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1 APPEARANCES:

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4 Juno Beach, Florida 33408, appearing on behalf of
5 Florida Power & Light Company (FPL).

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19 Service Commission.

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

2 (Transcript continues in sequence from Volume
3 1.)

4 CHAIRMAN FAY: All right. Good afternoon,
5 everyone. We are back.

6 We will start with Gulf and FPL's next
7 witness, Mr. Hughes, I believe.

8 MS. COTNER: This is a procedural matter. I
9 didn't request that FPL witness Clare Gerard be
10 excused.

11 CHAIRMAN FAY: Sure. We can note that
12 excused. Is she gone already?

13 MS. COTNER: No, not yet.

14 CHAIRMAN FAY: Okay. Yeah.

15 MS. COTNER: Thank you very much.

16 CHAIRMAN FAY: Yep. Great. All right. Next
17 witness, Mr. Hughes.

18 Whereupon,

19 DAVID HUGHES

20 was called as a witness, having been previously duly
21 sworn to speak the truth, the whole truth, and nothing
22 but the truth, was examined and testified as follows:

23 EXAMINATION

24 BY MS. COTNER:

25 Q All right. Mr. Hughes, were you present when

1 the witnesses were sworn in?

2 A Yes, I was.

3 Q Will you please state your full name and
4 business address for the record?

5 A David Hughes, 700 Universe Boulevard, Juno
6 Beach, Florida, 33408.

7 Q By whom are you employed and in what capacity?

8 A I am employed by Florida Power & Light, and I
9 am the Assistant Controller.

10 Q At the time of the hurricanes in 2020, were
11 you -- what was your title? How were you employed?

12 A I was the Assistant Controller during the 2020
13 storms.

14 Q Okay. Have you prepared and caused to be
15 filed 18 pages of direct prefiled testimony related to
16 Hurricane Sally, 21 pages of prefiled testimony related
17 to Hurricane Isaias and Tropical Storm Eta, and 17 pages
18 of prefiled testimony related to Hurricane Zeta in this
19 proceeding?

20 A Yes.

21 Q Do you have any changes or revisions to your
22 direct prefiled testimony?

23 A No, I do not.

24 Q If asked the same questions contained in your
25 direct prefiled testimony, would the answers be the

1 **same?**

2 A Yes, they would.

3 MS. COTNER: Chairman, I would like
4 Mr. Hughes' direct prefiled testimony be inserted
5 into the record as read.

6 CHAIRMAN FAY: Show that inserted.

7 (Whereupon, prefiled direct testimony of David
8 Hughes was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

GULF POWER COMPANY

DIRECT TESTIMONY OF DAVID HUGHES

DOCKET NO. 20200241-EI

NOVEMBER 12, 2021

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I. INTRODUCTION

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Q. Please state your name and business address.

A. My name is David Hughes, and my business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. By whom are you employed and what is your position?

A. I am employed by Florida Power & Light Company (“FPL” or the “Company”) as Assistant Controller.

Q. Please describe your duties and responsibilities in that position.

A. I am responsible for financial accounting, as well as internal and external reporting, for FPL and Gulf Power Company (“Gulf Power”). As a part of these responsibilities, I ensure that the financial reporting for these entities complies with the requirements of Generally Accepted Accounting Principles (“GAAP”) and multi-jurisdictional regulatory accounting requirements. In addition, I manage the accounting of FPL and Gulf Power’s cost recovery clauses, and the preparation and filing of FPL’s monthly earnings surveillance report with the Florida Public Service Commission (“FPSC” or “Commission”).

Q. Please describe your educational background and professional experience.

A. I graduated from the Pennsylvania State University in 1997 with Bachelor of Science Degrees in Business Logistics and Health Policy Administration, and earned a Bachelor of Business Administration in Accounting from Florida Atlantic University in 2001. From 2002 to 2008, I was employed as an independent auditor by Ernst & Young in their West Palm Beach, Florida office. I joined FPL in 2008 and have worked in

1 various accounting and reporting roles throughout my 13-year tenure with the
2 Company. I am a Certified Public Accountant licensed in the State of Florida.

3 **Q. Are you sponsoring any exhibits in this case?**

4 A. Yes. I am sponsoring Exhibit DH-1(Sally) – Hurricane Sally Incremental Cost and
5 Capitalization Approach Adjustments, which provides the restoration costs for
6 Hurricane Sally as of October 31, 2021.

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

8 A. The purpose of my testimony is to support the calculation of the Hurricane Sally
9 recoverable amount Gulf is seeking for cost recovery in this proceeding and the
10 accounting treatment for those costs. In addition, I demonstrate that Gulf’s storm
11 restoration and accounting processes and controls are well established, documented,
12 and implemented by Company personnel who are trained to ensure proper storm
13 accounting and ratemaking. Specifically, my testimony will show that:

- 14 1. Gulf has effective and appropriate controls and accounting procedures for
15 storm events;
- 16 2. Gulf’s accounting for Hurricane Sally was in accordance with the
17 Incremental Cost and Capitalization Approach (“ICCA”) methodology
18 required under Rule 25-6.0143, Florida Administrative Code (“the Rule”);
19 and
- 20 3. Gulf’s calculation of the proposed recovery amount is in accordance with
21 the provision of Gulf’s 2017 Stipulation and Settlement Agreement
22 approved by the Commission in Order No. PSC-17-0178-S-EI (“2017
23 Stipulation and Settlement Agreement”).

1 **Q. Please summarize your testimony.**

2 A. Gulf's control processes and procedures were employed for Hurricane Sally storm costs
3 to ensure proper storm accounting and ratemaking. Finance or Accounting
4 representatives ("Finance Section Chiefs") and business unit finance representatives
5 ("Business Unit Coordinators"), together with additional Gulf employees, ensured
6 active, real-time financial controls during the storm event. Post storm restoration, the
7 Accounting department reviewed the storm loss estimates compiled by each functional
8 business unit for reasonableness prior to recording to the financial statements. Through
9 the application of Gulf's well-established accounting processes and controls, the
10 Company ensured proper accounting of all Hurricane Sally costs. The final storm
11 recoverable amount of \$146.3 million includes \$186.8 million of retail recoverable
12 incremental costs plus interest on the unrecovered deficit in the storm reserve of \$311
13 thousand for Hurricane Sally, reduced by the storm replenishment of Gulf's storm
14 reserve through the Hurricane Michael storm charge of \$40.8 million as described later
15 in my testimony. The costs have been calculated in accordance with the ICCA
16 methodology based on the version of the Rule that was in effect at the time of the storm
17 event; therefore, the incremental amounts reflected on Exhibit DH-1(Sally) are
18 appropriately recoverable from customers.

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II. STORM ACCOUNTING PROCESS AND CONTROLS

1
2
3 **Q. Please describe the accounting guidance and process that Gulf uses for storm**
4 **costs.**

5 A. Gulf's storm accounting process adheres to Accounting Standards Codification 450,
6 Contingencies ("ASC 450"), which prescribes that an estimated loss from a loss
7 contingency is recognized only if the available information indicates that (1) it is
8 probable an asset has been impaired or a liability has been incurred at the reporting
9 date, and (2) the amount of the loss can be reasonably estimated. Gulf incurs a liability
10 for a qualifying event, such as a hurricane, because it has an obligation to customers to
11 restore power and repair damage to its system. Therefore, once a hurricane event has
12 transpired, Gulf assesses the estimated cost to restore the system to pre-event conditions
13 and accrues that liability in full when the amount can be reasonably estimated under
14 ASC 450. Gulf's storm accounting process is well established and consistently applied.
15 The Company's storm accounting process was applied for the Hurricane Sally storm
16 restoration costs.

17 **Q. How does Gulf track storm restoration costs?**

18 A. Gulf establishes unique functional (i.e., distribution, transmission, etc.) internal orders
19 ("IOs") for each storm to aggregate the total amount of storm restoration costs incurred
20 for financial reporting and regulatory recovery or reporting purposes. The Company
21 uses these IOs to account for *all* costs directly associated with restoration, including
22 costs that would not be recoverable from Gulf's storm reserve based on the
23 Commission's requirements under the ICCA methodology. All storm restoration costs

1 charged to storm IOs are captured in FERC Account 186, Miscellaneous Deferred
2 Debits. All costs charged to FERC Account 186 are subsequently cleared and charged
3 to either the storm reserve, base O&M expense, capital, or below-the-line expense, as
4 applicable.

5 **Q. When did Gulf begin charging costs related to Hurricane Sally to the storm IOs?**

6 A. Due to the expected risk of significant outages and substantial infrastructure damages,
7 Gulf began making financial commitments associated with securing resources prior to
8 Hurricane Sally's anticipated impact. On September 14, 2020, in accordance with
9 Gulf's Storm Accounting Policy and with authorization from Gulf's President, Gulf
10 established and activated storm IOs to begin tracking and charging costs for Hurricane
11 Sally. An email communication was sent to all Gulf business units to inform them that
12 storm IOs had been activated for purposes of collecting and tracking storm restoration
13 charges. Attached to the email, Gulf also provided: (1) a listing of IOs by function and
14 location, (2) guidance on recording time for payroll, and (3) guidance on the types of
15 costs eligible to be charged to the storm IOs. The pre-landfall costs charged to the
16 storm IOs included the acquisition of external resources (e.g., line and vegetation
17 contractors), mobilization and pre-staging of internal and external resources, opening
18 of staging and processing sites, reserving lodging, and securing Gulf's existing
19 operational facilities in preparation for the impacts of the storm.

20 **Q. What operational internal controls are in place during a restoration event to**
21 **ensure storm accounting procedures are followed?**

22 A. Finance and Accounting employees are key to storm restoration accounting and
23 controls. The Gulf Command Center organization recognizes the critical role and

1 responsibilities of these employees. Finance Section Chiefs are assigned to each
2 staging and processing site to ensure active, real-time financial controls are in effect
3 and adhered to during the restoration event. Responsibilities of the Finance Section
4 Chief include ensuring procedural compliance with internal cost controls, providing
5 guidance and oversight to ensure prudent spending, collecting and analyzing data in
6 real-time, such as contractor timesheets, and assisting with the proper accounting of
7 mutual aid resources. Human Resources employees also are embedded at many sites
8 and perform internal control support tasks such as providing guidance on the proper
9 information to include on employee timesheets.

10

11 In addition, Business Unit Coordinators perform a storm controllership function for
12 their respective business units. The responsibilities of the Business Unit Coordinator
13 include communicating the storm IO instructions to the personnel directly supporting
14 storm restoration, ensuring that appropriate costs are charged to the storm IOs, and
15 preparing cost estimates before, during, and after the restoration is complete.

16

17 Gulf performs extensive training each year in advance of storm season for both the
18 Finance Section Chiefs and Business Unit Coordinators, which includes live training
19 and drills during Gulf's "dry run" storm event. Costs associated with the annual
20 training are not considered storm restoration costs and not included in the costs
21 presented in this docket.

22

1 **Q. Did Gulf utilize these processes in advance of and during its response to Hurricane**
2 **Sally?**

3 A. Yes. These controls were used to effectively ensure that storm accounting processes
4 were followed.

5 **Q. Does Gulf's Accounting department complete a review of storm restoration costs**
6 **recorded by each business unit once restoration is complete?**

7 A. Yes. Post storm restoration, the Accounting Department reviews the storm loss
8 estimates compiled by each functional business unit for reasonableness prior to
9 recording to the financial statements. Accounting will then charge these costs to either
10 the storm reserve, base O&M expense, capital, or below-the-line expense, as
11 applicable, to ensure proper ratemaking and recording to the financial statements.

12 **Q. Was this process followed post-Hurricane Sally restoration?**

13 A. Yes.

14

15 **III. ACCOUNTING TREATMENT FOR HURRICANE SALLY**

16

17 **Q. How did Gulf account for storm restoration costs?**

18 A. As described previously, Gulf utilizes unique storm IOs for each function and location
19 to record and track all storm restoration activities for each event, which are
20 accumulated in FERC Account 186. All costs charged to FERC Account 186 are
21 subsequently cleared and charged to either the storm reserve, base O&M expense,
22 capital, or below-the-line expense, as applicable.

23

1 The amount of capital costs for each storm event are determined and removed by
2 applying part (1)(d) of the Rule, which states that "...the normal cost for the removal,
3 retirement and replacement of those facilities in the absence of a storm" should be the
4 basis for calculating storm restoration capital. While Gulf was not required to
5 implement provisions of the Commission-approved Hurricane Michael Settlement
6 Agreement¹ until the 2021 hurricane season, Gulf voluntarily chose to follow the
7 incremental cost methodology of capitalized costs agreed to by the parties to the FPL
8 Hurricane Irma Stipulation and Settlement² and used a combined simple average of
9 hourly internal Company and embedded contractor rates that are the type normally
10 incurred in the absence of a storm to determine the amount of costs to capitalize to
11 plant, property, and equipment along with the materials and other costs. The capital
12 cost amount is credited from FERC Account 186 and debited to FERC Account 107,
13 Construction Work in Progress ("CWIP"). Gulf also reclassifies non-recoverable
14 amounts to below-the-line expense, if such costs were incurred.

15
16 When the storm restoration costs are charged to the storm reserve, the ICCA
17 methodology is used to remove the non-incremental O&M expenses, which are
18 subsequently credited from FERC Account 186 and debited to base O&M.

19
20 After the capital costs, non-recoverable costs, and non-incremental O&M expenses are
21 removed from FERC Account 186, the remaining balance, representing incremental
22 storm charges, is jurisdictionalized by using retail separation factors that were

¹ Order No. PSC-2020-0349-S-EI issued October 8, 2020 in Docket No. 20190038-EI.

² Order No. PSC-2019-0319-S-EI issued August 1, 2019 in Docket No. 20180049-EI.

1 authorized by the 2017 Stipulation and Settlement Agreement, and credited from FERC
2 Account 186 and debited to the storm reserve. The non-retail incremental storm
3 charges are also credited from FERC Account 186 and charged to expense, leaving a
4 zero balance in FERC Account 186.

5 **Q. What categories of storm restoration costs did Gulf charge to FERC Account 186**
6 **for Hurricane Sally?**

7 A. As reflected on page 1 of Exhibit DH-1(Sally), Gulf charged \$227.5 million in storm
8 restoration costs related to Hurricane Sally to FERC Account 186. The categories of
9 costs outlined below are reflected on Lines 1-10 of Exhibit DH-1(Sally):

- 10 • **Gulf Regular Payroll and Related Costs:** Reflects \$2.1 million of regular
11 payroll and related payroll overheads for Gulf employee time spent in direct
12 support of storm restoration. This amount excludes bonuses and incentive
13 compensation.
- 14 • **Gulf Overtime Payroll and Related Costs:** Reflects \$3.2 million of overtime
15 payroll and payroll tax overheads for Gulf employee time spent in direct support
16 of storm restoration.
- 17 • **Contractor and Line Clearing Costs:** Reflects \$152.8 million of costs
18 primarily related to mutual aid utilities, line contractors, and vegetation
19 contractors, including mobilization and de-mobilization costs.
- 20 • **Vehicle and Fuel:** Reflects \$3.2 million for vehicle utilization and fuel used
21 by Gulf and contractor vehicles for storm restoration activities.
- 22 • **Materials and Supplies:** Reflects \$10.4 million in materials and supplies used
23 to repair and restore service and facilities to pre-storm condition.

1 • **Logistics Costs:** Reflects \$42.6 million of costs for staging and processing
2 sites, meals, lodging, buses and transportation, and rental equipment used by
3 employees and contractors in direct support of storm restoration.

4 • **Other:** Reflects \$13.3 million of other miscellaneous costs, including payroll
5 and related overheads from affiliate personnel directly supporting storm
6 restoration.

7 **Q. How did Gulf determine the amount of capital costs it recorded on its books and**
8 **records for Hurricane Sally?**

9 A. Consistent with the process described earlier in my testimony, Gulf determined the
10 amount of capital costs for each storm event is determined by applying part (1)(d) of
11 the Rule, which states that "...the normal cost for the removal, retirement and
12 replacement of those facilities in the absence of a storm" should be the basis for
13 calculating storm restoration capital. As described previously, all costs related to storm
14 restoration work (including follow-up work) were initially charged to FERC Account
15 186, and estimated capital costs were then reclassified to FERC Account 107, CWIP.

16
17 For capital costs incurred during storm restoration, Gulf employed a capital estimation
18 process derived from the amount of materials and supplies issued during a storm less
19 returns of such assets. Consistent with FPL's Hurricane Irma Stipulation and
20 Settlement Agreement, Gulf used a blended simple average internal employee and
21 contractor hourly rate, under non-storm conditions, in its calculation of capital costs for
22 Hurricane Sally. Once restoration was complete, Gulf utilized its distribution
23 estimation system to calculate the total amount of capital costs for the distribution

1 function in accordance with Gulf's capitalization policy, which includes materials,
2 labor, and overheads. The capital costs for follow-up work were determined based on
3 an estimate of the actual work performed and then likewise recorded to the balance
4 sheet in accordance with Gulf's capitalization policy.

5
6 After the capital jobs were completed, the CWIP account was credited and the
7 appropriate functional plant account in FERC Account 101, Plant in Service, was
8 debited based on the estimated cost of installed units of property. Retirements of fixed
9 assets removed during restoration were recorded when the new incurred capital costs
10 were placed in service through a new discrete IO. As shown on Line 18 on page 1 of
11 Exhibit DH-1(Sally), a total of \$21.2 million was recorded as capital costs for
12 Hurricane Sally.

13 **Q. Did Gulf record any below-the-line expenses for Hurricane Sally?**

14 A. No.

15 **Q. Did Gulf receive, or does it expect to receive, any insurance recoveries associated**
16 **with storm damage resulting from Hurricane Sally?**

17 A. Yes. The Company has a policy of insurance that provides coverage for corporate
18 offices and power plants and adjacent facilities, which includes a \$25 million
19 deductible.³ Gulf filed a property insurance claim for damages to Plant Crist and the
20 adjacent transmission switchyard caused by Hurricane Sally because the loss exceeded
21 the \$25 million deductible amount for insured assets. Gulf allocated the estimated

³ The applicable insurance policy provides coverage for the power plant (i.e., Plant Crist), together with transmission and distribution lines and other associated equipment situated on or within 1,000 feet of the power plant.

1 insurance deductible and expected proceeds proportionately to all covered assets. The
2 Company's total claim amounted to \$47.3 million before applying the \$25 million
3 deductible. The expected proceeds of \$22.3 million were credited as follows: 1) \$16.1
4 million to FERC Account 186; 2) \$6.1 million to the appropriate functional plant
5 accounts in FERC Account 101, Plant in Service; and 3) \$128 thousand was charged
6 to base O&M related to non-incremental costs. The insurance proceeds were received
7 by Gulf Power in early November.

8 **Q. Did Gulf bill any third parties for reimbursement of storm-related costs other**
9 **than insurance recoveries for Hurricane Sally related to Plant Crist and the**
10 **adjacent transmission substation?**

11 A. No.

12 **Q. What was the total amount of Hurricane Sally storm restoration costs charged to**
13 **the storm reserve?**

14 A. As reflected on Line 53, page 1 of Exhibit DH-1(Sally), the amount of Hurricane Sally
15 storm restoration costs charged to the storm reserve totaled \$186.8 million. This
16 amount represents \$227.5 million of incurred Hurricane Sally storm restoration costs
17 less \$2.3 million of non-incremental costs, \$16.1 million in insurance receivables, and
18 \$21.2 million of capital costs, resulting in total incremental costs of \$188.0 million.
19 Once jurisdictional factors are applied to the respective functional level, the total
20 amount of storm costs eligible for recovery from retail customers associated with
21 Hurricane Sally is \$186.8 million ("Retail Recoverable Costs").

22

1 **Q. Has Gulf included the replenishment of its storm reserve balance in the proposed**
2 **Hurricane Sally storm charge in this proceeding?**

3 A. No. Even though the pre-storm reserve balance was in a deficit position following
4 Gulf's 2018 Hurricane Michael event, Gulf has not included replenishment of the storm
5 reserve as part of the Hurricane Sally storm charge. However, as reflected on Exhibit
6 DH-1(Sally), Gulf has reduced the amount of Retail Recoverable Costs for Hurricane
7 Sally by \$40.8 million which is the amount that Gulf will collect under the current
8 Hurricane Michael storm charge to replenish the storm reserve approved by the
9 Commission in Order No. PSC-2020-0349-S-EI.

