlement Agreement approved in Docket No. 20170272-EI
13 ("Agreement") and the proper application of that Agreement.

14

15 **Q. WOULD YOU IDENTIFY SOME IMPORTANT CONSIDERATIONS THAT**
16 **WERE FACTORED INTO YOUR EVALUATION OF COSTS?**

17 **A.** Yes. The first major factor is the chronology of the Hurricane Michael timeline. When
18 determining whether the costs and the response were appropriate, the following dates
19 as presented by the Company need to be considered:

- 20 ▪ October 5 (Friday): Organization was put on notice for potential
21 activation. Operational leaders and Meteorology team continued to
22 monitor forecast updates.
23
24 ▪ October 6 (Saturday): Operational leaders and Meteorology team
25 continued to monitor forecast updates.

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- October 7 (Sunday): Duke Energy’s Incident Management Team and storm organization fully activated.
- October 8 (Monday): Restoration resource commitments secured via existing vendor contracts and the first SEE mutual assistance call. Off-system resources prepare for travel.
- October 9 (Tuesday): Off-system resources travel to mustering sites and other designated locations a safe distance from Hurricane Michael’s path.
- October 10 (Wednesday): Hurricane Michael made landfall. Off-system resources travel to mustering sites and other designated locations a safe distance from hurricane Michael’s path.
- October 11 (Thursday): Restoration work commenced.²

Power was restored by 4:30 pm October 14 to all but 14,800 customers (compared to a peak of 71,000 who were without power) and was restored to essentially all customers available to receive power by October 18.³ This timeline provides an insight as to when it would be reasonable for Duke to begin and end incurring the majority of costs associated with the restoration of service, especially those costs paid to external sources.

Another major factor I considered is the timing of how another utility responded to Hurricane Michael with acquiring external resources and in the restoration of service to customers. Hurricane Michael had a significant impact on not only Duke but also Florida Public Utilities Company (“FPUC”).

² Company response to Citizens’ Interrogatory No. 1-1.

³ November 22, 2019 Petition at Page 5, Paragraph 13.

1 The next major factor is information included in the filings by Duke and how the Company
2 replied to discovery and whether the costs were sufficiently supported. This is a critical
3 factor as the costs in question are significant and the Company has a fiduciary duty to its
4 ratepayers to make sure that the costs are reasonable and prudently incurred. This factor
5 took into consideration my familiarity with previous issues and areas of concern in
6 evaluating Duke's cost request in Docket No. 20170272-EI and the Agreement that resulted
7 from that proceeding. In that docket, the areas upon which I focused were the time allowed
8 for travel, the amount of costs for mobilization, demobilization and standby time in relation
9 to the total costs incurred and capitalization of restored plant. Following up on what
10 transpired in Docket No. 20170272-EI, consideration was given to the Company's review
11 of costs. These are just some of the major points considered.

12

13 **Q. HOW DID YOU FACTOR IN THE TIMING OF HOW ANOTHER UTILITY**
14 **RESPONDED TO HURRICANE MICHAEL AS PART OF YOUR ASSESSING**
15 **DUKE'S RESPONSE?**

16 **A.** It is common for a utility to claim that getting contractor crews in place prior to a storm
17 impacting its system. I noted as part of my review of FPUC that mobilization was
18 minimized and that a significant amount of the billings began after the storm impacted
19 FPUC's system. This suggests that being overly proactive in committing contractors to
20 respond is a distinct possibility.

21

22 **Q. PLEASE SUMMARIZE YOUR RECOMMENDED ADJUSTMENTS?**

23 **A.** As discussed earlier an added issue is the past and current collection of storm costs
24 from Duke's ratepayers. The ongoing collection that was provisionally authorized on
25 an interim basis only is based on the premise that the filing was 100% accurate. Based

1 on Duke's November 22, 2019 Petition for recovery and the April 30, 2019 Second
2 Implementation Stipulation, the Michael and Alberto storm costs approved by the
3 Commission plus the \$132 million replenishment of the storm reserve are assumed to
4 be completed no later than by the last billing cycle of December 2021. My
5 recommendation to return customer overpayments via a refund should be interpreted
6 to mean I am recommending the return of the money associated with the customers'
7 overpayments in whatever manner is approved by the Commission and in a way that
8 benefits the customers either by a direct bill credit or a shortening of the overall storm
9 cost and reserve replenishment recovery period.

10 I recommend a reduction of \$4,000 to Duke's request for payroll expense for costs,
11 identified by Duke as non-incremental, that Duke did not adjust for, even though they
12 are not incremental costs. This is discussed further below. I recommend a reduction of
13 \$450,000 to Duke's storm request related to labor burdens/incentives to reflect the
14 appropriate classification as capital associated with capitalized distribution payroll
15 since Duke failed to do so. I am recommending an increase to the restoration cost
16 category of \$715,000 since Duke capitalized more than what was reflected as incurred.
17 I recommend returning to customers \$6,105,055 related to distribution line contractor
18 costs to adjust for Duke's failure to prudently control and prevent excessive
19 mobilization/demobilization and excessive standby time. Likewise, customers are
20 owed a refund of \$1,929,118 for costs that were charged in error to the interim storm
21 restoration estimate. I also recommend increasing the amount of contractor costs to be
22 capitalized by \$2,566,399. I recommend a reduction to Duke's storm request and a
23 resulting refund of \$430,524 related to distribution line clearing invoices that Duke
24 failed to justify. Customers are owed a refund of \$6,360,621 in distribution logistics

1 costs because Duke failed to provide sufficient supporting documentation. Other
2 Distribution costs should be reduced by \$199,000 because no supporting
3 documentation was provided. A reduction and refund of \$65,387 is made for a
4 transmission line contractor cost that was a duplicate payment. I am also recommending
5 an adjustment and refund of \$3,243,044 to Transmission-Other for a cost only
6 identified as “Non-Vendor” where Duke failed to provide any explanation, justification
7 or supporting information. I further recommend a reduction and refund of \$977,489 to
8 transmission logistic costs because supporting documentation could not be located.
9 Finally, I recommend a reduction and refund of \$34,445,227 of transmission costs for
10 an unsupported incremental adjustment made by Duke to the capital project cost total.
11 Duke can still recover this cost from customers over the life of the project, but the
12 amount should be returned to current customers as a refund since the initial interim
13 revenue collection estimate was significantly overstated. In total, I recommend a net
14 reduction of at least \$56,083,000 to Duke’s overall storm restoration and reserve
15 replenishment request and a corresponding refund to customers. On a jurisdictional
16 basis, storm restoration costs should be reduced by a net amount of at least \$44,675,000
17 and the refund should be at least \$44,675,000 plus interest at the same rate applied by
18 Duke in its request. If this refund is effectuated by shortening the recovery period, then
19 based on collection at the rate of \$12.9 million per month, it would reduce the recovery
20 period by 3.5 months. Otherwise, a credit on the bill of this amount would be
21 appropriate. I should note that, aside from the specific adjustments I have summarized
22 here, there remain evidentiary deficiencies for some portions of the ongoing
23 provisional, interim revenue collection. For this reason, additional refunds may be
24 necessary. The specific adjustment or refund amounts are generally identified in the

1 body of my testimony on a total company basis but are jurisdictionalized in my
2 schedules. I am not recommending that any specific adjustment be refunded to retail
3 customers on a “total company” or “system” basis.

4 **a. Payroll**

5 **Q. WHAT HAS THE COMPANY REQUESTED FOR RECOVERY OF PAYROLL**
6 **COSTS AS PART OF ITS REQUEST?**

7 **A.** Duke’s storm restoration cost request includes \$2,383,000 of regular payroll costs and
8 \$5,160,000 of overtime payroll costs. Excluded from Duke’s request is \$1,827,000 of
9 payroll that was deemed non-incremental (\$1,142,000 regular and \$681,000 overtime);
10 therefore, the net total payroll being requested is \$974,486 prior to an adjustment for
11 capitalization. Additionally, the request includes a net request for Labor
12 Burdens/Incentives of \$3,377,000, consisting of \$4,193,000 of incurred costs reduced
13 by \$816,000 determined to be non-incremental. Based on Rule 25-6.0143, F.A.C., (the
14 “Rule”) only incremental costs are to be included in the request for recovery of storm
15 costs.

16

17 **Q. IN YOUR OPINION, WHAT INCREMENTAL PAYROLL COSTS ARE**
18 **RECOVERABLE UNDER RULE 25-6.0143(1), F.A.C.?**

19 **A.** Rule 25-6.0143, F.A.C., identifies the costs that are allowed and those that are
20 prohibited from storm cost recovery including through the use of the Incremental Cost
21 and Capitalization Approach methodology (“ICCA”). Rule 25-6.0143(1)(d) provides
22 that “the utility will be allowed to charge to Account No. 228.1 costs that are
23 incremental to cost normally charged to non-cost recovery clause operating expenses

1 in the absence of the storm.” This means costs that are recovered as part of base rates
2 are not incremental and are, therefore, not recoverable under the Rule. Additionally,
3 Rule 25-6.0143(1)(f)1 prohibits “base rate recoverable payroll and regular payroll-
4 related costs for utility managerial and non-managerial personnel” from being charged
5 to the reserve and it prohibits recovery of “bonuses or any other special compensation
6 for utility personnel not eligible for overtime.” Based upon my 40-plus years of
7 experience as an accountant in the utility field, incremental payroll costs are costs, as
8 stated in the Rule, that are incremental to those normally charged to non-cost recovery
9 clause operating expenses in the absence of a storm. This definition requires an
10 evaluation to compare the amount of payroll currently included in a utility’s applicable
11 base rates to the amount of payroll charged to base rate O&M accounts during the
12 period in which the storm occurred. This comparison will establish whether the payroll
13 charged to the reserve is in excess of what is included in base rates such that those
14 payroll dollars are incremental and thus eligible for storm cost recovery.

15

16 **Q. ARE THERE CONCERNS WITH WHAT THE COMPANY IS REQUESTING?**

17 **A.** Yes, there is a minor concern. According to Company witness Tom Morris, the payroll
18 amount included in the Company’s request included payroll dollars excluding bonuses
19 adjusted for non-incremental payroll. This was determined by means of the three-year
20 historical average (October 2015 to October 2017) of non-storm O&M base regular
21 and overtime payroll compared to the actual non-storm amount charged to O&M base
22 regular and overtime payroll in October 2018 for Transmission and Distribution
23 (“T&D”). If the calculated average was higher than the amount incurred in October
24 2018, that difference was removed from reported restoration costs as the non-

1 incremental amount and charged to Income Statement O&M.⁴ However, the Company
2 failed to remove \$4,000 of the non-incremental overtime as determined using the above
3 described methodology.

4

5 **Q. IS THE COMPANY-PROPOSED METHODOLOGY CONSIDERED**
6 **REASONABLE IN DETERMINING AN APPROPRIATE LEVEL OF**
7 **PAYROLL TO BE INCLUDED IN STORM COST RECOVERY AND IN**
8 **COMPLIANCE WITH RULE 25-6.0143, F.A.C?**

9 **A.** Typically, I would make that determination based on the payroll that was factored into
10 base rates when rates were last established. However, since DEF's base rates have
11 resulted from a series of negotiated "black box" outcomes between 2010 and 2017,
12 determining a base rate payroll starting point has proven to be a contentious issue. As
13 a means of compromise, the use of the monthly average in comparison to the storm
14 month costs in O&M is considered a reasonable surrogate to make a determination of
15 whether or not the storm payroll includes non-incremental payroll dollars.

16

17 **Q. WHAT IS THE ORIGIN OF THE COMPANY'S PROPOSED**
18 **METHODOLOGY?**

19 **A.** As I stated earlier, there were issues identified in Docket No. 20170272-EI that were
20 similar in nature to issues in this proceeding. In the 2017 docket, I proposed the use of
21 payroll from Duke's last filed rate case and Duke proposed the use of an average of
22 payroll costs for the month of storm from the last three years. The basis for Duke's

⁴ November 22, 2019 testimony of Tom Morris at pages 7 and 8.

1 position was that the Rule specified the benchmark for tree trimming would be
2 determined in that manner. In resolving that issue for the 2017 case and going forward,
3 the averaging methodology was included in the Storm Restoration Cost Process
4 Improvements (“Process Improvements”) contained in the Agreement and approved by
5 the Commission.

6

7 **Q. ARE THE PROCESS IMPROVEMENTS ENUMERATED IN THE**
8 **AGREEMENT APPLICABLE TO THE COST INCLUDED IN THE**
9 **COMPANY’S CURRENT REQUEST?**

10 **A.** No. They would not be since the Agreement was executed after Hurricane Michael
11 impacted Duke. However, I would note that the Company has selectively used the
12 Agreement as a basis for costs that are being requested for recovery in this docket. For
13 example, the response to Citizens’ Interrogatory No. 4-128 referenced the Agreement
14 as justification for including exempt overtime in the Company’s request.

15

16 **Q. IF THE AGREEMENT IS NOT APPLICABLE TO THIS REQUEST AND YOU**
17 **INDICATED THAT YOUR PREFERENCE WAS TO USE PAYROLL**
18 **INCLUDED IN DUKE’S BASE RATES IN DETERMINING THE**
19 **INCREMENTAL AMOUNT, WHY HAVEN’T YOU IDENTIFIED THAT AS**
20 **AN ISSUE?**

21 **A.** First, Duke did not provide the base rate costs as requested in response to Citizens’
22 Interrogatory No. 1-27. Instead, the response rationalized not providing the
23 information by referencing Duke’s multiple settlements that have been executed and
24 by stating the method was consistent with the ICCA. Rule 25-6.0143(1)(d), F.A.C.,

1 provides specific guidance as to what costs are recoverable. Specifically, under the
2 ICCA, costs charged to cover storm-related damages shall exclude those costs that
3 normally would be charged to non-cost recovery clause operating expenses in the
4 absence of a storm. There is no specific method for determining incremental payroll
5 under the ICCA as Duke alleges. In fact, Rule 25-6.0143(1)(f)(1) specifically prohibits
6 base rate recoverable regular payroll and regular payroll-related costs for utility
7 managerial and non-managerial personnel. Since Duke chose not to provide the payroll
8 included in current base rates, it has effectively failed to justify inclusion of any payroll
9 as part of its request.

10

11 **Q. BASED ON YOUR EXPLANATION, SO FAR IT WOULD SEEM AN ISSUE**
12 **DOES EXIST, SO AGAIN, I WOULD ASK WHY HAVEN'T YOU IDENTIFIED**
13 **THAT AS AN ISSUE?**

14 **A.** In an attempt to reasonably address issues in this docket and since Duke was relying
15 on the Agreement as justification for determining what costs should be allowed as
16 incremental or for recovery, I believe that a fair and reasonable guideline for evaluating
17 costs is to follow the Process Improvements agreed to by Duke and OPC in the 2019
18 Agreement, especially with respect to costs. I would note that, in response to Citizens'
19 Interrogatory No. 2-48, Duke explains how non-incremental amounts were determined
20 for as follows:

21 Even though the Storm Settlement was finalized after both Michael and
22 Alberto occurred, Distribution and Transmission took efforts to incorporate
23 that agreement into the calculation of the non-incremental costs.

24
25 For regular payroll, overtime, labor burdens and Vegetation Management the
26 non-incremental amounts were calculated using a three-year average (2015-
27 2017) of the actual O&M costs incurred in the month of the storm and that

1 was compared to the actual O&M costs incurred in the month of the storm in
2 2018 for Distribution and Transmission respectfully. If the three-year average
3 was higher than the amount incurred in 2018, then that net difference became
4 the non-incremental amount. If the three-year average was less than the
5 amount incurred in 2018, then no non-incremental costs were removed.
6

7 If the non-incremental amount exceeded the actual amount charged to the
8 storm project, the non-incremental amount was capped at the amount charged
9 to the storm project.
10

11 Incentives/Bonuses charged to the storm project were removed and considered
12 non-incremental.
13

14 Overhead allocations related to Duke Energy Florida are considered non-
15 incremental except for the portion that becomes part of the capital calculation.
16 Fleet allocation costs related to Duke Energy Florida are comprised of 4
17 components (Repair & Maintenance, Leasing/Ownership Costs, Depreciation,
18 Fuel). Only the fuel component can be recovered through the storm reserve.
19 Therefore, the remaining three components are considered non-incremental
20 and removed. Transmission removed all of their fleet allocation costs.
21

22 (Emphasis added)
23

24 Duke has the burden of justifying why it should retain the funds that customers are
25 providing up-front to recover its estimated storm restoration costs. I respect the
26 Company's decision to factor the Agreement provisions into its effort to meet that
27 burden. I also believe that it would be reasonable and consistent for the Commission to
28 recognize the Process Improvements across-the-board. For that reason, I will follow
29 this approach in my evaluation of costs and my recommendations throughout this
30 testimony. That said, if it is determined that adhering to the provisions of the
31 Agreement is not required or allowed by the Commission (i.e. Duke could pick and
32 choose which provisions to apply), then I recommend the Company's request be
33 reduced by \$5,716,000, absent evidence of the amount of O&M payroll included in
34 base rates and the amount of O&M payroll incurred in 2018 .

1 **Q. THE DISCOVERY RESPONSE YOU HAVE JUST CITED INDICATES THAT**
2 **INCENTIVES/BONUSES WERE REMOVED AND CONSIDERED NON-**
3 **INCREMENTAL. IS THAT CONSISTENT WITH YOUR UNDERSTANDING**
4 **REGARDING WHETHER THERE ARE ANY INCENTIVES/BONUSES**
5 **INCLUDED IN THE COMPANY’S REQUEST FOR RECOVERY?**

6 **A.** Rule 25-6.0143(1)(f),2, F.A.C., specifically states “[b]onuses or *any other special*
7 *compensation* for utility personnel not eligible for overtime pay.” (Emphasis added.)
8 Thus, these costs are prohibited from being charged to the reserve. That means both
9 types of extra compensation costs should be excluded. However, Duke has included
10 overtime for exempt supplemental compensation as stated in its response to Citizens’
11 Interrogatory No. 4-128. The discovery specifically asked if any special compensation
12 was included. In reply, Duke stated the following:

13 Regular payroll did not include any special compensation. Overtime includes
14 exempt supplemental compensation in accordance with page 15 – Exempt
15 Supplemental Compensation of the Incremental Cost Methodology Addendum
16 in the Storm Cost Settlement Agreement approved in Order No. PSC-2019-
17 0232-AS-EI.

18
19 Based on that response, the exempt overtime incentive compensation must be excluded
20 to comply with the Rule; however, Duke has side-stepped the Rule and has chosen to
21 include these costs because of the Agreement. While I would typically have an issue
22 with a utility including this type of cost, I am not objecting to inclusion here since I
23 believe compliance with the Agreement is reasonable – again, that is *if* Duke
24 consistently applies the provisions of the Agreement throughout its filing.

1 **Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO THE COMPANY'S**
2 **REQUEST FOR PAYROLL COSTS?**

3 **A.** As shown on Exhibit No. HWS-2, Schedule B, and with the understanding that the
4 Process Improvements should be applied on a consistent basis, I am recommending the
5 total payroll be reduced by \$4,000. This adjustment is based on correcting Duke's
6 adjustment as filed to exclude non-incremental payroll consistent with the calculation
7 provided in its response to Citizens' POD 3-20. If application of the Agreement is not
8 applied consistently, then payroll should be reduced by \$5,716,000.

9

10 **b. Labor Burdens/Incentives**

11 **Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO THE REQUESTED**
12 **LABOR BURDENS/INCENTIVE COSTS?**

13 **A.** I am not recommending an adjustment to the costs reported; however, I am
14 recommending an adjustment to the estimated interim revenue collection amount. In
15 its response to Citizens' Interrogatory No. 2-48, Duke states the labor burdens non-
16 incremental amounts were calculated using a three-year average (2015-2017) of the
17 actual O&M costs incurred in the month of the storm. That average was then compared
18 to the actual O&M costs incurred in the month of the storm in 2018 for Distribution
19 and Transmission, respectfully. This calculation is consistent with the Process
20 Improvements and, upon review of that calculation, I agree the adjustment was properly
21 determined. However, Duke capitalized \$1,078,978 of Labor Burden/Incentive costs
22 for transmission and none for distribution even though distribution reflected \$987,000
23 of capitalized internal labor. There is a definite connection between labor and Labor
24 Burden/Incentives; therefore, an adjustment is required to reflect capitalization of the

1 related labor burden costs. In fact, Company witness Tom Morris identifies this
2 connection in his direct testimony at page 8, lines 16 – 23.

3

4 **Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING FOR**
5 **CAPITALIZATION OF LABOR BURDEN/INCENTIVES ASSOCIATED**
6 **WITH DISTRIBUTION PAYROLL?**

7 **A.** I am recommending a capitalization adjustment of \$450,000 related to non-incremental
8 distribution labor. The calculation is shown on Exhibit HWS-2, Schedule C and is
9 based on identification of the ratio of non-incremental distribution labor
10 burden/incentive dollars to non-incremental distribution labor dollars and then
11 applying the result of 45.59% to the \$987,000 of capitalized distribution labor.

12

13 **Q. WHAT WOULD YOU RECOMMEND AS AN ADJUSTMENT IF THE**
14 **PROCESS IMPROVEMENTS ARE NOT APPLIED CONSISTENTLY?**

15 **A.** Since payroll above the minimum filing requirements (“MFR”) level was not supported
16 by Duke, then the corresponding amount of Labor Burdens/Incentives would not be
17 justified because those costs are directly related to payroll. Therefore, absent consistent
18 application of the Process Improvements, the requested recovery for restoration should
19 be reduced by \$3,331,000. This is the net amount of Labor Burdens/Incentives as
20 shown on Company Exhibit No. TM-2. Absent consistent application of the provisions
21 of the Agreement and the exclusion of the unsupported payroll, there cannot be any
22 associated Labor Burdens/Incentives allowed.

1 **c. Overhead Allocation**

2 **Q. DO YOU HAVE ANY CONCERNS WITH THE ACCOUNTING FOR THE**
3 **REQUESTED OVERHEAD COSTS?**

4 **A.** Yes, I do. Duke was asked if the overhead costs were for affiliate employees who do
5 not charge DEF for any normal day-to-day services. The Company's response to
6 Citizens' Interrogatory No. 4-130 states as follows:

7 Overhead allocations include costs from DEF management and supervision.
8 These costs are identified by the resource type and responsibility center and
9 those costs are removed as non-incremental or as part of the capital calculation.
10 For Hurricane Michael all overhead allocations for Distribution were removed
11 from storm recovery and only \$40k were included for Transmission as it related
12 to Affiliate employees.
13

14 In reviewing the amount of costs charged and the adjustment identified as non-
15 incremental, there was an unaccounted-for balance of \$12.422 million. Duke's
16 response to Citizens' Interrogatory No. 4-136 provided a breakdown by type of costs
17 included in the \$14.5 million and \$90.6 million of capitalized distribution and
18 transmission costs, respectively. The capitalized distribution costs included
19 \$2,237,649 for Hurricane Michael and \$10,764 for Tropical Storm Alberto for a total
20 overhead distribution of \$2,248,413. The capitalized transmission costs included
21 \$10,846,984 of overhead costs. The total for distribution and transmission was
22 \$13,095,397. That means the capitalized costs for Overhead Allocations on a net basis
23 are \$673,397 (\$13,095,937-\$12,422,000) higher than what was available to be
24 capitalized. It is not possible to capitalize an amount greater than what was available
25 to be capitalized. For example, if you only have \$4 in your pocket, you cannot pull \$5
26 out to pay for something that cost \$5.

1 **Q. WHAT DO YOU MEAN THE COSTS CAPITALIZED ON A NET BASIS ARE**
2 **\$673,397 HIGHER THAN WAS AVAILABLE?**

3 **A.** My Exhibit HWS-2, Schedule D demonstrates there are four categories of overhead
4 costs; two of them have a negative balance and two have a positive balance, with the
5 net balance being \$673,397. The two with negative balances should be corrected, by
6 reversing the Company's capitalization adjustment.

7
8 **Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO THE REQUESTED**
9 **OVERHEAD COSTS?**

10 **A.** Yes. I recommend an adjustment of \$715,000 for the two negative costs on Exhibit
11 HWS-2, Schedule D, which reduces the amount of distribution costs capitalized and
12 increases the amount of restoration costs to be recovered. As noted earlier, Duke's
13 May 19, 2020 second revised petition increased transmission overhead costs by
14 \$718,000. The increase, while not supported by any type of documentation, is not
15 being contested since it is approximately the same amount that I am recommending
16 increasing restoration costs. The unknown, due to lack of time for proper discovery on
17 a last-minute filing, is whether this is simply coincidental or did the Company discover
18 that it capitalized more than was available to be capitalized and then made an
19 adjustment to account for the accounting disparity. I am not recommending that both
20 adjustments be made, since at this time I believe both adjustments are offered to correct
21 the same problem.

1 **d. Employee Expenses**

2 **Q. WHAT IS INCLUDED IN THE AMOUNT THAT DUKE HAS REQUESTED**
3 **FOR EMPLOYEE EXPENSES?**

4 **A.** Duke's Exhibit No. TM-2 identifies \$11,274,000 of employee expenses incurred as
5 part of the storm restoration effort. No adjustment was made for costs that would be
6 classified as non-incremental. The Company's response to Citizens' Interrogatory No.
7 4-136 identified \$446,002 of transmission related employee expenses that were
8 capitalized. No amount of distribution related employee expenses were identified as
9 capital-related.

10

11 **Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO THE REQUESTED**
12 **EMPLOYEE EXPENSE COSTS?**

13 **A.** No, I am not. The amount of employee expenses is significant and is made up of
14 numerous payments. Based on my review of the documentation, I did not find the
15 amounts to be unreasonable.

16 **e. Contractor Costs**

17 **Q. WHAT IS THE AMOUNT OF STORM RESTORATION COSTS IDENTIFIED**
18 **AS BEING ASSOCIATED WITH CONTRACTORS AND WHAT AMOUNT OF**
19 **CONTRACTOR COSTS WERE CAPITALIZED?**

20 **A.** Company Exhibit No. TM-2 identifies \$252,643,000 of contractor costs for Hurricane
21 Michael and \$441,000 of contractor costs for Tropical Storm Alberto. None of these
22 costs were labeled as non-incremental and, based on the Company's response to
23 Citizens' Interrogatory No. 4-136, \$98,746,815 of contractor costs were capitalized for

1 transmission and no specific amount was identified as capitalized contractor costs for
2 distribution.

3

4 **Q. WHAT IS THE COMPANY'S EXPLANATION FOR WHY THERE IS NO**
5 **SPECIFIC CAPITAL AMOUNT IDENTIFIED FOR DISTRIBUTION, AND DO**
6 **YOU AGREE WITH IT?**

7 A. The Company determined its capitalized distribution using a formulistic approach. In
8 its response to Citizens' Interrogatory No. 4-136, Duke stated that since work orders
9 are not created for distribution, the costs cannot be broken out by type. My
10 interpretation of this response is that Duke cannot identify how much of the capital cost
11 is attributed to regular payroll, overtime payroll, labor burdens/incentives, employee
12 expenses, contractor costs or internal fleet costs. Adding to this is the fact that, apart
13 from the Company including specific line amounts for materials and overheads in
14 capitalized distribution, there is no indication labor related costs, such as labor
15 burdens/incentives, employee expenses or internal fleet costs, are even factored into
16 the capitalized amount. Duke did estimate a labor amount; however, it appears to have
17 ignored the labor related costs. In determining the amount of payroll to be capitalized,
18 labor burdens/incentives are always included in establishing depreciable plant balances
19 associated with these types of plant restoration activities. Thus, I do not agree that
20 Duke's "inability to identify" explanation supports this portion of the estimated interim
21 collection of storm restoration costs. In effect, it overstates the actual amount that
22 should be properly expensed for cost recovery. I can understand why there is no
23 indication of capitalizing labor burdens/incentives, and that is because Duke cannot
24 identify what internal labor costs were capitalized. The inquiry should not stop there

1 since Duke has the burden of proof in seeking any cost recovery, and an adjustment for
2 labor additives that more accurately reflect actual cost should be made.