10 **Q. Has Gulf provided supporting documentation for Hurricane Sally expenses?**

11 A. Yes. While Gulf is not required to implement provisions of the Commission-approved
12 Hurricane Michael Settlement Agreement until the 2021 hurricane season, Gulf
13 voluntarily chose to provide sortable spreadsheets of line and vegetation contractor
14 costs concurrently with the filing of its petition and direct testimony consistent with the
15 processes implemented as part of paragraph 16 of FPL's Hurricane Irma Settlement
16 Agreement. The sortable spreadsheets of line and vegetation contractor costs represent
17 the majority of costs incurred for the storm and support the total costs incurred by cost
18 category for Hurricane Sally on Exhibit DH-1(Sally).

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1 **IV. ICCA ADJUSTMENTS RELATED TO HURRICANE SALLY**

2

3 **Q. Did Gulf determine the amount of non-incremental storm costs associated with**
4 **Hurricane Sally pursuant to the ICCA methodology?**

5 A. Yes. Consistent with the Rule in effect at the time of the storm event, as reflected on
6 Lines 28 through 38 of Exhibit DH-1(Sally), Gulf calculated the non-incremental costs
7 per the ICCA methodology. Below is a summary of Hurricane Sally non-incremental
8 costs that were charged to base O&M.

- 9 • **Gulf Regular Payroll:** In general, Gulf regular payroll costs recovered through
10 base O&M are non-incremental. However, Gulf regular payroll normally
11 recovered through capital or cost recovery clauses can be charged to the storm
12 reserve based on paragraphs 21 and 22 of Order No. PSC-2006-0464-FOF-EI,
13 Docket No. 20060038-EI: “otherwise, the costs would effectively be disallowed
14 because there is no provision to recover those costs in base rate operation and
15 maintenance costs....”.

16

17 Gulf determines the amount of non-incremental Gulf payroll by calculating the
18 Company’s budgeted base O&M payroll percentage as compared to total budgeted
19 payroll for the month in which the storm occurred, including cost recovery clauses
20 and capital by cost center, and then multiplies that percent by the total actual
21 payroll costs incurred (excluding overtime) for Gulf employees directly supporting
22 storm restoration. The total amount of Gulf regular payroll and related overheads
23 that would be non-incremental under the ICCA methodology for Hurricane Sally

1 is \$1.1 million. The remaining regular payroll and related overhead expense is
2 considered incremental as it would have been incurred as a component of capital
3 or cost recovery clauses absent the Hurricane Sally storm restoration efforts.

- 4 • **Vegetation Contractors:** Based on part (1)(f)(8) of the Rule in effect at the time
5 of the storm event, storm-related tree trimming expenses must be excluded if the
6 Company's total tree trimming expense in a storm restoration month is less than
7 the average expense for the same month in which the storm occurred in the prior
8 three years. The tree trimming expenses for the prior three-year September and
9 October averages exceeded the tree trimming expenses for September and October
10 2020, the months in which Hurricane Sally restoration work was performed, by
11 \$692 thousand. Based on this methodology, of the total \$26.2 million in storm-
12 related tree trimming expenses, \$692 thousand would be deemed non-incremental,
13 all of which was related to the distribution function.
- 14 • **Vehicle Utilization:** All Gulf-owned vehicle utilization costs charged to storm
15 IOs, totaling \$100 thousand, would be considered non-incremental under the
16 ICCA methodology.
- 17 • **Fuel:** Fuel costs incurred by Gulf directly related to storm restoration are charged
18 to the storm IOs. While the ICCA methodology under the Rule in effect at the
19 time of the storm event does not speak directly to recovery of fuel costs, Gulf has
20 conservatively applied the same methodology described above for vegetation
21 contractors. The fuel expenses for the prior three-year September average
22 exceeded the fuel expenses during September 2020, the month in which Hurricane
23 Sally restoration work was performed, by \$66 thousand. Based on this

1 methodology, Gulf determined \$66 thousand would be non-incremental, all of
2 which is reflected in the distribution function.

- 3 • **Employee Assistance:** Assistance provided to employees, is not recoverable
4 under the ICCA methodology. These costs for Hurricane Sally, totaling \$278
5 thousand, would be considered non-incremental.

6 **Q. Is Gulf seeking recovery of the Retail Recoverable Incremental Costs calculated**
7 **under the ICCA methodology?**

8 A. Yes. The Retail Recoverable Incremental Costs under the ICCA methodology are a
9 subset of the total Hurricane Sally storm restoration costs that Gulf recorded to the
10 storm reserve. As reflected on Line 59 of Exhibit DH-1(Sally), the total Retail
11 Recoverable Storm Amount Gulf is requesting is \$146.3 million. This amount
12 represents Retail Recoverable Costs of \$186.8 million less \$40.8 million related to the
13 expected replenishment of the storm reserve under Gulf's Hurricane Michael storm
14 charge plus interest on the unrecovered deficit in the storm reserve of \$311 thousand.

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

16 A. Yes.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF DAVID HUGHES

NOVEMBER 12, 2021

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I. INTRODUCTION

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Q. Please state your name and business address.

A. My name is David Hughes, and my business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. By whom are you employed and what is your position?

A. I am employed by Florida Power & Light Company (“FPL” or the “Company”) as Assistant Controller.

Q. Please describe your duties and responsibilities in that position.

A. I am responsible for financial accounting, as well as internal and external reporting, for FPL and Gulf Power Company (“Gulf Power”). As a part of these responsibilities, I ensure that the financial reporting for these entities complies with the requirements of Generally Accepted Accounting Principles (“GAAP”) and multi-jurisdictional regulatory accounting requirements. In addition, I manage the accounting of FPL and Gulf Power’s cost recovery clauses, and the preparation and filing of FPL’s monthly earnings surveillance report with the Florida Public Service Commission (“FPSC” or “Commission”).

Q. Please describe your educational background and professional experience.

A. I graduated from the Pennsylvania State University in 1997 with Bachelor of Science Degrees in Business Logistics and Health Policy Administration, and earned a Bachelor of Business Administration in Accounting from Florida Atlantic University in 2001. From 2002 to 2008, I was employed as an independent auditor by Ernst & Young in their West Palm Beach, Florida office. I joined FPL in 2008 and have worked in

1 various accounting and reporting roles throughout my 13-year tenure with the
2 Company. I am a Certified Public Accountant licensed in the State of Florida.

3 **Q. Are you sponsoring any exhibits in this case?**

4 A. Yes. I am sponsoring Exhibits DH-1(Isaias) – Hurricane Isaias Incremental Cost and
5 Capitalization Approach Adjustments; and DH-2(Eta) – Tropical Storm Eta
6 Incremental Cost and Capitalization Approach Adjustments, which provide the
7 restoration costs for Hurricane Isaias and Tropical Storm Eta as of July 31, 2021. All
8 costs for both storms have been finalized.

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

10 A. The purpose of my testimony is to present the amount of Hurricane Isaias and Tropical
11 Storm Eta storm restoration costs incurred by FPL and the accounting treatment for
12 those costs. In addition, I demonstrate that FPL’s storm restoration and accounting
13 processes and controls are well established, documented, and implemented by
14 Company personnel who are trained to ensure proper storm accounting and ratemaking.
15 I discuss how the Company addressed certain provisions of FPL’s Hurricane Irma
16 Stipulation and Settlement Agreement approved by the Commission in Order No. PSC-
17 2019-0319-S-EI, Docket No. 20180049-EI (the “Hurricane Irma Settlement
18 Agreement”) including supporting documentation for storm expenses. I also explain
19 that FPL used a combined simple average of hourly internal Company and embedded
20 contractor rates to determine the amount of costs to capitalize, as described in
21 paragraph 20 of the Hurricane Irma Settlement Agreement. Finally, I discuss FPL’s
22 election not to seek recovery of the incremental Hurricane Isaias or Tropical Storm Eta
23 storm-related costs through either a surcharge or depletion of Federal Energy

1 Regulatory Commission (“FERC”) Account No. 228.1, Accumulated Provision for
2 Property Insurance (the “storm reserve”) and to instead charge the incremental storm-
3 related costs as base operations and maintenance (“O&M”) expense, which is
4 authorized by Rule 25-6.0143(1)(h), Use of Accumulated Provision Accounts 228.1,
5 228.2 and 228.4, Florida Administrative Code (“F.A.C.”) (“the Rule”).

6 **Q. Please summarize your testimony.**

7 A. FPL’s long-standing control processes and procedures were employed for Hurricane
8 Isaias and Tropical Storm Eta storm costs to ensure proper storm accounting and
9 ratemaking. Finance or Accounting representatives (“Finance Section Chiefs”) and
10 business unit finance representatives (“Business Unit Coordinators”), together with
11 additional FPL employees, ensured active, real-time financial controls during the storm
12 events. Post storm restoration, the Accounting department reviewed the storm loss
13 estimates compiled by each functional business unit for reasonableness prior to
14 recording to the financial statements. Additionally, FPL’s accounting of Hurricane
15 Isaias and Tropical Storm Eta costs complies with the applicable provisions of the
16 Hurricane Irma Settlement Agreement. Through the application of FPL’s well-
17 established accounting processes and controls, the Company ensured proper accounting
18 of all Hurricane Isaias and Tropical Storm Eta costs.

19

20 After removing related capital costs, the remaining amount of storm restoration costs
21 for Hurricane Isaias and Tropical Storm Eta was \$68.5 million and \$115.5 million,
22 respectively. FPL decided to forego the option of seeking recovery of any incremental

1 storm costs through a surcharge or depletion of the storm reserve for both storms, and
2 instead recognized all non-capital storm costs as base O&M expense.

3

4 In addition, even though FPL is not seeking recovery of the storm restoration costs for
5 Hurricane Isaias and Tropical Storm Eta, FPL has calculated the amount of incremental
6 storm costs for each storm in accordance with the Commission's Incremental Cost and
7 Capitalization Approach ("ICCA") methodology based on the version of the Rule in
8 effect at the time of the storm event. These calculations are reflected on Exhibits DH-
9 1(Isaias) and DH-2(Eta).

10

11 II. STORM ACCOUNTING PROCESS AND CONTROLS

12

13 **Q. Please describe the accounting guidance and process that FPL uses for storm**
14 **costs.**

15 A. FPL's storm accounting process adheres to Accounting Standards Codification 450,
16 Contingencies ("ASC 450"), which prescribes that an estimated loss from a loss
17 contingency is recognized only if the available information indicates that (1) it is
18 probable an asset has been impaired or a liability has been incurred at the reporting
19 date, and (2) the amount of the loss can be reasonably estimated. FPL incurs a liability
20 for a qualifying event, such as a hurricane or tropical storm, because it has an obligation
21 to customers to restore power and repair damage to its system. Therefore, once a
22 hurricane or tropical storm event has transpired, FPL assesses the estimated cost to
23 restore the system to pre-event conditions and accrues that liability in full when the

1 amount can be reasonably estimated under ASC 450. FPL's storm accounting process
2 is well established and consistently applied. The Company's storm accounting process
3 was applied for the Hurricane Isaias and Tropical Storm Eta storm restoration costs.

4 **Q. How does FPL track storm restoration costs?**

5 A. FPL establishes unique functional (i.e., distribution, transmission, etc.) internal orders
6 ("IOs") for each storm to aggregate the total amount of storm restoration costs incurred
7 for financial reporting and regulatory recovery or reporting purposes. The Company
8 uses these IOs to account for *all* costs directly associated with restoration, including
9 costs that would not be recoverable from FPL's storm reserve based on the
10 Commission's requirements under the ICCA methodology. All storm restoration costs
11 charged to storm IOs are captured in FERC Account 186, Miscellaneous Deferred
12 Debits. All costs charged to FERC Account 186 are subsequently cleared and charged
13 to either the storm reserve, base O&M expense, capital, or below-the-line expense, as
14 applicable.

15 **Q. When did FPL begin charging costs related to Hurricane Isaias and Tropical**
16 **Storm Eta to the storm IOs?**

17 A. Due to the expected risk of significant outages and substantial infrastructure damages,
18 FPL began making financial commitments associated with securing resources prior to
19 Hurricane Isaias's and Tropical Storm Eta's anticipated impacts. In accordance with
20 FPL's Storm Accounting Policy and with authorization from FPL's President and CEO,
21 FPL established and activated storm IOs to begin tracking and charging costs for
22 Hurricane Isaias and Tropical Storm Eta on July 30, 2020 and November 6, 2020,
23 respectively. An email communication was sent to all FPL business units to inform

1 them that storm IOs had been activated for purposes of collecting and tracking storm
2 restoration charges. Attached to the email, FPL also provided: (1) a listing of IOs by
3 function and location, (2) guidance on recording time for payroll, and (3) guidance on
4 the types of costs eligible to be charged to storm IOs. The pre-landfall costs charged
5 to the storm IOs included the acquisition of external resources (e.g., line and vegetation
6 contractors), mobilization and pre-staging of internal and external resources, opening
7 of staging and processing sites, reserving lodging, and securing FPL's existing
8 operational facilities in preparation for the impacts of the storm.

9 **Q. What operational internal controls are in place during a restoration event to**
10 **ensure storm accounting procedures are followed?**

11 A. Finance and Accounting employees are key to storm restoration accounting and
12 controls. The FPL Command Center organization recognizes the critical role and
13 responsibilities of these employees. Finance Section Chiefs are assigned to each
14 staging and processing site to ensure active, real-time financial controls are in effect
15 and adhered to during the restoration event. Responsibilities of the Finance Section
16 Chief include ensuring procedural compliance with internal cost controls, providing
17 guidance and oversight to ensure prudent spending, collecting and analyzing data in
18 real-time, such as contractor timesheets, and assisting with the proper accounting of
19 mutual aid resources. Representatives from FPL's Human Resources Department also
20 are embedded at many sites and perform internal control support tasks such as
21 providing guidance on the proper information to include on employee timesheets.

22

1 In addition, Business Unit Coordinators perform a storm controllership function for
2 their respective business units. The responsibilities of the Business Unit Coordinator
3 include communicating the storm IO instructions to the personnel directly supporting
4 storm restoration, ensuring that appropriate costs are charged to the storm IOs, and
5 preparing cost estimates before, during, and after the restoration is complete.

6

7 FPL performs extensive training each year in advance of storm season for both the
8 Finance Section Chiefs and Business Unit Coordinators, which includes live training
9 and drills during FPL's "dry run" storm event. Costs associated with the annual
10 training are not considered storm restoration costs and not included in the costs
11 presented in this docket.

12 **Q. Did FPL utilize these processes in advance of and during its responses to**
13 **Hurricane Isaias and Tropical Storm Eta?**

14 A. Yes. These controls were used to effectively ensure that storm accounting processes
15 were followed.

16 **Q. Does FPL's Accounting Department complete a review of storm restoration costs**
17 **recorded by each business unit once restoration is complete?**

18 A. Yes. Post storm restoration, the Accounting Department reviews the storm loss
19 estimates compiled by each functional business unit for each storm for reasonableness
20 prior to recording to the financial statements. Accounting will then charge these costs
21 to either the storm reserve, base O&M expense, capital, or below-the-line expense, as
22 applicable, to ensure proper ratemaking and recording to the financial statements.

1 **Q. Was this process followed post Hurricane Isaias and Tropical Storm Eta storm**
2 **restorations?**

3 A. Yes, the Accounting Department followed this process after the restorations related to
4 both Hurricane Isaias and Tropical Storm Eta.

5

6 **III. HURRICANE IRMA SETTLEMENT AGREEMENT PROVISIONS**

7

8 **Q. Please discuss the accounting-related provisions included in the Hurricane Irma**
9 **Settlement Agreement that were incorporated into the review of Hurricane Isaias**
10 **and Tropical Storm Eta costs.**

11 A. The pre-filed direct testimony of FPL witness Gerard describes in detail the processes
12 followed in the receipt, review, approval or adjustment of line and vegetation contractor
13 invoices related to both storms. I will address FPL's compliance with the following
14 accounting requirements under the Hurricane Irma Settlement Agreement:

- 15 • FPL's obligation to provide supporting expense documentation including a
16 summary of expenses showing total expenses incurred by specified cost
17 categories (Paragraph 16);
- 18 • FPL's obligation to provide searchable and sortable data for each storm
19 exported from FPL's iStormed App (Paragraph 16);
- 20 • The requirement that "FPL will engage an independent outside audit firm to
21 conduct an audit of the Company's filed recoverable storm costs of the first
22 named tropical system named by the National Hurricane Center for which
23 claimed damages exceed \$250 million" (Paragraph 18); and

- 1 • The requirement that “FPL will use a combined simple average of hourly
2 internal Company and embedded contractor rates that are the type normally
3 incurred in the absence of a storm to determine amounts to capitalize to plant,
4 property, and equipment along with the materials and other cost of equipment”
5 (Paragraph 20).

6 **Q. Has FPL provided the supporting files for Hurricane Isaias and Tropical Storm**
7 **Eta expenses described in paragraph 16 of the Hurricane Irma Settlement**
8 **Agreement?**

9 A. Yes. In accordance with Paragraph 16 of the Hurricane Irma Settlement Agreement,
10 FPL is providing sortable spreadsheets of line and vegetation contractor costs
11 concurrently with the filing of its petition and direct testimony. The sortable
12 spreadsheets of line and vegetation contractor costs represent the majority of costs
13 incurred in each of the storms and support the total costs incurred by cost category for
14 Hurricane Isaias and Tropical Storm Eta on Exhibit DH-1(Isaias) and DH-2(Eta),
15 respectively.

16 **Q. Did FPL use the iStormed App during restoration for Hurricane Isaias and**
17 **Tropical Storm Eta events?**

18 A. Yes. FPL utilized the iStormed App during restoration for Hurricane Isaias and
19 Tropical Storm Eta which, as discussed by FPL witness Gerard, formed the basis of the
20 contract specific “flat files” attached to the petition filed in this docket.

21

22

1 **Q. Did either the actual Hurricane Isaias storm costs or the Tropical Storm Eta storm**
2 **costs exceed the \$250 million threshold that would trigger the paragraph 18 Initial**
3 **Independent Audit provision?**

4 A. No. As reflected on Exhibits DH-1(Isaias) and DH-2(Eta), neither the Hurricane Isaias
5 storm costs nor the Tropical Storm Eta storm costs exceeded \$250 million.

6 **Q. Paragraph 20 of the Hurricane Irma Settlement Agreement provides a specific**
7 **methodology for the capitalization of costs. Did FPL calculate capital costs**
8 **pursuant to this methodology?**

9 A. Yes. In capitalizing Hurricane Isaias and Tropical Storm Eta costs incurred as a result
10 of the restoration immediately following each storm, FPL used a combined simple
11 average of hourly internal Company and embedded contractor rates that are the type
12 normally incurred in the absence of a storm to determine the amount of costs to
13 capitalize to plant, property, and equipment along with the materials and other costs.

14

15 **IV. ACCOUNTING TREATMENT FOR HURRICANE ISAIAS**
16 **AND TROPICAL STORM ETA**

17

18 **Q. How does FPL typically account for storm restoration costs?**

19 A. As described previously, FPL utilizes unique storm IOs for each function and location
20 to record and track all storm restoration activities for each event, which are
21 accumulated in FERC Account 186. All costs charged to FERC Account 186 are
22 subsequently cleared and charged to either the storm reserve, base O&M expense,
23 capital, or below-the-line expense, as applicable.

1 The amount of capital costs for each storm event are determined and removed by
2 applying part (1)(d) of the Rule, which states that "...the normal cost for the removal,
3 retirement and replacement of those facilities in the absence of a storm" should be the
4 basis for calculating storm restoration capital. As described above, per paragraph 20
5 of the Hurricane Irma Settlement Agreement, the hourly rate utilized to calculate capital
6 costs is the "combined simple average of hourly internal Company and embedded
7 contractor rates that are the type normally incurred in the absence of a storm." The
8 capital cost amount is credited from FERC Account 186 and debited to FERC Account
9 107, Construction Work in Progress ("CWIP"). FPL also reclassifies non-recoverable
10 amounts to below-the-line expense, if such costs were incurred.

11
12 When the storm restoration costs are charged to the storm reserve, the ICCA
13 methodology is used to remove the non-incremental O&M expenses, which are
14 subsequently credited from FERC Account 186 and debited to base O&M.

15
16 After the capital costs, non-recoverable costs, and non-incremental O&M expenses are
17 removed from FERC Account 186, the remaining balance, representing incremental
18 storm charges, is jurisdictionalized by using retail separation factors authorized by the
19 2016 Stipulation and Settlement Agreement approved by the Commission in Order No.
20 PSC-16-0560-AS-EI ("2016 Stipulation and Settlement Agreement"), and credited
21 from FERC Account 186 and debited to the storm reserve. The remaining non-retail
22 component of the incremental storm charges is credited from FERC Account 186 and
23 debited to base O&M expense, leaving a zero balance in FERC Account 186.

1 **Q. How did FPL account for Hurricane Isaias and Tropical Storm Eta storm**
2 **restoration costs?**

3 A. FPL accounted for all of the Hurricane Isaias and Tropical Storm Eta storm restoration
4 costs in FERC Account 186. FPL then determined the amount of capital accumulated
5 in FERC Account 186 and removed those costs from FERC Account 186 and recorded
6 them to the appropriate FERC accounts. In December 2020, FPL decided to forego the
7 option of seeking recovery of incremental storm restoration costs for Hurricane Isaias
8 and Tropical Storm Eta through a storm surcharge or depletion of the storm reserve, as
9 permitted under the 2016 Stipulation and Settlement Agreement and Rule 25-
10 6.0143(1)(h), F.A.C., respectively, and instead elected to record the incremental
11 Hurricane Isaias and Tropical Storm Eta storm restoration costs to base O&M expense.
12 This accounting treatment avoided a storm surcharge for recovery of incremental
13 Hurricane Isaias and Tropical Storm Eta storm restoration costs and replenishment of
14 the storm reserve.

15 **Q. What categories of storm restoration costs did FPL charge to FERC Account 186**
16 **for Hurricane Isaias and Tropical Storm Eta?**

17 A. As reflected on page 1 of Exhibits DH-1(Isaias) and DH-2(Eta), FPL charged \$68.5
18 million and \$115.9 million in storm restoration costs related to Hurricane Isaias and
19 Tropical Storm Eta, respectively, to FERC Account 186. The categories of costs
20 outlined below are reflected on Lines 1-10 on Exhibits DH-1(Isaias) and DH-2(Eta):

- 21 • **FPL Regular Payroll and Related Costs:** Reflects \$0.7 million and \$2.3
22 million for Hurricane Isaias and Tropical Storm Eta, respectively, of regular
23 payroll and related payroll overheads for FPL employee time spent in direct

1 support of storm restoration. This amount excludes bonuses and incentive
2 compensation.

3 • **FPL Overtime Payroll and Related Costs:** Reflects \$4.7 million and \$8.8
4 million for Hurricane Isaias and Tropical Storm Eta, respectively, of overtime
5 payroll and payroll tax overheads for FPL employee time spent in direct support
6 of storm restoration.

7 • **Contractor and Line Clearing Costs:** Reflects \$49.2 million and \$88.7
8 million for Hurricane Isaias and Tropical Storm Eta, respectively, of costs
9 primarily related to mutual aid utilities, line contractors, and vegetation
10 contractors, including mobilization and de-mobilization costs.

11 • **Vehicle and Fuel:** Reflects \$2.8 million and \$4.7 million for Hurricane Isaias
12 and Tropical Storm Eta, respectively, for vehicle utilization and fuel used by
13 FPL and contractor vehicles for storm restoration activities.

14 • **Materials and Supplies:** Reflects \$42 thousand and \$0.5 million for Hurricane
15 Isaias and Tropical Storm Eta, respectively, in materials and supplies used to
16 repair and restore service and facilities to pre-storm condition.

17 • **Logistics Costs:** Reflects \$9.4 million and \$9.1 million for Hurricane Isaias
18 and Tropical Storm Eta, respectively, of costs for staging and processing sites,
19 meals, lodging, buses and transportation, and rental equipment used by
20 employees and contractors in direct support of storm restoration.

21 • **Other:** Reflects \$1.7 million and \$1.8 million for Hurricane Isaias and Tropical
22 Storm Eta, respectively, of other miscellaneous costs, including payroll and
23 related overheads from affiliate personnel directly supporting storm restoration.

1 **Q. How did FPL determine the amount of capital costs it recorded on its books and**
2 **records for Hurricane Isaias and Tropical Storm Eta?**

3 A. The amount of capital costs for each storm event is determined by applying part (1)(d)
4 of the Rule, which states that "...the normal cost for the removal, retirement and
5 replacement of those facilities in the absence of a storm" should be the basis for
6 calculating storm restoration capital. As described previously, all costs related to storm
7 restoration work (including follow-up work) were initially charged to FERC Account
8 186, and estimated capital costs were then reclassified to FERC Account 107, CWIP.

9

10 For capital costs incurred during storm restoration, FPL employed a capital estimation
11 process derived from the amount of materials and supplies issued during each storm
12 less returns of such assets. As described in paragraph 20 of the Hurricane Irma
13 Settlement Agreement, FPL used a blended simple average internal employee and
14 contractor hourly rate, under non-storm conditions, in its calculation of capital costs for
15 Hurricane Isaias and Tropical Storm Eta. Once restoration was complete, FPL utilized
16 its distribution estimation system to calculate the total amount of capital costs for the
17 distribution function in accordance with FPL's capitalization policy, which includes
18 materials, labor, and overheads. The capital costs for follow-up work were determined
19 based on an estimate of the actual work performed and then likewise recorded to the
20 balance sheet in accordance with FPL's capitalization policy.

21

22 After the capital jobs were completed, the CWIP account was credited and the
23 appropriate functional plant account in FERC Account 101, Plant in Service, was

1 debited based on the estimated cost of installed units of property. Retirements of fixed
2 assets removed during restoration were recorded when the new incurred capital costs
3 were placed in service through a new discrete IO. As shown on Line 17 on page 1 of
4 Exhibits DH-1(Isaias) and DH-2(Eta), a total of \$3 thousand and \$439 thousand for
5 Hurricane Isaias and Tropical Storm Eta, respectively, was recorded as capital costs.

6 **Q. Did FPL record any below-the-line expenses for Hurricane Isaias or Tropical**
7 **Storm Eta?**

8 A. No.

9 **Q. Did FPL receive, or does it expect to receive, any insurance recoveries associated**
10 **with storm damage resulting from Hurricane Isaias or Tropical Storm Eta?**

11 A. No. FPL does not have insurance for its transmission or distribution (“T&D”) assets.
12 In addition, FPL could not make a property insurance claim for damages to its non-
13 T&D assets as a result of Hurricane Isaias and Tropical Storm Eta because the loss did
14 not exceed the deductible amount for insured assets.

15 **Q. Did FPL bill any third parties for reimbursement of storm-related costs for**
16 **Hurricane Isaias or Tropical Storm Eta?**

17 A. No.

18 **Q. What was the total amount of Hurricane Isaias and Tropical Storm Eta storm**
19 **restoration costs charged to base O&M expense?**

20 A. As reflected on Line 19 on page 1 of Exhibits DH-1(Isaias) and DH-2(Eta), after
21 removing any related capital, the total amount of Hurricane Isaias and Tropical Storm
22 Eta storm restoration costs charged to base O&M expense was \$68.5 million and
23 \$115.5 million, respectively. As explained above, FPL is not seeking to establish a

1 surcharge for the recovery of any incremental Hurricane Isaias and Tropical Storm Eta
2 costs or replenishment of the storm reserve in this proceeding.

3

4 **V. ICCA ADJUSTMENTS RELATED TO HURRICANE ISAIAS AND**
5 **TROPICAL STORM ETA**

6

7 **Q. Did FPL determine the amount of non-incremental storm costs associated with**
8 **Hurricane Isaias and Tropical Storm Eta pursuant to the ICCA methodology?**

9 A. Yes. Although FPL is not seeking recovery of any incremental storm costs associated
10 with either Hurricane Isaias or Tropical Storm Eta, FPL has calculated the non-
11 incremental costs per the ICCA methodology for both storms consistent with the Rule
12 in effect at the time of the storm events. The non-incremental costs for Hurricane Isaias
13 and Tropical Storm Eta are reflected on Lines 21 through 31 of Exhibits DH-1(Isaias)
14 and DH-2(Eta), respectively. Below is a summary of the Hurricane Isaias and Tropical
15 Storm Eta non-incremental costs that were charged to base O&M.

16 • **FPL Regular Payroll:** In general, FPL regular payroll costs recovered through
17 base O&M are non-incremental. However, FPL regular payroll normally
18 recovered through capital or cost recovery clauses can be charged to the storm
19 reserve based on paragraphs 21 and 22 of Order No. PSC-2006-0464-FOF-EI,
20 Docket No. 20060038-EI: “otherwise, the costs would effectively be disallowed
21 because there is no provision to recover those costs in base rate operation and
22 maintenance costs....”

23

1 FPL determines the amount of non-incremental FPL payroll by calculating the
2 Company's budgeted base O&M payroll percentage as compared to total budgeted
3 payroll for the month in which the storm occurred, including cost recovery clauses
4 and capital by cost center, and then multiplies that percent by the total actual
5 payroll costs incurred (excluding overtime) for FPL employees directly supporting
6 storm restoration. The total amount of FPL regular payroll and related overheads
7 that would be non-incremental under the ICCA methodology for Hurricane Isaias
8 and Tropical Storm Eta is \$0.4 million and \$0.8 million, respectively. The
9 remaining regular payroll and related overhead expense is considered incremental
10 as it would have been incurred as a component of capital or cost recovery clauses
11 absent the Hurricane Isaias and Tropical Storm Eta storm restoration efforts.

- 12 • **Vegetation Contractors:** Based on part (1)(f)(8) of the Rule in effect at the time
13 of the storm event, storm-related tree trimming expenses must be excluded if the
14 Company's total tree trimming expense in a storm restoration month is less than
15 the average expense for the same month in which the storm occurred in the prior
16 three years. The tree trimming expenses for the prior three-year August average
17 exceeded the tree trimming expenses during August 2020, the month in which
18 Hurricane Isaias restoration work was performed, by \$1.1 million. Based on this
19 methodology, of the total \$12.8 million in storm-related tree-trimming expenses,
20 \$1.1 million would be deemed non-incremental, all of which was related to the
21 distribution function. There were no incremental vegetation costs for Tropical
22 Storm Eta.

- 1 • **Vehicle Utilization:** All FPL-owned vehicle utilization costs charged to storm
2 IOs, totaling \$337 thousand and \$1.1 million for Hurricane Isaias and Tropical
3 Storm Eta, respectively, would be considered non-incremental under the ICCA
4 methodology.
- 5 • **Fuel:** Fuel costs incurred by FPL directly related to storm restoration are charged
6 to the storm IOs. While the ICCA methodology under the Rule in effect at the
7 time of the storm event does not speak directly to recovery of fuel costs, FPL has
8 conservatively applied the same methodology described above for vegetation
9 contractors. Fuel expenses for the prior three-year August (Hurricane Isaias) and
10 November (Tropical Storm Eta) average exceeded the fuel expenses in August
11 2020 (Hurricane Isaias) and November 2020 (Tropical Storm Eta), the months in
12 which Hurricane Isaias and Tropical Storm Eta restoration work was performed.
13 FPL determined \$107 thousand and \$196 thousand for Hurricane Isaias and
14 Tropical Storm Eta, respectively, would be non-incremental under this
15 methodology, all of which is reflected in the distribution function.
- 16 • **Employee Assistance:** Assistance provided to employees, is not recoverable
17 under the ICCA methodology. These costs for Hurricane Isaias and Tropical
18 Storm Eta, totaling \$14 thousand and \$37 thousand, respectively, would be
19 considered non-incremental.
- 20
- 21
- 22
- 23

1 **Q. Is FPL seeking recovery of any incremental storm costs for either Hurricane**
2 **Isaias or Tropical Storm Eta?**

3 A. No. FPL is not seeking recovery for any incremental storm costs through either a
4 surcharge or depletion of the storm reserve for either Hurricane Isaias or Tropical Storm
5 Eta, but is presenting the storm costs for each storm for review by the Commission.

6 **Q. Does this conclude your direct testimony?**

7 A. Yes.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

GULF POWER COMPANY

DIRECT TESTIMONY OF DAVID HUGHES

NOVEMBER 12, 2021

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Q. Please state your name and business address.

A. My name is David Hughes, and my business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. By whom are you employed and what is your position?

A. I am employed by Florida Power & Light Company (“FPL” or the “Company”) as Assistant Controller.

Q. Please describe your duties and responsibilities in that position.

A. I am responsible for financial accounting, as well as internal and external reporting, for FPL and Gulf Power Company (“Gulf Power”). As a part of these responsibilities, I ensure that the financial reporting for these entities complies with the requirements of Generally Accepted Accounting Principles (“GAAP”) and multi-jurisdictional regulatory accounting requirements. In addition, I manage the accounting of FPL and Gulf Power’s cost recovery clauses, and the preparation and filing of FPL’s monthly earnings surveillance report with the Florida Public Service Commission (“FPSC” or “Commission”).

Q. Please describe your educational background and professional experience.

A. I graduated from the Pennsylvania State University in 1997 with Bachelor of Science Degrees in Business Logistics and Health Policy Administration, and earned a Bachelor of Business Administration in Accounting from Florida Atlantic University in 2001. From 2002 to 2008, I was employed as an independent auditor by Ernst & Young in their West Palm Beach, Florida office. I joined FPL in 2008 and have worked in

1 various accounting and reporting roles throughout my 13-year tenure with the
2 Company. I am a Certified Public Accountant licensed in the State of Florida.

3 **Q. Are you sponsoring any exhibits in this case?**

4 A. Yes. I am sponsoring Exhibit DH-1(Zeta) – Hurricane Zeta Incremental Cost and
5 Capitalization Approach Adjustments, which provides the restoration costs for
6 Hurricane Zeta as of October 31, 2021.

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

8 A. The purpose of my testimony is to support the calculation of the Hurricane Zeta
9 recoverable amount Gulf is seeking for cost recovery in this proceeding and the
10 accounting treatment for those costs. In addition, I demonstrate that Gulf’s storm
11 restoration and accounting processes and controls are well established, documented,
12 and implemented by Company personnel who are trained to ensure proper storm
13 accounting and ratemaking. Specifically, my testimony will show that:

- 14 1. Gulf has effective and appropriate controls and accounting procedures for
15 storm events;
- 16 2. Gulf’s accounting for Hurricane Zeta was in accordance with the
17 Incremental Cost and Capitalization Approach (“ICCA”) methodology
18 required under Rule 25-6.0143, Florida Administrative Code (“the Rule”);
19 and
- 20 3. Gulf’s calculation of the proposed recovery amount is in accordance with
21 the provision of Gulf’s 2017 Stipulation and Settlement Agreement
22 approved by the Commission in Order No. PSC-17-0178-S-EI (“2017
23 Stipulation and Settlement Agreement”).

1 **Q. Please summarize your testimony.**

2 A. Gulf's control processes and procedures were employed for Hurricane Zeta storm costs
3 to ensure proper storm accounting and ratemaking. Finance or Accounting
4 representatives ("Finance Section Chiefs") and business unit finance representatives
5 ("Business Unit Coordinators"), together with additional Gulf employees, ensured
6 active, real-time financial controls during the storm event. Post storm restoration, the
7 Accounting department reviewed the storm loss estimates compiled by each functional
8 business unit for reasonableness prior to recording to the financial statements. Through
9 the application of Gulf's well-established accounting processes and controls, the
10 Company ensured proper accounting of all Hurricane Zeta costs. The final storm
11 recoverable amount of \$10.1 million has been calculated in accordance with the ICCA
12 methodology based on the version of the Rule that was in effect at the time of the storm
13 event; therefore, the incremental amounts reflected on Exhibit DH-1(Zeta) are
14 appropriately recoverable from customers.

15

16 **II. STORM ACCOUNTING PROCESS AND CONTROLS**

17

18 **Q. Please describe the accounting guidance and process that Gulf uses for storm**
19 **costs.**

20 A. Gulf's storm accounting process adheres to Accounting Standards Codification 450,
21 Contingencies ("ASC 450"), which prescribes that an estimated loss from a loss
22 contingency is recognized only if the available information indicates that (1) it is
23 probable an asset has been impaired or a liability has been incurred at the reporting

1 date, and (2) the amount of the loss can be reasonably estimated. Gulf incurs a liability
2 for a qualifying event, such as a hurricane, because it has an obligation to customers to
3 restore power and repair damage to its system. Therefore, once a hurricane event has
4 transpired, Gulf assesses the estimated cost to restore the system to pre-event conditions
5 and accrues that liability in full when the amount can be reasonably estimated under
6 ASC 450. Gulf's storm accounting process is well established and consistently applied.
7 The Company's storm accounting process was applied for the Hurricane Zeta storm
8 restoration costs.

9 **Q. How does Gulf track storm restoration costs?**

10 A. Gulf establishes unique functional (i.e., distribution, transmission, etc.) internal orders
11 ("IOs") for each storm to aggregate the total amount of storm restoration costs incurred
12 for financial reporting and regulatory recovery or reporting purposes. The Company
13 uses these IOs to account for *all* costs directly associated with restoration, including
14 costs that would not be recoverable from Gulf's storm reserve based on the
15 Commission's requirements under the ICCA methodology. All storm restoration costs
16 charged to storm IOs are captured in FERC Account 186, Miscellaneous Deferred
17 Debits. All costs charged to FERC Account 186 are subsequently cleared and charged
18 to either the storm reserve, base O&M expense, capital, or below-the-line expense, as
19 applicable.

20 **Q. When did Gulf begin charging costs related to Hurricane Zeta to the storm IOs?**

21 A. Due to the expected risk of significant outages and substantial infrastructure damages,
22 Gulf began making financial commitments associated with securing resources prior to
23 Hurricane Zeta's anticipated impact. On October 27, 2020, in accordance with Gulf's

1 Storm Accounting Policy and with authorization from Gulf's President, Gulf
2 established and activated storm IOs to begin tracking and charging costs for Hurricane
3 Zeta. An email communication was sent to all Gulf business units to inform them that
4 storm IOs had been activated for purposes of collecting and tracking storm restoration
5 charges. Attached to the email, Gulf also provided: (1) a listing of IOs by function and
6 location, (2) guidance on recording time for payroll, and (3) guidance on the types of
7 costs eligible to be charged to storm IOs. The pre-landfall costs charged to the storm
8 IOs included the acquisition of external resources (e.g., line and vegetation
9 contractors), mobilization and pre-staging of internal and external resources, opening
10 of staging and processing sites, reserving lodging, and securing Gulf's existing
11 operational facilities in preparation for the impacts of the storm.

12 **Q. What operational internal controls are in place during a restoration event to**
13 **ensure storm accounting procedures are followed?**

14 A. Finance and Accounting employees are key to storm restoration accounting and
15 controls. The Gulf Command Center organization recognizes the critical role and
16 responsibilities of these employees. Finance Section Chiefs are assigned to each
17 staging and processing site to ensure active, real-time financial controls are in effect
18 and adhered to during the restoration event. Responsibilities of the Finance Section
19 Chief include ensuring procedural compliance with internal cost controls, providing
20 guidance and oversight to ensure prudent spending, collecting and analyzing data in
21 real-time, such as contractor timesheets, and assisting with the proper accounting of
22 mutual aid resources. Human Resources employees also are embedded at many sites

1 and perform internal control support tasks such as providing guidance on the proper
2 information to include on employee timesheets.

3

4 In addition, Business Unit Coordinators perform a storm controllership function for
5 their respective business units. The responsibilities of the Business Unit Coordinator
6 include communicating the storm IO instructions to the personnel directly supporting
7 storm restoration, ensuring that appropriate costs are charged to the storm IOs, and
8 preparing cost estimates before, during, and after the restoration is complete.