3

4 **Q. HAVE YOU SEEN EVIDENCE OF COMPANY CAPITALIZING FOREIGN**
5 **OR EXTRNAL CONTRACTOR COSTS RELATED TO ITS REQUEST FOR**
6 **STORM COST RECOVERY?**

7 **A.** Yes. In the filing for Docket No. 20190155-EI and Docket No. 20190156-EI FPUC
8 capitalized external contractor costs. Similar to Duke here, FPUC was requested to
9 explain whether a formula was utilized to determine the amount capitalized and, if so,
10 provide an explanation of the process and a detailed calculation of the capitalization
11 for poles and wire. FPUC's response explained that FPUC set up work orders for the
12 capitalization of poles and when materials were issued the cost were charged to the
13 work order. The associated labor was then based on employee labor that was directly
14 charged to the capital work order. FPUC employees who were in charge of contractor
15 crews were called "bird dogs" and charged their time to the work orders. The FPUC
16 "bird dog" employees had oversight and monitored contractor crews. The FPUC "bird
17 dog" employees allocation of time served as a basis for allocating external contractor
18 costs. I would note that FPUC is a much smaller utility and still had the internal
19 resources to oversee and monitor contractor crews.

20

21 **Q. ARE THERE ANY INTERNAL LABOR AND CONTRACTOR COSTS**
22 **INCLUDED IN THE CAPITALIZED DISTRIBUTION COSTS?**

1 A. Yes, there are. The Company determines the capitalized amount based on an average
2 of internal labor rates and native contractor rates. This averaging process compounds
3 the issue with the capitalization of storm costs.

4

5 **Q. WHAT ARE NATIVE CONTRACTORS AND HOW DO THEY DIFFER FROM**
6 **FOREIGN CONTRACTORS?**

7 A. Native contractors perform services for the Company on a day-to-day, year-round basis
8 under “blue sky” or non-storm (non-emergency) conditions. They are also sometimes
9 referred to as “embedded crews.” A foreign contractor crew is simply a vendor or
10 contractor crew that is not a native or embedded crew.

11

12 **Q. WHY DOES THE AVERAGING OF JUST INTERNAL RATES AND NATIVE**
13 **CONTRACTOR RATES CREATE A FURTHER ISSUE?**

14 A. Duke’s response to Citizens’ Interrogatory No. 4-133 explained the simple average as
15 follows:

16 A simple average is then calculated as shown in the response to Citizen’s Third
17 Request for Production of Documents No. 24. The average native contractor
18 non-storm rate is combined with the DEF internal Distribution labor rate and
19 divided by two to derive the simple average rate.
20

21 Determining the appropriate average rate was an issue in Duke’s last storm case in
22 Docket No. 20170272-EI. In the Agreement, as part of the Incremental Cost
23 Methodology Addendums, it was agreed that the average rate would be a simple
24 average of hourly foreign and native contractor costs. This addendum was one of seven
25 addendums. The Company has adopted as part of this filing five of those addendums,
26 while excluding this averaging provision for capital costs, as well as a provision to

1 adjust non-vegetation contractors' costs based on a three-year average. It appears that
2 the effect of this cherry picking is to undeniably increase the amount of storm
3 restoration costs being sought for recovery by Duke.

4

5 **Q. IN EXPLAINING THE CAPITALIZATION PROBLEM, YOU INDICATED**
6 **THERE ARE TWO PROCESS IMPROVEMENTS THAT DUKE DID NOT**
7 **FOLLOW. WHY WASN'T THE NON-VEGETATION CONTRACTOR**
8 **PROCESS IMPROVEMENT DONE?**

9 **A.** I do not know why this was not done since the necessary information was available
10 based on the Company's responses to Citizens' Interrogatory No. 1-10 and 1-11.

11

12 **Q. ARE THERE ANY OTHER ISSUES WITH CONTRACTOR COSTS?**

13 **A.** Yes. As I noted earlier, Duke identified in its response to Citizens' Interrogatory No.
14 4-136 that there was a total of \$98,746,815 of contractor costs that were capitalized for
15 transmission. Company Exhibit No. TM-2 identifies the amount capitalized applicable
16 to all types of costs for transmission as \$90,596,000. This is a difference of \$8,150,815
17 (\$98,746,815 - \$90,596,000) between the discovery response and the Company's filing
18 exhibit. This ignores the fact that the \$98,746,815 is for contractors only and the
19 \$90,596,000 is for all transmission costs. Based on my review of the Company's
20 response to Citizens' Interrogatory No. 4-136, it appears that, after determining a
21 capital cost of \$80,105,179 for the 230 kV Line, Duke reduced the amount to be
22 capitalized by \$34,445,227 by classifying it as the "Incremental Portion." It would
23 appear that Duke first charged these costs to account 186, and after a review of the
24 accumulated costs, the costs were reduced by non-incremental costs and capital costs.

1 Then, after further review of the original calculated capital amount was done, the
2 amount for the 230 kV Line was subsequently reduced by \$34,445,227 and then
3 returned to the restoration costs included in account 186 and ultimately charged to
4 account 228.1 for recovery from current customers using the SCRM. Based on the
5 Company's response to Citizens' Interrogatory No. 4-127, any justification for doing
6 this is invalid since Duke states that it accounted for the costs in accordance with ICCA
7 and the Agreement. This again shows how the Company selectively applied its
8 interpretation to what costs the calculations apply and how they should be accounted
9 for. With the transmission capital calculation, Duke ignored the provisions in the
10 Agreement for determining the distribution amount as explained earlier. This indicates
11 that Duke determined that, under normal conditions, the cost of rebuilding the 230 kV
12 Line would have been lower than what Duke initially recorded as the actual cost and
13 thus it removed part of the capital cost called for by the Agreement and returned
14 \$34,445,227 to the restoration costs (expense) requested for recovery by relying on its
15 interpretation of ICCA. This is a critical issue since, even though Duke has determined
16 an actual capital cost for the replacement of the 230 kV Line, it reduced that actual cost
17 and increased storm restoration costs for the same amount. This is not in accordance
18 with Generally Accepted Accounting Principles ("GAAP"). This raises a significant
19 concern since the adjustment was made without any explanation in Duke's direct
20 testimony. It was also omitted from the Company's response to Citizens' Interrogatory
21 No. 4-136 even though Duke stated in testimony its accounting is in accordance with
22 GAAP. This will be discussed in greater detail later in my testimony in Section III.h
23 at pages 64-65.

1 **Q. IS THERE ANY DOUBT THAT ALL OF THE COSTS LISTED AS CAPITAL**
2 **COSTS IN THE COMPANY'S RESPONSE TO CITIZENS'**
3 **INTERROGATORY NO. 4-136 WERE CAPITAL COSTS?**

4 **A.** No. As will be discussed later in Section III.h at pages 64-65, my review of contractor
5 costs found the costs to be project-oriented. The specific projects are identified as being
6 the 230 kV Line and the Access Road.

7 **1. Line Contractors**

8 **Q. WHAT AMOUNT OF CONTRACTOR COSTS ARE CUSTOMERS NOW**
9 **PAYING FOR IN CURRENT RATES FOR LINE CONTRACTORS?**

10 **A.** Based on its response to Citizens' Interrogatory No. 150, Duke incurred \$95,796,918
11 in transmission line contractor costs and \$90,600,346 in distribution line contractor
12 costs. There was no adjustment for non-incremental costs. Duke did identify an
13 adjustment of \$98,746,815 of contractor costs being capitalized for transmission but it
14 did not separate the capitalized amount by type, such as contractors, line clearing
15 contractors, logistics and other. The amount of distribution costs the customers should
16 be currently paying for have not been justified. This presents a greater issue since Duke
17 uses an average of internal labor and native contractor rates to calculate the capitalized
18 amount. This means that the correct amount customers should currently be paying for
19 contractors has not been justified since it is not known, let alone separable by type of
20 contractor. I would note that since the formula approach for distribution excludes line
21 clearing, logistics or other contractor costs, it must be assumed the capitalized labor
22 amount is made up of strictly internal labor and native contractor rates. These rates
23 ignore not only the conditions that existed when the capital work was performed but it

1 also ignores the fact that external contractors are performing capital work at higher
2 rates per hour. This means that costs that should be capitalized are likely to have been
3 understated, and correspondingly that costs that are now being collected from current
4 customers are overstated. It is difficult to totally quantify this error other than to note
5 that it is occurring. This circumstance contributes to the cloud over the process that
6 Duke has used to separate capital costs from those costs which should be expensed and
7 charged to customers for storm cost recovery.

8

9 **Q. DID YOU IDENTIFY ANY CONCERNS WITH LINE CONTRACTOR COSTS**
10 **INCLUDED IN DUKE'S STORM COST RECOVERY FILING?**

11 **A.** Yes. There are multiple concerns with the amount being recovered from current
12 customers. First, there are simply costs being charged that should never have been
13 imposed on the customers. Next, there is a concern with requiring customers to pay
14 for an excessive amount of mobilization/demobilization costs, along with standby time.
15 Finally, the proper capitalization of restoration costs is an issue.

16

17 **Q. ARE THERE OTHER CONCERNS YOU IDENTIFIED WITH DUKE'S**
18 **STORM COST RECOVERY FILING?**

19 **A.** Yes, there are. Citizens' Interrogatory No. 1-2, asked Duke to provide an excel
20 spreadsheet of all invoiced costs by type. The Company's response provided a
21 summary of the costs by type but not in the level of detail expected. I requested a
22 listing of each invoice similar to what was provided to me by Duke in Docket No.
23 20170272-EI. Duke was asked to supplement this with an explanation of what was
24 being sought and the information was still not provided in the requested format.

1 Citizens' Interrogatory No. 5-150 requested a listing of all invoiced costs. After its
2 initial response which provided a summary by vendor and further discussion, Duke
3 provided the requested information in the format sought. Duke interpreted the requests
4 to be for costs in a high-level summary format despite what Duke provided in Docket
5 No. 20170272-EI. As part of the initial discovery request, I agree that the use of the
6 word summary and my assumption that Duke knew from the prior case what was being
7 requested could have led to an interpretation different from the intent of the request.
8 However, the discovery request included in the Fifth set was clear and, based on interim
9 discussions, the Company should have understood exactly what was being asked. This
10 delay in getting detail is a concern since it hampered my review process. This
11 impairment is problematic since approval of the costs for recovery is important to both
12 the Company and the customers, and the appropriateness of the costs is crucial since
13 ratepayers have been paying for those costs while this docket is open. At this point, it
14 appears that the OPC is the only party who routinely performs this type of in-depth
15 review and that makes the provision of information to the OPC even more crucial. This
16 problem could be avoided in future storm cost recovery proceedings if the Commission
17 orders the Company to include certain essential information sooner in the process. In
18 my conclusion, I will discuss my recommendations for the specific types of critical,
19 essential information that should be provided at the time a petition for recovery is filed.

20

21 **Q. WHAT OTHER CONCERNS DID YOU IDENTIFY IN THIS AREA?**

22 I also have concerns with respect to costs in general, with a special emphasis on the
23 lack of monitoring and tracking of storm work by Duke. The Company's response to
24 Citizens' Interrogatory No. 1-3 provides a summary of the review or "audit" process

1 performed by Duke in reviewing and approving costs. One item listed is mileage which
2 is calculated for mobilization/demobilization based on MapQuest/Google maps to
3 validate mileage driven. However, a review of the audits done and provided in response
4 to Citizens' POD 1-14 did not identify documentation supporting this task being
5 performed. I would note that some invoices supplied in response to Citizens' POD 1-
6 4 did include the referenced MapQuest/Google maps but again there was no indication
7 that mileage and travel time was verified.

8 Duke was asked to provide any changes to policies and procedures related to Hurricane
9 Michael implemented since Docket No. 20170272-EI. The Company's response to
10 Citizens' Interrogatory No. 1-4 was that no changes were implemented. In Docket No.
11 20170272-EI, there was an issue raised that Duke did not have any guidelines and did
12 not have any limitations on the hours that can be charged by outside contractors once
13 travel begins. This issue was addressed in the Process Improvements, with Duke
14 agreeing that contracted and invoiced travel would limit what customers could be
15 charged to actual time with no minimum hours. Nothing approximating this Process
16 Improvement (which I agree was implemented after the 2018 storm season) was
17 followed. In fact, the Company's response to Citizens' Interrogatory No. 1-7 stated
18 that it does not have a specific policy surrounding mobilization/demobilization travel
19 time. The Company's response to Citizens' interrogatory No. 1-8 stated that "DEF's
20 billing system does not have the ability to distinguish cost of regular hours versus
21 mobilization/demobilization." Similarly, the Company's response to Citizens'
22 Interrogatory No. 1-9 states that DEFs billing system does not have the ability to
23 distinguish standby costs. Another discovery request was made to identify when
24 outside contractors were acquired, to provide the date and time the respective crews

1 began restoration work, and when crews completed restoration activities prior to
2 demobilizing. The Company's response to Citizens' Interrogatory No. 4-137 states as
3 follows:

4 As a general practice, DEF, when engaging mutual assistance and/or
5 contractors for emergency restoration, does not currently break out or track
6 restoration start/stop times. Due to the nature of emergency assistance, general
7 practice with agreements during Hurricane Michael were based on labor hours
8 to prepare, respond, and return to home base.
9

10 This is a concern since contractors could bill excessively for travel and standby time,
11 and if it is not monitored, Duke has no ability to justify those charges. In my experience,
12 other large utilities have historically made at least *some* minimal efforts to monitor and
13 limit standby time. As a matter of good business practice and stewardship of costs that
14 are going to be passed on to its customers, Duke should have been doing this. Citizens'
15 Third Set of Interrogatories included a number of specific requests, on specific
16 invoices, that asked Duke to confirm the amount charged for
17 mobilization/demobilization and/or if charges were for the actual performance of
18 restoration activities. A generic response was provided by the Company for the various
19 requests as follows:⁵

20 As general practice, Duke Energy, when engaging mutual
21 assistance/contractors for emergency restoration, does not break out or specify
22 standby / mobilization / demobilization charging and therefore does not track
23 costs in that manner. At this time, utility emergency assistance practice is that
24 the assistance period commences when personnel and/or equipment is initially
25 incurred by the responding company to the requesting utility's needs. Due to
26 the nature of emergency assistance, practice agreements are based on labor
27 hours to prepare, respond, and return to home base.

⁵ Response to Citizens' Interrogatory Nos. 3-51, 3-54, 3-63, 3-73, 3-76, 3-80, 3-83, 3-85, 3-103, 3-108, 3-109, 3-113, 3-114, 3-115 and 3-116.

1 Q. **DOES THIS FAILURE TO MONITOR TRAVEL AND STANDBY TIME ALSO**
2 **IMPACT OTHER AREAS OF THE COMPANY'S REQUEST?**

3
4 A. Yes. As stated earlier, there are two issues with the capitalization of costs. One is the
5 cost for distribution uses internal labor and native contractor rates under blue sky days
6 in determining the capitalized labor. This ignores the fact that costs during storm
7 restoration are higher because of the external contractors performing restoration and
8 capital work. This monitoring failure also does not remotely mirror or even
9 approximate the Process Improvements agreed to that Duke has applied to other costs
10 included in its filing in this docket. The second issue is that, after determining the
11 capital costs for the 230 kV Line, Duke reduced the actual capital costs with an
12 Incremental Portion adjustment by \$34,445,227. In his testimony, Duke witness Tom
13 Morris stated the following regarding the transmission cost capitalized:

14 For Transmission Operations, specific projects were issued for capital work,
15 allowing real-time tracking of those projects. As capital work was performed,
16 associated labor, material and equipment costs were charged to the capital
17 projects.⁶
18

19 This adjustment should not have been made since it understates the actual capital costs
20 paid for the reconstruction of the 230 kV Line. This will be discussed later in my
21 testimony in Section III.h at pages 64-65.

22

23 Q. **WHAT COSTS HAVE YOU DISCOVERED SO FAR THAT SHOULD NOT**
24 **HAVE BEEN CHARGED TO CUSTOMERS?**

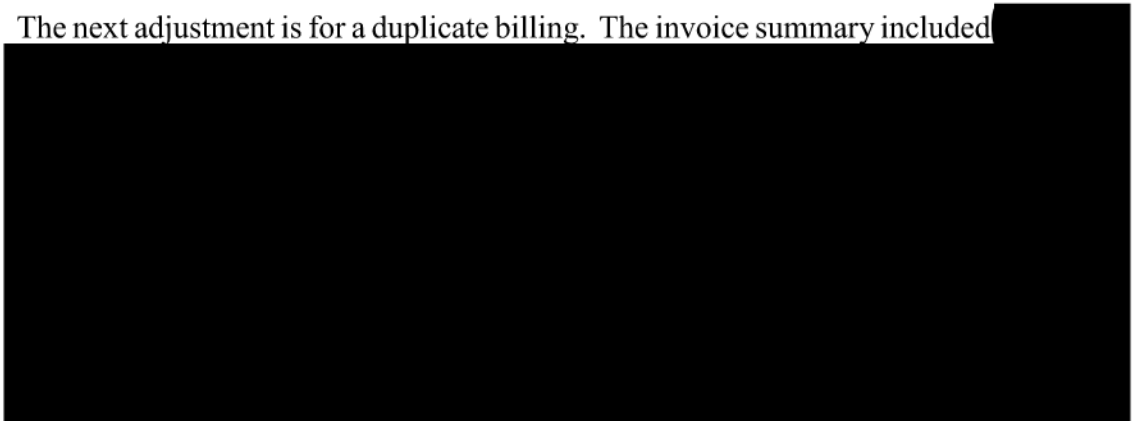
⁶ Testimony of Tom Morris at page 15, lines 8-11.

1 A. A discovery request was made to Duke to explain why the two selected invoices
2 included charges for October 10 and October 11 since the contractor was released on
3 October 9. The Company's response to Citizens' Interrogatory No. 3-78 stated that
4 Company K was released to Carolinas on October 9 and the time for October 10 and
5 11 should have been charged to DEP [a Duke-affiliate IOU in the Carolinas]; therefore,
6 a refund of at least \$141,793 should be made. Another discovery request was made for
7 Duke to confirm that the two specific invoices did not include any storm restoration
8 work. The Company's response to Citizens' Interrogatory No. 3-79 stated that
9 Company K was released before arrival to Florida and they were not onboarded to
10 restore power. Despite the \$141,793 identified as an adjustment, Duke's response
11 indicates the time for October 10 and 11 should be charged to DEP. Both invoices
12 were for time on October 10 and 11; therefore, I am adjusting the restoration costs for
13 a total refund adjustment of \$525,931 (\$384,138 and \$141,793). In the May 2020
14 second supplemental petition filing, it appears that Duke removed these costs.

15 Duke was also asked about the billing by Company M and whether that contractor
16 provided any restoration work. The Company's response to Citizens' Interrogatory
17 No. 3-81 stated that, after further review, Company M was not acquired by DEF but
18 provided restoration services for Duke Energy Carolinas, therefore, a refund
19 adjustment of \$422,362 should be made. A second question related to Company M was
20 posed regarding another invoice and the charges. The Company's response to Citizens'
21 Interrogatory No. 3-82 stated that, after further review, Company M was not acquired
22 by DEF but provided restoration services for Duke Energy Carolinas, therefore, a
23 refund adjustment of \$55,396 should be made. Based on the invoices supplied in the
24 Company's response to Citizens' POD 1-4 and the supplied listing of invoices, Exhibit

1 HWS-2, Schedule F, Page 6e reflects \$1,221,963 as being billed by Company M.
2 Therefore, I am recommending a refund adjustment of \$1,221,963. This also appears
3 to have been part of the \$1.7 million adjustment by Duke in its supplemental filing
4 made in May 2020. If it were not for the OPC’s review, I do not believe this \$1.7
5 million error would not have been discovered.

6 The next adjustment is for a duplicate billing. The invoice summary included



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11
12 Even though I have made these specific adjustments, I would note that there are a
13 number of invoices that should be adjusted because various contractors did not provide
14 any actual restoration work for Duke. In this case, those contractors either did not make
15 it to Florida or arrived and then were released. The Commission should require Duke
16 to conduct an additional review of these invoices (for example vendors P, V, G and N
17 as discussed below) and demonstrate that customers are not being overcharged beyond
18 the specific instances that I have pointed out in my testimony.

19
20 **Q. COULD YOU IDENTIFY SOME ADDITIONAL EXAMPLES OF THIS**
21 **OCCURRING?**

22 **A.** Yes. The billing for Company P was questioned in three interrogatories. The
23 Company’s response to Citizens’ Interrogatory No. 3-85 was the standard response I
24 referred to earlier that said standby/ mobilization/demobilization was not tracked. The

1 Company's response to Citizens' Interrogatory No. 3-86 stated that Company P
2 mobilized from Texas to Jacksonville where its crews stayed on standby until they were
3 released on October 11, 2018. Company P billed Duke \$2,880,809, and Duke's
4 customers are currently paying for this cost, yet they received no benefits whatsoever
5 from this contractor. Conveniently, Duke's Carolina ratepayers benefitted from
6 Floridians picking up the tab because, based on the Company's response to Citizens'
7 Interrogatory No. 3-86, Company P was released from the Carolinas on October 15,
8 2018.

9 Similarly, Company V charged Florida ratepayers \$91,626 and a crew from Company
10 G billed Florida ratepayers \$93,557. The Company's response to Citizens'
11 Interrogatory No. 3-100 stated that Company V was released before arrival in Florida
12 and Duke does not know if they went elsewhere. The Company's response to Citizens'
13 Interrogatory No. 3-64 stated that Company G was rerouted from Georgia on October
14 11th to the Carolinas. Another example of Duke's Florida customers being charged
15 where no restoration work was performed is Company N which was paid \$1,099,852.
16 The Company's response to Citizens' Interrogatory No. 3-83 stated that Company N
17 arrived at the mustering site on October 10 and was on standby until October 11, at
18 which time the crews were released to the Carolinas.

19 Florida customers should not have been charged the costs discussed above since they
20 did not receive any restoration services and, in some instances, the contractors never
21 reached Florida. Adding to these problems is that three of the companies were released
22 to the Carolinas with the end result being Duke Energy Carolina ratepayers were saved
23 from paying the mobilization costs which were directly imposed on Duke's Florida
24 customers using the streamlined SCRM cost recovery method contained in the RRSSA.

1 These examples illustrate that, if the Commission does not hold Duke to a strict burden
2 of proof and forces the OPC to uncover the buried, improper invoices, it effectively
3 shifts the burden of proof to the OPC and requires the customers to try to claw back
4 costs from current, ongoing cost recovery that is only authorized on a provisional,
5 interim basis. The examples that I have listed are proof that improper costs end up
6 being charged to customers because Duke may not have enough incentive to monitor
7 costs to protect its customers.

8

9 **Q. PLEASE EXPLAIN YOUR EVALUATION OF THE MOBILIZATION/
10 DEMobilIZATION AND STANDBY CHARGES WITH WHICH YOU WERE
11 CONCERNED.**

12 **A.** The Company's response to Citizens' POD No. 4 provided invoices for line contractor
13 costs. Included with most invoices were time sheets. A review of the invoices and
14 time summaries that accompanied the invoices and time sheets identified some of the
15 mobilization/ demobilization and standby costs charged by contractors.

16 Standby time can be used to determine how prepared a utility is for storm restoration
17 activities. Duke has stated that it does not track standby time; therefore, there is a
18 concern with this failure to monitor this significant cost element of restoration costs
19 such that ratepayers who are currently paying for these costs are being improperly
20 charged. If contractor crews are standing by for an excessive amount of time waiting
21 for assignment, this could be a strong indication that Duke is not properly monitoring
22 crew activities and/or managing its resources efficiently. As a result, it is the utility
23 ratepayers (and in this case, the Duke Florida ratepayers) who suffer because (1) they
24 are experiencing the power outages, and (2) they ultimately pay excessive storm

1 restoration expenses and they are not properly protected from the Company's improper
2 stewardship of the provisional, interim cost recovery process. A prudent utility should
3 monitor standby time to evaluate its own performance and to help it develop a system
4 that will minimize wasteful standby time, without regard to the cost recovery
5 mechanism. It is not reasonable to expect ratepayers to have to pay for contractors to
6 just sit around or to have those costs dumped into an upfront cost recovery process that
7 does not impose any burden on the utility to protect customers from overpayments.

8

9 For mobilization/demobilization in this docket, I reviewed invoices, time sheets, time
10 summaries and the Company's audits of contractors to estimate the amount of time
11 charged. There are instances where minimally sufficient information was not included
12 on the various documents to even allow a reasonable estimate to be made; thus I am
13 confident that my recommendation is conservative. The Commission should give Duke
14 a proper incentive to maintain a log of the travel time so Duke can determine whether
15 contractors are taking advantage of the situation by overbilling for travel time. These
16 hours and costs can amount to significant costs because unlike the work time for
17 restoration, there are no checks and balances in place. This incentive is most effectively
18 delivered in the form of a disallowance for inadequately monitored and non-justified
19 mobilization time.

20

21 **Q. DID YOU ASK IF THE COMPANY MAINTAINS A LOG OF CONTRACTOR**
22 **TRAVEL?**

23 **A.** Yes. The Company's response to Citizens' Interrogatory No. 4-143 stated the
24 following:

1 External crew deployment is logged via the Resource on Demand (RoD)
2 database. External crew rosters are loaded into RoD when crews arrive to ensure
3 accurate head count. Subsequent crew movements and assignments are logged
4 in RoD up to and including release from the system. DEF does not maintain
5 logs monitoring external crew's work once on-boarded to the system, as
6 maintenance of such logs would increase restoration times and costs.
7

8 Despite Duke's claim that it has the log on the RoD database, the Company is unable
9 to provide any detail regarding mobilization/demobilization and standby time as stated
10 in the Company's multiple discovery responses identified earlier in my testimony.
11

12 **Q. WHAT DID YOU FIND IN YOUR REVIEW THAT INDICATES THAT**
13 **MOBILIZATION/DEMOBILIZATION IS EXCESSIVE?**

14 **A.** The travel time was found to be excessive. One example was with Company AA where
15 multiple crews traveled from various origins and the time allowed was excessive when
16 compared to normal travel time. Because there were multiple crews traveling and
17 additional information was required, I requested Duke to identify the origin of the
18 crews. The Company's response to Citizens' Interrogatory No. 3-117 identified 6
19 crews from Mississippi and 1 from Florida. The time listed on the time sheets for travel
20 on October 9 and October 10 ranged from 24 to 32 hours. The MapQuest search
21 showed that, for the identified origination points, the travel time to Dunnellon, Florida
22 is 9 to 10 hours. The number of miles ranged from 588 miles to 673 miles. A
23 conservative and reasonably generous approach assumes a travel distance of 673 miles
24 and the 10 hours results in an average normal travel time of 67 miles per hour ("mph").
25 In determining the time Duke wants its customers to pay for, I conservatively applied
26 the lower 24-hour time from the range found on the time sheets and the same longer
27 distance of 673 miles, which yields an average travel speed of 28 mph.