9

10 Gulf performs extensive training each year in advance of storm season for both the
11 Finance Section Chiefs and Business Unit Coordinators, which includes live training
12 and drills during Gulf's "dry run" storm event. Costs associated with the annual
13 training are not considered storm restoration costs and not included in the costs
14 presented in this docket.

15 **Q. Did Gulf utilize these processes in advance of and during its response to Hurricane**
16 **Zeta?**

17 A. Yes. These controls were used to effectively ensure that storm accounting processes
18 were followed.

19 **Q. Does Gulf's Accounting department complete a review of storm restoration costs**
20 **recorded by each business unit once restoration is complete?**

21 A. Yes. Post storm restoration, the Accounting Department reviews the storm loss
22 estimates compiled by each functional business unit for reasonableness prior to
23 recording to the financial statements. Accounting will then charge these costs to either

1 the storm reserve, base O&M expense, capital, or below-the-line expense, as
2 applicable, to ensure proper ratemaking and recording to the financial statements.

3 **Q. Was this process followed post-Hurricane Zeta restoration?**

4 A. Yes.

5

6 III. ACCOUNTING TREATMENT FOR HURRICANE ZETA

7

8 **Q. How did Gulf account for storm restoration costs?**

9 A. As described previously, Gulf utilizes unique storm IOs for each function and location
10 to record and track all storm restoration activities for each event, which are
11 accumulated in FERC Account 186. All costs charged to FERC Account 186 are
12 subsequently cleared and charged to either the storm reserve, base O&M expense,
13 capital, or below-the-line expense, as applicable.

14

15 The amount of capital costs for each storm event are determined and removed by
16 applying part (1)(d) of the Rule, which states that "...the normal cost for the removal,
17 retirement and replacement of those facilities in the absence of a storm" should be the
18 basis for calculating storm restoration capital. While Gulf was not required to
19 implement provisions of the Commission-approved Hurricane Michael Settlement
20 Agreement¹ until the 2021 hurricane season, Gulf voluntarily chose to follow the
21 incremental cost methodology of capitalized costs agreed to by the parties to the FPL
22 Hurricane Irma Stipulation and Settlement² and used a combined simple average of

¹ Order No. PSC-2020-0349-S-EI issued October 8, 2020 in Docket No. 20190038-EI.

² Order No. PSC-2019-0319-S-EI issued August 1, 2019 in Docket No. 20180049-EI.

1 hourly internal Company and embedded contractor rates that are the type normally
2 incurred in the absence of a storm to determine the amount of costs to capitalize to
3 plant, property, and equipment along with the materials and other costs. The capital
4 cost amount is credited from FERC Account 186 and debited to FERC Account 107,
5 Construction Work in Progress (“CWIP”). Gulf also reclassifies non-recoverable
6 amounts to below-the-line expense, if such costs were incurred.

7

8 When the storm restoration costs are charged to the storm reserve, the ICCA
9 methodology is used to remove the non-incremental O&M expenses, which are
10 subsequently credited from FERC Account 186 and debited to base O&M.

11

12 After the capital costs, non-recoverable costs, and non-incremental O&M expenses are
13 removed from FERC Account 186, the remaining balance, representing incremental
14 storm charges, is jurisdictionalized by using retail separation factors that were
15 authorized by the 2017 Stipulation and Settlement Agreement and credited from FERC
16 Account 186 and debited to the storm reserve. The non-retail incremental storm charges
17 also are credited from FERC Account 186 and charged to expense, leaving a zero
18 balance in FERC Account 186.

19 **Q. What categories of storm restoration costs did Gulf charge to FERC Account 186**
20 **for Hurricane Zeta?**

21 A. As reflected on page 1 of Exhibit DH-1(Zeta), Gulf charged \$11.4 million in storm
22 restoration costs related to Hurricane Zeta to FERC Account 186. The categories of
23 costs outlined below are reflected on Lines 1-10 of Exhibit DH-1(Zeta):

- 1 • **Gulf Regular Payroll and Related Costs:** Reflects \$304 thousand of regular
2 payroll and related payroll overheads for Gulf employee time spent in direct
3 support of storm restoration. This amount excludes bonuses and incentive
4 compensation.
- 5 • **Gulf Overtime Payroll and Related Costs:** Reflects \$339 thousand of
6 overtime payroll and payroll tax overheads for Gulf employee time spent in
7 direct support of storm restoration.
- 8 • **Contractor and Line Clearing Costs:** Reflects \$7.6 million of costs primarily
9 related to mutual aid utilities, line contractors, and vegetation contractors,
10 including mobilization and de-mobilization costs.
- 11 • **Vehicle and Fuel:** Reflects \$331 thousand for vehicle utilization and fuel used
12 by Gulf and contractor vehicles for storm restoration activities.
- 13 • **Materials and Supplies:** Reflects \$179 thousand in materials and supplies
14 used to repair and restore service and facilities to pre-storm condition.
- 15 • **Logistics Costs:** Reflects \$1.4 million of costs for staging and processing sites,
16 meals, lodging, buses and transportation, and rental equipment used by
17 employees and contractors in direct support of storm restoration.
- 18 • **Other:** Reflects \$1.2 million of other miscellaneous costs, including payroll
19 and related overheads from affiliate personnel directly supporting storm
20 restoration.
- 21
- 22

1 **Q. How did Gulf determine the amount of capital costs it recorded on its books and**
2 **records for Hurricane Zeta?**

3 A. Consistent with the process described earlier in my testimony, Gulf determined the
4 amount of capital costs for each storm event by applying part (1)(d) of the Rule, which
5 states that "...the normal cost for the removal, retirement and replacement of those
6 facilities in the absence of a storm" should be the basis for calculating storm restoration
7 capital. As described previously, all costs related to storm restoration work (including
8 follow-up work) were initially charged to FERC Account 186, and estimated capital
9 costs were then reclassified to FERC Account 107, CWIP.

10

11 For capital costs incurred during storm restoration, Gulf employed a capital estimation
12 process derived from the amount of materials and supplies issued during a storm less
13 returns of such assets. Consistent with FPL's Hurricane Irma Stipulation and
14 Settlement Agreement, Gulf used a blended simple average internal employee and
15 contractor hourly rate, under non-storm conditions, in its calculation of capital costs for
16 Hurricane Zeta. Once restoration was complete, Gulf utilized its distribution estimation
17 system to calculate the total amount of capital costs for the distribution function in
18 accordance with Gulf's capitalization policy, which includes materials, labor, and
19 overheads. The capital costs for follow-up work were determined based on an estimate
20 of the actual work performed and then likewise recorded to the balance sheet in
21 accordance with Gulf's capitalization policy.

22

1 After the capital jobs were completed, the CWIP account was credited and the
2 appropriate functional plant account in FERC Account 101, Plant in Service, was
3 debited based on the estimated cost of installed units of property. Retirements of fixed
4 assets removed during restoration were recorded when the new incurred capital costs
5 were placed in service through a new discrete IO. As shown on Line 18 on page 1 of
6 Exhibit DH-1(Zeta), a total of \$292 thousand was recorded as capital costs for
7 Hurricane Zeta.

8 **Q. Did Gulf record any below-the-line expenses for Hurricane Zeta?**

9 A. No.

10 **Q. Did Gulf receive, or does it expect to receive, any insurance recoveries associated**
11 **with storm damage resulting from Hurricane Zeta?**

12 A. No. Gulf could not make a property insurance claim for insured assets as a result of
13 Hurricane Zeta because no loss exceeded the deductible amount for insured assets.

14 **Q. Did Gulf bill any third parties for reimbursement of storm-related costs other**
15 **than insurance recoveries for Hurricane Zeta?**

16 A. No.

17 **Q. What was the total amount of Hurricane Zeta storm restoration costs charged to**
18 **the storm reserve?**

19 A. As reflected on Line 53, page 1 of Exhibit DH-1(Zeta), the amount of Hurricane Zeta
20 storm restoration costs charged to the storm reserve totaled \$10.1 million. This amount
21 represents \$11.4 million of incurred Hurricane Zeta storm restoration costs less \$974
22 thousand of non-incremental costs, and \$292 thousand of capital costs, resulting in total
23 incremental costs of \$10.1 million. Once jurisdictional factors are applied at the

1 functional level, the total amount of storm costs eligible for recovery from retail
2 customers associated with Hurricane Zeta is \$10.1 million (“Retail Recoverable
3 Costs”).

4 **Q. Has Gulf provided supporting documentation for Hurricane Zeta expenses?**

5 A. Yes. While Gulf is not required to implement provisions of the Commission-approved
6 Hurricane Michael Settlement Agreement until the 2021 hurricane season, Gulf
7 voluntarily chose to provide sortable spreadsheets of line and vegetation contractor
8 costs concurrently with the filing of its petition and direct testimony consistent with the
9 processes implemented as part of paragraph 16 of FPL’s Hurricane Irma Settlement
10 Agreement. The sortable spreadsheets of line and vegetation contractor costs represent
11 the majority of costs incurred for the storm and support the total costs incurred by cost
12 category for Hurricane Zeta on Exhibit DH-1(Zeta).

13

14 **IV. ICCA ADJUSTMENTS RELATED TO HURRICANE ZETA**

15

16 **Q. Did Gulf determine the amount of non-incremental storm costs associated with**
17 **Hurricane Zeta pursuant to the ICCA methodology?**

18 A. Yes. Consistent with the Rule in effect at the time of the storm event, Gulf calculated
19 the non-incremental costs per the ICCA methodology as reflected on Lines 28 through
20 38 of Exhibit DH-1(Zeta). Below is a summary of Hurricane Zeta non-incremental
21 costs that were charged to base O&M.

22 • **Gulf Regular Payroll:** In general, Gulf regular payroll costs recovered through
23 base O&M are non-incremental. However, Gulf regular payroll normally

1 recovered through capital or cost recovery clauses can be charged to the storm
2 reserve based on paragraphs 21 and 22 of Order No. PSC-2006-0464-FOF-EI,
3 Docket No. 20060038-EI: “otherwise, the costs would effectively be disallowed
4 because there is no provision to recover those costs in base rate operation and
5 maintenance costs....”

6
7 Gulf determines the amount of non-incremental Gulf payroll by calculating the
8 Company’s budgeted base O&M payroll percentage as compared to total budgeted
9 payroll for the month in which the storm occurred, including cost recovery clauses
10 and capital by cost center, and then multiplies that percent by the total actual
11 payroll costs incurred (excluding overtime) for Gulf employees directly supporting
12 storm restoration. The total amount of Gulf regular payroll and related overheads
13 that would be non-incremental under the ICCA methodology for Hurricane Zeta
14 is \$135 thousand. The remaining regular payroll and related overhead expense is
15 considered incremental as it would have been incurred as a component of capital
16 or cost recovery clauses absent the Hurricane Zeta storm restoration efforts.

- 17 • **Vegetation Contractors:** Based on part (1)(f)(8) of the Rule in effect at the time
18 of the storm event, storm-related tree trimming expenses must be excluded if the
19 Company’s total tree trimming expense in a storm restoration month is less than
20 the average expense for the same month in which the storm occurred in the prior
21 three years. The tree trimming expenses for the prior three-year October average
22 exceeded the tree trimming expenses during October 2020, the month in which
23 Hurricane Zeta restoration work was performed, by \$652 thousand. Based on this

1 methodology, of the total \$1.9 million in storm-related tree-trimming expenses,
2 \$652 thousand would be deemed non-incremental, all of which was related to the
3 distribution function.

4 • **Vehicle Utilization:** All Gulf-owned vehicle utilization costs charged to storm
5 IOs, totaling \$58 thousand, would be considered non-incremental under the ICCA
6 methodology.

7 • **Fuel:** Fuel costs incurred by Gulf directly related to storm restoration are charged
8 to the storm IOs. While the ICCA methodology under the Rule in effect at the
9 time of the storm event does not speak directly to recovery of fuel costs, Gulf has
10 conservatively applied the same methodology described above for vegetation
11 contractors. The fuel expenses for the prior three-year October average exceeded
12 the fuel expenses during October 2020, the month in which Hurricane Zeta
13 restoration work was performed, by \$77 thousand. Based on this methodology,
14 Gulf determined \$77 thousand would be deemed non-incremental, all of which
15 was related to the distribution function.

16 • **Employee Assistance:** Assistance provided to employees, is not recoverable
17 under the ICCA methodology. These costs for Hurricane Zeta, totaling \$53
18 thousand, would be considered non-incremental.

19 **Q. Is Gulf seeking recovery of the Retail Recoverable Incremental Costs calculated**
20 **under the ICCA methodology?**

21 A. Yes. The Retail Recoverable Incremental Costs under the ICCA methodology are a
22 subset of the total Hurricane Zeta storm restoration costs that Gulf recorded to the storm
23 reserve. As reflected on Line 57 of Exhibit DH-1(Zeta), the total Retail Recoverable

1 Storm Amount Gulf is requesting is \$10.1 million.

2 **Q. Does this conclude your direct testimony?**

3 A. Yes.

1 BY MS. COTNER:

2 Q Mr. Hughes, do you have two exhibits that are
3 identified as Exhibits 11 and 12 on staff's
4 comprehensive exhibit list?

5 A Yes.

6 Q And were these prepared under your direct --
7 direction, supervision and control?

8 A Yes.

9 MS. COTNER: Okay. And we will take those up
10 afterwards.

11 BY MS. COTNER:

12 Q Have you prepared a summary of your direct
13 testimony?

14 A Yes, I have.

15 Q Would you please provide that summary now?

16 A Good afternoon, Commissioners. Thank you for
17 the opportunity to speak with you today.

18 My direct testimony presents and supports the
19 accounting treatment for the 2020 storm restoration
20 costs incurred by FPL for Hurricane Isaias, Tropical
21 Storm Eta in Gulf Power for Hurricane Sally and Zeta.

22 I describe FPL and Gulf Power, or the
23 companies' methodology for tracking storm restoration
24 costs and affirm that the incremental costs and
25 capitalization approach or ICCA outlined in Rule

1 25-6.0143 in effect at the time of the 2020 storm events
2 was correctly utilized to identify incremental storm
3 restoration costs.

4 The companies aggregated the total amount of
5 storm restoration costs for each storm event using
6 unique internal orders, which were captured in FERC
7 account 186. Employees assigned to storm restoration
8 were provided clear guidance on the appropriate
9 activities eligible to be charged. In addition, finance
10 section chiefs were assigned to each restoration staging
11 and processing site to ensure active realtime financial
12 controls were in effect and adhered to during each
13 restoration event.

14 Post-storm restoration, the companies
15 performed a review of all storm costs charged to this
16 account, and applied the rule in effect when the storm
17 events took place.

18 As reflected in my renumbered Exhibit DH-3 for
19 Isaias and renumbered DH-4 for Eta, FPL estimated total
20 storm restoration costs of approximately 68.5 million
21 and 115.9 million respectively.

22 As permitted by part (1)(a) to the storm rule,
23 FPL elected to forego seeking incremental recovery of
24 Isaias and Eta restoration costs through a surcharge or
25 depletion of the storm reserve, and instead, recorded

1 all noncapital restoration costs to base O&M expense.
2 As a result of this election, incremental costs
3 identified under the ICCA methodology had no impact on
4 FPL's books and records. Instead, FPL's accounting
5 treatment avoided the need to implement a surcharge to
6 FPL customers.

7 I will now summarize the 2021 storm costs
8 incurred by Gulf Power.

9 As shown on renumbered Exhibit DH-1 for Sally,
10 the total retail recoverable storm amount requested for
11 recovery through a storm surcharge is 146.3 million. As
12 reflected on numbered DH-2 for Zeta, total retail
13 recoverable storm amount Gulf Power is requesting for
14 recovery through a surcharge is 10.1 million.

15 In summary, FPL and Gulf Power have properly
16 accounted for and calculated storm restoration costs for
17 Hurricanes Isaias, Sally, Zeta and Tropical Storm Eta in
18 accordance with the storm rule in effect when these
19 storm events took place.

20 This concludes my summary.

21 **Q Thank you, Mr. Hughes.**

22 **And actually I want to ask one question over**
23 **again. Did you file four exhibits, two for Gulf and two**
24 **for FPL, in your -- with your direct testimony?**

25 **A Yes, I did.**

1 **Q Okay. Thank you.**

2 A Yes.

3 MS. COTNER: With that, I tender the witness
4 for cross-examination.

5 CHAIRMAN FAY: Great, Ms. Christensen, you are
6 recognized.

7 MS. CHRISTENSEN: Yes, I would ask to have the
8 exhibit I provided to staff handed out.

9 MS. NORRIS: I provided it.

10 MS. CHRISTENSEN: Oh, you did? Okay, great.

11 And that's the -- can -- I would request that
12 that be marked for identification.

13 CHAIRMAN FAY: Okay. 67.

14 (Whereupon, Exhibit No. 67 was marked for
15 identification.)

16 MS. CHRISTENSEN: Thank you.

17 CHAIRMAN FAY: I believe, Mr. Shaw, is that --
18 Mr. Shaw, is that correct?

19 MR. STILLER: That's correct, 67.

20 EXAMINATION

21 BY MS. CHRISTENSEN:

22 **Q Good afternoon, Mr. Hughes. You are the**
23 **company witness responsible for summarizing the cost of**
24 **responding to each of the storms and FPL's calculation**
25 **of the incremental cost, is that correct?**

1 A Yes. That's correct.

2 Q And you filed direct testimony in the FPL
3 dockets, is that correct?

4 A That is correct.

5 Q And you also filed rebuttal testimony in both
6 the FPL and Gulf dockets, right?

7 A Yes, I did.

8 Q Okay. And so when you -- so would your
9 answers be the same for all the dockets unless you say
10 it applies to a specific docket?

11 A Yes.

12 Q Okay. The companies are entitled to recover
13 prudently incurred storm costs either through base rates
14 or storm surcharge, but not in both places; is that
15 correct?

16 A Yes. We only recover them once.

17 Q Okay. The reason for limiting recovery to one
18 form -- let me start that question again.

19 The reason for limiting recovery to one form
20 of recovery or the other is to ensure that the same
21 costs are not recovered twice, correct?

22 A That is correct.

23 Q And that would otherwise be known as double
24 recovery, correct?

25 A Yes.

1 Q Okay. And as a matter of principle, you would
2 agree with that, that there should not be double
3 recovery of costs?

4 A Yes, I would.

5 Q Okay. Gulf Power seeks to recover for
6 Hurricanes Sally and Zeta costs through two separate
7 storm surcharges and, in fact, presently has interim
8 storm surcharges in effect for Hurricane Sally, correct?

9 A Correct.

10 Q And FPL seeks a determination that the
11 Hurricane Isaias and Tropical Storm Eta storm costs were
12 prudent, but it charged those costs for the two storms
13 the base O&M expense, correct?

14 A Yes.

15 Q Under this approach, FPL used the excess
16 depreciation reserve account representing the excess
17 amounts recovered from customers in prior years for this
18 purpose, is that correct?

19 A For the purpose of offsetting those storm
20 expenses for the FPL storms, is that your question?

21 Q Yes, that is my question.

22 A Yes.

23 Q Okay. Now, the rule is designed to provide
24 guidance and structure to determine the incremental cost
25 incurred in response to tropical storms and hurricanes

1 to both repair damage to the utility system and to
2 restore service to the utility customers, is that
3 correct?

4 A Yes.

5 Q And you would agree that the rule states
6 specifically that the costs charged to recover storm
7 related damages must be incremental, and sets forth the
8 methodology for that purpose which is as follows, under
9 (1)(d), which says: In determining the cost to be
10 charged to cover storm related damages, the utility
11 shall use an incremental cost and capitalization
12 approach methodology, the ICCA. Under the ICCA
13 methodology, the cost charged to cover storm related
14 damages shall exclude those costs that normally would be
15 charged to non-cost recovery clause operating expenses
16 in the absence of the storm. Is that a fair reading of
17 the rule?