1 **Q. AREN'T YOU JUST SECOND-GUESSING DUKE AND ITS CONTRACTORS**
2 **IN THE COMFORT OF A BLUE-SKY DAY TWO YEARS LATER IN THIS**
3 **ANALYSIS?**

4 **A.** No, not at all. To the contrary, I am giving them the benefit of the doubt and accounting
5 for delays inherent in the aftermath of the storm. The difference I have illustrated above
6 is significant and is not an exercise of second-guessing. The argument often advanced
7 by utilities – including those in Florida – is that the big trucks take longer and that
8 explains why the travel time is different. While performing a review of storm costs in
9 a utility docket in Massachusetts, I requested the utility to provide any evidence to
10 support a similar claim. The utility provided two studies in their possession upon which
11 it relied. I have attached the studies as Exhibit HWS-3 and Exhibit HWS-4. The studies
12 concluded that larger trucks traveled slower than cars. The first study set the large
13 truck rate of speed to be 6.7 mph less and the second study set the comparable rate of
14 speed at 7.8 mph less. To make a comparison in the case of Company AA, I reduced
15 the average normal travel time of 67 mph to 59 mph using the 7.8 mph differential
16 generated from the study and rounded up to 8 mph. Based on an average speed of 59
17 mph, the travel time for 673 miles would be approximately 11.5 hours. With an added
18 allowance of 2 hours for stopping and rest, 13.5 hours would be considered reasonable,
19 not the lower 24 hours billed to Duke. The result is that the derived proxy lower travel
20 time that I am conservatively allowing is *still* 1.78 times the normal travel time for large
21 trucks.

22 **Q. DID YOU ASK DUKE IF THEY HAD ANY STUDIES REGARDING THE**
23 **TIME REQUIRED FOR TRAVEL?**

1 A. Yes, I did. Citizens' Interrogatory No. 1-7 was asked if the Duke had a policy for
2 determining whether mobilization/demobilization travel time was considered
3 reasonable and whether the Company performed or had performed for them a study to
4 support that policy. The response was as follows:

5

6 DEF Distribution does not have a specific policy surrounding
7 mobilization/demobilization travel time. However, during the planning process,
8 the distance of responding crews is taken into consideration prior to acquiring.

9

10 DEF Transmission applied the same policies with regard to managing
11 mobilization/demobilization and travel time as were used in response to
12 hurricane Irma and reviewed in Docket No 20120272-EI. In short, as is standard
13 industry practice, contractors were able to begin charging their time to DEF
14 after they were engaged to assist with the restoration efforts. Travel time was
15 managed by DEF's logistics personnel, who would communicate the required
16 arrival time and destination; travel time was considered reasonable if the
17 contractors arrived as directed.

18

19 The Company's response did not answer the question regarding any study. Moreover,
20 based on Duke's failure to answer the question or produce a study when asked now
21 (and before the filing of rebuttal testimony), it must be assumed that a DEF study does
22 not exist.

23

24 **Q. DID YOU MAKE ADDITIONAL COMPARISONS TO SEE HOW THE**
25 **TRAVEL TIME DUKE ALLOWED CUSTOMERS TO BE CHARGED**
26 **COMPARED TO WHAT SHOULD BE CONSIDERED A REASONABLY**
27 **GENEROUS AMOUNT OF TRAVEL TIME?**

28 A. Yes. Using another example of travel related to Company AA, a discovery request
29 asked Duke to identify the origin of travel. The Company's response to Citizens'

1 Interrogatory No. 3-118 identified 4 crews that traveled from Lexington, Kentucky to
2 Crawfordville, Florida. The documents supporting the invoice identified mobilization
3 on October 9 and October 10 totaling 26 hours. According to MapQuest, the distance
4 is 671 miles and a travel time of 10 ½ hours for an average speed of 63.9 mph.
5 Adjusting that travel time by 8 mph results in an average speed of 55.9 mph. The 671
6 miles divided by 55.9 mph results in travel time of 12 hours. Adding two hours for
7 stops increases the reasonable travel time to 14 hours compared to the allowed time of
8 26 hours. To be conservative, I reduced the 26 hours allowed by 4 hours to 22 hours
9 allowed. That equates to an allowance of 22 hours which is 1.57 times the reasonable
10 time of 14 hours.

11

12 **Q. WHY WOULD YOU ADJUST THE 26 HOURS ALLOWED TO 22 HOURS**
13 **ALLOWED?**

14 **A.** In making the comparisons, I am trying to be conservative. The October 11 time
15 identified was 20 hours, so since it exceeded the normal 16 hours per day, I assumed
16 that some standby occurred on October 11. Otherwise, there is no justification for 20
17 hours being billed in a single day.

18

19 **Q. PLEASE CONTINUE WITH SOME MORE EXAMPLES OF COMPARISONS**
20 **THAT YOU MADE.**

21 **A.** Another Company AA example is related to its crews traveling from Tennessee and
22 Georgia to Crawfordville, Florida. Based on supporting documents, the travel time for
23 October 9 and October 10 was 32 hours. Using the Company's response to Citizens'
24 Interrogatory No. 1-119 and MapQuest, I determined the travel distance to between

REDACTED

1 391 miles to 411 miles and the travel time to be 6 1/2 hours to 7 hours. Normal travel
2 speed is estimated to be 58.7 mph (411 miles/7 hours) compared to the travel speed
3 allowed by Duke of 17.1 mph (411 miles/24 hours) after allowing 8 hours of standby
4 on October 10. Applying a reduced travel time of 24 hours and comparing that to a
5 reasonable travel time of 9 hours (7 hours plus 2 hours for stops) shows Duke's allowed
6 travel time for Company AA being 2.67 times higher. The bottom line is that this
7 results in Duke's ratepayers overpaying for the services this contractor actually
8 provided.

9 Another example is Company BB's Invoice No. [REDACTED] which included
10 billing for October 8 through October 13. This contractor arrived on October 10
11 meaning the crews travelled for two to three days. I assumed Dallas, Texas as the
12 origin and Dunnellon, Florida as the destination. Texas is the billing location for
13 Company BB and receipts suggested this is the direction that this contractor or some
14 of the crews came from. MapQuest indicates travel time of 15 1/2 hours to travel 993
15 miles. That equates to 64 mph. The travel time for the various crews for October 8
16 ranged from 8-17 hours, for October 9 ranged from 16-17 hours and for October 10
17 ranged from 12-16 hours. That said, I assumed the lower hours for each day which
18 totaled to 36 hours – more than double the MapQuest travel time. If I deduct half of
19 day 3 for standby, the travel time was 30 hours. That 30 hours, when compared to a
20 reasonable travel time of 18 1/2 hours (consisting of 15 1/2 hours for travel plus 3 hours
21 for stops) indicates Duke allowed 1.62 times what should reasonably and
22 conservatively have been allowed for this contractor.

23 One more example is Company A where I rely on the time report found on Bates page
24 6230. The travel was from Louisville, Kentucky to Perry, Florida with 33 hours being

1 billed for October 9 and October 10. MapQuest indicates the trip is 699 miles which
2 takes 11 hours, averaging 63.5 mph. Making the adjustment for trucks of 8 mph, the
3 speed would be 55.5 mph. The time for traveling 699 miles at an average speed of 55.5
4 mph results in 12.6 hours. Rounding up to 13 hours for travel and adding 3 hours for
5 stops, the reasonable travel time is 16 hours. In making the comparison, I allowed for
6 8 hours of standby based on 16 hours charged on October 10. The conservative
7 adjusted billed time of 25 hours is still 1.56 times the 16 hours of reasonable travel time
8 which includes stop time.

9 What these examples indicate is that the conservatively adjusted travel time
10 recommended is still more than 50% higher than it should be. Ratepayers should not
11 be paying for these unreasonable costs and a refund is justified.

12

13 **Q. ARE YOU RECOMMENDING A DISALLOWANCE OF COSTS FOR THE**
14 **EXCESSIVE RATES AND THE EXCESSIVE STANDBY AND/OR**
15 **MOBILIZATION/DEMOBILIZATION?**

16 **A.** Yes, I am. The portion of costs that I isolated to travel and related stopping time only
17 for distribution contractors is \$18,315,164. I am recommending a reduction of
18 \$6,105,055 to this amount, which results in a recommended cost of \$12,210,100 for the
19 distribution contractors' travel time that could be estimated. This adjustment is very
20 conservative given the excess time I have identified and because I am confident the
21 total adjustment I have calculated is necessarily understated due to Duke's failure to
22 generate or provide sufficient documentation and tracking of travel time for its
23 contractors.

1 **Q. HOW DID YOU DETERMINE YOUR ADJUSTMENT?**

2 **A.** My calculation is shown on Exhibit No. HWS-2, Schedule F, Page 6g. As indicated in
3 my examples, the charges that Duke allowed its contractors to charge customers were
4 in excess of 150% of what would be reasonable travel and stopping time. I divided the
5 identified costs of \$18,315,164 by 1.5 to determine the \$12,210,110 amount that is
6 considered reasonable. The difference of \$6,105,055 is a very conservative necessary
7 adjustment.

8

9 **Q. WHY SHOULD THE COMMISSION ACCEPT YOUR RECOMMENDED**
10 **ADJUSTMENT?**

11 **A.** Storms impact customers as well as the Company's system providing service to those
12 customers. By failing to even minimally monitor these charges in the up-front SCRM
13 cost recovery opportunity provided by the RRSSA settlement, Duke is effectively
14 forcing its customers to needlessly to pay for bloated restoration costs. I recognize that
15 Duke has an obligation to restore service. However, Duke also has an obligation to
16 operate prudently and I strongly believe that obligation should not be based on a blank
17 check policy. In this instance, Duke has failed to properly monitor costs utilizing tools
18 that would be sound business practices even without the Process Improvements it
19 agreed to in 2019. Additionally, as demonstrated above Duke has selectively applied
20 those 2019 Process Improvements where it increased its recovery but chose not to hold
21 itself to the reasonable standards that mirror the one Process Improvement that would
22 save customers money by limiting compensation for travel time to actual time, with no
23 minimum hours. Allowing contractors to charge for minimum hours, regardless of
24 actual travel, is in my opinion a major contributor to the excessive time being billed

1 and ultimately paid for by customers. This demonstrates a greater cause of bloated
2 billing than even the claimed slow truck speeds.

3

4 **Q. ARE YOU RELYING ON ANYTHING OTHER THAN THE STUDIES YOU**
5 **REFERENCED THAT SUPPORTS YOUR POSITION THAT ALLOWED**
6 **TRAVEL TIMES ARE NOT DUE TO SLOW MOVING TRUCKS?**

7 **A.** Yes. My personal observation and common sense are relied on. I have traveled a
8 significant number of miles over the 50 years I have been driving. I have clocked the
9 line trucks on roads just because companies have taken the position they travel
10 significantly slower than a passenger vehicle. My observation has been that the trucks,
11 even in caravans, travel at, near or in some cases over the allowed speed limit.
12 Assuming that 50% more time is applicable just because there is an incoming storm
13 event would mean the trucks are averaging approximately 38 mph if a truck averages
14 8 mph less than a passenger car that averages 65 mph excluding stop time (65 mph-8
15 mph)/1.5. Common sense dictates that the contractor trucks are not traveling 38 mph
16 especially if they are on expressways that in some cases have a minimum speed for
17 vehicles. In addition, these trucks would be going against the direction of traffic that
18 is trying to flee from a storm event.

19

20 **Q. ARE YOU MAKING ANY RECOMMENDATION WITH RESPECT TO**
21 **ACCOUNTING FOR CONTRACTOR TIME?**

22 **A.** Yes, I am. I am recommending that Duke be required to separately identify the amount
23 of hours and costs that are associated with mobilization/demobilization and with
24 standby time. The failure to track this portion of the bill is imprudent and inconsistent

1 with what a prudent business would do *in the absence of a guaranteed pass-through*
2 *recovery*. This is essential information that is beneficial not only to the Company, but
3 also to the Commission and will assure ratepayers are not overpaying for restoration
4 costs. This information will also provide critical insight into how Duke is planning and
5 controlling costs (or failing to do so) before, during, and after storm restoration
6 activities.

7

8 **Q. PLEASE EXPLAIN YOUR CONCERN WITH THE CAPITALIZATION OF**
9 **CONTRACTOR COSTS.**

10 **A.** Outside contractors perform a significant amount of work during storm restoration for
11 utilities. For example, Company Exhibit TM-2 reflects \$144.475 million of
12 transmission restoration costs of which \$109.058 million or 75.5% is for contractor
13 costs. The distribution function reflects \$171.502 million of which \$143.440 million
14 or 83.6% is for contractor costs. The capitalized costs for transmission and distribution
15 were calculated differently. Company witness Tom Morris explains that the process
16 followed for transmission costs established specific projects for capital work, allowing
17 for real-time tracking of the projects. As the capital work was performed, the
18 associated labor, material and equipment costs were charged to the capital projects.⁷
19 The Company's response to Citizens' Interrogatory No. 4-136 provides a detailed
20 summary of the cost components for transmission. Notable is the fact that contractor
21 costs of \$57,758,670 represent 72.1% of the total \$80,105,179 costs for Duke's 230 kV
22 Line. Similarly, the contractor costs for the Access Road work are \$40,988,145 which

⁷ Testimony of Tom Morris at page 15, lines 8-11.

1 represent 92.4% of the total \$44,354,821 costs capitalized for the entire Access Road
2 work.

3 With respect to the distribution, these costs were determined by formulaic
4 approach as shown and described in the Company's responses to Citizens'
5 Interrogatory Nos. 1-31, 1-36, 4-133, 4-134, 4-136 and Citizens' POD 3-24. A key
6 factor of those costs is the labor rate in developing the capitalized costs. That rate is
7 based on a simple average (unweighted) calculated based on internal labor and native
8 contractor rates that are then multiplied by the number of hours for each unit of property
9 to come up with an estimated capital labor to install.⁸ The issue is that the rate utilized
10 by Duke does not come close to reflecting the actual costs associated with replacing
11 plant after a storm. Not only does this methodology produce a simple average rate that
12 excludes external contractors with higher rates, it also overstates the impact of the
13 internal payroll labor rates which dominates the restoration costs charged. This is
14 explained in the next Q&A.

15

16 **Q. WHAT DO YOU MEAN THE AVERAGE IGNORES THE INTERNAL**
17 **PAYROLL DOMINATING THE RESTORATION COSTS?**

18 **A.** The Company's response to Citizens' POD 3-24 provided the breakdown of the
19 average calculation. The internal rate included is the base rate and not an overtime rate.
20 It is easy to see on Company Exhibit No. TM-2 that regular payroll charged is less than
21 overtime payroll. As a result, both components of the labor calculation are understated,
22 which means the rate applied results in an understatement of costs. An additional

⁸ Testimony of Tom Morris at page 16, lines 21-24.

1 adjustment is necessary because contractors performed significant amounts of capital
2 work as part of their services in restoring Duke’s system. It is not realistic to assume
3 that even in a “blue-sky” circumstance that higher cost contractor labor would not be
4 used on a project of this magnitude. Therefore, the type of labor actually used to
5 perform this work must be capitalized, otherwise storm recovery costs will be
6 overstated, and capital costs will be understated. Second, there is an issue with Duke’s
7 method of capitalizing restoration costs. As discussed earlier, the method used by Duke
8 ignores the fact that, if the capital work was performed by Duke employees incurring
9 incremental time, then that work would be at an overtime rate and not at a base payroll
10 rate.

11
12 **Q. WHY DOES IT MATTER WHETHER THE CAPITALIZATION COSTS ARE**
13 **ACCURATE?**

14 **A.** If the Company is allowed to understate the capital amount, current ratepayers will pay
15 for capital costs that will benefit future ratepayers. This is a concern commonly
16 referred to as intergenerational inequity. Current ratepayers should not bear the total
17 costs of plant that will be used over thirty to forty years by future customers who are
18 not receiving service from Duke today. The Commission should also be vigilant in
19 preventing the storm cost recovery mechanism from creating an incentive to overstate
20 – and recover outside of a base rate case and during a base rate freeze – currently
21 recoverable “expenses.” Because Duke has understated its capitalized plant, it is
22 accelerating the recovery, during a base rate freeze, of that plant cost which should be
23 capitalized as part of the restoration costs it is seeking to recover immediately instead
24 of over the life of the plant. It is more appropriate to evenly recover the cost of that

1 plant over the life of that capital asset being installed and not over the shorter period
2 requested by Duke. Under GAAP, the cost of plant to be capitalized is the actual cost.
3 Under the circumstances of this docket (i.e. storm restoration), it is difficult to capture
4 the actual cost; however, that does not justify making an improper estimate of the
5 replacement plant using an understated cost per hour. Duke's method of capitalization
6 does not comply with GAAP requirements for capitalization of plant based on actual
7 costs, and an adjustment must be made to correct this error.

8

9 **Q. DUKE CAPITALIZED DISTRIBUTION COSTS BASED ON THE**
10 **ASSUMPTION OF RATES THAT ARE APPLICABLE ON A "BLUE SKY"**
11 **DAY. IS IT SUFFICIENT TO ACCOUNT FOR THE CAPITAL COSTS**
12 **UNDER THIS PREMISE?**

13 **A.** No. As discussed above, this not only ignores GAAP requirements, it also ignores the
14 fact that the costs were incurred under extraordinary circumstances that cause costs to
15 be higher. Duke is of the opinion that this is allowable under the Rule. However,
16 reference to the Rule is inappropriate since Duke is seeking other costs based on the
17 agreed to Process Improvements and not on the Rule provisions. In addition, Duke's
18 accounting and assertion is selectively inconsistent with the Process Improvements
19 principle that states capitalization of costs is to be based on a simple average of hourly
20 foreign and native contractors. On the other hand, my adjustment is consistent with the
21 objective principles found in the Agreement. If Duke is opposed to applying the
22 reasonable business practices underlying all the provisions of the Process
23 Improvements across the board, then its capitalization calculation (absent the Process
24 Improvements) would not include any internal payroll. Therefore, I have

1 recommended a total disallowance of payroll for lack of justification that the payroll
2 was incremental. To clarify, if the Duke labor costs were not incremental, then the
3 costs cannot be considered as part of the storm restoration costs. If the Duke labor is
4 not incremental, then it cannot be capitalized which means the amount capitalized
5 would have to be based on contractor labor only since that is the only labor dollars that
6 are incremental.

7

8 **Q. WHAT ARE YOU RECOMMENDING FOR AN ADJUSTMENT TO THE**
9 **CONTRACTOR COSTS FOR THE CAPITALIZATION OF RESTORATION**
10 **COSTS?**

11 **A.** As shown on Exhibit No. HWS-2, Schedule F, Pages 14 and 15, I am recommending
12 that capitalization of contractor costs should be reduced by the amount charged against
13 the reserve or \$2,566,399. This adjustment as calculated on Exhibit No. HWS-2,
14 Schedule F, Page 14 consists of an additional capital cost for distribution poles of
15 \$2,035,884 for Hurricane Michael, \$22,196 for distribution poles for Tropical Storm
16 Alberto and an additional capital cost for distribution wires of \$530,455 for Hurricane
17 Michael as shown on Exhibit No. HWS-2, Schedule F, Page 15. This adjustment for
18 capitalization reduces the storm restoration costs (and requires a refund) in the amount
19 of \$2,566,399.

20

21 **Q. ARE THERE CONCERNS WITH THE REQUESTED TRANSMISSION LINE**
22 **CONTRACTOR COSTS?**

23 **A.** Yes, there are. The purported support provided by Duke as justification for these costs
24 was very limited, and in some case Duke provided no detail at all. It was clear that

1 these costs were based on project type and on a contractual commitment. For example,
 2 the support for \$4,987,789 for a Transmission Contractor T invoice consisted of only a
 3 form that identified a total cost, an amount paid to-date and an amount currently due.
 4 “Backup” for this invoice consisted of 2 pages; the first is an invoice summary page
 5 with the same information already listed on the invoice and the second page is a cost
 6 to date and remaining cost. (Bates 13098-13100) This provides no level of detail
 7 explaining the nature of the expenditures, and effectively is no different than simply
 8 writing a number on the back of an envelope. Certainly, this is insufficient
 9 documentation for any regulatory agency to approve as being a prudently incurred
 10 storm cost and to require ratepayers to pay.

11

12 **Q. HAVE YOU SEEN THIS TYPE OF LIMITED INFORMATION PRESENTED**
 13 **AS SUPPORTING DOCUMENTATION BEFORE?**

14 **A.** Yes, I have. This is not uncommon for a utility to attempt this kind of short cut.
 15 Contractors usually provide some level of detail with their invoices. Absent any detail
 16 to the invoices, it is not obvious what a company would be paying for or what it
 17 received. That’s just good sound business practice. In this case, all that is clear is that
 18 Duke paid Transmission Contractor T a total of \$47,422,764 and that there were
 19 contract modifications from time to time. I would also note that I found one billing by
 20 Contractor T that was for services beginning October 8 which was prior to the storm.
 21 [REDACTED] I question how a significant commitment for a transmission
 22 facility rebuild was made prior to the storm and then included for recovery in the storm
 23 cost recovery docket.

24

1 **Q. CAN YOU ELABORATE ON THE CONCERN THAT YOU HAVE RELATED**
2 **TO THE OCTOBER 8, 2018 BILLING FOR TRANSMISSION FACILITY**
3 **CONSTRUCTION SERVICES?**

4 **A.** Yes. I have a concern about an invoice that billed for services related to a major
5 transmission line rebuild and access road work prior to the storm event. This was for
6 work being done when the storm was transitioning from Tropical Storm into a Category
7 1 hurricane south of the western tip of Cuba and even before anyone knew the storm
8 would hit the precise area where the construction activity would occur. I believe that
9 Duke needs to explain how this could occur.

10

11 **Q. IS THERE DOCUMENTATION OF COSTS FOR ANOTHER**
12 **TRANSMISSION LINE CONTRACTOR OF A SIMILAR NATURE?**

13 **A.** Yes. Another contractor billed Duke for \$44,863,733 and the major invoice amounts
14 had limited supporting documentation, no detail behind a bill or in a number of
15 instances no invoices could be located. The invoices for the transmission Line
16 Contractors are listed on Exhibit HWS-2, Schedule F, Page 2.

17

18 **Q. ARE YOU RECOMMENDING A REFUND ADJUSTMENT TO**
19 **TRANSMISSION LINE CONTRACTOR COSTS?**

20 **A.** Yes. The costs charged by Contractor T included a payment of \$65,387 and another
21 payment for \$266,332. The payment for \$266,332 was part of two invoices; one for
22 \$200,945 and another for \$65,387. The \$65,387 was paid in a single payment as part
23 of a combined payment. I am recommending customers receive a refund for the
24 duplicated payment they are currently paying for. In my discussion in the capitalization

1 section of my testimony, I recommend an adjustment that in essence would impact the
 2 transmission contractor costs in total, part of which would apply to line contractors.

3 **2. Line Clearing Costs**

4 **Q. WHAT AMOUNT IS DUKE REQUESTING FOR LINE CLEARING?**

5 **A.** In its response to Citizens’ Interrogatory No. 5-150, Duke is requesting \$13,500,000
 6 for line clearing costs. This consists of \$4,446,000 of transmission-related costs for
 7 Hurricane Michael, \$9,032,000 of distribution-related costs for Hurricane Michael and
 8 \$22,000 of distribution costs for Tropical Storm Alberto. Based upon the Company’s
 9 schedules which reflected a line reporting error, the only adjustment for non-
 10 incremental cost is an adjustment to transmission for \$940,000. This is an adjustment
 11 made by Duke in its May 2020 second supplemental petition filing.

12
 13 **Q. DO YOU HAVE ANY CONCERNS WITH RESPECT TO DUKE’S**
 14 **PROCESSING OF DISTRIBUTION LINE CLEARING INVOICES?**

15 **A.** Yes. The concern with travel and excess mobilization/demobilization discussed above
 16 in my discussion on line contractors also exists here. An example is [REDACTED]
 17 [REDACTED] where the detail showed the
 18 travel maps for traveling to Florida for two different days. The first travel map (Bates
 19 11) indicated the distance from [REDACTED] to Lamont/Monticello, Florida to be 674
 20 miles requiring 10 hours of travel. The contractor’s time sheets reflected 16 hours of
 21 travel being billed. The second travel map (Bates 14) indicated the distance from
 22 Lamont/Monticello, Florida to Dunnellon, Florida to be 131 miles requiring 2 hours
 23 and 14 minutes of travel. The contractor’s time sheets reflected 16 hours of travel being

1 billed. Duke's request to make its customers pay for 32 hours of travel in this instance
2 when the trips are listed as 12 1/2 hours is not considered reasonable and the excess
3 should be refunded to ratepayers.

4 Another example is Duke's request to recover from ratepayers [REDACTED] as storm costs
5 that Duke paid to [REDACTED] even though this contractor provided no
6 restoration work. Not only did this contractor bill for excessive travel, it also submitted
7 seven invoices for October 9 through October 11 that ended with them going to the
8 Carolinas to provide service and never providing service to Florida customers. What
9 makes those seven bills even more of a concern is that another crew for this contractor
10 began mobilizing to Florida on October 8 only to be released on October 9 so they
11 could proceed to Georgia to assist another utility. Since the crew was released on
12 October 9, I would ask why were the other seven crews mobilized to come to Florida
13 to only standby, perform no work, and then be released to go to the Carolinas?

14

15 **Q. ARE YOU RECOMMENDING ANY REFUND ADJUSTMENTS TO**
16 **DISTRIBUTION LINE CLEARING COSTS?**

17 **A.** Yes. I am recommending that at a minimum \$430,524 be refunded. While additional
18 refunds for excessive mobilization is likely warranted and additional adjustments
19 should be made for costs where supporting documentation could not be located, I have
20 not quantified an adjustment at this time; however, I reserve the right to recommend
21 one as more information on this issue is provided.

22

23 **Q. ARE THERE CONCERNS WITH THE REQUESTED TRANSMISSION LINE**
24 **CLEARING COSTS?**

1 A. Yes. Similar to the distribution line clearing costs, current customers are paying for an
2 excessive amount of travel and standby time associated with
3 mobilization/demobilization. Additionally, in numerous instances, customers are
4 being charged for costs based only on invoices that were submitted without the time
5 sheets required for verification of the hours billed or any other supporting
6 documentation.

7
8 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO TRANSMISSION**
9 **LINE CLEARING COSTS?**

10 A. Not at this time. I have not quantified an adjustment that I believe would be justified;
11 however, I reserve the right to recommend one as more information is provided.

12 **3. Logistics**

13 **Q. WHAT AMOUNT OF LOGISTIC COSTS IS DUKE CURRENTLY**
14 **CHARGING CUSTOMERS FOR?**

15 A. Duke is charging customers \$43,462,000 for logistic costs for Hurricane Michael.
16 Logistic costs are costs related to the establishment and operation of storm restoration
17 sites, and to support employees and contractors who are working on storm restoration
18 (i.e., lodging, meals, transportation, etc.). Duke did not identify any of these costs to
19 be either non-incremental or costs which should be capitalized. The filing reflected
20 \$41,411,269 as being distribution-related and \$2,050,346 as transmission-related.

21
22 **Q. ARE THERE ANY CONCERNS WITH THE LOGISTIC COSTS BEING**
23 **REQUESTED?**

1 **A.** Yes, there are concerns. While the invoices provided by Duke purportedly support
2 distribution costs totaling \$40,378,712, the identity of the cost and level of detail was
3 not discernable. For example, support for [REDACTED] costs included two
4 ‘back-of-the-envelope’ invoices (with no supporting cost detail) totaling \$12,721,241.
5 These invoices – representing costs customers are currently paying only on a
6 provisional, interim basis – are useless in trying to justify these costs since the
7 documents provide no information as to what services or costs Duke paid for or
8 received. The first invoice (Bates 680-682) consisted of a one line billing for
9 \$12,079,838, a partial billing for \$9,059,879, which is the amount questioned, and a
10 third billing for \$3,019,960 that could not be identified in the listing for this contractor.
11 (Bates Nos. 680-682) The second billed amount in question is a single line invoice for
12 \$3,661,362 and an accompanying two page email that indicated it was approved for
13 payment. (Bates Nos. 673-675) This is contrary to the purely provisional and interim
14 nature of the current SCRM rate.

15 The transmission logistic charges had only one invoice that could be located in the
16 summary of charges totaling \$2,050,346, identified as logistics costs. That invoice did
17 not match the listed cost. In addition, some invoices requested as part of a discovery
18 request could not be located in the Company’s response to Citizens’ POD 1-16 that
19 purported to provide supporting documents. Furthermore, there were invoices provided
20 that could not be located on the listing of costs. This missing supporting documentation
21 is troublesome. There is no doubt that costs were incurred, yet the level of detail and
22 support are questionable and insufficient to meet a company’s burden of proof. These
23 amounts are not insignificant, and the Commission should deny Duke’s recovery of

1 these costs until it can at least a minimum show adequate cost support and justification.
2 These costs do not meet such a minimum threshold.

3

4 **Q. ARE YOU PROPOSING A REFUND ADJUSTMENT TO THE COMPANY'S**
5 **LOGISTIC EXPENSE FOR THE DIFFERENCE?**

6 **A.** Yes. I am recommending that \$6,360,621 or 50% of the unidentifiable costs be
7 excluded from the Company's distribution logistics recovery request and refunded to
8 Duke's customers.

9 Support for a majority of the transmission logistics costs being requested totaling
10 \$2,050,346 also could not be located. As Duke has not met its burden of proof to
11 support these costs, I am recommending that [REDACTED]

12 [REDACTED] which
13 are currently being collected by Duke be refunded to its customers since the Company
14 failed to provide any supporting justification. This is a reduction of \$977,489.

15 **4. Other Contractor Costs**

16 **Q. WHAT AMOUNT OF OTHER CONTRACTOR COSTS HAS DUKE**
17 **INCLUDED IN ITS REQUEST?**

18 **A.** Duke included a total of \$9,311,000 of other contractor costs for Hurricane Michael.
19 This includes \$425,000 for aviation contractors, \$99,000 for contractor materials,
20 \$8,585,000 for materials and other supplies and 202,000 that is not identifiable. The
21 transmission portion of the total Other Contractor Costs is \$6,764,932.

1 **Q. ARE THERE ANY CONCERNS WITH THE OTHER CONTRACTOR COSTS**
2 **REQUESTED?**

3 **A.** The amount that is unidentified is certainly of concern. In its response to Citizens'
4 Interrogatory No. 5-150, Duke listed the \$199,020 as "No Vendor Name" with a
5 notation that it relates to accrual of costs. This cost is unsupported and should be
6 refunded to ratepayers. Other than that, I have not identified another issue with the
7 remaining distribution costs; however, I reserve the right to make additional
8 recommendations as more information is made available.

9 The transmission cost listing also includes an amount identified as "Non-
10 Vendor." This unidentified \$3,243,044 is significant and should be disallowed as being
11 unsupported. It is possible that the estimate adjustment of \$400,000 in Duke's May
12 2020 second supplemental petition filing is applicable to the \$3,243,044; however,
13 because there was no detail for the "Non-Vendor" amount and no detail in that
14 supplemental filing, I can only speculate on this.

15

16 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE OTHER**
17 **CONTRACTOR COSTS?**

18 **A.** Yes, I am. An adjustment (and refund) of \$199,020 and \$3,243,044 to distribution and
19 transmission, respectively, is recommended. This adjustment is necessary since the
20 costs for No Vendor Name and Non-Vendor are unsupported.

21

22 **Q. WHAT ARE YOU RECOMMENDING FOR AN OVERALL ADJUSTMENT**
23 **TO THE CONTRACTOR COSTS?**

1 **A.** As shown on Exhibit No. HWS-2, Schedule F, I am recommending the contractor costs
2 being currently collected from customers on a provisional, interim basis be reduced and
3 refunded in the amount of \$56,344,000. This adjustment is calculated on Exhibit No.
4 HWS-2, Schedule F, Page 1, and consists of a reduction to transmission for the
5 capitalization adjustment of \$34,445,227, a \$65,387 reduction to transmission line
6 contractor costs for a duplicated payment, a reduction of \$977,489 for unsupported
7 transmission logistics cost and a reduction of \$3,243,044 for unsupported Other
8 Transmission costs, for a total transmission cost reduction of \$38,731,147.
9 Distribution contractor cost reductions include a reduction of \$1,929,118 for line
10 contractor charges applicable to DEP and a duplicate billing, a reduction of \$6,105,055
11 for excessive travel charges for line contractors, a reduction of \$2,566,339 for
12 additional capitalization of line contractor costs associated with Hurricane Michael, a
13 reduction of \$22,196 for additional capitalization of line contractor costs associated
14 with Hurricane Alberto, a reduction of \$430,524 to distribution line clearing contractors
15 for unjustified travel and standby time, a reduction of \$6,360,621 for 50% of
16 unsupported logistic costs and a reduction of \$199,020 for unsupported other
17 distribution contractor costs, for a total distribution cost reduction (and refund) of
18 \$17,612,873.

1 **f. Materials & Supplies**

2 **Q. WHAT DID YOU DETERMINE FROM YOUR REVIEW OF THE COSTS FOR**
3 **MATERIALS AND SUPPLIES THAT WERE INCLUDED IN THE**
4 **COMPANY'S REQUEST FOR RECOVERY?**

5 **A.** Duke's Exhibit No. TM-2 identifies \$27,142,000 of material costs for Hurricane
6 Michael and \$57,000 for Tropical Storm Alberto. The Company's exhibit identifies an
7 adjustment of \$940,000 for non-incremental costs. However, in its response to
8 Citizens' Interrogatory No. 4-132, Duke stated that the adjustment was on the wrong
9 line and should have been reflected as an adjustment to transmission line clearing.
10 Therefore, the amount charged to the storm was \$27.198 million prior to capitalization.
11 The Company's response to Citizens' Interrogatory No. 4-136 indicates distribution
12 costs capitalized was \$3,816,814 and transmission costs capitalized was \$13,078,150.
13 The net amount included in the restoration cost sought for recovery is \$10.303 million,
14 subject to a caveat that the \$34,445,227 capital cost returned to the restoration amount
15 cannot be readily identified by Duke.

16

17 **Q. APART FROM THE FAILURE OF DUKE TO BE ABLE TO IDENTIFY WHAT**
18 **WAS EXCLUDED FROM THE CAPITAL AMOUNT AS PART OF THE**
19 **INCREMENTAL REDUCTION TO THE 230 kV LINE CAPITAL AMOUNT,**
20 **ARE THERE ANY CONCERNS WITH THE LEVEL OF MATERIALS AND**
21 **SUPPLIES BEING CHARGED TO DUKE'S REQUEST?**

22 **A.** I have not identified any specific concerns; however, my review is continuing, and I
23 reserve the right to recommend an adjustment as more information is provided.

1 **g. Internal Fleet Costs**

2 **Q. WHAT IS DUKE REQUESTING FOR INTERNAL FLEET COSTS?**

3 A. Duke's Exhibit No. TM-2 identifies \$282,000 of internal fleet costs for Hurricane
4 Michael and \$18,000 for Tropical Storm Alberto. Duke's exhibit indicates that
5 restoration costs were reduced \$81,000 for Hurricane Michael and \$15,000 for Tropical
6 Storm Alberto resulting in \$204,000 of costs included as part of the restoration request
7 prior to capitalization. The Company's response to Citizens' Interrogatory No. 4-136
8 does not identify any fleet costs being capitalized for distribution; however, \$151,549
9 of costs were capitalized to transmission subject to the caveat associated with the
10 incremental adjustment to the 230 kV Line.

11

12 **Q. DO YOU HAVE ANY CONCERNS WITH THE LEVEL OF VEHICLE AND**
13 **FUEL COSTS BEING REQUESTED?**

14 A. No, I do not. After a review of the costs and the supporting detail provided, I have not
15 identified any issues that would require an adjustment to the Company's request
16 concerning vehicle and fuel costs.

17 **h. Capitalizable Costs**

18 **Q. YOU INDICATED EARLIER THAT THERE IS AN ISSUE WITH THE**
19 **CAPITALIZED COSTS IN GENERAL. WOULD YOU EXPLAIN THE ISSUE?**

20 A. Yes, as stated earlier, Duke established projects for the transmission rebuild that took
21 place. The rebuild of the 230 kV Line accumulated capital costs totaling \$80,105,179.
22 The fact these costs were charged directly to the project and that they were actual costs
23 is not an issue. The issue is that after accumulating the costs Duke removed

1 \$34,445,227 from the project and essentially transferred those dollars to its requested
2 storm restoration amount in order to recover them from current customers, outside of a
3 rate case. This adjustment was made with no explanation and no justification.
4 Additionally, in the Company's response to Citizens' Interrogatory No. 1-136, the only
5 reference was that the amount was labeled "Incremental Portion" and a statement that
6 "The incremental portion was calculated and removed at the total project costs level,
7 not at the category level." This adjustment appears to be arbitrary and unjustified, and
8 Duke has not provided any explanation or support. This shifting of costs is not
9 supported by the record; therefore, capital costs should be increased \$34,445,227 and
10 storm restoration costs should be reduced by \$34,445,227, and that amount should be
11 refunded to ratepayers. I have included this adjustment in my overall recommended
12 adjustment to contractor costs.

13

14 **Q. ARE YOU MAKING ANY RECOMMENDATIONS TO IMPROVE THE**
15 **METHOD OF RECOVERING STORM COSTS?**

16 **A.** Yes, I am. Duke does not appear to have a set policy for capitalization of storm costs
17 or a standard methodology in place. A prudent utility should have a capitalization
18 policy in place and develop a method for capitalizing storm restoration costs. Duke
19 should be no different. That methodology should factor in contractor rates and crew
20 sizes since contractors perform capital restoration work. This is essential since
21 contractor rates are significantly higher than either regular or overtime rates of Duke's
22 employees.

1 **VI. RECOMMENDATIONS**

2 **Q. ARE YOU MAKING ANY RECOMMENDATIONS TO IMPROVE THE**
3 **PROCEDURE FOR SEEKING RECOVERY OF STORM COSTS?**

4 **A.** Yes, I am. In addition to my previous recommendation regarding record keeping
5 associated with mobilization/demobilization and with standby time, I recommend the
6 Commission mandate additional filing requirements when a utility seeks to recover
7 storm costs. Duke incurred a significant amount of costs that included substantial non-
8 productive costs for mobilization and standby time that served only to bloat the
9 invoiced cost that its customers are now paying, during the time for restoring service
10 to customers after Hurricane Michael. When a utility begins recovering storm costs on
11 an interim and unproven basis, the supporting cost documentation and testimony should
12 be provided simultaneously with the petition seeking cost recovery. This would
13 significantly reduce the need for additional discovery by Commission staff and
14 intervening parties and would provide the requisite support for the recovery that is
15 being requested from ratepayers prior to payment being made. It is only common sense
16 and good practice that anyone paying for something to know what they are paying for
17 before having to make a payment. Massachusetts utilities, when seeking recovery of
18 storm costs, are required by the Massachusetts Department of Public Utilities to include
19 all supporting documentation at the time the petition and testimony are filed. I strongly
20 recommend this be implemented in Florida as it will accelerate the schedule for the
21 utility's request and will eliminate discovery as well as any misinterpretation of
22 requests for this critical information and reduce the risk that customers are materially
23 over paying for costs that cannot and will not be ultimately justified after interim
24 recovery is completed or substantially underway.

1 **Q. BASED ON YOUR TESTIMONY, PLEASE SUMMARIZE YOUR**
2 **RECOMMENDED ADJUSTMENTS?**

3 **A.** My recommended adjustments are as follows:

- 4 • A reduction (and refund) of \$4,000 to Duke's request for payroll for cost identified as
5 non-incremental;
- 6 • A reduction (and refund) of \$450,000 to Duke's request for labor burden/incentives
7 cost recovery being reclassified as capitalized dollars;
- 8 • An increase (or refund offset) of \$715,000 for overhead cost recovery because the filing
9 reflects more costs capitalized than existed;
- 10 • A reduction to contractor costs (and refund) of \$1,929,118 for duplicated costs and
11 Carolina costs improperly charged to storm restoration;
- 12 • A reduction to line contractor costs (and refund) of \$6,105,055 for an excessive amount
13 of mobilization/demobilization time;
- 14 • A reduction of \$2,588,535 (\$2,566,339 + \$22,196) to Duke's request related to
15 capitalization of distribution line contractor costs;
- 16 • A reduction (and refund) of \$430,524 to Duke's request for line clearing cost recovery;
- 17 • A reduction (and refund) of \$6,559,641 to Duke's request for unsupported distribution
18 logistics and other contractor costs;
- 19 • A reduction of \$65,387 to Duke's request for transmission line contractor costs that
20 were duplicated,
- 21 • A reduction of \$4,220,533 to Duke's request for unsupported transmission logistics and
22 other contractor costs and

- 1 • A reduction (and refund) of \$34,455,227 for Duke's unsupported reclassification from
2 transmission capital costs to storm restoration costs.

3 For the quantified amounts identified above, I recommend a total reduction of \$56.083
4 million to Duke's overall storm restoration and reserve replenishment request and a refund
5 of \$56.083 million.

6 I reserve the right to adjust these recommendations upon receipt of additional information.

7

8 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

9 **A. Yes it does.**

1 (Whereupon, prefiled direct testimony of Jason
2 Cutliffe, Docket No. 20190110, was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**IN RE: PETITION FOR LIMITED PROCEEDING FOR RECOVERY OF
INCREMENTAL STORM RESTORATION COSTS RELATED TO HURRICANE
MICHAEL AND TROPICAL STORM ALBERTO BY DUKE ENERGY
FLORIDA, LLC.****FPSC DOCKET NO. 20190110-EI****DIRECT TESTIMONY OF JASON CUTLIFFE****NOVEMBER 22, 2019****1 I. INTRODUCTION AND QUALIFICATIONS.****2 Q. Please state your name and business address.**

3 A. My name is Jason Cutliffe. I am employed by Duke Energy Florida, LLC ("DEF"
4 or the "Company"). My business address is 2166 Palmetto St, Clearwater, Florida.
5

6 Q. Please tell us your position with DEF, and describe your duties and
7 responsibilities in that position.

8 A. I am the General Manager of Emergency Preparedness for Customer Delivery
9 responsible for DEF's annual hurricane season readiness, and when hurricanes
10 strike I serve as the Incident Commander for restoration. In 2018, I was the
11 Planning Section Chief in DEF's Incident Command Structure ("ICS") and will
12 provide testimony regarding the Company's distribution storm plan and the
13 execution of that plan for Hurricane Michael.
14

15 Q. Please summarize your educational background and employment experience.

1 A. I hold a Bachelor of Science in Electrical Engineering from the University of
2 Maine, MBA from the University of Richmond, and I am a licensed professional
3 engineer. I've held various engineering, operational, and leadership positions
4 over a 33-year electric utility career.

5
6 **II. PURPOSE AND SUMMARY OF TESTIMONY**

7 **Q. What is the purpose of your testimony in this proceeding?**

8 A. I am testifying on behalf of the Company in support of recovery of the Company's
9 incremental storm-related costs incurred due to Hurricane Michael and Tropical
10 Storm ("TS") Alberto. I will begin by providing an overview of the total
11 distribution storm-related costs and cost categories. I will discuss the operation of
12 the Company's storm plan as it relates to DEF's distribution system, including the
13 Company's goals and priorities as it prepares for, responds to, and recovers from a
14 storm's impact on its distribution facilities. I will conclude my testimony by
15 describing DEF's successful efforts at implementing its plan in response to the
16 storms and, ultimately, to restore electric service safely and efficiently to its
17 customers.

18
19 **Q. Are you sponsoring any exhibits to your testimony?**

20 A. Yes. I am sponsoring the following exhibits to my testimony:

- 21 • Exhibit No. __ (JC-1) – Forensic Analysis of Storm Damage to DEF's
22 Distribution System as a Result of Hurricane Michael ("Accenture Report")
- 23 • Exhibit No. __ (JC-2) – Path of Hurricane Michael
- 24 • Exhibit No. ____ (JC-3) – Path of Tropical Storm Alberto

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Q. Can you please explain the purpose of the Accenture Report?

A. Yes. In the wake of Hurricane Michael, DEF gathered forensic data on pole failures due to the storm and then contracted with Accenture Consulting to assess the major causes of those pole failures. DEF is using this report to gain a better understanding of the factors that cause the greatest amount of damage during a storm event, with the ultimate goal of determining what steps, if any, can be taken to mitigate against such damage in the future.

Q. Please summarize your testimony.

A. Hurricane Michael and TS Alberto presented unique challenges as DEF implemented its storm plan to prepare for, respond to, and recover from tropical systems in 2018. The vast majority of storm costs incurred by the Company resulted from Hurricane Michael. Resources expended for TS Alberto were necessary based on the risk of significant outage impact, and the consequence of inaction had it not drifted west in the final hours.

Hurricane Michael

Hurricane Michael was the fourth strongest storm to impact the U.S. in recorded history, making landfall as a Category 5 storm with winds exceeding 160 mph. It made landfall near Mexico Beach and the devastation it brought to the surrounding area included electric grid infrastructure damage. The sheer strength of Michael's winds and storm surge presented unique challenges as DEF implemented its storm plan to prepare for, respond to, and recover from the storm.

1 DEF mobilized approximately 5,100 contractor and employee resources to
2 complete restoration and rebuild work. Due to the population density in the
3 storm's path, the number of peak customer outages DEF experienced in the wake
4 of Michael was relatively low given the strength of the storm; approximately
5 71,000 customers lost power. While the total number of customers without
6 service was relatively low in relation to DEF's customer base, Michael almost
7 completely destroyed the distribution facilities in Mexico Beach and neighboring
8 Port St. Joe Beach requiring complete rebuilds in those areas, and severely
9 impacted the surrounding areas (including requiring a complete rebuild of a
10 Transmission line in the area – which is discussed further in Mr. Williams'
11 testimony).

12
13 Work necessary to recover from Hurricane Michael included replacement of more
14 than 773 transformers, 1970 distribution poles, and repair/replacement of 150
15 miles of wire. DEF also restored 20 substations and 77 transmission circuits.
16 Restoration work was very labor intensive often requiring vegetation clearing,
17 accessing areas on foot, and climbing poles where bucket trucks could not travel.
18 Unique challenges included clearing roads to reach remote Operating Centers,
19 damage assessment where only unmanned aerial vehicles (“UAV” or “drones”)
20 could be used, and overcoming loss of commercial cell phone service. As I
21 explain in my testimony, DEF's storm plan proved to be an effective and efficient
22 tool to restore customer service as quickly and safely as possible following
23 Michael.

24

1 Tropical Storm Alberto

2 A summary and impacts of Tropical Storm Alberto are explained later in my
3 testimony.

4
5 **Q. Did DEF comply with the Storm Restoration Cost Process Improvements**
6 **included as part of the Storm Cost Settlement Agreement in Order No. PSC-**
7 **2019-0232-AS-EI (“Agreement”)?**

8 **A.** The Agreement was entered and approved after Hurricane Michael made landfall
9 and restoration efforts were largely complete. Per the terms of the Agreement, its
10 provisions and process modifications became applicable as of the date the
11 Commission approved the Agreement, or June 13, 2019. Therefore, Hurricane
12 Michael restoration and rebuild efforts were undertaken pursuant to the same
13 policies and procedures that existed prior to the Agreement.

14
15 **III. INCREMENTAL COSTS INCURRED BY DEF AS A RESULT OF**
16 **HURRICANE MICHAEL**

17
18 **Q. Please identify what incremental costs the Company incurred in connection**
19 **with Hurricane Michael.**

20 **A.** Incremental distribution storm-related costs incurred by the Company attributable
21 to Hurricane Michael are \$154.6 million, as shown on Mr. Morris’ Exhibit
22 No.__(TM-2).

1 **Q. Please describe the Company's process for seeking mutual aid from outside**
2 **sources and identify the dates on which the Company communicated with**
3 **mutual aid organizations with respect to Hurricane Michael.**

4 **A.** Once a tropical system is identified that threatens DEF's service territory, the
5 process to acquire off system restoration personnel is activated. There are
6 primarily two avenues for acquiring off system support. The first is through non-
7 Investor Owned Utility ("IOU") vendors using pre-negotiated agreements. DEF
8 had over 90 vendor agreements in place prior to Hurricane Michael. The second
9 avenue for off system support is through the Southeast Electric Exchange ("SEE")
10 mutual aid process. Mutual aid calls are set up to assess resource availability
11 from outside the projected impact area. Resources typically include: linemen,
12 vegetation management, damage assessment, support, and logistics personnel for
13 both Distribution and Transmission restoration work. Depending on the projected
14 event timing and intensity, the objective is to have resources mobilized and pre-
15 positioned ahead of impact. Due to the time it takes for crews outside Florida to
16 prepare and travel, this requires the Company to incur costs for off-system
17 resources with incomplete information and based on National Hurricane Center
18 tropical weather forecasts, which are subject to change. The Company's
19 communications with mutual aid organizations for Michael began Monday,
20 October 8, 2018.

21
22 **Q. When did the Company's mutual aid costs for Hurricane Michael begin to**
23 **accrue?**

1 **A.** Costs for Hurricane Michael began to accrue October 8, 2018. As is industry
2 standard, mutual aid costs begin to accrue when the responding entities begin
3 actions directly related to travel and work on DEF's system (examples include
4 preparing trucks and equipment for travel and stocking material).

5
6 **Q. Did the Company issue public announcements in connection with Hurricane
7 Michael?**

8 **A.** Yes. To keep customers and the public updated on our restoration efforts, DEF
9 issued eight news releases in English and Spanish. In addition, DEF published
10 daily social media posts which covered several topics including safety, storm
11 damage, resources, updated outage and restoration numbers and estimated times
12 of restoration ("ETR"). DEF also issued public service announcements through
13 local radio stations and pushed out messaging using the "screen crawler" on the
14 Weather Channel. In total, over 2.1 million customer contacts were made through
15 a combination of email, outbound call, text and Voice Response Unit.

16
17 **Q. Did the Company utilize contract labor to help restore power following
18 Hurricane Michael?**

19 **A.** Yes. DEF mobilized approximately 5,100 contractors and employees to complete
20 restoration work.

21
22 **Q. When was the Company fully-restored from Hurricane Michael?**

1 A. DEF completed restoration in areas east of Mexico Beach on Thursday, October
2 18. In the Mexico Beach rebuild area, restoration of service to all buildings
3 capable of receiving it was completed November 3, 2018.

4
5 **IV. THE COMPANY'S DISTRIBUTION STORM PLAN AND ITS**
6 **EXECUTION DURING THE 2018 STORM SEASON**

7
8 **Q. Please describe DEF's distribution system storm plan.**

9 A. Preparing for major storms is a year-round activity. Hurricane season readiness
10 begins several months before the start of the season and includes training, drills,
11 and implementation of lessons learned from the prior year. DEF's comprehensive
12 storm plan is modeled on Homeland Security's Incident Command Structure
13 ("ICS") and incorporates the best practices the Company has developed from
14 experiences with past storms. The ICS affords rapid scalability in response to a
15 specific threat.

16
17 The scalability of ICS is reflected in DEF's three distinct levels of restoration
18 response. Level 1 is for restoration events lasting 6-12 hours, Level 2 is for 12-
19 24-hour events, and level 3 is for major events exceeding 24 hours and is
20 designed for restoration on the scale of a hurricane. The same basic functions are
21 performed at all storm levels, but as resources increase to match the storm's
22 anticipated threat, the organization expands to ensure efficient restoration of the
23 Company's system. While it is appropriate for an individual to perform parts of
24 several storm roles in a lower level event, those same roles are broken out and
25 staffed by an increasing number of dedicated resources as the scope of restoration

1 work increases. The decision to activate at a particular response level is made by
2 the storm management team, and is guided by weather forecasts, resource
3 modeling and expected restoration duration. The flexibility of the storm plan is
4 such that, for any given restoration event, DEF may have a region that is
5 operating within the Level 2 model while another region is operating within a
6 Level 3. This allows regions within the Company operating at a lower restoration
7 level to finish sooner and release resources to work in regions operating at a
8 higher restoration levels.

9
10 The ICS plan is built around three phases of storm restoration; pre-storm
11 activation, outage repair and restoration, and returning the distribution grid to
12 normal. Pre-storm activation begins as early as 120 hours prior to landfall, and
13 includes detailed weather forecasting, modeling of damage and resource
14 requirements, and preparation for support of logistics needs. The outage repair
15 and restoration phase includes operational activities following impact from the
16 storm that restore service to all customers capable of receiving it. Returning the
17 grid to normal is necessary to restore our electrical infrastructure to its pre-
18 hurricane condition.

19
20 **Q. Can you please describe the different roles within DEF's storm plan?**

21 **A.** Yes. Within the storm plan there are a multitude of roles that facilitate an
22 efficient restoration process. These roles are organized along five functional
23 lines: (1) Operations; (2) Planning; (3) Logistics; (4) Governmental Liaison; and
24 (5) External Communication. Operations is focused on restoration of service;

1 Planning on forecasts, modeling, and situation awareness; Logistics on staging,
2 material, and supplies; Governmental Liaison on coordination with state and
3 county Governmental Agencies; and External Communication on outreach and
4 communication to customers, community leaders and media.

5
6 Personnel are assigned roles under the storm plan that may differ from their
7 regular daily responsibilities and, as a result, it is imperative that they are
8 effectively trained. This training is normally completed in the second quarter of
9 each year throughout the Company and within each of the functional areas of
10 responsibility. To further ensure our storm preparedness, we conduct storm
11 readiness drills to test the effectiveness of the training program and employees'
12 ability to execute their assigned storm roles. DEF's storm restoration plan is
13 coordinated with the state-wide storm preparedness efforts through participation
14 in the state Emergency Operations Center ("EOC") coordinated storm drill
15 conducted each May.

16
17 **Q. When and how do you activate your ICS major storm organization?**

18 **A.** DEF meteorologists continuously monitor the Tropics and Atlantic basin for
19 threats. Our formal ICS activation process kicks off as soon as a threat is
20 identified, which could be anywhere between 24 and 120 hours prior to landfall.
21 Our initial focus is to ascertain the most detailed weather information available
22 including date, time, and strength of the storm, path, size and strength of the wind
23 fields, precipitation, and exact time when wind is anticipated to diminish and fall
24 below 39 mph (our limit for safe travel).