18 A Yes. When you are recovering those costs
19 through the storm reserve or a surcharge, that is
20 correct.

21 Q Okay. Now, the rule was recently modified, is
22 that right?

23 A Yes.

24 Q But the prior 2007 version of the rule applies
25 in this proceeding, correct?

1 A That is correct.

2 Q Okay. And I -- can you take a look at the
3 **Exhibit 67** which I handed out? I think that's at the
4 **front of your desk.** And can you look at that? That's
5 **the 2007 version of the rule that was applicable when**
6 **2020 storm costs were incurred?**

7 A Yes, I believe it is.

8 Q Okay. And there is no disagreement between
9 **the parties to this proceeding as to whether that prior**
10 **2007 rule applies, correct?**

11 A I know that's our understanding on the FPL
12 side, is that this is the rule in place for the 2020
13 storms.

14 Q Okay. And the 2007 version of the rule
15 **includes a list of incremental costs that are**
16 **recoverable as storm costs, and another list of costs**
17 **that are not considered incremental and are not**
18 **recoverable as storm costs, right?**

19 A No, that's -- that's not correct.

20 What those -- what those costs are is it's
21 those that can be recovered through the storm reserve or
22 should not be recovered through the storm reserve. It
23 does not mean that those costs are not recoverable, just
24 simply not through the storm reserve.

25 Q Okay. And -- but you would agree that it

1 contains a list of costs that are recoverable or
2 prohibited from being recovered through the storm
3 accrual account so that there is no double recovery, is
4 that correct?

5 A Those requirements are there to ensure that we
6 understand what is incremental or not incremental for
7 recording through the storm reserve. That is correct.

8 Q Right. And that's to avoid any double
9 recovery either through costs that are already being
10 collected in base rates or -- and so they are not
11 recovered again twice from the storm accrual, is that
12 correct?

13 A I don't know if that ultimately is what this
14 is implying, but I do agree with we should not be
15 recovering costs twice.

16 Q Okay. You would agree that the 2007 version
17 of the rule also provides specific guidance on certain
18 costs, including tree trimming costs, material and
19 supplies, lost revenue and other costs, correct?

20 A Yes.

21 Q And the 2007 version of the rule also
22 prohibits recovery of costs that are capitalized to
23 plant because those costs are being recovered in base
24 rates, correct?

25 A Well, it does -- it does not allow you to

1 recover those costs which would normally be recovered
2 through normal base rates.

3 Q Okay. So in short, the 2007 version of the
4 rule requires that any storm cost eligible for recovery
5 be, one, incremental, and not provide double recovery if
6 they are already recovered in base rates, or some other
7 form of recovery, and are not eligible for
8 capitalization to plant, correct?

9 A I am sorry, would you repeat your question?

10 Q I will repeat the question.

11 So in short, the 2007 version of the rule
12 requires that any storm cost eligible for recovery be,
13 one, incremental and not provide double recovery if they
14 are already recovered in base rates, or some other form
15 of recovery, and not eligible for capitalization to
16 plant, correct?

17 A I am sorry, I am not entirely clear on what
18 you are getting at with the capitalization to plant.
19 But there is within the rule, in Section (1)(d) there is
20 discussion in there on capitalization and how you would
21 determine what is the appropriate amount of storm
22 restoration cost to capitalize. I am just not entirely
23 clear on your specific question related to capital.

24 Q Okay. In essence, no double recovery is
25 allowed, and that's what the rule is allowed to avoid?

1 A No double recovery, yes.

2 Q Okay. And you would agree that OPC and FPL
3 have a disagreement as to whether some of the costs
4 incurred by Gulf and FPL and claimed as storm costs are
5 incremental in accordance with the requirements set
6 forth in the rule?

7 A Yes, that does appear to be the case.

8 Q And that disagreement consists of whether or
9 not some of the costs that are claimed by FPL are
10 incremental regarding regular time -- payroll, overtime
11 payroll, some of the costs to the utility's embedded
12 line contractor crews and vegetation management crews
13 that were redeployed from normal operation to storm
14 activities are incremental to costs recovered through
15 base rates, and if show, are they recoverable for storm
16 costs, as well as whether or not the utility's own
17 materials and supplies that were not used for normal
18 operations, but were used in storm activities, are
19 incremental costs recovered through base rate or
20 non-incremental costs that are being recovered through
21 base rates or otherwise recoverable through storm cost,
22 is that correct?

23 A I certainly did not follow all of that. I
24 apologize. I will say again that it does appear that
25 FPL and OPC have some differences in our opinion on what

1 is incremental.

2 Q Okay. And those -- that disagreement covers
3 regular payroll, overtime payroll, some embedded line
4 contractor crews that work for FPL and vegetation
5 management crews that work for FPL, whether those costs
6 are already being recovered through base rates or should
7 be recovered through storm costs, correct?

8 A Yes, that's sounds correct.

9 Q And then the other issue would be material and
10 supplies, and whether or not those have already been
11 recovered through normal base rates, or should be
12 recovered through storm costs?

13 A That sounds correct. Yes.

14 Q Okay. Under the rule sub (1)(d), you would
15 agree that it says that costs should be incremental,
16 meaning that costs shall be -- shall exclude costs that
17 normally would be charged to the non-cost recovery
18 clause operating expenses in the absence of storms,
19 correct?

20 A Yes. Again, I believe this is part of the
21 rule applies if you are going to be seeking the storm
22 restoration costs through the storm reserve mechanism.

23 Q Or if those storm -- or if those costs would
24 otherwise be recovered through some other revenue
25 stream, correct?

1 A Yes. I believe what this is is the base
2 recoverable component.

3 Q Okay. And that means if the costs normally
4 are recovered in base rates, they don't qualify as
5 recoverable in storms, you agree with that?

6 A I do.

7 Q Okay. Now, you would agree that FPL included
8 regular payroll and related costs and other costs of the
9 utility's own embedded line crews and other employees
10 that were redeployed from normal operations to storm
11 activities as storm costs?

12 A Yes, we did.

13 Q Okay. Looking at the rule, which I provided
14 to you, you -- you would agree that (1(f)(1) states that
15 the types of storm related costs prohibited from being
16 charged to the reserve under the ICCA methodology
17 include but are not limited to the following, base rate
18 recoverable regular payroll and regular payroll related
19 costs for utility managerial and non-managerial
20 personnel; is that a correct statement of the rule?

21 A Yes, it is. But that is not what FPL is
22 requesting for recovery as part of this. It's not the
23 base recoverable component. It's the components that
24 relate to both capital and to cost recovery clause that
25 are in the regular payroll.

1 Q Okay. And that's one of the areas, though,
2 that we have a disagreement on, correct?

3 A Yes, it is.

4 Q And isn't it correct that FPL included also
5 overtime payroll and related cost of the utility's own
6 embedded line crews and other employees that were
7 redeployed from normal operations to storm activities as
8 storm cost?

9 A Yes, we did. Again, these are not recovered
10 in our base rates.

11 Q And FPL also included costs of embedded
12 contract labor used in normal operations in the absence
13 of a storm and recovered in base rates that were
14 redeployed to storm activities as incremental storm
15 costs, correct?

16 A I am sorry, you said contractor costs?

17 Q Contract costs that would otherwise be
18 included in base rates that, under normal conditions,
19 work on FPL construction activities but were redeployed
20 to storm activities, those costs were requested to be
21 recovered in storm costs, is that correct?

22 A They were. And the reason is because we do
23 not have anything in our base rates specific to
24 contractor or overtime costs specific to named storm
25 events, so it is incremental to the storm.

1 Q Okay. You would agree that the 2000 version
2 of the rule in (1)(e)(1) states the types of storm
3 related costs allowed to be charged to the reserve under
4 the ICCA methodology include but are not limited to the
5 following, additional contract labor hired for storm
6 restoration activities, correct?

7 A Yes.

8 Q Okay. And additional means additional
9 incremental contract labor hired for storm restoration
10 activities, right?

11 A That appears to be the wording.

12 Q Okay. And you would agree that additional
13 does not mean embedded line contractors or vegetation
14 management crews hired for normal activities in the
15 absence of a storm, correct?

16 A No, I would not. I believe what's implied
17 here is that any contractor costs which are not
18 recovered through normal base rates would be eligible to
19 be recovered as part of the storm reserve, and that's --
20 that's what FPL has done here with its Gulf storms.

21 Q But according to the plain language of the
22 rule at the time -- that was in effect at the time, it
23 talks about additional contract labor hired specifically
24 for the storm restoration activities, is that correct?

25 A That is what it says here.

1 Q Okay. And you would agree that the 2007
2 version of the rule, (1)(e)(7) states the types of storm
3 related costs allowed to be charged to the reserve under
4 the ICCA methodology include but are not limited to the
5 following, materials and supplies used to repair and
6 restore service and facilities to pre-storm conditions
7 such as poles, transformers, meters, light fixtures,
8 wires and other electrical equipment, excluding those
9 costs that normally would be charged the non-cost
10 recovery clause operating expenses in the absence of a
11 storm, is that correct?

12 A Yes, that's correct. And again, I think the
13 key here is the last part, right? It's excluding those
14 costs that would normally be charged to non-cost
15 recovery operating clauses in the absence of a storm.

16 What FPL is requesting recovery for is
17 materials and supplies and expenses are not contemplated
18 in base rates specific to named storm events. That's
19 simply something we don't have in base rates, therefore,
20 that is incremental to the storm.

21 Q However, FPL and Gulf Power include in
22 materials and supplies used in normal operations in the
23 absence of a storm and recovered in base rates that were
24 instead used for storm activities and requested as
25 incremental costs, correct?

1 A I am sorry, would you repeat your question?

2 **Q It used materials and supplies from normal**
3 **operations that were in the absence of a storm and**
4 **otherwise are recovered in base rates, but you diverted**
5 **those to storm activities, correct?**

6 A No, we did not. These were specific to the
7 storm event.

8 **Q Did you use materials and supplies from your**
9 **normal supply?**

10 A In inventory, but none of it had been
11 expensed. The inventory obviously sits there --

12 **Q Okay.**

13 A -- so that when we do need it it's available.

14 **Q Okay. So you used it from inventory you**
15 **obtained for normal activities, correct?**

16 A We do ramp up for storm season to make sure
17 that we have the appropriate amount of supplies. Again,
18 none of these costs were expensed, simply sitting there
19 in inventory. And when we need those costs, and when we
20 use that inventory, that's when we incur the cost and we
21 obviously expense it.

22 **Q But the cost of ramping up and getting those**
23 **materials and supplies, those are costs that are**
24 **requested as part of base rates, correct?**

25 A I don't -- I don't know that that's the case.

1 **Q** Okay. So are you familiar or not with whether
2 -- what level of material and supplies were requested as
3 part of the base rate cases?

4 A No, I am not.

5 **Q** Okay.

6 A No. But again, I would just say this, that
7 material and supplies expense that we do include in our
8 base rates do not include contemplation of any material
9 and supply expense specific to named storm events.

10 **Q** Gulf Power included interest on the storm cost
11 its claiming for storm cost recovery, correct?

12 A That is correct.

13 **Q** And the rule does not list interest as an
14 allowed cost for storm cost recovery, correct?

15 A That is correct. The rule does not.
16 Obviously, this is something that both FPL and Gulf have
17 been allowed to recover in the past, is interest on
18 unrecovered storm costs, simply citing the settlement
19 agreements for Hurricanes Matthew and Michael.

20 **Q** So you would agree that the Commission has not
21 previously ruled that interest is allowed as an allowed
22 cost except for when it's approved settlements, correct?

23 A There is nothing in the storm rule regarding
24 interest on unrecovered storm balances.

25 **Q** And when it has accepted interest rate, those

1 **have been part of a settlement agreement, correct?**

2 A Yes. That's my understanding. And I do
3 believe that is a common practice in the utility
4 industry as well.

5 Q Well, and that's the -- the one case you cited
6 referred to in your testimony on page 17 was a single
7 settlement agreement, correct?

8 A Well, there were two different ones I think
9 cited. One was for FPL and one was for Gulf.

10 Q But those were both settlement agreements,
11 correct?

12 A That is correct.

13 MS. CHRISTENSEN: Okay. All right. I have no
14 further questions. Thank you.

15 CHAIRMAN FAY: Okay. Great. Thank you.
16 Staff?

17 MR. STILLER: Staff has no questions.

18 CHAIRMAN FAY: Okay. Commissioners?
19 Okay. Redirect?

20 MS. COTNER: No redirect. Thank you.

21 CHAIRMAN FAY: Okay. With that, we will --
22 let's see, Mr. Hughes, you do have exhibits. I
23 will allow you to enter those.

24 MS. COTNER: Yes. At this time, I would like
25 to ask that Exhibits 11, 12, 25 and 26 be moved

1 into the record.

2 CHAIRMAN FAY: And we can also -- let me ask,
3 Mr. Stiller, can we go ahead and move 67 in, or do
4 you want to wait to do that?

5 MR. STILLER: This would probably be the best
6 time to do it.

7 CHAIRMAN FAY: Okay. We will move 67 into the
8 record.

9 (Whereupon, Exhibit Nos. 11, 12, 25, 26 & 67
10 were received into evidence.)

11 CHAIRMAN FAY: And I believe, Mr. Hughes, you
12 are coming back for rebuttal, correct?

13 THE WITNESS: Yes.

14 CHAIRMAN FAY: We will temporarily excuse you.

15 THE WITNESS: Thank you.

16 CHAIRMAN FAY: All right. Gulf, you are
17 welcome to call your next witness.

18 MR. BADDERS: Thank you, Commissioner. We
19 call Witness Cohen to the stand.

20 Whereupon,

21 TIFFANY C. COHEN

22 was called as a witness, having been previously duly
23 sworn to speak the truth, the whole truth, and nothing
24 but the truth, was examined and testified as follows:

25 EXAMINATION

1 BY MR. BADDERS:

2 Q Ms. Cohen, were you present this morning when
3 the witnesses were sworn in?

4 A I was.

5 Q Thank you.

6 Would you have please state your name and
7 business address for the record?

8 A It's Tiffany Cohen, 700 Universe Boulevard,
9 Juno Beach, Florida, 33408.

10 Q By whom are you employed and in what capacity?

11 A I am employed by Florida Power & Light Company
12 as the Senior Director of Regulatory Rates, Cost of
13 Service and Systems.

14 Q Did you prepare and cause to be filed seven
15 pages of prefiled direct testimony related to Hurricane
16 Sally, and six pages of direct prefiled testimony
17 related to Hurricane Zeta?

18 A Yes.

19 Q Do you have any changes, or revisions to that
20 direct prefiled testimony?

21 A No, I do not.

22 Q If I were to ask you the same questions today,
23 would your answers be the same?

24 A Yes.

25 MR. BADDERS: Chairman Fay, I would ask that

1 Ms. Cohen's direct prefiled testimony be entered
2 into the record as though read.

3 CHAIRMAN FAY: So entered.

4 (Whereupon, prefiled direct testimony of
5 Tiffany C. Cohen was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

GULF POWER COMPANY

DIRECT TESTIMONY OF TIFFANY C. COHEN

DOCKET NO. 20200241-EI

NOVEMBER 12, 2021

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

2 A. My name is Tiffany C. Cohen, and my business address is Florida Power & Light
3 Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

4 **Q. By whom are you employed and what is your position?**

5 A. I am employed by Florida Power & Light Company (“FPL”) as Senior Director,
6 Regulatory Rates, Cost of Service & Systems.

7 **Q. Please describe your duties and responsibilities in that position.**

8 A. I oversee the load research, cost of service, rate design and regulatory systems
9 departments for all retail electric rates and charges for FPL and Gulf Power
10 Company (“Gulf”). Additionally, I am responsible for proposing and administering
11 the tariff language needed to implement those rates and charges.

12 **Q. Please describe your educational background and professional experience.**

13 A. I hold a Bachelor of Science Degree in Commerce and Business Administration,
14 with a major in Accounting from the University of Alabama. I obtained a Master
15 of Business Administration from the University of New Orleans. I am also a
16 Certified Public Accountant. In 2008, I joined FPL. During my tenure at the
17 Company, I have held various regulatory positions of increasing responsibility,
18 including overseeing the Nuclear Cost Recovery Clause and managing FPL’s Rates
19 and Tariffs department. I assumed my current role in 2017, and in 2019 I assumed
20 responsibility for supervising Gulf’s load research, cost of service, and rates and
21 tariffs functions. Prior to joining FPL, I was employed at Duke Energy for five
22 years, where I held a variety of positions in the Rates & Regulatory Division,

1 Finance, Corporate Risk Management, and Internal Audit departments. Prior to
2 joining Duke Energy, I was employed at KPMG, LLP.

3 **Q. Are you sponsoring any exhibits with this testimony?**

4 A. Yes, I am sponsoring the following exhibits:

5 • TCC-1(Sally) Calculation of Proposed Storm Restoration Recovery
6 Surcharges

7 • TCC-2(Sally) Hurricane Sally Storm Restoration Recovery - First
8 Revised Tariff Sheet No. 8.030.5

9 • TCC-3(Sally) Hurricane Sally Storm Restoration Recovery - Second
10 Revised Tariff Sheet No. 8.030.5

11 **Q. Please describe the relationship of Gulf to FPL in connection with this filing.**

12 A. Gulf was acquired by FPL's parent company, NextEra Energy, Inc., on January 1,
13 2019. Gulf was subsequently merged into FPL on January 1, 2021. Following the
14 acquisition, and even prior to the legal combination of FPL and Gulf, the two
15 companies began to consolidate their operations. However, FPL and Gulf remained
16 separate ratemaking entities during the 2020 hurricane season when Hurricane
17 Sally impacted Gulf's service area. In addition, FPL and Gulf were separate
18 ratemaking entities on November 10, 2020, when Gulf filed its Petition for interim
19 recovery of incremental storm restoration costs related to Hurricane Sally. On
20 October 26, 2021, in Docket No. 20210015-EI, the Commission approved a
21 Stipulation and Settlement Agreement which, among other things, established new
22 unified base rates for all customers throughout the former FPL and Gulf service

1 areas, effective January 1, 2022. As a result, Gulf will cease to exist in any legal,
2 operational, or ratemaking capacity on January 1, 2022.

3 **Q. As Gulf has merged into FPL and the Commission has approved consolidated**
4 **rates for all former FPL and Gulf customers, how will you refer to FPL and**
5 **Gulf in your testimony?**

6 A. For sake of ease, I will continue to refer to “Gulf” in my testimony as the entity
7 requesting recovery of Hurricane Sally storm restoration costs. However, Exhibits
8 TCC-1 through TCC-3 reflect proposed changes to FPL’s rates, given that Gulf will
9 cease to exist as a separate ratemaking entity on January 1, 2022, which is the
10 effective date of the proposed surcharges. Additionally, because the proposed
11 surcharges will apply to former Gulf customers, I will refer to those customers as
12 “Northwest Florida customers”.

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

14 A. The purpose of my testimony is to present new Proposed Hurricane Sally Storm
15 Restoration Recovery Surcharges (“Proposed Hurricane Sally Storm Charges”) for
16 all rate classes which are based upon updated cost allocations to reflect actual costs
17 incurred by Gulf. My testimony also proposes an adjustment to the Proposed Storm
18 Charges once recovery of storm restoration costs for Hurricane Michael
19 (“Hurricane Michael surcharge”) is complete. Finally, I propose a true-up
20 methodology to resolve any final over or under recovery amounts related to the
21 Proposed Hurricane Sally Storm Charges at the end of the period upon which they
22 are effective.

23

1 **Q. Please describe the Proposed Hurricane Sally Storm Charges.**

2 A. The new Proposed Hurricane Sally Storm Charges set forth in Exhibit TCC-
3 1(Sally) were designed to recover the final/actual Recoverable Storm Amount for
4 Hurricane Sally, which is provided in the direct testimony of Gulf witness Hughes.
5 These costs have been allocated to each retail rate class based on the rate class
6 allocations presented in my Exhibit TCC-1(Sally). In Order No. PSC-2021-0112-
7 PCO-EI, the Commission approved Gulf’s proposal to establish an interim storm
8 restoration recovery charge for Hurricane Sally of 0.3 cents per kilowatt-hour
9 (“kWh”), or \$3.00/\$1,000 kWh, until September 2023¹ at which time it is projected
10 the current residential Hurricane Michael surcharge of 0.8 cents per kWh, or
11 \$8.00/\$1,000 kWh, will terminate. Exhibit TCC-1(Sally) reflects Gulf’s proposal
12 to maintain the currently approved residential surcharge of \$3.00/\$1,000 kWh for
13 Hurricane Sally through October 2023. Once the Hurricane Michael surcharge
14 terminates, Gulf proposes to increase the \$3.00/1,000 kWh residential storm charge
15 for Hurricane Sally to 1.0 cent per kWh, or \$10.00/1,000 kWh, for a total of 44
16 months, inclusive of the interim surcharge period, through October 2024
17 (“Proposed Recovery Period”). Proposed rates upon Commission approval are set
18 forth in the First Revised Tariff Sheet No. 8.030.5 as shown on Exhibit TCC-
19 2(Sally). Proposed rates effective November 1, 2023 are set forth in the Second
20 Revised Tariff Sheet No. 8.030.5 as shown on Exhibit TCC-3(Sally).