1
2 With each forecast update we use storm modeling tools to predict the amount of
3 damage to our system, where that damage will likely occur, and the amount of
4 resources required to restore projected outages. More specifically, the modeling
5 tools estimate the number of personnel required, such as linemen, tree trimmers
6 and damage assessors. This gives us an estimate of the necessary scale of
7 restoration response. At this point, efforts are focused on notifications to our
8 customers and employees of a potential impact, and beginning our storm
9 readiness activities and initial efforts to procure resources. A progression of
10 checklists is followed each day thereafter.

11
12 **Q. With regards to preparations in advance of landfall, was there anything**
13 **unique about Hurricane Michael?**

14 A. Yes. Hurricane Michael became a tropical storm on October 7, 2018 and grew to
15 a Category 1 hurricane on October 8, 2018. Within 2 days of reaching hurricane
16 strength, Michael was a Category 5 major hurricane. In short, Hurricane Michael
17 strengthened from a loose tropical depression to a major hurricane impacting the
18 panhandle in a few short days. In contrast to many storms that we can track much
19 further out from landfall, this storm's short-lived incubation period caused
20 logistical issues (e.g., securing resources from out of state, getting them
21 prepositioned, etc.). Moreover, the impacted area was relatively rural - coupled
22 with the storm's impact and the resulting damage to the surrounding infrastructure
23 (as well as the flood of hurricane evacuees, many of whom ultimately lost their

1 homes), lodging was difficult to secure resulting in many resources being housed
2 in alternative housing sites.

3
4 **Q. What occurs as the storm begins to impact DEF's service territory?**

5 **A.** When the storm-force winds commence in DEF's service territory, the
6 Distribution Control Center ("DCC") is in constant communication with the
7 Energy Control Center ("ECC") and the transmission storm center. The ECC
8 gives both storm centers a thorough description of what transmission lines and
9 substations are dropping out of service as the storm passes, giving us a real-time
10 assessment of the location of the storm damage. Crews in the storm's direct path
11 shelter in place, while crews on the eastern edge of our territory respond to
12 emergency calls. The ECC and distribution and transmission storm centers jointly
13 establish restoration priorities and coordinate the distribution and transmission
14 restoration strategy to maintain grid stability.

15
16 **Q. What happens after the storm passes?**

17 **A.** Our initial response has three main components executed simultaneously: (1)
18 governmental and EOC support and response (road clearing); (2) statistical
19 damage assessment; and (3) feeder backbone restoration efforts. These three
20 components enable local and state governments to respond to the storm's impact,
21 and enable DEF to both estimate the amount of storm damage incurred by the
22 distribution system and begin restoration of the highest priority feeders.

23

1 As local governments and county EOCs encounter issues that require our
2 immediate attention, we can promptly respond. These issues may involve, for
3 example, support for road clearing teams, or removal of a downed power line with
4 police personnel standing by at the site. By having our personnel assigned to
5 county EOCs, we can facilitate communication with various governmental
6 agencies, such as fire departments also represented at the EOCs, to quickly
7 respond to the site, take care of the issue, and allow government agency staff to
8 pursue other critical assignments.

9
10 Concurrent with these activities, we rapidly assess a statistical sample of our total
11 facilities to validate the damage and associated resources that were predicted by
12 the model, and to provide operations management more information for
13 determining the best restoration methodology. As part of our pre-storm season
14 preparation, we identify segments of feeders and their associated branch lines in
15 each area served by an operations center that are representative of the overall
16 network of feeders and branch lines for the local area. As soon as it is safe to
17 travel (sustained winds below 39 miles per hour), damage assessment teams are
18 activated to get a better understanding of the damage to the distribution system.
19 The previously identified representative distribution line segments are assigned to
20 damage assessment teams who are responsible for a pole-by-pole survey of those
21 representative segments. The purpose of this survey is to inventory the extent of
22 damage incurred and return that damage information to be entered in a database.
23 Based on the storm damage found in this representative sample, we extrapolate
24 the amount of storm damage for the rest of the local distribution network and

1 aggregate these assessments to get a system-wide storm damage estimate. These
2 estimates are used to confirm damage and to adjust as needed to the pre-landfall
3 resource mobilization plan.

4
5 The feeder backbone process is a method by which we restore service and
6 catalogue storm damage for further repair. This process is intended to quickly
7 restore the feeder backbone through the operation of switches only, inventory
8 sections of the feeder that we are not able to immediately restore, and identify
9 what devices off the feeder are not in service. We begin planning for this Isolate-
10 and-Restore effort prior to the storm season when each of the local management
11 teams prioritizes the order of restoration for critical feeders within their service
12 areas. Highest priority is assigned to feeders that are crucial to the health, safety,
13 and welfare of the public.

14
15 **Q. How is the restoration phase of the storm plan carried out?**

16 **A.** At this juncture of our restoration efforts, we begin to deploy restoration resources
17 to the local operating areas to include them in the storm restoration plan. To
18 efficiently use this first wave of resources, we assign them to the storm damage
19 that was identified through our feeder Isolate and Restore process. This allows us
20 to assign them to the highest priority work on the most critical components of our
21 distribution infrastructure.

22
23 Based on information collected from the statistical assessment, any aerial storm
24 damage assessments using helicopters, information reported to our outage

1 management system, and the knowledge of local management, the management
2 team has the information it needs to determine what feeders require detailed
3 damage assessment. When the detailed assessment of a feeder segment is
4 complete, the results of that effort are compiled into an associated work package.
5 This work package allows us to effectively communicate the scope of the work to
6 be done, and further assists us in managing productivity expectations of our line
7 and tree crew resources. Additionally, the work package information assists local
8 management in allocating resources and determining ETRs.

9
10 **Q. Were any adjustments to the storm plan necessary due to significant damage**
11 **in the Mexico Beach area?**

12 **A.** Yes. Once damage assessment teams could get to the hardest hit area of Mexico
13 Beach, we realized our process of sampling damage would not be adequate.
14 Drones were used to take aerial surveys of the damage, and GIS and circuit maps
15 were used to estimate quantities of material (poles, transformers, and wire) to
16 rebuild feeders. Due to the loss of mobile phone coverage, assessment teams
17 initially had to drive several hours east to send their information back to
18 command centers.

19
20 **Q. Does the Company update ETRs during the restoration process?**

21 **A.** Yes. We have three levels of ETRs: 1) an initial system level ETR; 2) a view of
22 ETRs by city and county; and 3) device level ETRs. As the storm restoration
23 progresses, we move from higher level ETRs to increasing specificity. Factors
24 that influence ETR updates include the integration of any new information

1 collected, extent and severity of storm damage, critical and priority restoration
2 needs received from state and local governments and EOCs, and availability of
3 resources. Additionally, timing of resource arrival can be impacted by many
4 external factors such as road and bridge closures, crews having to travel through
5 the path of the storm (after it has cleared), roads, hotels and lodging clogged by
6 evacuees, and lack of fuel along major routes into the state. As required, we shift
7 line and tree crews, equipment and material to address new priorities or to
8 increase productivity. We constantly strive to update our ETRs and meet or
9 exceed our own ETR goals. Following Hurricane Michael, unique ETRs were
10 communicated for six geographic areas, and all six were achieved. In the Mexico
11 Beach rebuild area, construction milestone dates for feeder backbones and feeder
12 laterals were given to community leaders and both were achieved.

13
14 **Q. How does the Company wind down its restoration process?**

15 **A.** As we near the completion of storm restoration work within any part of our
16 service territory, demobilization efforts commence. Local operational leaders
17 provide an assessment of the productivity of restoration personnel. Combining
18 this information with the daily cost of the personnel, we build a plan that retains
19 the most safe, productive, and cost-effective resources to complete restoration
20 efforts.

21
22 **Q. Is there anything else that must be done after restoration of customers is**
23 **complete?**

1 A. Yes. The final phase of our hurricane response is the restoration of the system to
2 its pre-storm status. During the storm outage restoration phase, we perform
3 essential work necessary to restore the fundamental operating characteristics of
4 our distribution infrastructure. The primary focus is getting lights on safely and
5 moving to the next repair. For example, DEF will temporarily brace poles that are
6 damaged and in need of replacement, capacitor banks and reclosers are returned
7 to service only if immediately required, and animal mitigation hardware is not
8 installed to our normal operating standards. In this way we bring an end to the
9 community's state of emergency as quickly as possible. After the lights are on,
10 we conduct electrical and physical condition sweeps to identify further work
11 necessary to return the distribution system to its pre-storm condition.

12
13 The Company also conducts a "tree sweep" to identify any storm damage to trees,
14 including any cracked or broken limbs caused by the storm that might eventually
15 trigger an outage. Lead and associated vegetation management personnel are
16 responsible for identifying trees or branches damaged by the storm and
17 immediately mitigating any such damage. This process requires considerable
18 subject matter expertise because these issues can be camouflaged when the leaves
19 on damaged portions of trees are still green, meaning that only the most obvious
20 tree damage can be easily identified.

21
22 **Q. Please describe Hurricane Michael and how you implemented the plan you**
23 **describe above.**

1 A. Outage events for Hurricane Michael went beyond simply clearing lines, but into
2 extensive infrastructure damage to the distribution system. In Mexico Beach,
3 DEF was required to rebuild essentially all of the distribution facilities – the
4 system was essentially wiped out, meaning there was no repair option available.
5 Due to the nature of the damage and severity of the storm, it is not possible to
6 isolate the biggest driver of these impacts (e.g., wind, storm surge, vegetation, or
7 a combination of these factors).

8
9 Notwithstanding this amount of damage, DEF implemented the storm plan as
10 described. DEF had strong adherence to plan processes and methods including
11 storm planning and management, resource mobilization and de-mobilization,
12 materials and supply chain, damage assessment, work prioritization and work
13 package development, and isolate and restore processes and methods.

14
15 **Q. How do you measure the effectiveness of your storm planning and**
16 **restoration process?**

17 A. Beginning with restoration effectiveness, one of the main measures that we use is
18 the cumulative percentage of customers restored versus our projection of where
19 we should be at the end of each day. Moving backward from our final ETR goals,
20 we set milestones that must be achieved each day in order for us to achieve our
21 overall goal. We generate these milestones down to the operations center level
22 based on the amount of storm damage on our system, the level of resources that
23 we have at our disposal, and our own restoration history. This analysis tells us
24 whether we are being as effective as we need to be and, if not, helps to highlight

1 or correct any issues that may be impacting our performance. In regard to
2 Hurricane Michael, DEF set and communicated six unique community level
3 ETRs, and met or exceeded all six.¹ Rebuild completion milestones for Mexico
4 Beach were set and communicated separately for feeder backbones and feeder
5 laterals, both were completed on schedule.

6
7 Effective planning comes down to ensuring we have the processes in place to
8 provide maximum flexibility. Due to the nature of these storms, we will never be
9 able to precisely predict the landfall location and timing of storms, or the extent of
10 damage they will create. It is more important that our planning process ensures
11 we have the flexibility to adapt to inevitable changes in landfall location, timing and
12 intensity of storms as they arise. In our judgment, our planning process did in fact
13 provide us with the needed flexibility to cope effectively with the hurricane
14 season.

15
16 Finally, another critically important measure of effectiveness is safety. As part of
17 the Hurricane Michael restoration effort, we recorded zero serious injuries. This
18 is a remarkable accomplishment considering the number of people working
19 during the restoration effort and the amount of work required to rebuild entire
20 areas of the system. DEF is proud of the fact that all its workers, and the workers
21 from outside the state, returned home safely to their families after the event.
22

¹ The six ETRs correspond to six different geographic zones impacted by the storm.

1 VI. **INCREMENTAL COSTS INCURRED BY DEF AS A RESULT OF TS**
2 **ALBERTO**

3 **Q. Please describe your planning and response to TS Alberto and its impact on**
4 **your system?**

5 **A.** TS Alberto was a serious threat, at one point projected to impact a similar portion
6 of DEF's service territory as Hurricane Michael. See Exhibit No. ___ (JC-2).
7 Further, a material number of mutual aid resources were not available due to
8 ongoing work in Puerto Rico from Hurricane Maria. To ensure an effective
9 restoration response commensurate with the forecast track, expected damage, and
10 Memorial Day weekend impact, 152 resources were secured. Once actual
11 damage was known, 72 resources engaged in restoration work and the remaining
12 80 resources were released. By prestaging restoration crews and having them
13 ready to work as soon as weather permits, the number of outage days can be
14 significantly reduced. Due to the time it takes for crews outside Florida to
15 prepare and travel, this requires that the Company incur costs for off-system
16 resources with incomplete information and based on National Hurricane Center
17 tropical weather forecasts. Ultimately, TS Alberto veered west, just outside
18 DEF's service territory, resulting in less than expected damage to the DEF grid.

19
20 **Q. Please identify what incremental costs DEF incurred in connection with TS**
21 **Alberto.**

22 **A.** The incremental distribution costs incurred by the Company in connection with
23 TS Alberto are \$571,000, as shown on Mr. Morris' Exhibit No. __ (TM-2).

24

1 **VI. CONCLUSION**

2 **Q. Do you have an assessment of the Company's implementation of its Storm**
3 **Plan during the 2018 storm season?**

4 **A.** Yes. The Company's restoration efforts were reasonable and prudent, and
5 resulted in the restoration of service to the vast majority of customers as quickly
6 and safely as reasonably possible, and restoration costs were prudently incurred.
7 Third party assessment of hurricane damage (outside the Mexico Beach rebuild
8 area) validated the efficacy of hardening investments.

9
10 I believe the strength of a storm plan is its flexibility to adapt to unexpected
11 conditions. The Company faced a significant challenge as a result of Hurricane
12 Michael, and the storm plan proved to be an effective and efficient tool to achieve
13 our goal of restoring customer service as safely and expeditiously as possible.

14
15 **Q. Does this conclude your testimony?**

16 **A.** Yes.

1 (Whereupon, prefiled rebuttal testimony of
2 Jason Cutliffe, Docket No. 20190110, was inserted.)

3

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**IN RE: PETITION FOR LIMITED PROCEEDING FOR RECOVERY OF
INCREMENTAL STORM RESTORATION COSTS RELATED TO HURRICANE
MICHAEL AND TROPICAL STORM ALBERTO BY DUKE ENERGY
FLORIDA, LLC.**

FPSC DOCKET NO. 20190110-EI

REBUTTAL TESTIMONY OF JASON CUTLIFFE

JULY 31, 2020

1 **I. INTRODUCTION AND QUALIFICATIONS.**

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

3 **A.** My name is Jason Cutliffe. I am employed by Duke Energy Florida, LLC ("DEF" or
4 the "Company"). My business address is 2166 Palmetto St, Clearwater, Florida.

5

6 **Q. Have you previously filed testimony in this docket?**

7 **A.** Yes, I provided direct testimony on November 22, 2019.

8

9 **Q. Has your job description, education, background or professional experience**
10 **changed since that time?**

11 **A.** No.

12

13 **II. PURPOSE AND SUMMARY OF TESTIMONY**

14 **Q. What is the purpose of your testimony?**

1

2 **A.** I am testifying on behalf of the Company in support of recovery of the Company's
3 incremental storm-related costs incurred due to Hurricane Michael and Tropical
4 Storm (“TS”) Alberto. The purpose of my testimony is to provide the Company’s
5 rebuttal of inaccurate assertions and incorrect conclusions in the direct testimony of
6 OPC Witness Schultz, as well as to provide clarifications to certain observations
7 contained in FPSC staff’s process and procedures audit, attached to Witness Vinson’s
8 testimony. Tom Morris will discuss the errors Witness Schultz has made from an
9 accounting and financial aspect. Finally, Geoff Foster will identify and discuss
10 Witness Schultz’s inaccurate assertions regarding the 2017 Settlement Agreement and
11 the Irma Settlement Agreement entered into with intervening parties as a result of
12 DEF’s Hurricane Irma, et al., cost recovery docket, Docket. No. 20170272-EI.

13

14 **Q. Are you sponsoring any exhibits to your testimony?**

15 **A.** Yes. I am sponsoring the following exhibits to my testimony:

- 16 • Exhibit No. __ (JC-1) – Case studies of utility storm responses involving the pre-
17 positioning of restoration personnel.
- 18 • Exhibit No. __ (JC-2) – Excerpts from OPC’s Responses to DEF’s First Set of
19 Interrogatories to OPC.

20

21 **Q. Please summarize your testimony.**

22 **A.** My testimony addresses inaccuracies and mischaracterizations in OPC Witness
23 Schultz direct testimony. Specifically, I will focus my rebuttal testimony on Witness

1 Schultz's misunderstanding of the storm restoration efforts from an operational
2 standpoint. Based on my three decades of experience in emergency response, I do not
3 agree with Witness Schultz's positions regarding resource acquisition and pre-
4 staging. I believe that setting a precedent that discourages Florida utilities from
5 proactively engaging resources and pre-staging them as close as safety allows to the
6 forecasted impacts of an approaching storm would have serious negative
7 repercussions for future restoration efforts, to the detriment of all Floridians. I
8 strongly urge this Commission to reject such an invitation, as the harm would
9 inevitably outweigh whatever benefits OPC believes would be gained by such a
10 policy.

11

12 **III. REBUTTAL OF OPC WITNESS SCHULTZ**

13 **Q. On page 11, lines 17 through 19, OPC Witness Schultz recommends a**
14 **mobilization and demobilization disallowance of \$6.1 million due to excessive**
15 **travel time. Were hours charged in line with travel conditions and consistent**
16 **with 2018 contracts?**

17 **A.** Yes, hours charged for mobilization and demobilization were in line with travel
18 conditions and consistent with 2018 payment practice. Vendors in general were paid
19 16 hours per day from the point of origin to the point of destination. The six
20 examples cited by Witness Schultz were all operating under this convention.

- 21 • Page 41, line 14 through 27 (Company AA)
- 22 • Page 43, line 28 through Page 44, line 10 (Company AA)
- 23 • Page 44, line 21 through Page 45, line 8 (Company AA)

- 1 • Page 44, line 9 through 22 (Company BB)
- 2 • Page 44, line 23 through Page 45, line 8 (Company A)
- 3 • Page 56, line 15 through Page 57, line 3¹

4

5 In addition to drive time, mobilization time would also include other activities that
6 take place prior to travel and post-arrival on-boarding activities necessary to prepare
7 crews for work on the DEF grid and to work safely in a hazardous environment.

8 These activities include:

9

- 10 • Preparing trucks for interstate travel and stocking with material before
11 departure. This is consistent with long-standing industry practice and noted in
12 the Irma Settlement Agreement. Such necessary preparatory work will
13 typically require 2-4 hours.
- 14
- 15 • Drive time to assigned muster destination. Travel is difficult to accurately
16 estimate with “blue sky” route planning apps, thus such tools are not a useful
17 reference. Safety dictates that trucks loaded with material and fuel travel
18 slower than light duty vehicles. Road detours are also common and evacuee
19 traffic makes fuel and lodging less available in preferred stopover locations.
- 20
- 21 • Upon arrival at mustering location, the arriving crews are on-boarded, which
22 includes validation of rosters, crew compliments (i.e. skill make-up), and

¹ Vendor name is confidential, and thus omitted but can be referenced in Witness Schultz’s confidential testimony at the referenced page and line.

1 specialized equipment. Crews then receive briefings on Safety and DEF
2 Distribution Grid Standards (operating voltage, phase spacing, switching
3 practice). These activities, which are necessary for the Company to accurately
4 account for resources on its system and ensure proper safety practices are
5 followed, typically require 2-3 hours.

- 6
7 • Crews receive their lodging assignment for the evening, eat a meal, check-in,
8 and clock out upon arrival at their place of lodging. These functions typically
9 require 2-3 hours.

10
11 While DEF staff is trained to efficiently administer the on-boarding process for
12 thousands of mutual assistance crews over a very short window of time, non-driving
13 mobilization activities typically require 6-10 hours. A reasonable assessment of
14 mobilization must account for these vital non-driving activities.

15
16 Under 16-hour shift agreements in place in 2018 with contractors, any hours
17 remaining after mobilization was complete were standby hours. I note that this is no
18 longer the case, as DEF's 2020 Scope and Method of Payment agreements limit
19 mobilization pay to hours worked, as required by the Irma Settlement Agreement that
20 was entered into after DEF incurred the Hurricane Michael costs.

21

1 When the full scope of mobilization is considered, including hazards and
2 impediments to travel, mobilization and demobilization times are in line with
3 expectations and were invoiced appropriately.

4

5 **Q. On page 40, lines 2-7, Witness Schultz discusses “wasteful standby time” and his**
6 **opinion that it is “not reasonable to expect ratepayers to have to pay for**
7 **contractors to just sit around or to have those costs dumped into an upfront cost**
8 **recovery process that does not impose any burden on the utility to protect**
9 **customers from overpayments.” How do you respond to his criticism?**

10 A. I agree that “wasteful standby time” should be, and is avoided, but I disagree with the
11 characterizations of contractors “just sitting around” and that DEF did not protect
12 customers from overpayments. Based on my three decades experience in storm
13 response planning, coordinating, managing, resourcing, or contracting,² Witness
14 Schultz’s assertions regarding what is required to “restore service within the shortest
15 time practicable consistent with safety”³ after a major storm event are fundamentally
16 flawed. Consistent with lessons learned from Hurricane Irma, crews were mobilized
17 to be safely in position east of the hurricane track just prior to expected landfall and
18 payment was authorized to begin when they started preparation for travel.⁴ Contrary
19 to Witness Schultz’s belief, it would be imprudent and severely hamper the
20 Company’s storm response if contractors were not asked to begin traveling until

² To contrast my experience in these activities, according to Witness Schultz’s discovery responses, he does not have similar experience. See OPC’s response to DEF’s First Set of Interrogatories, nos. 18-22.

³ See Rule 25-6.044(3), F.A.C.

⁴ Payment does not begin when contractors begin actually traveling, as Witness Schultz believes should occur, because these resources have to prepare to travel, as discussed above, and DEF is rightfully obligated to pay for their time to do so. See OPC’s response to DEF’s First Set of Interrogatories, no. 26 (“contractors will require payment when they begin their response by traveling to the Company.”).

1 “either the day prior to the anticipated impact or the day of the storm.”⁵ I will discuss
2 this point in further detail later in my testimony.

3
4 When the repercussions of failing to preposition resources prior to impact are
5 considered, it becomes readily apparent that some time will be spent safely sheltering
6 in place and waiting for the storm to pass so damage assessment and restoration can
7 begin as soon as safe to do so – this is not “wasteful” – it is necessary. That said,
8 DEF minimized down time following mobilization by authorizing mobilization as late
9 as practical while still meeting the arrival and safety objectives stated above. Since
10 the timing of landfall was uncertain when the mobilization decision had to be made,
11 some crews arrived “just in time” and others arrived with a limited number of
12 “standby” hours left in the day. Compared to the cost and delay of being caught in
13 the hurricane’s path, these “standby” hours were minimal and prudent.

14

15 **Q. Witness Schultz’s testimony suggests DEF “selectively used the Settlement**
16 **Agreement”⁶ by, among other things, “not bas[ing payment for]**
17 **mobilization/demobilization using actual travel time”⁷ Did DEF consider**
18 **the Settlement Agreement in Hurricane Michael contracts?**

19 **A.** No, it did not and could not do so. The Irma Settlement Agreement was negotiated
20 and executed after Hurricane Michael. While some provisions of the Irma Settlement
21 Agreement can be applied retroactively, and it makes sense to do so, others like
22 vendor contracts could not be unilaterally amended, and certainly not after the

⁵ See OPC’s response to DEF’s First Set of Interrogatories, no. 25(b).

⁶ Schultz, p. 16, ll. 11-12.

⁷ See OPC’s response to DEF’s First Set of Interrogatories, no. 29.

1 vendors had performed pursuant to those contracts. If Witness Schultz is implying
2 the contracts themselves were imprudent, I would respond that they were in line with
3 the industry standard and, thus, prudent. DEF only affirmatively agreed to break
4 from that industry standard when it entered into the Irma Settlement Agreement.

5

6 **Q. OPC Witness Schultz’ testimony on page 38, lines 5 through 8 suggests that**
7 **Florida ratepayers are subsidizing the ratepayers in other states. Did DEF**
8 **customers subsidize ratepayers in North Carolina?**

9 **A.** No. Our resource plan is scalable and continuously checked and adjusted. Based on
10 Hurricane Michael’s track, states to the north of Florida⁸ were impacted later and had
11 a need for the crews DEF released. All releases were coordinated through the
12 established SEE mutual assistance process. The requesting utility ultimately paid for
13 demobilization. Over the course of Hurricane Michael restoration, DEF released
14 1,602 personnel who were claimed by other utilities thereby saving \$3.5M in
15 demobilization costs. Duke Energy Carolinas acquired 42% of DEF releases, the
16 remaining 58% were acquired by other SEE utilities in Florida, Georgia, and South
17 Carolina. These releases also included Companies V, G, and N referenced in OPC
18 Witness Schultz’ testimony on page 38, lines 9-18.

19

20 **Q. On page 10, lines 16-20, Witness Schultz compares DEF’s resource acquisition**
21 **timing to FPUC and suggests that proactive mobilization should be minimized.**

⁸ This reinforces a point made above – DEF and Florida utilities were not the only utilities attempting to secure resources prior to Michael’s impact. Thus, delaying resource acquisition until the day prior to or day of impact could have materially impacted DEF’s ability to acquire needed resources.

1 **OPC’s responses to discovery make a similar assertion.⁹ Is it beneficial to**
2 **acquire resources prior to landfall?**

3 A. While I am unfamiliar with FPUC’s experience post-Michael, and am not offering an
4 opinion on it, yes, experience shows that pre-landfall resource acquisition is
5 beneficial provided the utility has mature logistics support and operational processes
6 to quickly engage mutual assistance resources in restoration work. Proactive
7 acquisition of resources is an integral part of DEF’s hurricane plan, a well-established
8 industry best practice, and a hedge against uncertain hurricane forecasts (timing and
9 location); when combined with strong logistics and operational procedures, acquiring
10 resources prior to landfall will minimize restoration time.

11

12 During a hurricane state of emergency, communities suffer economic loss and deal
13 with threats to public health and safety. For these reasons, DEF’s primary objective
14 in storm response is the safest, fastest, most transparent restoration that is also
15 managed responsibly from a cost perspective as required by Commission Rule 25-
16 6.044(3). DEF does not believe the desire to minimize costs should hamper
17 restoration efforts and unnecessarily extend outage durations.

18

19 DEF believes this point was made clear in the Order approving the Irma Settlement
20 Agreement, where the Commission highlighted that “DEF advised that all parties are
21 in agreement regarding DEF’s primary objective following a storm, which is power

⁹ See OPC responses to DEF’s First Set of Interrogatories, nos. 23-25.

1 restoration to its customers, and that ‘the company will not allow the policies and
2 procedures to impede speedy power restoration for its customers.’ ”¹⁰

3

4 **Q. Is pre-staging restoration crews part of DEF’s hurricane plan, and is the
5 practice supported by industry experience and regulator guidance?**

6 A. Yes, as summarized by case studies in Exhibit No. __ (JC-1) and provided the utility
7 can make efficient use of the resources, as DEF did, through mature logistics support
8 and operational processes to immediately engage the crews in restoration work.

9

10 DEF’s mature logistics support enabled housing of the crews east of the hurricane’s
11 forecasted track. Partnership with county and state road clearing crews contributed to
12 opening travel as soon as possible for utility restoration workers and other first
13 responders. The Assess, Isolate, and Restore (“AIR”) process enabled mutual
14 assistance crews to begin productive restoration work almost immediately. AIR
15 provides a means to restore circuit backbones in the first 24-48 hours. Energizing
16 backbones yields many restoration benefits including the rapid identification of
17 second stage fuse work locations where mutual assistance crews are most effective
18 and can be immediately engaged. Failure to pre-stage contractor resources would
19 unnecessarily delay this process.

20

21 **Q. Did pre-positioning resources reduce DEF’s overall restoration time in
22 Hurricane Michael?**

¹⁰ PSC Order No. 2019-0232-AS-EI, p. 4.

1 A. Yes. Rebuilding and repairing the electric grid after a hurricane requires resources an
2 order of magnitude beyond native staffing. Not only must the area and extent of
3 direct damage be considered, but also the hurricane's subsequent path and its effect
4 on travel to the state, access to the area of damage, and availability of remaining
5 resources. Securing, mobilizing, on-boarding, and strategically locating mutual
6 assistance crews takes several days and must be initiated before weather impact is
7 certain. Detailed forecast data and advanced modeling tools are used, tools developed
8 and continuously improved through years of experience. While decisions must be
9 made without the luxury of hindsight, the consequences of inaction are enormous and
10 well documented.

11

12 Analysis in Exhibit No. __ (JC-1) shows that failure to pre-position resources would
13 have extended Hurricane Michael restoration time, resulting in 23% more customer
14 outage hours if DEF waited until landfall and 47% more customer outage hours if
15 DEF waited for first damage reports. Restoration of the last customers would also be
16 extended by at least 1-2 days. Failure to pre-position would also degrade the
17 accuracy of Estimated Times of Restoration ("ETRs") which are vital to community
18 first responders who are managing threats to public health and safety, and to
19 customers who evacuated and are seeking to return home. ETRs are the product of a
20 combination of estimated repair man-hours and resources available to do the work.
21 When available resources are in place and engaged in work, the resulting ETRs are
22 far more accurate than when acquisition and mobilization uncertainties must be
23 included.

1

2 **Q. How is DEF's resource plan developed?**

3 A. Resource plan commitments must be made far enough in advance to allow
4 mobilization to strategically place mustering sites, sometimes 48-72 hours before
5 expected landfall. The timing of crew mobilization is based on getting resources into
6 position before driving conditions deteriorate and crew safety is endangered. The
7 resource plan is continuously checked and adjusted as information becomes more
8 certain. Adjustments can include both additions and releases of resources.

9

10 Predictive damage modeling provides a target number of resources and is the basis
11 for mutual assistance requests. Some committed crews were moved into position and
12 strategically staged east of the hurricane's path, while others were instructed to
13 prepare for travel and await further instructions. The resource plan covers many risks
14 including early hurricane arrival, strengthening (as Michael quickly did, attaining
15 category 5 status at landfall), track shifts, widening of wind field, tornados, and
16 flooding. These risks are mitigated by the number of resources secured, skill type
17 (e.g., line, tree, damage assessment), pre-position location, and if not pre-positioned,
18 the influence of the hurricane on post-landfall highway travel. These decisions are
19 made, by necessity, with imperfect forecast information. Planning accounts for many
20 risks, some that happened (strengthening to category 5) and some that did not
21 (landfall 12 hours sooner than forecast). Precise knowledge of landfall timing,
22 location, and strength are luxuries of hindsight that DEF did not enjoy. Witness
23 Schultz's assumptions about resource availability at reasonable cost at or just before

1 landfall are not accurate, especially when the storm is forecasted to impact multiple
2 utilities across multiple states. The scalable resource plan was continually adjusted as
3 knowledge of Hurricane Michael improved, up to and including initial damage
4 reports the day after landfall. Adjustments (releases and additions) are purposeful.
5 Crews retained are those known to be closest, lower cost, most efficient, and match
6 the quantities and skills for damage. Release of the contractor crews referenced by
7 Witness Schultz on page 57, lines 4-13, is a good example, as discussed below.
8 Knowledge of which vendors are likely to be picked up by other utilities is also a
9 factor in releases, as DEF avoids paying demobilization costs when vendors are
10 picked up by other utilities.

11

12 Total resource commitments for Hurricane Michael were 3,948. Through continuous
13 and timely adjustments to DEF's resource plan, 1,602 were picked up by other
14 utilities, including 784 released prior to travel that did not invoice DEF for any part of
15 mobilization. In total \$3.5M in demobilization cost was avoided. By acting early and
16 adjusting its resource plan, DEF is in position to mitigate many weather and logistics
17 risks while minimizing demobilization costs. Waiting longer to secure resources
18 means crews available will be fewer, a greater distance away, and not ready to begin
19 restoration immediately. DEF must also consider the risk of another major storm
20 arriving while restoration for the first is underway. Every day restoration is extended
21 increases the risk, and Hurricane Michael is an example of how fast a category 5
22 hurricane can go from formation to landfall.

23

1 **Q. On page 57, lines 4 through 13, Witness Schultz recommends a disallowance of**
2 **\$430,524 for contractor crews released before restoration work began. Does a**
3 **prudent resource plan include crew releases as confidence in hurricane track**
4 **and damage improve?**

5 A. Yes, it does. As confidence in Hurricane Michael's track improved and initial
6 damage reports were received, the resource plan discussed above was checked and
7 adjusted. The referenced crews were secured for damage that could have happened
8 but did not. Once DEF adjusted its tree crew needs to match damage, retaining the
9 referenced crews would have added unnecessary cost. Witness Schultz also questions
10 the sequence of releases. Of the seven crews acquired, the five most expensive "off-
11 system" crews were released to Georgia Power on October 9th. The two less
12 expensive "on-system" crews were retained and ultimately released to Duke Energy
13 Carolinas on October 11th. Consequently, \$430,524 should not be disallowed as
14 Witness Schultz contends.

15

16 **IV. CLARIFICATIONS REGARDING PSC FINANCIAL PROCESS AUDIT**

17 **Q. PSC Staff completed a financial process audit for Hurricane Michael, are there**
18 **any observations that require clarification?**

19 A. Yes, of the nine observations three merit clarification.

20

21 **Q. Please list what observations require clarification and explain the clarifications.**

1 A. “Observation #4: Commission audit staff notes that DEF’s efforts to limit standby
2 time may reduce costs, but the efforts could also be advanced by executing contracts
3 on more favorable terms prior to the storm season.”

4

5 DEF believes contracts executed prior to storm season assure the most favorable
6 terms. In 2018, over 90 vendor agreements were in place prior to hurricane season,
7 and in 2020, DEF is executing over 100 annual agreements for over 20,000 skilled
8 personnel. These Scope and Method of Payment (“SMP”) agreements include all
9 cost saving measures we believe the market will bear, including provisions
10 documented in the Irma Settlement Agreement. It should be noted that these
11 contracts do not compel either party to act when requested. Vendors can execute
12 SMP agreements with multiple electric utilities, compare terms, and choose which
13 hurricane restoration requests to accept.

14

15 “Observation #5: In response to DEF’s 2019 Settlement Agreement, the Company
16 has clarified supplier agreements to remove minimum hours and implemented
17 procedures to minimize double-time pay. Commission audit staff notes that DEF still
18 has no written procedure for distribution operations to prohibit minimum hours and
19 should address this remaining issue.”

20

21 As noted, minimum hours were removed by negotiation from supplier agreements
22 executed prior to storm season and DEF has implemented procedures to minimize
23 double-time pay. Presuming the second sentence of observation #5 refers to suppliers

1 not under prior agreement, every hurricane event is unique and best handled case-by-
2 case. Minimum hours are one of many compensation terms. It would be short-
3 sighted for DEF to unilaterally “prohibit” minimum hours prior to negotiation as it
4 could raise overall cost or limit availability of resources. Whether defined in supplier
5 agreements or not, DEF diligently monitors the number of resources engaged.
6 Scalable resource plans are checked and adjusted based on each day’s forecast and
7 progress; this process is also a check on incurring costs for unproductive time.

8

9 “Observation #7: In response to DEF’s 2019 Settlement Agreement for the 2020
10 storm season, DEF will direct its vendors to use centralized Company-provided
11 lodging, meal, and fueling services, where practicable. Also, DEF will not reimburse
12 vendors for expenses that do not comply with this policy. Commission audit staff
13 believes DEF should also require documentation of approval for non-company
14 provided services in efforts to reduce logistics costs.”

15

16 Response: Exceptions to Company-provided services will be approved and logged,
17 thus, there will be documentation of approved exceptions. This is covered fully by
18 the Irma Settlement Agreement and DEF included the requirements in 2020 Scope
19 and Method of Payment contracts.

20

21 **V. CONCLUSION**

22 **Q. Are there any additional points you would like to discuss?**

1 **A.** No, but while I have discussed what I believe to be the points within my field of
2 expertise that most warrant discussion, the fact that I did not address any particular
3 point raised by Witness Schultz should not be understood as agreement.

4

5 **Q.** **Does this conclude your testimony?**

6 **A.** Yes.

1 (Whereupon, prefiled direct testimony of Tom
2 Morris, Docket No. 20190110, was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**IN RE: PETITION FOR LIMITED PROCEEDING FOR RECOVERY OF
INCREMENTAL STORM RESTORATION COSTS RELATED TO HURRICANE
MICHAEL AND TROPICAL STORM ALBERTO BY DUKE ENERGY
FLORIDA, LLC.**

FPSC DOCKET NO. 20190110-EI

DIRECT TESTIMONY OF TOM MORRIS

NOVEMBER 22, 2019

1 **I. INTRODUCTION AND QUALIFICATIONS.**

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

3 A. My name is Tom Morris. My current business address is 3300 Exchange Place,
4 Orlando, Florida 32746.

5

6 **Q. By whom are you employed and what are your responsibilities?**

7 A. I am employed by Duke Energy Business Services, LLC, a Service Company
8 affiliate of Duke Energy Florida, LLC (“Duke Energy Florida,” “DEF,” or the
9 “Company”) and a subsidiary of Duke Energy Corporation (“DE”). My current
10 position is the Director of Customer Delivery Florida Finance. I oversee a group
11 that has responsibility for the budgeting and forecasting, expense and capital
12 accounting for Distribution Operations among other responsibilities. I also
13 collaborate with other finance personnel with similar responsibilities for
14 Transmission Operations, Customer Operations and Fossil/Hydro Generation
15 Operations, and thus I am representing the finance and accounting organizations

1 that provide support to the functional groups of DEF that incur expenses during
2 major storm events.

3
4 **Q. Please summarize your educational background and professional experience.**

5 A. I have a Bachelor of Science in Accounting from The Florida State University.
6 Following graduation in 1993, I began my career at Ralicki & Thomas CPAs, in
7 Stuart, Florida. I worked three years at Ralicki & Thomas CPAs, focusing on
8 audits of GAAP financial statements and preparing personal and corporate tax
9 returns. In 1999, I joined DE in their Distribution Finance organization where I
10 was responsible for the monthly financial reporting and annual budget
11 preparation. In October 2015, I was promoted to Director of Customer Delivery
12 Finance.

13
14 **II. PURPOSE OF TESTIMONY.**

15 **Q. What is the purpose of your direct testimony?**

16 A. On April 30, 2019, DEF filed estimated storm costs in the instant docket
17 associated with Hurricane Michael. The purpose of my testimony is to explain
18 and support the actual storm costs for Hurricane Michael and Tropical Storm
19 (“TS”) Alberto, and to discuss the methods used to comply with Rule 25-6.0143,
20 FAC., and, where possible, with the Storm Cost Settlement Agreement approved
21 in Order No. PSC-2019-0232-AS-EI (“Agreement”)¹, to identify and remove non-

¹ The Agreement was entered and approved after Hurricane Michael made landfall and the restoration efforts were largely complete. Per the terms of the Agreement, its provisions and process modifications became applicable as of the date the Commission approved the Agreement, or June 13, 2019. Therefore, the Hurricane Michael restoration and rebuild efforts were undertaken pursuant to the same policies and procedures that existed prior to the Agreement. DEF has endeavored to follow the Agreement’s provisions

1 incremental O&M and capitalized costs from total restoration storm costs. Since
2 the Agreement was not in place during Hurricane Michael, not all calculations are
3 implemented as defined in the Incremental Cost Methodology Addendum.
4 However, in a good faith effort to comply with the Agreement, the Transmission
5 and Distribution teams applied their respective three-year average calculations to
6 payroll, overtime, and labor burdens to calculate non-incremental amounts.

7

8 **Q. Do you have any exhibits to your testimony?**

9 A. Yes, I am sponsoring the following exhibits to my testimony:

- 10 • Exhibit No. __ (TM-1) – Storm Costs Recovery Total
11 • Exhibit No. __ (TM-2) – Storm Costs by Storm
12 • Exhibit No. __ (TM-3) – Storm Costs Amortization

13 These exhibits were prepared under my direction and control, and are true and
14 accurate to the best of my knowledge.

15

16 **Q. Please describe the net costs for which recovery is sought in this proceeding.**

17 A. DEF is seeking recovery for those costs that are incremental, as defined under the
18 Incremental Cost and Capitalization Approach (“ICCA”) methodology required
19 under Rule 25-6.0143, F.A.C. The Company has prudently incurred \$191 million
20 (retail) of incremental restoration costs for Hurricane Michael and TS Alberto as
21 shown in Exhibit No. __ (TM-1). These costs exclude all non-incremental costs,
22 as defined under the ICCA methodology and, where applicable, adopted under the

related to accounting work, although this was not always possible due to procedures that were in place during the actual restoration work.

1 Agreement², and exclude amounts properly capitalizable under the Company's
2 capitalization policy. These costs, plus estimated interest costs of \$5 million, total
3 \$196 million sought for recovery in this proceeding. Consistent with the Second
4 Implementation Stipulation approved in Order PSC-2019-0268-PCO-EI, upon
5 recovery of Hurricane Michael costs, DEF will continue to use the Tax Act
6 savings to replenish the storm reserve to \$132 million.

7
8 **Q. Please explain how storm-related costs are tracked and accounted for during**
9 **and after each storm, and explain the process that the Company uses to**
10 **verify that costs assigned to the storms were in fact related to the storms and**
11 **were incremental.**

12 A. When a potential major storm event is approaching its service territory, DEF
13 creates separate project codes for each function (Distribution, Transmission,
14 Customer Operations, Fossil/Hydro Generation) to be used to process and
15 aggregate the total amount of storm restoration costs incurred for financial
16 reporting and regulatory recovery purposes. DEF uses these codes to account for
17 all costs directly related to storm restoration, including costs that will not be
18 recoverable from DEF's storm reserve based on the ICCA methodology and as
19 further clarified in the Agreement.³ All storm restoration costs charged to these
20 storm projects are initially captured in FERC Account 186, Miscellaneous
21 Deferred Debits. All costs charged to FERC Account 186 are subsequently
22 reviewed, and based on the outcome of that review, are cleared and charged to

² See footnote 1.

³ *Id.*

1 either the storm reserve (FERC Account 228.1), normal O&M expense or capital.
2 See below for further discussion of the Company's process to review incurred
3 costs and ensure only allowable costs as defined in the ICCA methodology and
4 Agreement⁴ are included for recovery.

5
6 **Q. Please further explain the process for accumulating accounting data related**
7 **to storm costs.**

8 A. For Distribution, major storm costs are initially accumulated in FERC Account
9 186, including charges that are considered non-incremental or capital. Using the
10 ICCA methodology and Agreement,⁵ non-incremental amounts are identified and
11 subsequently credited from FERC Account 186 and debited to base rate O&M
12 expense. Capital costs are also identified and subsequently credited from FERC
13 Account 186 and debited to FERC Account 107, Construction Work in Progress.
14 After non-incremental and capital costs are removed from FERC Account 186,
15 the remaining balance is then credited and a debit is placed in FERC Account
16 228.1 bringing the FERC Account 186 to zero, and leaving only allowable costs
17 for recovery in Account 228.1. Transmission follows the same process except for
18 any capital work that is done during the major storm is charged directly to specific
19 projects that are mapped to FERC Account 107.

20
21 **Q. Please explain costs incurred by DEF for Hurricane Michael and TS**
22 **Alberto?**

⁴ *Id.*

⁵ *Id.*

1 A. Exhibit No. __ (TM-1) summarizes total recoverable storm costs for both storms:

- 2 • Hurricane Michael (2018): \$190.8 million
- 3 • TS Alberto (2018): \$0.6 million

4 Exhibit No.__(TM-2) breaks-out recoverable storm costs by function for each
5 storm.

6
7 While most costs were incurred for Hurricane Michael, and my testimony below
8 is in reference to that storm, DEF's cost accumulation and review processes were
9 similar for both storms. As previously mentioned, all storm-related costs were
10 recorded to FERC Account 186 and subsequently reviewed to determine the
11 amount that was considered non-incremental under the ICCA methodology and
12 Agreement⁶ and excluded from this storm recovery request.

13
14 In discussing the nature of the costs incurred for Hurricane Michael and TS
15 Alberto, it is essential to have a clear understanding of Rule 25-6.0143, F.A.C.
16 and the Agreement. I will focus on allowable costs, then address the types of
17 costs specifically prohibited under the ICCA methodology in my testimony
18 below.

19
20 As shown on Exhibit No.__(TM-2), DEF's incurred costs for Hurricane Michael
21 and TS Alberto fall into the following categories, and, when netted with non-

⁶ *Id.*

1 incremental costs, are consistent with the ICCA methodology and the
2 Agreement⁷, where applicable.

3
4 1. Regular payroll – Amounts in this category represent regular payroll for
5 employee time spent in direct support of storm restoration, and exclude
6 bonuses. During the storms, payroll costs were incurred related to DEF
7 employees as well as DE affiliate employees assisting in the storm response.
8 To identify the non-incremental amount, the three-year historical average
9 (October of 2015-2017) of non-storm O&M base regular payroll is compared
10 to the actual non-storm amount charged to O&M base regular payroll in
11 October 2018 for Transmission and Distribution (“T&D”). If the average is
12 higher than the amount incurred in October 2018, that difference is removed
13 from FERC Account 186 as the non-incremental amount and charged to
14 Income Statement O&M. If the amount incurred in October 2018 is higher
15 than the three-year historical average, then the entire base regular payroll is
16 considered incremental in FERC Account 186.

17
18 2. Overtime Payroll – Amounts in this category represent overtime payroll for
19 employee time spent in direct support of storm restoration for DEF personnel
20 as well as DE affiliates, such as linemen from DE affiliates in the Carolinas
21 and Midwest. To identify the non-incremental amount, the three-year
22 historical average (October of 2015-2017) of non-storm O&M base overtime
23 payroll is compared to the actual non-storm amount charged to O&M base

⁷ *Id.*

1 overtime payroll in October 2018 for T&D. If the average is higher than the
2 amount incurred in October 2018, that difference is removed from FERC
3 Account 186 as the non-incremental amount and charged to Income
4 Statement O&M. If the amount incurred in October 2018 is higher than the
5 three-year historical average, then the entire base overtime payroll is
6 considered incremental in FERC Account 186.

- 7
8 3. Labor Burdens/Incentives – Amounts in this category include employee
9 bonuses and labor burdens.

10
11 Bonuses paid to employees for their extraordinary efforts and dedication to
12 DEF's customers were removed from this recovery request. Note, while the
13 Company believes the bonuses paid to employees are properly recoverable,
14 DEF is not seeking recovery of those costs.

15
16 Labor burdens represent costs associated with direct payroll and overtime
17 charges, such as 401-K and pension match, medical, payroll tax, and other
18 benefits. To identify the non-incremental amount, the three-year historical
19 average (October of 2015-2017) of non-storm labor burdens is compared to
20 the actual non-storm amount charged to O&M in October 2018 for T&D. If
21 the average is higher than the amount incurred in October 2018, that
22 difference is removed from FERC Account 186 as the non-incremental
23 amount and charged to Income Statement O&M. If the amount incurred in

1 October 2018 is higher than the three-year historical average, then all labor
2 burdens are considered incremental in FERC Account 186.

3
4 4. Overhead Allocations – Amounts in this category include cost allocations
5 related to management and supervision as well as Service Company costs
6 that were allocated to the project based on payroll, overtime, materials,
7 contractors and fleet charges incurred. Costs associated with DEF employees
8 were removed as either non-incremental or included as part of capital. With
9 respect to the overhead costs associated with employees from DE affiliates in
10 the Carolinas and the Midwest, these costs represent the Utility Affiliate
11 Overhead Loader which captures all the costs outlined in DE’s Cost
12 Allocation Manual. Once the loader is applied to the labor costs of DE utility
13 employees working for an affiliate, the fully loaded costs of those affiliate
14 employees are captured in the total costs charged to DEF. Therefore, all
15 costs that are recorded within DEF’s books and records from the affiliates are
16 truly incremental to DEF.

17
18 5. Employee Expenses – Amounts in this category include the cost of lodging
19 such as hotel rooms, as well as other employee expenses such as meals and
20 mileage reimbursement for employees using their personal vehicles.

21
22 6. Contractor Costs – Amounts in this category include costs associated with
23 mutual aid utilities, line contractors, vegetation contractors, staging and

1 logistics personnel and other outside contractors used in storm-restoration
2 related activities.

3
4 7. Materials and Supplies – Amounts in this category include the materials and
5 supplies used to repair and restore service and facilities to pre-storm
6 condition, and exclude the portion of materials and supplies used in
7 restoration activities that are included in capitalized cost. Fuel costs
8 associated with fueling services utilized during restoration to re-fuel the
9 contractor’s vehicles are coded as part of materials and supplies.

10
11 8. Internal Fleet Costs – The costs included in the net recoverable request are
12 only the fuel for fleet vehicles.

13
14 9. Uncollectible Account Expenses – Refer to the section below regarding the
15 storm impacts to Customer Operations.

16
17 10. Other Expenses – Amounts in this category include other minor amounts of
18 storm-related expenses not coded to one of the categories above.

19
20 The Company has support for all storm costs on Exhibit No. ___(TM-2) available
21 for Commission review.

22
23 **Q. Is the Company including for recovery in this filing any costs prohibited**
24 **from recovery under the ICCA methodology and the Agreement?**

1 A. No. DEF is not including any costs prohibited from recovery under the ICCA
2 methodology and the Agreement. In the preceding section of my testimony, I
3 discussed allowable costs as well as amounts DEF excluded from this recovery
4 request based on DEF's determination that certain of the costs were non-
5 incremental or capitalizable. In this section, I will address the types of costs
6 prohibited for recovery through the storm reserve based on the following sections
7 of Rule 25-6.0143, F.A.C. and the Agreement.⁸

8
9 Prohibited costs under the ICCA methodology and the Agreement⁹:

10 (1)(f) The types of storm related costs prohibited from being charged to the
11 reserve under the ICCA methodology include, but are not limited to, the
12 following:

13 1. Base rate recoverable regular payroll;

- 14 • *Company response – as discussed in the previous section, T&D has*
15 *excluded from its recovery request the difference between the three-year*
16 *average and the actual amount incurred in the month of October.*

17
18 2. Bonuses or any other special compensation for utility personnel not
19 eligible for overtime pay

- 20 • *Company response – as previously discussed, although the Company*
21 *believes the bonuses paid to employees for their extraordinary efforts*
22 *and dedication to DEF customers are properly recoverable, DEF is not*

⁸ *Id.*

⁹ *Id.*

1 *seeking recovery of those costs in this filing and has removed them from*
2 *this recovery request.*

3
4 3. Base rate recoverable depreciation expenses, insurance costs and lease
5 expenses for utility-owned or utility-leased vehicles and aircraft;

- 6 • *Company response – DEF has not included these types of costs in this*
7 *cost recovery filing. Regarding fleet costs, fleet allocations that follow*
8 *payroll and overtime labor were adjusted to only allow the fuel*
9 *component to be considered incremental and included for recovery in*
10 *this filing. The remaining parts of the fleet allocation were considered*
11 *non-incremental. With respect to aircraft, only direct incremental*
12 *charges were recorded to the storm project. These costs represent*
13 *incremental jet and transportation expenses, as well as charter flights*
14 *when additional aircraft were needed. Other similar incremental*
15 *expenses that supported restoration efforts included Unmanned Aerial*
16 *Vehicles(“UAV”) or Drones expenses and contractor UAV operators, as*
17 *well as helicopter expenses.*

18
19 4. Utility employee assistance costs;

- 20 • *Company response – DEF has not included these types of costs in this*
21 *cost recovery filing.*

22
23 5. Utility employee training costs incurred prior to 72 hours before the
24 storm event;

- 1 • *Company response – DEF has not included these types of costs in this*
2 *cost recovery filing.*
- 3
- 4 6. Utility advertising, media relations or public relations costs, except for
5 public service announcements regarding key storm-related issues as
6 listed above in subparagraph (1)(e)10.;
- 7 • *Company response – DEF has not included these types of costs in this*
8 *cost recovery filing, except for allowable public service announcements.*
9 *For example, advertisements that were placed to distribute needed*
10 *information related to power restoration and/or safety precautions were*
11 *charged to the storm reserve. This would have included messaging such*
12 *as how to report power outages, and to urge customers not to touch*
13 *downed power lines. However, advertisements that related to corporate*
14 *image were not charged to the storm reserve. This would have included*
15 *all “Thank You” ads that were placed.*
- 16
- 17 7. Utility call center and customer service costs, except for non-budgeted
18 overtime or other non-budgeted incremental costs associated with the
19 storm event;
- 20 • *Company response – DEF has only included non-budgeted overtime and*
21 *other incremental costs associated with its Customer Operations*
22 *organization in this cost recovery filing.*
- 23
- 24 8. Tree trimming expenses, incurred in any month in which storm damage

1 restoration activities are conducted, that are less than the actual monthly
2 average of tree trimming costs charged to operation and maintenance
3 expense for the same month in the three previous calendar years;

- 4 • *Company response – DEF has performed the necessary calculations*
5 *required by this rule and has properly removed vegetation management*
6 *costs consistent with this rule, resulting in recovery amounts that comply*
7 *with the ICCA methodology.*

8
9 9. Utility lost revenues from services not provided; and

- 10 • *Company response – DEF has not included lost revenues in this cost*
11 *recovery filing.*

12
13 10. Replenishment of the utility's materials and supplies inventories.

- 14 • *Company response – DEF has not included these types of costs in this*
15 *cost recovery filing.*

16
17 **Q. Please explain the amounts capitalized to property, plant and equipment by**
18 **the Company.**

19 A. The ICCA methodology states, "...capital expenditures for the removal,
20 retirement and replacement of damaged facilities charged to cover storm-related
21 damages shall exclude the normal cost for the removal, retirement and
22 replacement of those facilities in the absence of a storm."
23

1 DEF has a process to ensure all units of property installed during storm
2 restoration are capitalized at reasonable material and labor amounts (i.e., resulting
3 in capital amounts at the normal cost for the removal, retirement and replacement
4 of those facilities), resulting in a storm cost recovery request that is incremental
5 under the ICCA methodology. During Hurricane Michael, only the Company's
6 T&D Operations installed capital units of property.

7
8 For Transmission Operations, specific projects were issued for capital work,
9 allowing real-time tracking of those projects. As capital work was performed,
10 associated labor, material and equipment costs were charged to the capital
11 projects.