¹ Based upon actual financial information through October 2021, Gulf has determined that the storm restoration recovery charge for Hurricane Michael is projected to terminate October 2023.

1 **Q. If the storm charge for Hurricane Sally continued to be set at \$3.00 per 1,000**
2 **kWh, how long would it take for Gulf to recover its prudently incurred storm**
3 **restoration costs?**

4 A. If Gulf proposed to maintain the initial proposed surcharge of \$3.00 per 1,000 kWh
5 target rate level, as authorized in Order No. PSC-2021-0112-PCO-EI, the expected
6 recovery period would be approximately 72 months or 6 years. As a result, Gulf
7 submits that the new Proposed Hurricane Sally Storm Charges and the timing of
8 their implementation strikes a fair balance between mitigating rate impacts to
9 customers and timely recovery of costs.

10 **Q. How will Gulf determine any final true-up amount related to the Proposed**
11 **Hurricane Sally Storm Charges for the Northwest Florida customers, and**
12 **what is Gulf's proposal to calculate and resolve any excess or shortfall?**

13 A. Gulf will compare the final Recoverable Storm Amount approved for recovery by
14 the Commission to the actual revenue received from the Interim Storm Charges and
15 new Proposed Storm Charges in order to determine any excess or shortfall in
16 recovery. Gulf is proposing to apply interest to the variance at the 30-day
17 commercial paper rate. Within 45 days after the Proposed Storm Charges expire,
18 Gulf will make another compliance filing with the Commission that sets forth the
19 calculation of the appropriate final true-up rates to apply to customer bills for a one-
20 month period in order to refund the excess or collect the shortfall. The final true-
21 up rates will be designed in a manner that is consistent with the rate class cost
22 allocation used in the Proposed Storm Charges filed herein, unless modified by this
23 Commission. Gulf will apply the true-up rates to Northwest Florida customer bills

1 starting on Cycle Day 1 of the first month that is more than 30 days after the
2 Commission approval of the true-up rates.

3 **Q. How will Gulf notify Northwest Florida customers of the billing change that is**
4 **going to occur?**

5 A. Gulf will notify Northwest Florida customers of the change in their rates at least 30
6 days in advance in the form of a message on their bill, with more detailed
7 information regarding the revised Storm Restoration Recovery tariff on its website.

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

9 A. Yes.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

GULF POWER COMPANY

DIRECT TESTIMONY OF TIFFANY C. COHEN

NOVEMBER 12, 2021

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

2 A. My name is Tiffany C. Cohen, and my business address is Florida Power & Light
3 Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

4 **Q. By whom are you employed and what is your position?**

5 A. I am employed by Florida Power & Light Company (“FPL”) as Senior Director,
6 Regulatory Rates, Cost of Service & Systems.

7 **Q. Please describe your duties and responsibilities in that position.**

8 A. I oversee the load research, cost of service, rate design and regulatory systems
9 departments for all retail electric rates and charges for FPL and Gulf Power
10 Company (“Gulf”). Additionally, I am responsible for proposing and administering
11 the tariff language needed to implement those rates and charges.

12 **Q. Please describe your educational background and professional experience.**

13 A. I hold a Bachelor of Science Degree in Commerce and Business Administration,
14 with a major in Accounting from the University of Alabama. I obtained a Master
15 of Business Administration from the University of New Orleans. I am also a
16 Certified Public Accountant. In 2008, I joined FPL. During my tenure at the
17 Company, I have held various regulatory positions of increasing responsibility,
18 including overseeing the Nuclear Cost Recovery Clause and managing FPL’s Rates
19 and Tariffs department. I assumed my current role in 2017, and in 2019 I assumed
20 responsibility for supervising Gulf’s load research, cost of service, and rates and
21 tariffs functions. Prior to joining FPL, I was employed at Duke Energy for five
22 years, where I held a variety of positions in the Rates & Regulatory Division,

1 Finance, Corporate Risk Management, and Internal Audit departments. Prior to
2 joining Duke Energy, I was employed at KPMG, LLP.

3 **Q. Are you sponsoring any exhibits with this testimony?**

4 A. Yes, I am sponsoring the following exhibits:

- 5 • TCC-1(Zeta) Calculation of Proposed Storm Restoration Recovery
- 6 Surcharges
- 7 • TCC-2(Zeta) Hurricane Zeta Storm Restoration Recovery - Original Tariff
- 8 Sheet No. 8.030.6

9 **Q. Please describe the relationship of Gulf to FPL in connection with this filing.**

10 A. Gulf was acquired by FPL's parent company, NextEra Energy, Inc., on January 1,
11 2019. Gulf was subsequently merged into FPL on January 1, 2021. Following the
12 acquisition, and even prior to the legal combination of FPL and Gulf, the two
13 companies began to consolidate their operations. However, FPL and Gulf remained
14 separate ratemaking entities during the 2020 hurricane season when Hurricane Zeta
15 impacted Gulf's service area. On October 26, 2021, in Docket No. 20210015-EI,
16 the Commission approved a Stipulation and Settlement Agreement which, among
17 other things, established new unified base rates for all customers throughout the
18 former FPL and Gulf service areas, effective January 1, 2022. As a result, Gulf will
19 cease to exist in any legal, operational, or ratemaking capacity on January 1, 2022.

20

21

1 **Q. As Gulf has merged into FPL and the Commission has approved consolidated**
2 **rates for all former FPL and Gulf customers, how will you refer to FPL and**
3 **Gulf in your testimony?**

4 A. For sake of ease, I will continue to refer to “Gulf” in my testimony as the entity
5 requesting recovery of Hurricane Zeta storm restoration costs. However, Exhibits
6 TCC-1(Zeta) and TCC-2(Zeta) reflect proposed changes to FPL’s rates, given that
7 Gulf will cease to exist as a separate ratemaking entity on January 1, 2022, which
8 is the effective date of the proposed surcharges. Additionally, because the proposed
9 surcharges will apply to former Gulf customers, I will refer to those customers as
10 “Northwest Florida customers”.

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

12 A. The purpose of my testimony is to present Proposed Hurricane Zeta Storm
13 Restoration Recovery Surcharges (“Proposed Hurricane Zeta Storm Charges”) for
14 all rate classes which are based upon cost allocations to reflect actual costs incurred
15 by Gulf. My testimony also proposes to commence recovery of Hurricane Zeta
16 Storm Charges from customers in Northwest Florida once recovery of Hurricane
17 Sally Storm Charges are complete. Finally, I propose a true-up methodology to
18 resolve any final over or under recovery amounts related to the Proposed Hurricane
19 Zeta Storm Charges at the end of the period upon which they are effective.

20 **Q. Please describe the Proposed Storm Charges.**

21 A. The new Proposed Hurricane Zeta Storm Charges set forth in Exhibit TCC-1(Zeta)
22 were designed to recover the final/actual recoverable storm amount for Hurricane
23 Zeta, which is provided in the direct testimony of Gulf witness Hughes. These costs

1 have been allocated to each retail rate class based on the rate class allocations
2 presented in my Exhibit TCC-1(Zeta). Once the Hurricane Sally surcharge of 1.0
3 cent per kWh, or \$10.00/1,000 kWh is complete, which is expected to be by
4 October 2024, Gulf proposes to commence recovery of the proposed Hurricane
5 Zeta surcharge of 0.934 cents per kWh, or \$9.34/1,000 kWh, for a total of 2 months,
6 through December 31, 2024 (“Proposed Recovery Period”). Proposed rates
7 effective November 1, 2024 are set forth in Original Tariff Sheet No. 8.030.6 as
8 shown on Exhibit TCC-2(Zeta).

9 **Q. How will Gulf determine any final true-up amount related to the Proposed**
10 **Hurricane Zeta Storm Charges for the Northwest Florida customers, and**
11 **what is Gulf’s proposal to calculate and resolve any excess or shortfall?**

12 A. Gulf will compare the final Recoverable Storm Amount approved for recovery by
13 the Commission to the actual revenue received from the Proposed Storm Charges
14 in order to determine any excess or shortfall in recovery. Gulf is proposing to apply
15 interest to the variance at the 30-day commercial paper rate. Within 45 days after
16 the Proposed Storm Charges expire, Gulf will make another compliance filing with
17 the Commission that sets forth the calculation of the appropriate final true-up rates
18 to apply to customer bills for a one-month period in order to refund the excess or
19 collect the shortfall. The final true-up rates will be designed in a manner that is
20 consistent with the rate class cost allocation used in the Proposed Storm Charges
21 filed herein, unless modified by this Commission. Gulf will apply the true-up rates
22 to Northwest Florida customer bills starting on Cycle Day 1 of the first month that
23 is more than 30 days after the Commission approval of the true-up rates.

1 **Q. How will Gulf notify Northwest Florida customers of the billing change that is**
2 **going to occur?**

3 A. Gulf will notify Northwest Florida customers of the change in their rates at least 30
4 days in advance in the form of a message on their bill, with more detailed
5 information regarding the revised Storm Restoration Recovery tariff on its website.

6 **Q. Does this conclude your direct testimony?**

7 A. Yes.

1 BY MR. BADDERS:

2 Q Ms. Cohen, did you also have three exhibits
3 related to Hurricane Sally and two exhibits to your
4 testimony related to Hurricane Zeta?

5 A Yes.

6 Q Do you have any changes or corrections to
7 those exhibits?

8 A No, I do not.

9 MR. BADDERS: We note that those have already
10 been pre-identified.

11 BY MR. BADDERS:

12 Q Ms. Cohen, have you prepared a summary of your
13 direct testimony?

14 A Yes, I have.

15 Q Would you please give that summary?

16 A Good afternoon, Chairman Fay and
17 Commissioners. My testimony addresses two topics.

18 First, my testimony provides FPL's proposal
19 for Hurricanes Sally and Zeta storm surcharges for
20 northwest Florida customers based upon actual costs
21 incurred. The surcharges have been designed consistent
22 with allocation methodology previously approved by this
23 commission.

24 FPL proposes to stagger the surcharges to
25 customers in order to provide a fair balance between

1 mitigating bill impacts to customers and timely recovery
2 of costs that have already been spent.

3 Typical residential customers in northwest
4 Florida are currently paying \$3 monthly for Hurricane
5 Sally and \$8 for Hurricane Michael. Recovery of Michael
6 costs is estimated to be complete in October of 2023, at
7 which time FPL proposes to increase the Sally storm
8 charge from \$3 to \$10 for one year through October 2024.
9 Then once recovery of Sally is complete, FPL proposes to
10 implement a \$9.34 charge for two months in order to
11 recover the costs associated with Hurricane Zeta. This
12 proposal allows for recovery of storm costs by the end
13 of 2024.

14 Second, my testimony provides a true-up
15 methodology to resolve any final over or under-recovery
16 amounts which compares final storm costs approved by
17 this commission to actual revenue received for each
18 storm. Interest will then be applied to the variance at
19 the 30-day commercial paper rate. FPL will make a
20 compliance filing with the Commission that sets forth
21 the calculation of the appropriate true-up rates to
22 apply to customer bills for a one-month period
23 consistent with the methodology approved in this docket.
24 FPL will provide customers 30-day notice and apply the
25 true-up rates to customer bills starting on cycle day

1 one after Commission approval.

2 This concludes my summary. Thank you.

3 MR. BADDERS: We tender this witness for
4 cross-examination.

5 CHAIRMAN FAY: Okay. Ms. Christensen, you are
6 recognized.

7 MS. CHRISTENSEN: Thank you.

8 EXAMINATION

9 BY MS. CHRISTENSEN:

10 Q Good afternoon, Ms. Cohen. You are the
11 company witness responsible for addressing Gulf's
12 surcharge request, correct?

13 A Correct.

14 Q Okay. And you filed direct testimony in
15 Gulf's dockets, right?

16 A Yes.

17 Q So your answer will be the same for both of
18 Gulf's dockets unless you say it applies to a specific
19 docket?

20 A Our processes were the same.

21 Q Okay. And currently, the combined surcharges
22 for Hurricane Michael, which is \$8 per thousand kilowatt
23 hour and Hurricane Sally's interim charge, which is \$3
24 per thousand kilowatt hour is \$11 per thousand kilowatt
25 hour, is that correct?

1 A Yes, that's correct.

2 Q And you are proposing to keep the combined
3 surcharge at \$11 until Hurricane Michael is recovered,
4 and then increase Hurricane Sally's surcharge, or
5 recovery charge to \$10 per thousand kilowatt hours, is
6 that correct?

7 A That's correct. And the \$10 would be in
8 effect for one year.

9 Q Okay. Once you recover the Hurricane Sally
10 charge, are you -- once the Hurricane Sally charges are
11 collected, which you expect to be October 24th, you are
12 proposing to collect \$9.34 per thousand kilowatt hour
13 charge for two months for Hurricane Zeta, is that
14 correct?

15 A Yes. That's correct.

16 Q And during the time from now until October
17 24th, FPL will be accruing interest at the 30-day
18 commercial paper rate for Hurricane Zeta costs only, is
19 that correct?

20 A It would be Sally and Zeta. So we will
21 compare whatever the final costs are that recovered to
22 what was approved.

23 Q Okay. And you would agree that the 2000 --
24 well, I have already asked that of a previous witness so
25 I won't ask it of you.

1 **Could Gulf start recovery of Hurricane Zeta**
2 **costs starting in 2022?**

3 A Yes, if the Commission wanted that to be that
4 way. The way we've staggered the surcharges was a
5 thoughtful approach in trying to mitigate bill impacts
6 to customers.

7 Q **But there is nothing that would prevent a**
8 **surcharge that would be structured to collect a dollar**
9 **per thousand kilowatt hours starting in now for**
10 **Hurricane Zeta, and \$2 per thousand kilowatt hours for**
11 **Sally starting in 2022, and then increasing Hurricane**
12 **Sally to \$10 per kilowatt hour when Michael is fully**
13 **recovered in 2023, correct?**

14 A We'll do what the Commission orders us to do.

15 MS. CHRISTENSEN: Okay. Thank you. That's
16 all I have.

17 CHAIRMAN FAY: All right. Thank you.

18 Any redirect -- well, excuse me, we will go to
19 staff first just to make sure.

20 MR. STILLER: Staff has no questions.

21 CHAIRMAN FAY: Okay. Commissioners?

22 Any redirect?

23 MR. BADDERS: No redirect.

24 CHAIRMAN FAY: Okay.

25 MR. BADDERS: We would move these exhibits

1 into the record.

2 CHAIRMAN FAY: Okay. I have 13 through 17, is
3 that --

4 MR. BADDERS: Yes, Commissioner.

5 CHAIRMAN FAY: All right. Okay. Show those
6 are show those moved into the record.

7 (Whereupon, Exhibit Nos. 13-17 were received
8 into evidence.)

9 CHAIRMAN FAY: And with that, Ms. Cohen, you
10 are excused. Thank you.

11 (Witness excused.)

12 CHAIRMAN FAY: Okay. Next up, OPC, you are
13 recognized to call your witness.

14 MS. CHRISTENSEN: I would call Mr. Lane Kollen
15 to the stand.

16 Whereupon,

17 LANE KOLLEN

18 was called as a witness, having been previously duly
19 sworn to speak the truth, the whole truth, and nothing
20 but the truth, was examined and testified as follows:

21 EXAMINATION

22 BY MS. CHRISTENSEN:

23 Q Good afternoon. Mr. Kollen, can you please
24 state your name and business address for the record?

25 A Yes.

1 CHAIRMAN FAY: Mr. Kollen, if you could turn
2 your mic on. Thank you.

3 THE WITNESS: My name is Lane Kollen. My
4 business address is J. Kennedy and Associates, 570
5 Colonial Park Drive, Suite 305, Roswell, Georgia,
6 30075.

7 BY MS. CHRISTENSEN:

8 **Q** And did you cause to be prefiled direct
9 testimony consisting of 48 pages inclusive of title
10 pages, et cetera, in Docket No. 2020241, 21 -- 20210178,
11 20210179?

12 A Yes.

13 **Q** And do you have any corrections to your
14 testimony?

15 A No.

16 **Q** And if I were to ask you the same questions
17 today, would your answers be the same?

18 A Yes.

19 **Q** And did you also cause to be prefiled with
20 that testimony nine exhibits attached labeled K -- or
21 LK-1 through LK-9?

22 A Yes.

23 **Q** And do you have any corrections to the
24 exhibits?

25 A No.

1 MS. CHRISTENSEN: Okay. So I would ask that
2 the prefiled testimony be entered into the record
3 as though read.

4 CHAIRMAN FAY: Show that entered.

5 MR. BADDERS: Chairman Fay, we object to
6 certain portions of this testimony coming into the
7 record. Portions of this testimony, approximately
8 portions of seven pages go to an issue that has
9 been --

10 CHAIRMAN FAY: Okay. Real quick, Mr. Badders,
11 let me -- I apologize, I didn't --

12 MR. BADDERS: I'm sorry --

13 CHAIRMAN FAY: -- look up to see you, so
14 retract that in the record. We do have an
15 objection on it, so go ahead and state your
16 objection.

17 MR. BADDERS: So, yes, the Prehearing Officer
18 ruled that a certain topic is not within the scope
19 of this proceeding. A significant portion of his
20 testimony, some or all of seven pages, goes to that
21 issue. I would like to, I guess, object to that
22 based on relevance, and I believe a solution would
23 be to allow it into the record with a recognition
24 by the Commission, or a ruling by the Commission
25 that this testimony would not be used as for any

1 purpose as far as argument or a decision by the
2 Commission.

3 CHAIRMAN FAY: Okay. Mr. Badders, so
4 obviously the Commission has discretion as to the
5 weight we give the testimony, and I think that's
6 appropriate here. I think we could --

7 MS. CHRISTENSEN: Can I briefly respond?

8 CHAIRMAN FAY: Yeah. Go ahead, Ms.
9 Christensen, you are recognized.

10 MS. CHRISTENSEN: Thank you.

11 I would like to briefly respond and point out
12 that according to the Commission's Order
13 Establishing Procedure on page nine, motions to
14 strike any part of the prefiled testimony were due
15 to be filed in writing no later than the prehearing
16 conference. That was not done in this case,
17 therefore, any motion to strike any portion of the
18 testimony is untimely.

19 And as the Commission was pointing out, the
20 testimony should come into the record. The
21 Commission with can make its determination and its
22 decision what weight to give all of the testimony,
23 or what it decides it wants to do with the relevant
24 portion of the testimony. But as far as striking
25 the testimony and making a predetermination to

1 disregard that testimony, I think it would be
2 premature at this time, and untimely as a backdoor
3 motion to strike.

4 Thank you.

5 MR. BADDERS: If I may respond?

6 CHAIRMAN FAY: You are welcome.

7 Real quick, Mr. Badders, what I am going to do
8 is I am going to take a few minutes and consult
9 with our legal folks to make sure we are on the
10 same page with this. I want to also take a look at
11 the OEP based on what Ms. Christensen said. But we
12 will take a quick five-minute recess and then we
13 will come back.

14 Thank you.

15 (Brief recess.)

16 CHAIRMAN FAY: Okay. So after some
17 consultation with our legal -- and let me just
18 state, Mr. Badders, I don't want to cut you off
19 necessarily for rebuttal, but we are not going to
20 go back and forth, sort of, all day on an objection
21 like this. I think the OEP does lay out the
22 timeliness pretty clearly, but also allows for good
23 cause to be shown around that.

24 With that said, I still feel comfortable that
25 the testimony can be allowed in without prejudice,

1 and allow the Commission to weigh it as
2 appropriate. And so I am going to deny the
3 objection and allow the testimony to stand.

4 And so with that, then we will take up the
5 testimony into the record, and go ahead Ms.
6 Christensen.

7 (Whereupon, prefiled direct testimony of Lane
8 Kollen was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: PETITION FOR LIMITED PROCEEDING FOR
RECOVER OF INCREMENTAL STORM RESTORATION
COSTS RELATED TO HURRICANE SALLY, BY GULF
POWER COMPANY.

DOCKET NO. 20200241-EI

IN RE: PETITION FOR EVALUATION OF HURRICANE
ISAIAS AND TROPICAL STORM ETA STORM COSTS, BY
FLORIDA POWER & LIGHT COMPANY.

DOCKET NO. 20210178-EI

IN RE: PETITION FOR LIMITED PROCEEDING FOR
RECOVERY OF INCREMENTAL STORM RESTORATION
COSTS AND ASSOCIATED TRUE-UP PROCESS
RELATED TO HURRICANE ZETA, BY GULF POWER
COMPANY.

DOCKET NO. 20210179-EI

FILED: May 2, 2022

DIRECT TESTIMONY & EXHIBITS

OF

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DIRECT TESTIMONY**OF****Lane Kollen**

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket No.

1

I. QUALIFICATIONS AND PURPOSE

2

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3

A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc. (“Kennedy and Associates”), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

5

6

Q. DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

7

A. I earned a Bachelor of Business Administration degree in accounting and a Master of Business Administration degree from the University of Toledo. I also earned a Master of Arts degree in theology from Luther Rice College & Seminary. I am a Certified Public Accountant, with a practice license, Certified Management Accountant, and Chartered Global Management Accountant. I am a member of numerous professional organizations, including the American Institute of Certified Public Accountants, Institute of Management Accounting, Georgia Society of CPAs, and Society of Depreciation Professionals.

10

11

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15

I have been an active participant in the utility industry for more than forty years, initially as an employee of a company that installed underground cablevision and telephone

1 wire from 1974 to 1976, then as an employee of The Toledo Edison Company in various
2 accounting and planning positions from 1976 to 1983, and thereafter as a consultant in the
3 industry. I have testified as an expert on planning, ratemaking, accounting, finance, tax,
4 and other issues in proceedings before regulatory commissions and courts at the federal
5 and state levels on hundreds of occasions.

6 I have testified before the Florida Public Service Commission (“FPSC” or
7 “Commission”) on numerous occasions, including base rate, storm cost, fuel adjustment
8 clause, acquisition, and territorial proceedings involving Florida Power & Light Company
9 (“FPL”), Duke Energy Florida (“DEF”), Gulf Power Company, Talquin Electric
10 Cooperative, the City of Tallahassee, and the City of Vero Beach.¹

11
12 **Q. ON WHOSE BEHALF ARE YOU PROVIDING TESTIMONY IN THIS**
13 **PROCEEDING?**

14 A. I am providing testimony on behalf of the citizens of the State of Florida. Kennedy and
15 Associates was retained by the Florida Office of Public Counsel (“OPC”) to perform a
16 review of Gulf Power Company’s costs incurred in response to Hurricane Sally and
17 Hurricane Zeta and FPL’s costs incurred in response to Hurricane Isaias and Tropical
18 Storm Eta and to make recommendations in response to the Petitions filed in these
19 proceedings.

20
21 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

¹ I have attached a more detailed description of my qualifications and appearances as an expert in Exhibit LK-1.

1 A. The purpose of my testimony is to describe the Kennedy and Associates' reviews of Gulf
 2 Power Company's and FPL's requests for recovery of the costs incurred in response to
 3 Hurricane Sally, Hurricane Zeta, Hurricane Isaias and Tropical Storm Eta, including their
 4 requests for a determination that the costs were prudently incurred, Gulf Power Company's
 5 request for recovery of its costs through a storm recovery charge, and FPL's proposed
 6 recovery through its "base O&M expense."

7 I provide the conclusions and recommendations resulting from the Kennedy and
 8 Associates review, except for those that are separately addressed by OPC witness Randy
 9 Futral, including Gulf Power Company's and FPL's compliance with the requirements of
 10 Rule 25-6.0143, F.A.C. ("Rule").² I also provide a summary of the Kennedy and
 11 Associates disallowance recommendations.

12

13 **II. SUMMARY OF GULF POWER COMPANY'S AND FPL'S REQUESTS,**
 14 **RATEMAKING IMPLICATIONS, AND STANDARDS FOR RECOVERY**

15 **A. Summary of Gulf Power Company's and FPL's Requests**

16 **Q. WERE GULF POWER COMPANY AND FPL A SINGLE ENTITY AT THE TIME**
 17 **THESE STORMS HIT THEIR RESPECTIVE TERRITORIES?**

18 A. No. Gulf Power Company and FPL were separate utilities at the time these storms hit their
 19 respective territories. Gulf Power Company merged with FPL effective January 1, 2021

² Kennedy and Associates relied on and all references to the Rule in my testimony are to the June 11, 2007 version of the Rule that was in effect during the storms addressed in these dockets. Gulf Power Company and FPL witness Mr. David Hughes stated that its requested recovery was quantified pursuant to "the version of the Rule that was in effect at the time of the storm event." (Direct Testimony at p. 5 in Docket No. 20200241-EI and Direct Testimony at p. 6 in Docket No. 20210178-EI). After the storms at issue in these dockets, the Rule was subsequently modified with an effective date of June 28, 2021. The modified version of the Rule provides clarification regarding incremental costs and sets forth practical methodologies to determine the incremental costs. The positions taken by OPC in prior proceedings and in these proceeding under the prior version of the Rule are generally consistent with the clarifications and methodologies set forth in the modified version of the Rule.

1 and completely merged with FPL effective January 1, 2022. Therefore, for time periods
2 prior to the completed merger, Gulf Power Company and FPL will be referred to as
3 “Companies” and for post-merger time periods will be referred to as “Company.”

4
5 **Q. BRIEFLY SUMMARIZE GULF POWER COMPANY’S REQUESTS IN THESE**
6 **PROCEEDINGS.**

7 A. Gulf Power Company seeks a determination that its activities undertaken in response to
8 Hurricane Sally and Hurricane Zeta were prudent, the costs incurred were prudent,
9 reasonable, and recoverable, and that its requests were calculated in accordance with the
10 requirements of the Incremental Cost and Capitalization Approach (“ICCA”) methodology
11 set forth in the Rule. Gulf Power Company seeks recovery of \$186.8 in costs incurred for
12 Hurricane Sally in 2020 (\$146.3 million after reduction for \$40.8 million in the storm
13 reserve and addition of \$0.3 million in interest) and \$10.1 million in costs incurred for
14 Hurricane Zeta in 2020. Gulf Power Company also seeks approvals for the Company’s
15 proposed storm restoration recovery surcharges, proposed recovery periods, and true-up
16 process.³

17 The Commission approved Gulf Power Company’s request for an interim surcharge
18 for Hurricane Sally costs of \$3.00 per 1,000 kWh effective March 2, 2021. In these
19 proceedings, Gulf Power Company seeks to maintain and extend the surcharge for
20 Hurricane Sally costs at that same rate until the termination of the surcharge for Hurricane
21 Michael costs, which presently is expected in October 2023, and then to increase the

³ Petition in Docket No. 20200241-EI at p. 1 for Hurricane Sally costs and Petition in Docket No. 202100179-EI at p. 1 for Hurricane Zeta costs.

1 surcharge for Hurricane Sally costs to \$10.00 per 1,000 kWh. Gulf Power Company also
2 seeks to establish a surcharge for Hurricane Zeta costs of \$9.34 per 1,000 kWh, effective
3 with the termination of the Hurricane Sally surcharge.⁴
4

5 **Q. BRIEFLY SUMMARIZE FPL’S REQUESTS IN THESE PROCEEDINGS.**

6 A. FPL seeks “a determination regarding the prudence of FPL’s activities and the reasonableness
7 of costs incurred in responding to Hurricane Isaias (‘Hurricane Isaias Costs’) and Tropical
8 Storm Eta (‘Tropical Storm Eta Costs’).”⁵ FPL states that it “recorded its Hurricane Isaias
9 Costs and Tropical Storm Eta Costs as base operations and maintenance (‘O&M’) expenses
10 and is not seeking through this proceeding to establish a surcharge for the recovery of the
11 Hurricane Isaias Costs or Tropical Storm Eta Costs, or replenishment of the storm reserve.”
12 FPL states that it “filed the Petition and supporting testimony, together with supporting
13 documentation, to facilitate an evaluation of the Hurricane Isaias Costs and Tropical Storm Eta
14 Costs in support of the requested finding.”⁶

15 FPL incurred \$68.5 million in total costs to respond to Hurricane Isaias in 2020. It
16 charged the entire \$68.5 million to base O&M expense and charged none of the costs to
17 plant in service. FPL incurred \$115.9 million in total costs to respond to Tropical Storm
18 Eta in 2020.⁷ It charged \$115.5 million of these costs to base O&M expense and \$0.4
19 million to plant in service. All of these amounts are total Company amounts without
20 reduction for non-incremental costs and without reduction for the retail jurisdictional

⁴ Petition in Docket No. 202100179-EI at p. 1.

⁵ Petition in Docket No. 202100178-EI at p. 1.

⁶ *Id.*

⁷ *Id.* FPL subsequently revised and slightly reduced this amount to correct an error in a letter to the Commission dated December 6, 2021 that was filed in this docket.

1 allocation. The amounts charged to base O&M expense on a retail jurisdictional basis were
2 \$68.4 million for Hurricane Isaias and \$115.3 million for Tropical Storm Zeta.⁸

3 FPL claims that the ICCA methodology under the Rule is not applicable to its
4 requests in these proceedings. Nevertheless, it claims that it would have charged \$66.3
5 million for Hurricane Isaias and \$112.7 million for Tropical Storm Eta to the storm reserve
6 under its interpretation and application of the ICCA methodology set forth in the Rule if it
7 had not charged both the non-incremental and incremental costs to base O&M expense.⁹

8
9 **B. Ratemaking Implications of FPL's Requests**

10 **Q. DESCRIBE THE RATEMAKING IMPLICATIONS OF FPL'S REQUESTS.**

11 A. FPL seeks a determination of prudence and an affirmation of its ratemaking recovery of
12 the entirety of the \$183.2 million (on a retail jurisdictional basis) incurred to respond to the
13 two storms and that it charged to base O&M expense, along with a grossed-up rate of return
14 on that amount, albeit in a different form than through a storm surcharge. FPL
15 acknowledges that if it sought recovery through a storm surcharge, the principal amount of
16 the storm cost recovery would be limited to no more than \$179.1 million, although in prior
17 storm proceedings where it did not elect to charge its storm costs to base O&M expense, it
18 also sought a short-term debt interest only return.

19 If allowed without modification, FPL's claim will result in \$4.1 million in
20 additional ratemaking recovery for the costs incurred plus another \$15.4 million in
21 additional ratemaking recovery for the return on the costs incurred in just the first year

⁸ Exhibit DH-1(Isaias) and Exhibit DH-2(Eta) attached to the Direct Testimony of David Hughes in Docket No. 202100178-EI.

⁹ *Id.*

1 alone when compared to recovery through a storm surcharge, which I subsequently
2 describe in more detail. This additional ratemaking recovery is a penalty imposed on
3 customers that will continue each year.

4
5 **Q. HOW DOES FPL'S DECISION TO CHARGE THE STORM COSTS TO BASE**
6 **O&M EXPENSE RESULT IN ADDITIONAL RATEMAKING RECOVERY**
7 **COMPARED TO CHARGING THE COSTS TO THE STORM RESERVE?**

8 A. In Docket No. 20120015-EI, *In re: Petition for Increase in Rates by Florida Power & Light*
9 *Company*, the Commission found that FPL had a theoretical depreciation reserve surplus
10 (“depreciation reserve”) and allowed FPL to amortize and use that depreciation reserve at
11 its discretion to increase its earned return on equity up to a maximum threshold. FPL was
12 required to restore the depreciation reserve to reduce its earned return on equity if it
13 otherwise would exceed the maximum threshold.

14 In Docket No. 20160021-EI, *In re: Petition for Rate Increase by Florida Power &*
15 *Light Company*, the Commission again found that FPL had a depreciation reserve surplus
16 and authorized FPL to amortize and use (debit) the depreciation reserve at its discretion to
17 increase its earned return on equity to no more than 11.60% or to restore (credit) the
18 depreciation reserve to reduce its return on equity to no more than 11.60% if it otherwise
19 would exceed that maximum threshold.¹⁰

20 If FPL earns in excess of the 11.60% maximum threshold, it then defers the revenue
21 equivalent of the excess earnings as an increase to the depreciation reserve.¹¹ However, if

¹⁰ The establishment of the reserve and the amortization parameters are set forth in paragraph 12 of the 2016 Settlement. I will refer to the use of the depreciation reserve in this manner as the reserve surplus amortization mechanism (“RSAM”) in my testimony.

¹¹ The excess earnings are after tax and must be grossed-up for income taxes to a revenue equivalent.

1 the storm costs are charged to base O&M expense, then the storm costs, net of the related
2 income tax expense, will have the immediate effect of reducing the return on equity in the
3 year expensed and reduce the revenue equivalent amount that otherwise would be deferred
4 to and increase the depreciation reserve.

5 FPL's use of this ratemaking alternative provides immediate and greater recovery
6 of storm costs compared to deferrals to the storm reserve and recovery through a storm
7 surcharge. The depreciation reserve is a reduction to the rate base on which the utility
8 earns a rate of return. If the amount that otherwise would have been added to the
9 depreciation reserve under the RSAM is reduced because storm costs are charged to base
10 O&M expense, then the rate base is increased by an equivalent amount.¹² The increase in
11 rate base serves to reduce the earnings surplus that otherwise would have been used to
12 increase the depreciation reserve, which effectively allows FPL to earn a return on the
13 storm costs, including the return on equity. This increase in rate base will continue
14 indefinitely and requires customers to pay a full return on these costs indefinitely, all else
15 equal.

16 In 2020, FPL's earned return on equity exceeded the 11.60% maximum threshold
17 on an FPSC Adjusted Earnings basis, even after FPL charged the storm costs to base O&M
18 expense and reduced the depreciation reserve by an equivalent amount.¹³ FPL would have
19 deferred \$184.4 million to the depreciation reserve if it had not charged \$183.2 million to
20 base O&M expense in 2020 for the Hurricane Isaias and Tropical Storm Zeta costs on a

¹² This effectively serves to defer the storm costs charged to base O&M expense, not as a regulatory asset, but rather, as a reduction to the depreciation reserve under the RSAM.

¹³ FPL's December 2020 Rate of Return Surveillance Report filed with the Commission on February 15, 2021.

1 retail jurisdictional basis. Instead, it deferred only \$1.2 million,¹⁴ the revenue equivalent
2 of the excess earnings remaining after the charge to base O&M expense. This has the effect
3 of increasing rate base by an amount equivalent to the storm costs charged to base O&M
4 expense, thereby allowing FPL to earn a full return on those costs, including a return on
5 equity. This causes a penalty to ratepayers, in that, they will pay higher rates than if a
6 storm surcharge was used.

7
8 **C. Standard for Recovery of Costs**

9 **Q. WHAT IS THE STANDARD FOR RECOVERY OF THE COMPANIES’**
10 **CLAIMED COSTS?**

11 A. In their Petitions, both Gulf Power Company and FPL assert that the standards for recovery
12 are prudence and reasonableness. In its Petition, Gulf Power Company cites a Commission
13 Order for this prudence standard as “what a reasonable utility manager would do in light
14 of the conditions and circumstances which he knew or reasonably should have known at
15 the time the decision was made.” In addition, in their Petitions, both Gulf Power Company
16 and FPL cite to the Rule as the standard for recovery of non-incremental costs through a
17 storm surcharge, although FPL claims that the Rule is not applicable to its requests in these
18 proceedings.

19 The Rule describes the ICCA methodology to quantify the recoverable amount of
20 the costs incurred for “storm-related damages.” The Rule lists the types or categories of
21 costs that qualify and may be deferred to the “storm account” for recovery, but only to the
22 extent that the costs are “incremental” to costs that already are recovered through base

¹⁴*Id.*

1 and/or cost recovery clause rates or that are in excess of “normal” capital expenditures.
 2 The Rule also lists the types or categories of costs that do not qualify and may *not* be
 3 deferred to the “storm account.”

4 The Rule describes the ICCA methodology, which only allows the utility to charge
 5 costs to the storm account if they are incremental to “those costs that normally would be
 6 charged to non-cost recovery clause operating expenses in the absence of a storm”
 7 (“incremental expenses”) or if they are incremental to the “normal cost for the removal,
 8 retirement and replacement of those [damaged] facilities in the absence of a storm”
 9 (“incremental capital expenditures”). Rule 25-6.0143(1)(d), F.A.C., states specifically:

10 In determining the costs to be charged to cover storm-related damages, the
 11 utility shall use an Incremental Cost and Capitalization Approach
 12 methodology (ICCA). Under the ICCA methodology, the costs charged to
 13 cover storm-related damages shall exclude those costs that normally would
 14 be charged to non-cost recovery clause operating expenses in the absence
 15 of a storm. Under the ICCA methodology for determining the allowable
 16 costs to be charged to cover storm-related damages, the utility will be
 17 allowed to charge to Account No. 228.1 costs that are incremental to costs
 18 normally charged to non-cost recovery clause operating expenses in the
 19 absence of a storm. All costs charged to Account 228.1 are subject to review
 20 for prudence and reasonableness by the Commission. In addition, capital
 21 expenditures for the removal, retirement and replacement of damaged
 22 facilities charged to cover storm-related damages shall exclude the normal
 23 cost for the removal, retirement and replacement of those facilities in the
 24 absence of a storm.

25 Rule 25-6.0143(1)(e), F.A.C., specifically lists the types of storm-related costs that
 26 are allowed to be charged to the storm account under the ICCA methodology as follows:

- 27 1. Additional contract labor hired for storm restoration activities;
- 28 2. Logistics costs of providing meals, lodging, and linens for tents and other
 29 staging areas;
- 30 3. Transportation of crews for storm restoration;
- 31 4. Vehicle costs for vehicles specifically rented for storm restoration activities;

- 1 5. Waste management costs specifically related to storm restoration activities;
- 2 6. Rental equipment specifically related to storm restoration activities;
- 3 7. Materials and supplies used to repair and restore service and facilities to pre-
- 4 storm condition, such as poles, transformers, meters, light fixtures, wire, and
- 5 other electrical equipment, excluding those costs that normally would be
- 6 charged to non-cost recovery clause operating expenses in the absence of a
- 7 storm;
- 8 8. Overtime payroll and payroll-related costs for utility personnel included in
- 9 storm restoration activities;
- 10 9. Fuel cost for company and contractor vehicles used in storm restoration
- 11 activities; and
- 12 10. Cost of public service announcements regarding key storm-related issues, such
- 13 as safety and service restoration estimates.

14 Rule 25-6.0143(1)(f), F.A.C., lists the types of storm-related costs that are

15 *prohibited* from being charged to the storm account under the ICCA methodology as

16 follows:

- 17 1. Base rate recoverable regular payroll and regular payroll-related costs for utility
- 18 managerial and non-managerial personnel;
- 19 2. Bonuses or any other special compensation for utility personnel not eligible for
- 20 overtime pay;
- 21 3. Base rate recoverable depreciation expenses, insurance costs and lease expenses
- 22 for utility-owned or utility-leased vehicles and aircraft;
- 23 4. Utility employee assistance costs;
- 24 5. Utility employee training costs incurred prior to 72 hours before the storm
- 25 event;
- 26 6. Utility advertising, media relations or public relations costs, except for public
- 27 service announcements regarding key storm-related issues as listed above in
- 28 subparagraph (1)(e)10.;
- 29 7. Utility call center and customer service costs, except for non-budgeted overtime
- 30 or other non-budgeted incremental costs associated with the storm event;
- 31 8. Tree trimming expenses, incurred in any month in which storm damage
- 32 restoration activities are conducted, that are less than the actual monthly

1 average of tree trimming costs charged to operation and maintenance expense
2 for the same month in the three previous calendar years;

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

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

5 In addition to the standards set forth in the Rule, Kennedy and Associates relied on
6 Commission decisions adopting settlement agreements in other proceedings involving
7 FPL, Duke Energy Florida, Gulf Power Company, and Tampa Electric Company.¹⁵ These
8 decisions adopt specific methodologies to quantify certain incremental costs pursuant to
9 the Rule and adopt specific information filing requirements and review procedures that will
10 be applicable in future storm proceedings for those utilities. Those decisions and the
11 underlying settlement agreements provide a useful framework for the Commission to look
12 to in order to ensure that costs are, in fact, incremental and reasonable, and in accordance
13 with the standards set forth in the Rule. However, those decisions are based on settlements
14 that fail to fully address all non-incremental costs not allowed recovery pursuant to the
15 Rule.