12
13 With respect to Distribution Operations, the nature of repair work is so
14 voluminous and time of the essence that the issuance of individual projects for
15 capital versus O&M work is not feasible. However, the Company's tracking of
16 materials allows for accounting of all units of property used during storm
17 restoration, resulting in the proper capitalization of those units of property. This
18 is accomplished by having DEF's Supply Chain organization issue materials
19 directly to the storm project as they ship them from the distribution center to the
20 various base camps, and having Supply Chain personnel at Operating Centers
21 issue materials used during the storm to the storm project. Once the restoration
22 effort has been completed, all materials from the base camps were picked up and
23 brought back to the distribution center where it was placed in a specific area for
24 return processing. All returned materials were segregated and tagged to be

1 identified as materials initially charged to the storm restoration. The material was
2 returned to the same accounting that was used during the restoration effort,
3 properly resulting in only the actual units installed during storm restoration being
4 capitalized.

5
6 Once the number of units of property (“UOP”) were confirmed, the Company’s
7 Finance organization determined a normal, reasonable total dollar amount to
8 capitalize for those units of property.

9 • Materials Costs – As noted above, the number of UOP were identified and
10 grouped (e.g., poles, transformers, wire, etc.). The material costs associated
11 with the UOP and the number of UOP then became the basis of the calculation
12 to determine the estimated total capital amount. A material burden was
13 applied to all materials which represents the cost associated with warehousing,
14 handling and shipping, and was reflected in the capital calculation. A working
15 stock burden was also applied for all the ancillary materials needed to install
16 that unit of property.

17 • Contract Labor - For each grouping of UOP, DEF’s Resource Optimization
18 group estimated the average number of hours to install under normal
19 conditions for that type of UOP and number of line resources needed. The
20 average number of hours multiplied by the number of resources generated the
21 total hours to install that UOP. Then a simple average was calculated of
22 internal labor and native contractor rates and that rate was multiplied by the
23 number of hours for each UOP to come up with the estimated capital labor to
24 install.

- 1 • Other costs – As part of the normal amount of capital cost for a UOP, an
2 overhead allocation rate was applied based on the total number of estimated
3 hours to install the units of property. This overhead rate is consistent with the
4 rate used in DEF’s work management system – Maximo.

5 For each storm, the amount of storm costs capitalized is outlined in Exhibit No.
6 __ (TM-2).

7
8 **Q. In addition to Transmission and Distribution, please describe the other**
9 **functional areas that incurred costs related to the storms.**

10 A. Customer Operations incurred incremental costs that include the same categories
11 of costs similar to T&D. Customer Operations did not follow the same process as
12 described above for T&D, however, only incremental costs as defined under the
13 ICCA methodology are requested for recovery in this filing.

14
15 **Q. Please explain why there could be further adjustments to the costs for which**
16 **DEF is seeking recovery in this filing.**

17 A. As of the date of this filing, the Company has not yet finalized payment of all
18 contractor services related to Hurricane Michael. The Company reserves the right
19 to file supplemental schedules with any necessary adjustments with the
20 Commission as appropriate.

21
22 **Q. Please explain the Storm Cost Amortization schedule included as Exhibit No.**
23 **__(TM-3).**

1 A: Exhibit No.__(TM-3) shows the amortization of Hurricane Irma (Docket No.
2 20170272-EI) and Hurricane Michael restoration costs including interest expense,
3 and replenishment of the storm reserve to \$132 million using annual Tax Act
4 benefits as approved in the Storm Implementation Stipulation (“Stipulation”) in
5 Order No. PSC-2019-0268-PCO-EI. Per the Stipulation, once storm costs that are
6 the subject of Docket No. 20170272-EI are fully recovered, DEF is entitled to
7 continue to record a monthly storm reserve accrual equal to one-twelfth of the
8 annual Commission-approved revenue requirement impact of the Tax Act (i.e.
9 1/12 of \$154.7 million or approximately \$12.9 million) and credit the storm
10 reserve until DEF’s Hurricane Michael costs are fully recovered and the storm
11 reserve has been replenished. In the month following full recovery of the final
12 Commission-approved actual storm recovery and storm reserve, DEF will cease
13 recording the storm reserve accrual and reduce base rates in a manner set forth in
14 the Second Revised and Restated 2017 Settlement Agreement, approved by the
15 Commission in Order No. PSC-2017-0451-AS-EU.

16
17 **Q. Does this conclude your testimony?**

18 A. Yes.

1 (Whereupon, prefiled rebuttal testimony of Tom
2 Morris, Docket No. 20190110, was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**IN RE: PETITION FOR LIMITED PROCEEDING FOR RECOVERY OF
INCREMENTAL STORM RESTORATION COSTS RELATED TO HURRICANE
MICHAEL AND TROPICAL STORM ALBERTO BY DUKE ENERGY
FLORIDA, LLC.****FPSC DOCKET NO. 20190110-EI****REBUTTAL TESTIMONY OF THOMAS R. MORRIS****JULY 31, 2020**

1 **I. INTRODUCTION AND QUALIFICATIONS.**

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

3 A. My name is Thomas R. Morris. My business address is Duke Energy Florida, LLC,
4 3300 Exchange Place, Lake Mary, FL 32746.

5

6 **Q. Have you previously filed testimony in this docket?**

7 A. Yes, I provided direct testimony on November 22, 2019.

8

9 **Q. Has your job description, education, background or professional experience**
10 **changed since that time?**

11 A. No.

12

13 **II. PURPOSE AND SUMMARY OF TESTIMONY.**

14 **Q. What is the purpose of your testimony?**

1 A. The purpose of my testimony is to provide the Company's rebuttal to inaccurate
2 assertions and incorrect conclusions contained in the direct testimony of OPC
3 Witness Schultz.

4

5 **Q. Are you sponsoring any exhibits to your testimony?**

6 A. Yes. I am sponsoring the following exhibit to my testimony:

- 7 • Composite Exhibit No. __ (TM-1) – Excerpts from OPC's Responses to DEF's First
8 Set of Interrogatories to OPC and OPC's Responses to DEF's Second Set of
9 Interrogatories to OPC.

10

11 **Q. Please summarize your testimony.**

12 A. My testimony addresses certain inaccurate or mischaracterized assertions and
13 erroneous conclusions in Witness Schultz's testimony. I have not attempted to rebut
14 each and every factual error or misconception contained in his testimony, but rather
15 concentrated on the items below. Other items requiring correction and/or clarification
16 are addressed by the rebuttal testimonies of Mr. Cutliffe and Mr. Foster.

17

18 With regards to Witness Schultz's testimony, I am disputing his recommended
19 adjustments to DEF's storm costs totaling \$56,083,000, except for the removal of
20 \$4,000 of non-incremental labor as explained below. Witness Schultz's adjustments
21 are not warranted due to his misinterpretation and inconsistent application of the
22 Storm Cost Settlement Agreement (the "Agreement") approved in Order No. PSC-

1 2019-0232-AS-EI, the Incremental Cost and Capitalization Approach (“ICCA”)
2 methodology, and Rule 25-6.0143, F.A.C. (the “Rule”).

3

4 **III. OPC Witness Schultz’s Testimony**

5 **Q. Do you agree with Witness Schultz’s total recommended adjustment on page 11,**
6 **lines 10 – 24 and page 12, lines 1-14 of \$56,083,000?**

7 A. No, with the exception of the \$4,000 amount I discuss in the next question. Witness
8 Schultz’s interpretation of the Agreement, ICCA, and Rule is not always correctly
9 and consistently applied to DEF’s storm costs. Below, I discuss my position on each
10 of Witness Schultz’s recommended storm cost adjustments. There are other
11 comments and statements made by Witness Schultz that I do not address in my
12 Rebuttal Testimony; however, this does not mean I agree or consider them correct.

13

14 **Q. Why did DEF not remove \$4,000 of non-incremental overtime as stated by**
15 **Witness Schultz on page 15, line 2?**

16 A. This was an error. Based on the Agreement, affiliate base labor is kept separate from
17 DEF’s base labor to calculate the historical three-year average. However, when the
18 calculation is done for overtime, affiliate and DEF overtime are combined. Affiliate
19 and DEF overtime were inadvertently kept separate. The \$4,000 affiliate overtime
20 should be treated as non-incremental costs as stated by Witness Schultz.

21

22 **Q. Do you agree with Witness Schultz’s testimony on page 19, lines 6-10, that “Rule**
23 **25-6.0143(1)(f),2, F.A.C., specifically states ‘[b]onuses or any other special**

1 **compensation for utility personnel not eligible for overtime pay.’ Thus, these**
2 **costs are prohibited from being charged to the reserve. That means both types**
3 **of extra compensation costs should be excluded?”**

4 A. No. This is a misinterpretation of the Rule, which states:

5 (f) The types of storm related costs prohibited from being charged to the
6 reserve under the ICCA methodology include, but are not limited to, the
7 following:

8 ...

9 2. Bonuses or any other special compensation for utility personnel *not*
10 *eligible for overtime pay.* (emphasis added).

11

12 The “exempt supplemental pay” is considered overtime by the Company. Thus, the
13 exempt supplemental pay is a category of compensation for utility personnel who *are*
14 eligible for overtime pay, and is therefore not prohibited from being charged to the
15 reserve.

16

17 Finally, once again this argument should be rejected because Witness Schultz and
18 OPC are directly arguing against the Incremental Cost Methodology Addendum
19 (“ICMA”) included in the Agreement, which states: “Exempt Supplemental
20 Compensation (ESC): All ESC associated with storm duty for employees who are
21 eligible for overtime is charged to the storm reserve charge codes and is incremental
22 recoverable.”

23

1 **Q. Do you agree with Witness Schultz’s statement on page 19, lines 20-21 that**
2 **“Duke has side-stepped the Rule and has chosen to include these costs because of**
3 **the Agreement?”**

4 A. No. The Company has not “side-stepped” the Rule, which states “bonuses or any
5 other special compensation for utility personnel not eligible for overtime pay” by
6 including exempt supplemental compensation. DEF has an established, predictable,
7 and objective policy for paying supplemental compensation to exempt employees;
8 therefore, these costs should not be excluded. In previous storm cost recovery filings,
9 exempt supplemental pay was included and approved by the Commission as
10 recoverable storm restoration costs pursuant to the Rule.¹

11

12 Moreover, as indicated by Witness Schultz, these costs are permitted to be recovered
13 by the Agreement which states “[a]ll ESC associated with storm duty for employees
14 who are eligible for overtime is charged to the storm reserve charge codes and is
15 incremental recoverable.” In that Agreement, the settling parties agreed the ICMA
16 complied with the Rule:

17 The Company will provide in its testimony full details as to how
18 incremental and non-incremental costs were determined in accordance
19 with the Incremental Cost Methodology Addendum below *and* Rule 25-
20 6.0143, F.A.C. The Consumer Parties agree that the methodology
21 explained below is a reasonable approach to identifying incremental storm
22 costs as that concept is used in the rule.

¹ See Order No. PSC-2019-0114-FOF-EI (approving the utility’s recovery of amounts paid to employees pursuant to its “Inclement Weather Exempt Employee Compensation Policy”).

1

2 **Q. Do you agree with Witness Schultz’s statement on page 21, lines 7-8 that a**
3 **\$450,000 capitalization adjustment should be made?**

4 A. No. Witness Schultz ignores the Amendment² to the Agreement that requires DEF to
5 “[u]se a combined simple average of hourly internal company and native contractor
6 costs that are the type normally incurred in the absence of a storm to determine
7 amounts to capitalize to plant, property and equipment along with the materials and
8 other cost of equipment.” The simple average labor rate outlined in the Amendment
9 includes base labor, burdens, and fleet costs. Since native contractors do not break-
10 out costs into these components when they provide their rate to DEF, an hourly
11 internal labor rate was used to approximate how much of the \$8.4M of
12 labor/contractor costs were associated with labor burdens. The internal hourly labor
13 rate used was \$72.28, of which \$25.09 relates to burdens. There were approximately
14 89,000 hours of distribution capital restoration work, which, at minimum, equates to
15 \$2.2M in labor burdens. Witness Schultz believes there should be an adjustment
16 because he does not see labor burdens, but as I have explained above the labor
17 burdens are included in the simple average hourly labor rate and no adjustment is
18 necessary.

19

² See Amendment to Duke Energy Florida, LLC’s Storm Cost Settlement Agreement, filed May 15, 2019, in Docket No. 20170272-EI (the “Amendment”). The Amendment was approved by the Commission as part of the Agreement by Order No. 2019-0232-AS-EI.

1 **Q. Do you agree that an upward adjustment of \$715,000 to DEF's requested**
2 **Overhead Costs should be made to move capitalized costs into the storm cost**
3 **recovery request as Witness Schultz indicates on page 23?**

4 A. No, though it is also unclear whether or not Witness Schultz is actually requesting an
5 adjustment. Distribution overhead allocation costs that are reflected in the storm
6 filing primarily relate to management and supervision labor charges. Due to the
7 extensive damage caused by Hurricane Michael, DEF requested additional
8 management and supervision resources from Duke Energy's Midwest and Carolina
9 regions to help oversee the additional resources obtained by DEF to restore power to
10 Florida customers. Non-affiliate – that is, DEF's - management and supervision costs
11 were accounted for as overhead allocations. However, affiliate management and
12 supervision costs were charged directly to the storm project, which results in those
13 costs being accounted for as DEF base labor – if these affiliate costs were not charged
14 directly to the storm project, then the affiliates providing the assistance would bear
15 these costs; this is the same process that is followed if and when DEF provides this
16 type of assistance to its affiliates. Witness Schultz's assertion that a refund of costs is
17 warranted is not correct because affiliate management and supervision costs
18 accounted for as base labor were included in the capital calculation.

19

20 The intent of the Distribution capital calculation is to estimate what the costs would
21 be under normal conditions for units of property issued to the storm project per the
22 ICCA methodology. It is difficult to break-down that estimate by cost driver and
23 compare that to a break-down of actuals by cost driver as the two may not always

1 align; this is because of the way costs are charged during a storm restoration effort
2 versus blue sky operations. That is, affiliate management and supervision costs are
3 charged as base labor, but need to be considered as part of the overhead allocation in
4 the capital calculation.

5

6 This is similar to Witness Schultz's incorrect assertion on page 21, lines 7-8, that a
7 refund was due because he could not specifically identify labor burdens; I explain
8 above that is also incorrect for the same basic reason – breaking down estimates and
9 actuals by cost driver can lead to inconsistent results.

10

11 **Q. Do you agree with Witness Schultz's statement on page 65, lines 16-17, "Duke**
12 **does not appear to have a set policy for capitalization of storm costs or a**
13 **standard methodology in place?"**

14 A. No. The Amendment to the Agreement and the ICCA methodology in Rule 25-
15 6.0143(1)(d) specify how storm costs are capitalized. DEF followed the
16 capitalization provisions of the Amendment and Rule for determining capital costs for
17 Hurricane Michael and Tropical Storm Alberto. I would also note that DEF produced
18 its Capitalization Policy to OPC in its response to OPC's Third Set of Interrogatories,
19 number 19. *See* 20190110-DEF-OPCPOD3-19-
20 000001 through 20190110-DEF-OPCPOD3-19-000183.

21

22 **Q. Were capitalized costs audited for compliance to the Amendment to the**
23 **Agreement or Rule?**

1 A. Yes. Per the Direct Testimony of Simon Ojada issued on July 2, 2020, in the instant
2 docket, FPSC’s Office of Auditing and Performance Analysis performed an audit
3 (“financial audit”) of DEF’s storm recovery cost filing. The financial audit report,
4 included as Exhibit SOO-1, in Witness Ojada’s testimony, states that capitalized costs
5 were tested to determine if DEF only included recovery of those costs allowed per
6 Rule 6.0143. No exceptions were noted.

7
8 **Q. Do you agree with Witness Schultz’s assertion on page 25, lines 4-6, that “there**
9 **is no specific capital amount identified for distribution?”**

10 A. No. Witness Schultz is misinterpreting my testimony and is not understanding the
11 Amendment which directs DEF to “[u]se a combined simple average of hourly
12 internal company and native contactor costs that are the type normally incurred in
13 the absence of a storm to determine the amounts to capitalize to plant, property and
14 equipment along with the materials and other costs of equipment.” I used a simple
15 average which the Agreement requires; however, it does not state that the rate needs
16 to be broken out into the various components of labor, burdens, or fleet when doing
17 the calculation as Witness Schultz implies. The capital calculation provided shows
18 the material costs, estimated installation labor (which includes labor, burdens, and
19 fleet), and overhead allocations required to install the units of property under normal
20 conditions per the Agreement and consistent with the Rule.

21

22 **Q. Do you agree with Witness Schultz that the Company is “cherry picking” the**
23 **Agreement to use for cost recovery as stated on page 28, lines 1 – 3?**

1 A. No. DEF has consistently expressed that it adhered to the Incremental Cost
2 Methodology Addendum to the Agreement, as Amended, where possible after the
3 Implementation Date of the Agreement. Moreover, as stated in the Agreement, DEF
4 adhered to the restoration-related provisions where possible during the 2019 storm
5 season, and would fully implement the Agreement for 2020. This is a provision of
6 the Agreement that was agreed to by both DEF and OPC:

7

- 8 • **Agreement, Page 8, Section 6**, “...*the Company will make a good faith effort*
9 *to implement as many of the new processes and procedures reflected below*
10 *for the 2019 hurricane season as possible and will fully implement the*
11 *processes and procedures for the 2020 hurricane season.*”

12

13 This is also explained in my November 22, 2019, Direct Testimony in footnote 1:

- 14 • “*The Agreement was entered and approved after Hurricane Michael made*
15 *landfall and the restoration efforts were largely complete. Per the terms of the*
16 *Agreement, its provisions and process modifications became applicable as of*
17 *the date the Commission approved the Agreement, or June 13, 2019.*
18 *Therefore, the Hurricane Michael restoration and rebuild efforts were*
19 *undertaken pursuant to the same policies and procedures that existed prior to*
20 *the Agreement. DEF has endeavored to follow the Agreement's provisions*
21 *related to accounting work, although this was not always possible due to*
22 *procedures that were in place during the actual restoration work.*”

23

1 Moreover, and I do not think this can be emphasized enough, the Agreement itself
2 explicitly states it is a “reasonable means of complying with the Rule.” Therefore,
3 compliance with the Agreement is compliance with the Rule, and Witness Schultz’s
4 assertions to the contrary are false. The Agreement was entered into in recognition of
5 some of the factors that Witness Schultz is now pointing out and attempting to use
6 against DEF in this proceeding – that is, because DEF’s base rates were established
7 via settlement agreement, there are no MFRs that can be used to establish the level of
8 specific components (e.g., base labor) of DEF’s base rates. Thus, the Agreement
9 established a proxy for doing so. In some situations, because Hurricane Michael
10 predated the Agreement, DEF did not have charging codes established that allowed
11 costs to be tracked as envisioned by the Agreement (e.g., affiliate management and
12 supervision support; the restoration efforts had already occurred and therefore DEF
13 could not implement the process changes, such as entering contracts that limited
14 travel time to actual time traveled) and therefore the Agreement could not be
15 followed (*see* footnote 1 to my direct testimony). Thus, DEF was required to
16 compute the incremental costs via another means (see the discussion above related to
17 affiliate management costs). This is not “cherry-picking,” it is following the agreed
18 upon methodology where possible, and establishing another reasonable means of
19 computing incremental costs where necessary.

20

21 **Q. Do you agree with Witness Schultz that refund of \$1,929,118, broken down into**
22 **various components is due as mentioned on pages 36-37, lines 6-24 and lines 1-5**
23 **and page 67, lines 10-11?**

1 A. No. These amounts were removed in DEF's Supplemental Exhibits of incremental
 2 storm restoration costs filed May 19, 2020, after DEF determined they were
 3 improperly charged to the storm reserve; thus, no refund is due. I do note that it is
 4 simply unclear what costs Witness Schultz is actually arguing requires a further
 5 refund, as he notes in his testimony that it appears \$1.7 million was removed as part
 6 of the May filing, though his summary on page 67 still requests a full \$1.9 million
 7 refund; he is correct that the erroneous charges have been removed (approximately
 8 \$1.7 million) with the May 19, 2020, filing, but I address what I believe to be his
 9 additional concern regarding the \$181,224 payment here for clarity.

10

11 **Q. Do you agree with Witness Schultz that a refund of \$181,224 is due to a**
 12 **duplicate payment as mentioned on page 37, lines 6-11?**

13 A. No. There was a processing error for Company R related to invoice 131800 resulting
 14 in an overpayment of \$181,224; however, that overpayment was applied to other
 15 outstanding invoices as shown below:

Invoice Number	Total Invoiced Amount	Prepayment (.1 invoice)	Final Payment (.2 Invoice)	Paid Amount	Overpayment	Credit Applied to Overpayment
131800	\$ 241,632.00	\$ 181,224.00	\$ 241,632.00	\$ 422,856.00	\$ 181,224.00	
131853	\$ 462,551.60	\$ 346,913.70	\$ -	\$ 346,913.70		\$ 115,637.90
131854	\$ 461,309.80	\$ 345,982.35	\$ 65,586.10	\$ 411,568.45		\$ 49,741.35
131857	\$ 465,190.40	\$ 348,892.80	\$ 100,452.85	\$ 449,345.65		\$ 15,844.75
						\$ 181,224.00

16

17

18 **Q. Do you agree with Witness Schultz statement on page 51, lines 14-18, that "If the**
 19 **Company is allowed to understate the capital amount, current ratepayers will**
 20 **pay for capital costs that will benefit future ratepayers. This is a concern**

1 **commonly referred to as intergenerational inequity. Current ratepayers should**
2 **not bear the total costs of plant that will be used over thirty to forty years by**
3 **future customers who are not receiving service from Duke today?”**

4 A. No. DEF has calculated the capital amount in accordance with the ICCA
5 methodology in the Rule and Agreement, as discussed in more detail below as well in
6 my Direct Testimony filed in November; the capital amount is not understated.
7 Moreover, as indicated throughout my Rebuttal Testimony, Witness Schultz appears
8 to refuse to acknowledge the Amendment to the Agreement when deriving his
9 conclusions.

10

11 Witness Schultz states on page 27, lines 1-3, of his testimony: “The Company
12 determines the capitalized amount based on an **average of internal labor rates and**
13 **native contractor rates.** This averaging process compounds the issue with
14 capitalization of storm costs.” (Emphasis added).

15

16 The Amendment requires DEF to use: “a combined **simple average of hourly**
17 **internal company and native contractor costs** that are the type normally incurred in
18 the absence of a storm to determine the amounts to capitalize to plant, property and
19 equipment along with the materials and other costs of equipment.” (Emphasis added).

20

21 When asked in discovery if the process Witness Schultz outlined on page 27 was
22 consistent with the Amendment, OPC simply responded “No” with no further

1 explanation.³ When OPC was asked where or how DEF deviated from the approved
2 Agreement, OPC referenced page 50 of Witness Schultz’s testimony “where he points
3 out that the company used a simple average of internal and native contractor labor to
4 determine the amount capitalizable. The Settlement process calls for a simple
5 average of hourly foreign and native contractor costs to be used.”⁴ Mr. Schultz is
6 simply not recognizing that the Agreement was Amended, and it was the Amended
7 Agreement the Commission approved.⁵

8

9 **Q. Do you agree with Witness Schultz’s assertion on page 53, lines 8-19, that there**
10 **should be an adjustment to the contractor costs for the failure to properly**
11 **capitalize \$2,566,399 of costs?**

12 A. No. The contractor costs as listed are correct and follow the provisions of the
13 Agreement, as amended. Witness Schultz again ignores the Amendment that
14 specifically speaks to the capitalization of these costs. His recommendation to use a
15 higher capitalization rate than contemplated by the Amendment is inconsistent with
16 the Agreement. In addition, Witness Schultz’s position is inconsistent with the ICCA
17 methodology, which states “capital expenditures for the removal, retirement and
18 replacement of damaged facilities charged to cover storm-related damages shall
19 exclude the normal cost for the removal, retirement and replacement of those

³ OPC’s Response to DEF’s First Set of Interrogatories, number 33.

⁴ OPC’s Response to DEF’s Second Set of Interrogatories, number 46.

⁵ *See id.* (“The referenced Order [No. PSC-2019-0232-AS-EI] was approving a settlement and the witness is not aware that the capitalization process was specifically approved by the Commission as its official policy in lieu of the express language of the rule.”).

1 facilities in the absence of a storm.”⁶ In other words, the capital calculation is to
 2 determine the “normal” costs absent a storm (i.e., blue-sky costs), and all costs above
 3 that “normal” calculation are considered incremental and recoverable through the
 4 storm reserve. Witness Schultz’s premise that the capitalization calculation should
 5 account for the “fact that the costs were incurred under extraordinary circumstances
 6 that cause costs to be higher”⁷ is completely inconsistent with the principles upon
 7 which with the ICCA methodology is based. I also note that this Commission has
 8 previously rejected Witness Schultz’s contention that capitalized costs should reflect
 9 the higher costs of storm restoration rather than the “normal” costs of performing the
 10 work.⁸

11

12 **Q. Do you agree with Witness Schultz’s testimony on page 55, line 20 through page**
 13 **56, line 2 about Transmission seeking recovery for a \$65,387 duplicate payment?**

14 A. No. The \$65,387 payment was refunded on March 31, 2019, which was reflected in
 15 the May 19, 2020, supplemental filing. Therefore, only a net of \$266,332.30 was
 16 charged to the 230kV Line- PX-1 Port St. Joe - Callaway (“PX line rebuild”) project
 17 and no duplicate payments are being sought for recovery.

18

⁶ Rule 25-6.0143(1)(d), F.A.C.

⁷ *See id.* at ll. 14-15.

⁸ *See* Order No. PSC-2019-0114-FOF-EI (“We find that FPUC has capitalized the contractor costs consistent with Rule 25-6.0143(1)(d), F.A.C. The Rule requires FPUC to exclude the costs that would ***normally be charged to the non-cost recovery clause operating expenses in the absence of the storm.*** . . . FPUC calculated the normal cost to be excluded from the storm reserve by using in-house rates under normal conditions for the same work. FPUC stated that its average in-house labor rate is \$37.34 per hour. Consistent with the Rule, any incremental costs may be charged to the storm reserve. Witness Schultz’s method of using an adjusted average hourly capitalization rate of \$221 per hour ***is inconsistent with the Rule because it does not reflect normal conditions in the absence of a storm.***”) (emphasis added).

1 **Q. Do you agree with Witness Schultz that a refund of \$6,360,621 should be ordered**
2 **due to unsupported costs as mentioned on page 60, lines 6-8?**

3 A. No. DEF provided OPC invoices for Logistics costs over \$10,000, as requested in
4 POD 16, on August 15, 2019, including supporting documentation for those invoices.
5 DEF inadvertently did not provide the support for the two invoices comprising the
6 \$6,360,621 when the discovery response was served. Since OPC did not request the
7 support in follow-up discovery, DEF did not realize its mistake until it had an
8 opportunity to review Witness Schultz's testimony. The support for these two
9 invoices has since been provided to OPC on July 28, 2020 in DEF's Fifth
10 Supplemental Response to OPC's First Set of Interrogatories, number 16. The two
11 invoices and supporting backup was provided in response to Audit Request 2 of the
12 FPSC Financial Audit and found to be sufficient as indicated by the Testimony and
13 attached audit report of FPSC Staff Witness Ojada. DEF feels this misunderstanding
14 could have been remedied in discovery rather than becoming a point of contention at
15 this stage of the proceedings.

16

17 **Q. Do you agree with Witness Schultz's contention, on page 61, lines 3 – 6, that**
18 **\$199,020 listed in discovery as “No Vendor Name” should be refunded because**
19 **“the notation that it relates to accrual of costs” means the costs are**
20 **unsupported?**

21 A. No. Witness Schultz does not take into consideration that the costs he reviewed were
22 not final, and he apparently assumes all costs are associated with received invoices.
23 Distribution was still accruing for an estimate of outstanding contractor invoices at

1 the time of the November 22, 2019, filing and that accrued amount was reversed out
2 with the actual costs in the May 19, 2020, supplemental filing. In addition, a portion
3 of the amount relates to journal entries that removed costs from the storm project.
4

5 **Q. Do you agree with Witness Schultz's testimony on page 61, lines 9 – 14, that**
6 **Transmission's \$3,243,044 of "Non-Vendor" costs are unsupported?**

7 A. No. Witness Schultz is again confusing accounting accruals with actual invoices.
8 For Transmission's Contractor Costs category, the vast majority (i.e., 89.3%) of
9 Transmission's \$3,243,044 non-invoiced or "Non-Vendor" costs was for a \$2,899,254
10 accrual of forecasted PX line rebuild costs. The remaining \$343,790 relate to
11 miscellaneous accounting reclasses and other vendor accruals for which there is
12 supporting back up.
13

14 As indicated previously, FPSC staff conducted a financial audit of Hurricane Michael
15 costs, the results of which were filed in this Docket on July 2, 2020. The final report,
16 which included a review of invoices, was favorable with no exceptions noted.
17

18 **Q. Do you agree with Witness Schultz's testimony on page 60, lines 9 – 14 that**
19 **Transmission did not provide support for the three identified logistics vendors**
20 **discussed in that section totaling \$977,489?**

21 A. No. During discovery, the names of Transmission's staging and logistics vendors
22 were identified and provided.⁹ The vendors mentioned in Witness Schultz's

⁹ See DEF's Second Supplemental Response to OPC's First Set of Interrogatories, No. 16 on Disc 4.

1 testimony were included in the Staging & Logistics category, rather than
2 Transmission; thus, the supporting documentation was provided along with the
3 logistics vendors (not the transmission vendors) invoices.

4

5 **Q. Do you agree with Witness Schultz’s testimony on page 28, line 13 through page**
6 **29, line 23 that Transmission should capitalize an additional \$34,445,227 of PX**
7 **line rebuild project costs?**

8 A. No. Per (1)(d) of the Rule: *“In addition, capital expenditures for the removal,*
9 *retirement and replacement of damaged facilities charged to cover storm-related*
10 *damages shall exclude the normal cost for the removal, retirement and replacement*
11 *of those facilities in the absence of a storm.”* DEF adhered to this Rule when
12 calculating the incremental cost of the PX Line.

13

14 As stated in Mr. William’s direct testimony, the Port St. Joe to Callaway tie line (“PX
15 Line”) with Gulf Power sustained significant damage. Due to severe damage, it was
16 determined that the entire DEF section of the line had to be completely rebuilt. In
17 addition to the PX Line, there were 44 transmission structures replaced during storm
18 restoration work, allowing nearly immediate restoration of power and stability of the
19 system. The construction of the PX Line was expedited in order to reliably serve
20 DEF customers for the upcoming winter load. As a result, DEF had to incur
21 additional costs to expedite construction of this line.

22

1 To determine the incremental amount, transmission had ranges established from a
2 parametric engineering estimate and any costs which exceeded the midpoint of that
3 range were determined to be incremental.

4

5 Contrary to Witness Schultz's contention on page 29, DEF did not ignore the
6 provisions of the agreement when performing this calculation. As provided in
7 previous testimony, transmission's project management process is different than
8 Customer Delivery, allowing transmission to identify all costs associated with a
9 specific project. Thus, transmission does not need to perform the calculation as
10 outlined in the Agreement.

11

12 The cost to restore power, replace wood poles, construct the access road, and rebuild
13 the PX Line totaled \$126,004,434. PX Line rebuild costs were \$78,530,721 of which
14 \$33,488,960 were incremental since it was in excess of what normally would have
15 been paid to rebuild the line under a non-expedited schedule. The additional costs
16 that DEF had to pay were necessary and prudently incurred, and are considered an
17 incremental capital cost per the Rule. The remaining \$45,041,761 of the \$78,530,721
18 was capitalized since this amount represents the normal cost of what the rebuild
19 would have been under non-expedited conditions. In summary, of the total
20 \$126,004,434 of restoration, pole replacement, access road, and rebuild costs for the
21 PX Line, \$92,515,474 was capitalized and \$33,488,960 was incremental.¹⁰

22

¹⁰ OPC Witness Schultz calculated that \$34,445,227 was charged as incremental, when, in fact, only \$33,488,960 was incremental, a difference of \$956,267.

1 Finally, I disagree that following the ICCA methodology contained in the
2 Commission's Rule constitutes a violation of GAAP, as Witness Schultz asserts on
3 page 29. The PX Line costs were calculated in accordance with GAAP, and then the
4 incremental adjustment was made in accordance with the Commission's Rule.
5 Therefore the \$33,488,960 of PX Line rebuild cost is incremental and should be
6 recovered.

7

8 **Q. Witness Schultz provides a list of recommendations on pages 67 and 68 of his**
9 **testimony; for clarity could you please provide a response to his itemized**
10 **contentions?**

11 A. Yes. As explained above:

12 • "A reduction (and refund) of \$4,000 to Duke's request for payroll for cost
13 identified as non-incremental." *DEF agrees with this adjustment.* "A
14 reduction (and refund) of \$450,000 to Duke's request for labor
15 burden/incentives cost recovery being reclassified as capitalized dollars."
16 *DEF disagrees with this adjustment because it is based on Witness Schultz's*
17 *failure to recognize the Amendment to the Agreement. When the Amendment*
18 *is taken into consideration, and with the understanding that the labor burdens*
19 *were accounted for, though not broken out, it becomes clear no adjustment is*
20 *necessary.*

21 • "An increase (or refund offset) of \$715,000 for overhead costs recovery
22 because the filing reflects more costs capitalized than existed." *DEF*
23 *disagrees with this adjustment; the costs existed but were charged directly to*

1 *the storm project rather than to overhead as discussed herein. The costs were*
2 *properly capitalized per the ICCA methodology and no refund offset is*
3 *warranted.*

- 4 • “A reduction to contractor costs (and refund) of \$1,929,118 for duplicated
5 costs and Carolina costs improperly charged to storm restoration.” *DEF*
6 *disagrees with this refund; as discussed, DEF’s request was reduced by \$1.7*
7 *million as part of the May supplemental filing, and the additional \$181k over-*
8 *payment was appropriately applied against other outstanding invoices from*
9 *the contractor.*
- 10 • “A reduction to line contractor costs (and refund) of \$6,105,055 for an
11 excessive amount of mobilization/demobilization time.” *Mr. Cutliffe*
12 *responds to this contention in his rebuttal testimony at pages 3-5.*
- 13 • “A reduction of \$2,588,535 (\$2,566,339 + \$22,196) to Duke’s request related
14 to capitalization of distribution line contractor costs.” *DEF disagrees with*
15 *this tis reduction. As discussed herein, DEF capitalized costs pursuant to the*
16 *Agreement, as Amended, and the ICCA methodology, which Witness Schultz*
17 *fails to recognize.*
- 18 • “A reduction (and refund) of \$430,524 to Duke’s request for line clearing cost
19 recovery.” *Mr. Cutliffe addresses Witness Schultz’s contentions regarding*
20 *mobilization costs throughout his rebuttal testimony.*
- 21 • “A reduction (and refund) of \$6,559,641 to Duke’s request for unsupported
22 distribution logistics and other contractor costs.” *DEF disagrees with this*
23 *adjustment. Although the supporting documentation for the referenced*

1 *invoices was admittedly left out of DEF's original production of documents, it*
2 *has been now provided.*

- 3 • “A reduction of \$65,387 to Duke’s request for transmission line contractor
4 costs that were duplicated.” *This amount was refunded March 31, 2019, and*
5 *was not included in the May 19, 2020, filing.*
- 6 • “A reduction of \$4,220,553 to Duke’s request for unsupported transmission
7 logistics and other contractor costs.” *DEF disagrees with this adjustment; as*
8 *indicated the documentation was provided along with the logistics invoices,*
9 *but DEF believes Witness Schultz was looking for the support along with*
10 *transmission invoices.*
- 11 • “A reduction (and refund) or \$34,455,227 for Duke’s unsupported
12 classification from transmission capital costs to storm restoration costs.” *DEF*
13 *disagrees with this adjustment. As explained, the purported refund is based*
14 *on Witness Schultz’s flawed understanding of the ICCA methodology,*
15 *specifically his belief that it is improper to capitalize “normal” costs but*
16 *rather that DEF should capitalize the “actual” costs incurred, a position*
17 *previously rejected by this Commission as noted in footnote 8 above.*

18

19 **Q. Does that conclude your testimony?**

20 A. Yes.

1 (Whereupon, prefiled rebuttal testimony of
2 Thomas G. Foster, Docket No. 20190110, was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**IN RE: PETITION FOR LIMITED PROCEEDING FOR RECOVERY OF
INCREMENTAL STORM RESTORATION COSTS RELATED TO HURRICANE
MICHAEL AND TROPICAL STORM ALBERTO BY DUKE ENERGY
FLORIDA, LLC.**

FPSC DOCKET NO. 20190110-EI

REBUTTAL TESTIMONY OF THOMAS G. FOSTER

JULY 31, 2020

1 **I. INTRODUCTION AND QUALIFICATIONS.**

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

3 A. My name is Thomas G. Foster. My business address is Duke Energy Florida, LLC,
4 299 1st Avenue North, St. Petersburg, Florida 33701.

5

6 **Q. Have you previously filed direct testimony in this docket?**

7 A. No.

8

9 **Q. By whom are you employed and what is your position?**

10 A. I am employed by Duke Energy Florida, LLC (“DEF” or the “Company”) as Director
11 of Rates and Regulatory Planning.

12

13 **Q. Please describe your duties and responsibilities in that position.**

14 A. I am responsible for the Company’s regulatory planning and cost recovery, including
15 the Company’s Storm Cost Recovery Filings.

1

2 **Q. Please describe your educational background and professional experience.**

3 **A.** I joined the Company on October 31, 2005 in the Regulatory group. In 2012,
4 following the merger with Duke Energy Corporation , I was promoted to my current
5 position. I have 6 years of experience related to the operation and maintenance of
6 power plants obtained while serving in the United States Navy as a Nuclear Operator.
7 I received a Bachelor of Science degree in Nuclear Engineering Technology from
8 Thomas Edison State College. I received a Master of Business Administration with a
9 focus on finance from the University of South Florida and I am a Certified Public
10 Accountant in the State of Florida.

11

12 **II. PURPOSE AND SUMMARY OF TESTIMONY.**

13 **Q. What is the purpose of your testimony?**

14 **A.** The purpose of my testimony is to provide the Company's rebuttal to inaccurate
15 assertions and incorrect conclusions contained in the direct testimony of OPC
16 Witness Schultz.

17

18 **Q. Are you sponsoring any exhibits to your testimony?**

19 **A.** Yes. I am sponsoring the following exhibit to my testimony:

- 20 • Exhibit No. __ (TGF-1) – Excerpts from OPC's Responses to DEF's First Set of
21 Interrogatories to OPC.

22

23 **Q. Please summarize your testimony.**

1 A. My testimony addresses certain inaccurate or mischaracterized assertions and
2 erroneous conclusions in OPC Witness Schultz’s testimony. I have not attempted to
3 rebut each and every factual error or misconception contained in this testimony, but
4 have rather concentrated on the four topics outlined below. Other points requiring
5 correction and/or clarification are addressed by the rebuttal testimonies of Mr.
6 Cutliffe and Mr. Morris.

7

8 With regard to Witness Schultz’s testimony, I generally focus on four topics:

- 9 • His assertion of selective use of the provisions of the Storm Cost Settlement
10 Agreement (“Agreement”), approved in Order No. PSC-2019-0232-AS-EI, to
11 determine recoverable storm restoration costs;
- 12 • His concern regarding compliance with the Agreement and Rule 25-6.0143,
13 F.A.C.;
- 14 • His concern regarding control over storm restoration costs; and
- 15 • His request for additional filing requirements in storm cost recovery dockets.

16

17 **III. Alleged Selective Use of the Storm Cost Settlement Agreement.**

18 **Q. Do you agree with OPC Witness Schultz’s multiple assertions that DEF used**
19 **selective provisions of the Agreement as a basis for storm cost recovery?**

20 A. No. Before explaining how DEF approached compliance with the Agreement, it is
21 important to remember the timeline: Hurricane Michael made landfall on October 10,

1 2018, and the Agreement was filed on April 9, 2019,¹ and approved on June 13, 2019
2 (the “Implementation Date” of the Agreement). Because the restoration work
3 occurred prior to the Implementation Date of the restoration-related provisions, those
4 provisions obviously could not be followed when performing restoration work.

5
6 DEF has consistently expressed that it adhered to the Incremental Cost Methodology
7 Addendum (“ICMA”) of the Agreement, where possible, after the Implementation
8 Date of the Agreement, and as stated in the Agreement, adhered to the restoration-
9 related provisions, where possible, during the 2019 storm season, and would fully
10 implement the Agreement for 2020. This is explained in DEF Witness Morris’ Direct
11 and Rebuttal Testimonies, the Agreement itself, and DEF’s discovery responses in
12 this docket:

13
14 • **Tom Morris’ November 22, 2019, Direct Testimony, footnote 1**, *“The*
15 *Agreement was entered and approved after Hurricane Michael made landfall*
16 *and the restoration efforts were largely complete. Per the terms of the*
17 *Agreement, its provisions and process modifications became applicable as of*
18 *the date the Commission approved the Agreement, or June 13, 2019.*
19 *Therefore, the Hurricane Michael restoration and rebuild efforts were*
20 *undertaken pursuant to the same policies and procedures that existed prior to*
21 *the Agreement. DEF has endeavored to follow the Agreement’s provisions*

¹ DEF filed a technical correction to the Agreement on April 18, 2019 (correcting a scrivener’s error), and a Motion to Approve an Amended Settlement Agreement on May 15, 2019.

1 *related to accounting work, although this was not always possible due to*
2 *procedures that were in place during the actual restoration work.”*

- 3
- 4 • **Agreement, Page 8, Section 6**, “. . . *the Company will make a good faith*
5 *effort to implement as many of the new processes and procedures reflected*
6 *below for the 2019 hurricane season as possible and will fully implement the*
7 *processes and procedures for the 2020 hurricane season.”*

- 8
- 9 • **DEF’s response to Citizen’s First Set of Interrogatories (Nos. 1-39) served**
10 **August 15, 2019, and November 22, 2019 (Supplemental Response):**
11 *Please note, the Storm Cost Settlement Agreement (“Agreement”) agreed to*
12 *in Docket No. 20170272-EI was entered and approved after Hurricane*
13 *Michael made landfall and the restoration efforts largely complete. Per the*
14 *terms of the Agreement, its provisions and process modifications became*
15 *applicable as of the date the Commission approved the Agreement (i.e., the*
16 *Implementation Date), or June 13, 2019. Therefore, the Hurricane Michael*
17 *restoration and rebuild efforts were undertaken pursuant to the same policies*
18 *and procedures that existed prior to the Agreement. To the extent possible,*
19 *DEF has endeavored to follow the Agreement’s provisions related to post*
20 *restoration work (e.g., capitalization, determining incremental costs, etc.);*
21 *however, as described in DEF’s responses to specific requests, this was not*
22 *possible in all instances.*

23

1 **Q. Does using the Agreement where possible conflict with Rule 25-6.0143, F.A.C.**
2 **(“Rule”)?**

3 A. No. The incremental storm cost methodology contained in the Agreement is
4 consistent with the Rule, and therefore following the provisions of that methodology
5 is by definition consistent with the Rule. In fact, OPC has already conceded as much
6 so it is concerning that Witness Schultz appears to contradict that position now. Per
7 Section II.E. of the Agreement, “The Consumer Parties agree that the [Incremental
8 Cost] methodology explained below is a reasonable approach to identifying
9 incremental storm costs as that concept is used in the rule.” This statement should
10 foreclose OPC from arguing that any calculation done pursuant to the Agreement fails
11 to comply with the Rule.

12

13 **IV. Compliance with the Agreement and Rule 25-6.0143.**

14 **Q. Do you agree with Witness Schultz’s statement on page 40, lines 13-15, “The**
15 **Commission should give Duke a proper incentive to maintain a log of the travel**
16 **time so Duke can determine whether contractors are taking advantage of the**
17 **situation by overbilling for travel time?”**

18 A. No. There is no need for a new Commission incentive regarding travel time. Travel
19 policies are already outlined in the Process Improvements section of the Agreement.
20 DEF should have an opportunity to implement the Process Improvements agreed to in
21 the Agreement before additional processes or procedures are added to the Company’s
22 restoration efforts. I would also note that not only does the Agreement have a
23 specific mechanism for DEF and the Consumer Parties to discuss modifications to the

1 Agreement,² but also that OPC specifically agreed that it would not seek to impose
2 additional processes or procedures related to the Company's storm restoration
3 policies without the Company's agreement.³ For these reasons alone, OPC's
4 argument should be rejected, and Mr. Cutliffe's rebuttal testimony will provide the
5 Company's substantive response regarding the Company's management of travel
6 time.

7

8 **V. Control Over Costs.**

9 **Q. Do you agree with Witness Schultz's assertion on page 5, lines 6-9, that DEF**
10 **does not have enough incentive to monitor its storm costs?**

11 A. No. As with all of the Company's expenditures, storm costs are only recoverable to
12 the extent they are prudently incurred. Storm cost recovery proceedings have
13 historically been very heavily reviewed by various parties, and ultimately DEF can
14 only recover prudent costs. This provides ample incentive for DEF to prudently
15 control its costs. DEF is bound by Agreement and Rule to determine its recoverable
16 storm costs in accordance with the ICCA methodology. The Agreement outlines the
17 Incremental Cost Methodology that DEF must follow to calculate incremental storm
18 costs, which are subject to audit by Commission Staff (as occurred in this docket), an
19 independent outside firm for the first storm response that triggers the threshold in the
20 Agreement, and extensive discovery by intervening parties. In this docket, DEF
21 received a clean financial audit report from the FPSC's Office of Auditing and

² "The Parties will meet to evaluate the procedures and consider the need to amend them during the first quarter of 2022 and every three years thereafter." Agreement, ¶ 6.

³ "No Party to this Storm Cost Settlement Agreement will request, support or seek to impose a change to any provision of this Storm Cost Settlement Agreement without the agreement of the other Parties." Agreement, ¶ 7.

1 Performance Analysis⁴ and process and procedure audit report with no adverse
2 findings.⁵

3

4 Witness Schultz appears to be conflating burden of proof with timing of recovery.
5 For example, he stated in OPC's Response to DEF's First Set of Interrogatories to
6 OPC, number 13:

7 *The SCRM creates a situation where the OPC (or other intervenor) has to*
8 *individually review and determine the propriety of costs, with hundreds if*
9 *not thousands of individual invoices to review, and the burden effectively*
10 *shifts to the party challenging the cost that is already being paid for by*
11 *customers. If an intervenor does not challenge an invoice, it is*
12 *automatically and permanently recovered. Knowledge that this is the*
13 *process that will occur, appears to create a disincentive for the company*
14 *to keep down costs and to manage large cost drivers such as mobilization*
15 *and standby costs.*

16

17 What Witness Schultz fails to explain, and what does not logically follow from his
18 concern, is *why* the timing of the review of costs has any bearing on the Company's
19 burden of proof or the expected level of scrutiny its costs and supporting
20 documentation will receive. Indeed, if his concern was valid, which it is not, the
21 propriety of cost recovery clauses, where costs are recovered as incurred and
22 reviewed for prudence after recovered, would be called into doubt. Moreover,

⁴ See Exhibit No. ___ (SOO-1) to the Direct Testimony of Staff Witness Ojada, filed July 2, 2020.

⁵ See Exhibit No. ___ (CV-1) to the Direct Testimony of Staff Witness Vinson, filed July 2, 2020.

1 Witness Schultz fails to account for the fact that DEF's actual filing and subsequent
2 additional true up show that the process is working exactly as intended: DEF was
3 permitted to begin recovering its estimated costs (a process that is still on-going),
4 subsequently made its actual filing (which resulted in a decrease in the requested
5 recovery), and after additional review, made a later true-up filing that further reduced
6 the requested recovery. Finally, because the Commission always has the final say
7 over what amounts are recovered and can order refunds it deems appropriate (or in
8 this case, a cessation of the use of tax savings to pay for the costs earlier than
9 anticipated), customers remain fully protected from imprudent costs.

10

11 **Q. Do you agree with Witness Schultz's testimony on page 32, lines 13-15, that OPC**
12 **is the only party that routinely performs an in-depth review of storm costs?**

13 A. No. As stated above, DEF is subject to audits by FPSC staff. Also, all intervening
14 parties and Staff have a right to issue discovery on storm recovery costs. In addition,
15 as stated in DEF's response to Citizens' First Set of Interrogatories (No. 3), DEF
16 performed a detailed review of invoices related to Hurricane Michael restoration
17 work.

18

19 **Q. Do you agree with Witness Schultz's testimony on page 10, lines 24-25 that the**
20 **ongoing collection of storm costs that was previously authorized on an interim**
21 **basis is based on the premise that the filing was 100% accurate?**

22 A. No. Paragraph 38c of the 2017 Second Revised and Restated Settlement Agreement
23 ("2017 Settlement"), approved in Order No. PSC-2017-0451-AS-EU, states that "the

1 parties agree that recovery from customers for storm damage costs will begin, subject
2 to Commission approval on an interim basis, 60 days following the filing of a cost
3 recovery petition with the Commission and subject to true-up pursuant to further
4 proceedings before the Commission.” It is the normal process for DEF (and the other
5 Florida utilities with similar Storm Cost Recovery Mechanisms) to file an estimate of
6 the costs and then later come in with a more detailed accounting or “true-up” of the
7 actual costs incurred. This trued-up amount is what the utility ultimately collects
8 from customers and prevents DEF from over or under-collecting from customers.

9
10 Witness Schultz states in OPC’s Response to DEF’s First Set of Interrogatories (No.
11 13), that “the SCRM was not intended to provide any assumption of correctness,
12 reasonableness or prudence to the costs that were estimated for recovery.” As
13 discussed above, DEF agrees that recovery of the costs through the SCRM, subject to
14 true-up, does not alter the burden of proof. That said, this statement clearly
15 contradicts his assertion on page 10, lines 24-25 of his testimony where he states “the
16 ongoing collection that was provisionally authorized on an interim basis only is based
17 on the premise that the filing was 100% accurate.” Here, it appears that OPC is
18 ascribing the “assumption of correctness” – or indeed, 100% accuracy to DEF’s filing
19 of *estimated* costs to begin *interim* recovery. As discussed above, the SCRM process
20 ensures that DEF only recovers prudently incurred storm costs from its customers as
21 determined by the Commission.

22
23 **VI. Additional Filing Requirements.**

1 **Q. Witness Schultz argues that additional supporting cost documentation should be**
2 **provided when a utility seeks to recover storm costs. Do you agree?**

3 A. No. Witness Schultz's argument contradicts Section II.C of the Agreement that
4 states: "*All supporting documentation referenced under II.A will be provided to*
5 *intervenors in response to an agreed standardized discovery request shortly after*
6 *filing of testimony.*" His argument also conflicts with the provision of the Agreement
7 that sets out the process the Parties to the Agreement agreed upon to modify the
8 Agreement, and completely contradicts the provision of the Agreement where each
9 Party agreed that it would not seek to impose any change to the Agreement without
10 the other Parties' agreement. *See* footnotes 2 & 3, above.

11

12 **Q. Do you agree with Witness Schultz's testimony on page 66, lines 6-12, that**
13 **"...the Commission mandate additional filing requirements when a utility seeks**
14 **to recover storm costs. Duke incurred a significant amount of costs that**
15 **included substantial non-productive costs for mobilization and standby time that**
16 **served only to bloat the invoiced cost that its customers are now paying, during**
17 **the time for restoring service to customers after Hurricane Michael. When a**
18 **utility begins recovering storm costs on an interim and unproven basis, the**
19 **supporting cost documentation and testimony should be provided**
20 **simultaneously with the petition seeking cost recovery?"**

21 A. No. For the reasons outlined immediately above and in footnotes 2 and 3, I not only
22 disagree that this documentation should be required to be provided at the time of
23 filing rather than through the discovery process, but because OPC explicitly agreed to

1 this process when it executed the Agreement, OPC should now be barred from
2 making this argument.

3

4 **Q. Assuming that OPC was not barred from making this argument, do you agree**
5 **with Witness Schultz’s testimony on page 66, lines 19-24 where he suggests that**
6 **by providing all supporting documentation and testimony with the petition**
7 **seeking storm cost recovery would eliminate discovery and reduce the risk of**
8 **customer overpayment?**

9 A. Absolutely not. As mentioned previously, the 2017 Settlement, paragraph 38c allows
10 DEF to recover storm damage costs from customers on an interim basis 60 days
11 following the filing of a cost recovery petition with the Commission subject to true-
12 up pursuant to further proceedings. This allows DEF to file a good faith estimate of
13 its preliminary storm costs in order to begin recovering costs it incurred to restore
14 service to customers. DEF subsequently files its actual storm costs along with
15 testimony and supporting exhibits which are subject to discovery and review by
16 Commission Staff and intervening parties. This procedure ensures that DEF only
17 recovers its prudently incurred costs and the timing of when the supporting
18 documentation is provided is irrelevant. Moreover, filing testimony and fully
19 supported documentation with the initial petition (which is based on estimated costs)
20 would only serve to *increase* discovery and result in duplication of effort for all
21 parties because it would result in supplemental discovery requests and responses to
22 update the information when actual costs are known, including the easily foreseeable
23 requests for “variance explanations” between the estimated costs and supporting

1 documents and the actuals when produced. Even if not prohibited by the Agreement,
2 this proposal should not be implemented as it would simply reduce administrative
3 efficiency with no benefit to customers.

4

5 **V. Conclusion.**

6 **Q. Mr. Foster, have you responded to every contention regarding the company's**
7 **proposed plan Storm Cost Recovery request in your rebuttal?**

8 A. No. I addressed the major points within my field of expertise that I felt required
9 rebuttal; my decision not to refute each individual characterization of fact or opinion
10 in Witness Schultz' testimony should not be understood as agreement with those
11 points. Moreover, Witnesses Cutliffe and Morris have concurrently filed rebuttal
12 testimony directed at multiple other mischaracterizations and misconceptions
13 contained in that testimony.

14

15 **Q. Does that conclude your testimony?**

16 A. Yes.

1 (Transcript continues in sequence in Volume
2 2.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, DEBRA KRICK, Court Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 13th day of May, 2021.



DEBRA R. KRICK
NOTARY PUBLIC
COMMISSION #HH31926
EXPIRES AUGUST 13, 2024