16
17 **Q. DOES THE RULE ALLOW THE UTILITY TO CHARGE THE STORM COSTS**
18 **TO BASE O&M EXPENSE INSTEAD OF TO THE STORM RESERVE?**

19 A. Yes. The Rule states:

20 (h) A utility may, at its own option, charge storm-related costs as operating
21 expenses rather than charging them to Account No. 228.1. The utility shall
22 notify the Director of the Commission Clerk in writing and provide a
23 schedule of the amounts charged to operating expenses for each incident
24 exceeding \$5 million. The schedule shall be filed annually by February 15
25 of each year for information pertaining to the previous calendar year.

¹⁵ Docket No. 20170272-EI, Docket No. 20170271-EI, and Docket No. 20180049-EI, respectively.

1 **Q. WOULD A UTILITY TYPICALLY CHOOSE TO CHARGE STORM COSTS TO**
2 **BASE O&M EXPENSE?**

3 A. No. A utility typically would not choose to charge storm costs to base O&M expense
4 unless the amounts were minimal because the additional O&M expense would reduce its
5 earned return, all else equal. However, the situation is unique with respect to FPL due to
6 the availability and its use of the depreciation reserve under the RSAM to manage its earned
7 return, recover its storm costs, and earn a return on the storm costs until its base rates are
8 reset in a future base rate case proceeding.

9
10 **Q. DOES THE RULE DISTINGUISH BETWEEN “THE STORM RELATED COSTS”**
11 **CHARGED TO THE STORM RESERVE OR TO BASE O&M EXPENSES?**

12 A. No. The Rule has only one description of storm-related damages or storm costs that may
13 be recovered from customers and that description is not dependent on the form of recovery,
14 or in the case of FPL, the existence of the depreciation reserve under RSAM. Nor does the
15 Rule incorporate an exculpatory term that relieves the utility from compliance with the
16 Rule if it chooses to charge the storm costs to base O&M expense and, in the case of FPL,
17 recover the storm costs through the depreciation reserve under RSAM.

18

19 **III. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS**

20 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.**

21 A. I have separated the conclusions into process, methodology, and disallowance categories.
22 Process conclusions relate to the Company’s planning and implementation, including
23 management and procurement processes that may have resulted in excessive costs.

1 Methodology conclusions relate to the Company's failure to correctly calculate the
2 *incremental* storm-related costs pursuant to the requirements of the Rule that have resulted
3 in excessive costs. Disallowance conclusions relate to costs that should not be included in
4 the storm costs and that should be denied recovery either through a storm surcharge or
5 through base O&M expense.

6 **A. Process Conclusions**

8 The processes and the scope of those processes employed by the Companies,
9 including procurement of resources, mobilization, demobilization, and other logistics are
10 or should be a function of an ongoing assessment of potential physical damage and outage
11 risk exposures, subject to a defined probability within a range of outcomes, and resourcing
12 to meet that defined probability, as well as other defined decision criteria, including, but
13 not limited to, specific outage restoration time targets.

14 My process conclusions are as follows:

- 15 1. The Companies utilize a storm damage model to assess the potential damage
16 and estimate the construction manhours ("CMH") and cost to restore service
17 starting 96 to 72 hours before the forecast storm landfall. The Companies
18 continue to update the potential damage as the storm develops or disperses and
19 the weather forecasts are updated.
- 20 2. The storm damage model was developed in-house by FPL and is maintained
21 and utilized exclusively by FPL. The Companies have not retained outside
22 consulting assistance to review, develop, and enhance the storm damage model,
23 nor have they evaluated the models used by other utilities, such as the Storm
24 Resilience Model, which includes a Storm Impact Model, developed by 1898
25 & Co. and used by Tampa Electric Company, and the model developed by
26 Guidehouse and used by Duke Energy Florida.
- 27 3. The Companies have no users' manual and no written documentation of the
28 storm damage model, except for a very general description of its capabilities
29 included in a pending patent application and a separate very general description
30 in its emergency preparedness plan.

- 1 4. The Companies have no written policies that describe or require them to assess
2 the potential physical damage and outage risk exposures from storms or to
3 optimize the allocation of internal resources and acquisition of external
4 resources necessary to respond to those potential exposures.
- 5 5. The damage and outage risk exposures have declined and should continue to
6 decline further as the Companies make significant investments to harden and
7 protect their systems from storm damages and outages pursuant to their
8 approved Storm Protection Plans. The Companies and other utilities claim that
9 these significant investment costs are justified, at least in part, through savings
10 and reliability improvements resulting from less storm damage and fewer, less
11 severe, and shorter outages.
- 12 6. The Companies have no written policies that describe or require them to plan
13 or implement their outage responses to minimize costs. Their stated objectives
14 are to restore service to as many customers as possible as quickly as possible.
15 The Companies acknowledge that they do not plan or implement their storm
16 responses to minimize costs. The failure to incorporate this objective in its
17 assessing its resourcing needs may result in excessive resourcing and excessive
18 costs once those resources are mobilized.
- 19 7. The Companies failed to demonstrate that they minimized the storm costs
20 through a prudent assessment of damages before storm landfall, prudent
21 resourcing to meet the assessment of damages, and a prudent mix of their own
22 employees, affiliate company contractors, mutual assistance contractors, and
23 other third-party contractors.
- 24 8. The Companies have no incentive to minimize storm costs.

25

26 **B. Methodology Conclusions**

27 The Companies' requests for cost recovery do not comply with the Rule in certain
28 important respects and are overstated. My methodology conclusions are as follows.

- 29 1. FPL failed to limit its request to incremental costs, an overarching requirement
30 of the Rule. Instead, FPL effectively circumvented the prohibition against
31 recovery of non-incremental costs set forth in the Rule by utilizing the
32 depreciation reserve to recover the entirety of the storm costs it incurred and
33 charged to base O&M expense.
- 34 2. The Companies failed to limit their requests to incremental costs by not
35 removing all straight time payroll costs (regular payroll) and related costs from
36 the storm costs, as required by the Rule.

- 1 3. The Companies failed to limit their requests to incremental costs by failing to
2 remove the non-incremental portion of overtime payroll and related costs from
3 the storm costs, as required by the Rule. The Companies objected to and
4 refused to provide the overtime payroll and related costs included in the base
5 revenue requirement or the historic costs in response to OPC discovery.¹⁶
- 6 5. The Companies failed to limit their requests to incremental costs by failing to
7 remove line contractor “costs that normally would be charged to non-cost
8 recovery clause operating expenses in the absence of a storm,” as required by
9 the Rule. The Companies objected to and refused to provide the historic
10 embedded line contractor costs in response to OPC discovery.¹⁷ The
11 Commission previously has utilized a three year historic average to quantify
12 and then exclude vegetation management contractor costs “that normally would
13 be charged to non-cost recovery clause operating expenses” if, in fact, the
14 historic average is greater than the costs in the month of the storm, excluding
15 storm costs from the average and from the month of the current storm for which
16 recovery is sought.
- 17 6. The Companies failed to limit their requests to incremental costs by failing to
18 remove materials and supplies “costs that normally would be charged to non-
19 cost recovery clause operating expenses in the absence of a storm,” as required
20 by the Rule.
- 21 7. Gulf Power Company improperly included interest on the storm costs, which is
22 not listed as a recoverable cost in the Rule.

23

24 **C. Disallowance Conclusions**

25 The Gulf Power Company storm costs charged to the Storm Reserve and the FPL storm
26 costs charged to base O&M expense were excessive due to processes that failed to
27 minimize costs and methodologies that overstated Gulf Power Company’s charges to the
28 storm reserve, which results in excessive storm surcharges, and FPL’s charges to base

¹⁶ Response to Interrogatory No. 33 in OPC’s First Set of Interrogatories in Docket No. 20200241-EI. Response to Interrogatory No. 31 in OPC’s First Set of Interrogatories in Docket No. 20210179-EI. Response to Interrogatory No. 34 in OPC’s First Set of Interrogatories in Docket No. 20210178-EI. I have attached copies of these responses as Exhibit LK-2.

¹⁷ Responses to Interrogatory Nos. 5 and 6 in OPC’s First Set of Interrogatories in Docket Nos. 20200241-EI, 20210179-EI and 20210178-EI. I have attached copies of these responses as Exhibit LK-3.

1 O&M expense that improperly depleted the depreciation reserve, which effectively
 2 imposes these costs on future FPL customers.

3 The following tables summarize the excessive costs included in each Company's
 4 request for each storm and provide the basis for my recommendations to disallow or
 5 otherwise remove these costs. The tables also reflect the disallowances recommended by
 6 Mr. Futral.

Gulf Power Company OPC's Adjustments to Hurricane Sally Claimed Costs for Storm Restoration Based on Costs Accumulated through October 31, 2021 (\$000s)			
	Total Costs	Retail Jurisdictional Factor	OPC Adjusted Recoverable Amount
Total Claimed Costs Associated with Storm Restoration	187,995	99.39%	186,840
Less: As-Filed Additional Accruals to Storm Reserve		100.00%	(40,808)
Add: Interest on As-Filed Unrecovered Deficit		100.00%	311
Total As-Filed Recoverable Storm Losses			<u>146,343</u>
OPC Recommended Adjustments			
Remove Regular Payroll Costs	(966)	99.07%	(957)
Remove Non-Incremental Overtime Payroll Costs	(809)	99.09%	(802)
Remove Non-Incremental Line Contractor Costs	(1,421)	99.63%	(1,416)
Remove Non-Incremental Materials and Supplies	(63)	99.63%	(63)
Remove Accrued Estimated Amounts Not Paid	(231)	99.39%	(229)
Remove Interest on As-Filed Unrecovered Deficit	(311)	100.00%	(311)
Total OPC Adjustments to Claimed Costs	(3,801)	99.39%	(3,778)
OPC Maximum Recoverable Restoration Costs for Hurricane Sally			<u>142,565</u>

Gulf Power Company			
OPC's Adjustments to Hurricane Zeta Claimed Costs for Storm Restoration			
Based on Costs Accumulated through October 31, 2021			
(\$000s)			
	Total Costs	Retail Jurisdictional Factor	OPC Adjusted Recoverable Amount
Total Claimed Costs Associated with Storm Restoration	10,122	99.58%	10,079
Add: Interest on As-Filed Unrecovered Deficit		100.00%	<u>1</u>
Total As-Filed Recoverable Storm Losses			10,080
OPC Recommended Adjustments			
Remove Regular Payroll Costs	(135)	97.01%	(131)
Remove Non-Incremental Overtime Payroll Costs	(85)	99.45%	(84)
Remove Non-Incremental Line Contractor Costs	(109)	99.63%	(109)
Remove Non-Incremental Materials and Supplies	(63)	99.63%	(63)
Remove Accrued Estimated Amounts Not Paid	(5)	99.58%	(5)
Remove Interest on As-Filed Unrecovered Deficit	<u>(1)</u>	<u>100.00%</u>	<u>(1)</u>
Total OPC Adjustments to Claimed Costs	(397)	98.70%	(392)
OPC Maximum Recoverable Restoration Costs for Hurricane Zeta			<u><u>9,688</u></u>

Florida Power and Light Company			
OPC's Adjustments to Hurricane Isaias Claimed Costs for Storm Restoration			
Based on Costs Accumulated through July 31, 2021			
(\$000s)			
	Total Costs	Retail Jurisdictional Factor	OPC Adjusted Recoverable Amount
Total O&M Storm Restoration Costs Claimed	68,466	99.85%	68,363
Less: ICCA O&M	<u>(2,022)</u>	<u>99.72%</u>	<u>(2,017)</u>
Total Claimed Costs Associated with Storm Restoration	66,444	99.85%	66,346
OPC Recommended Adjustments			
Remove Regular Payroll Costs	(323)	98.93%	(320)
Remove Non-Incremental Overtime Payroll Costs	(1,157)	99.12%	(1,146)
Remove Non-Incremental Line Contractor Costs	(612)	99.99%	(612)
Remove Non-Incremental Materials and Supplies	(39)	97.04%	(38)
Remove Accrued Estimated Amounts Not Paid	<u>(81)</u>	<u>99.85%</u>	<u>(81)</u>
Total OPC Adjustments to Claimed Costs	(2,212)	99.32%	(2,197)
OPC Maximum Recoverable Restoration Costs for Hurricane Isaias			<u><u>64,149</u></u>

Florida Power and Light Company OPC's Adjustments to Tropical Storm Eta Claimed Costs for Storm Restoration Based on Costs Accumulated through July 31, 2021 (\$000s)			
	Total Costs	Retail Jurisdictional Factor	OPC Adjusted Recoverable Amount
Total O&M Storm Restoration Costs Claimed - Original	115,470	99.48%	114,871
Changes Reported by FPL in December 6, 2021 Letter	(78)	85.90%	(67)
Total O&M Storm Restoration Costs Claimed - Revised	115,392	99.49%	114,804
Less: ICCA O&M	(2,161)	99.11%	(2,142)
Total Claimed Costs Associated with Storm Restoration-Revised	113,231	99.50%	112,662
OPC Recommended Adjustments			
Remove Regular Payroll Costs	(1,478)	96.72%	(1,429)
Remove Non-Incremental Overtime Payroll Costs	(2,187)	95.88%	(2,097)
Remove Non-Incremental Line Contractor Costs	(1,325)	99.99%	(1,325)
Remove Non-Incremental Materials and Supplies	(185)	98.35%	(182)
Remove Accrued Estimated Amounts Not Paid	(116)	99.50%	(116)
Total OPC Adjustments to Claimed Costs	(5,292)	97.31%	(5,149)
OPC Maximum Recoverable Restoration Costs for Tropical Storm Eta			<u>107,513</u>

1 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

2 A. Similar to the preceding conclusions, I have separated the Kennedy and Associates
3 recommendations into process, methodology, and disallowance categories. The process
4 recommendations address problems in Gulf Power Company's and FPL's procurement and
5 management processes that resulted in excessive costs.¹⁸ The methodology
6 recommendations address the Companies' failure to correctly calculate the *incremental*
7 storm-related costs pursuant to the requirements of the Rule. The disallowance
8 recommendations address costs that were improperly charged by Gulf Power Company to
9 the storm reserve and improperly charged by FPL to base O&M expense and recovered
10 through the depreciation reserve and that should be restored to the depreciation reserve.

¹⁸ In addition, Mr. Futral provides recommendations that will improve the review of the costs incurred by providing all relevant documents and information when the Companies file their Petitions for final cost recovery.

D. Process Recommendations

I recommend that the Commission adopt and direct the Companies to make the following improvements to their processes.

1. The Companies should engage outside consulting assistance to review and further develop or replace the storm damage model to enhance its capabilities and predictive capability and acquire or develop resourcing optimization software, all with the goals of systematizing the Companies' decision criteria for restoration times and to minimize outage costs.
2. The Companies should adopt written documentation of their storm damage model and all related models, including: 1) a user manual; 2) their resourcing models and methodologies; 3), and the decision criteria used to determine resource requirements, procure embedded and external resources to meet those requirements, and mobilize, move, and demobilize those resources throughout and after the restoration process.
3. The Companies should adopt written policies that describe and require them to plan and implement its storm damage and outage responses to minimize costs.
4. The Companies should adopt written policies that describe and require them to optimize the allocation and acquisition of embedded and external resources necessary to respond to the potential damage and outage risk exposures identified in their assessments of those risk exposures.
5. The Companies should adopt written policies that describe and require them to minimize storm costs through careful management of the mobilization of its contractors, including the acquisition and/or development of optimization software.
6. The Companies should adopt written policies that describe and require them to minimize storm costs through careful management of the demobilization of its contractors, including the acquisition and/or development of optimization software

E. Methodology Recommendations

I recommend that the Commission adopt and direct the Companies to make the following changes to their methodologies.

- 1 1. The Commission should disallow and direct the Companies to quantify and
2 exclude all costs that are not demonstrably incremental to “costs normally
3 charged to non-cost recovery clause operating expenses in the absence of a
4 storm” and incremental to “the normal cost for the removal, retirement and
5 replacement of those facilities in the absence of a storm,” pursuant to the
6 requirements set forth in the Rule.
- 7 2. The Commission should disallow and direct the Companies to exclude all
8 straight time labor (regular payroll) costs in future storm cost proceedings in
9 accordance with the prohibition against such costs set forth in the Rule.
- 10 3. The Commission should disallow and direct the Companies to quantify and
11 exclude the non-incremental overtime payroll and related costs in future storm
12 cost proceedings in accordance with the requirements set forth in the Rule.
- 13 4. The Commission should disallow and direct the Companies to quantify and
14 exclude line contractor “costs that normally would be charged to non-cost
15 recovery clause operating expenses in the absence of a storm” pursuant to the
16 ICCA limitations set forth in the Rule.
- 17 5. The Commission should disallow and direct the Companies to quantify and
18 exclude materials and supplies “costs that normally would be charged to non-
19 cost recovery clause operating expenses in the absence of a storm” pursuant to
20 the ICCA limitations set forth in the Rule.

22 **F. Disallowance Recommendations**

23 I recommend that the Commission disallow or otherwise remove at least \$3.778 million in
24 excessive costs for Hurricane Sally and \$0.392 million in excessive costs for Hurricane
25 Zeta included in Gulf Power Company’s requests. I recommend that the Commission
26 disallow or otherwise remove at least \$2.197 million in excessive costs for Hurricane Isaias
27 and \$5.149 million in excessive costs for Tropical Storm Eta included in FPL’s requests.
28 These costs are summarized in the tables in the preceding Disallowance Conclusions
29 section of my testimony.

30

1 **IV. PROCESS ISSUES**

2 **A. Storm Costs Are Excessive Compared to Actual System Damage and Customer**
3 **Interruptions**

4 **Q. PLEASE SUMMARIZE THE SYSTEM DAMAGE, CUSTOMER**
5 **INTERRUPTIONS, AND COSTS INCURRED FOR EACH STORM.**

6 A. The Companies prepared a Report after each of the storms, except for Hurricane Zeta,¹⁹
7 that describes the storm characteristics and weather, the forecast and actual storm paths,
8 transmission line and substation performance, distribution performance (poles, feeders,
9 laterals, transformers, pad-mounted switches), smart grid performance, customer
10 interruptions due to vegetation, and the effects of the Company's hardening programs.

11 In addition to the reports prepared after each storm, except for Hurricane Zeta, Gulf
12 Power Company witness Michael Spoor addressed Hurricane Sally and Hurricane Eta and
13 FPL witness Manuel Miranda addressed the Hurricane Isaias and Tropical Storm Eta in
14 their direct testimonies in these proceedings. More specifically, for each storm, they
15 described the storm development and path, damages, customer outages, and Gulf Power
16 Company's and FPL's response, and the costs that were incurred. Gulf Power Company
17 witness Carmine Priore, III also addressed the damages at Plant Crist due to flooding from
18 Hurricane Sally.

19
20 **Q. DID THE COMPANIES MANAGE THEIR RESPONSES TO THE STORMS TO**
21 **MINIMIZE COSTS?**

¹⁹ Response to POD No. 32 in OPC's Second Request for Production of Documents in Docket No. 20200241-EI (Confidential Hurricane Sally Report). Response to POD No. 26 in OPC's First Request for Production of Documents in Docket No. 20210178-EI (Confidential Hurricane Isaias Report and Confidential Tropical Storm Eta Report). A copy of each report is attached as my Confidential Exhibit LK-4 for Hurricane Sally, Confidential Exhibit LK-5 for Hurricane Isaias, and Confidential Exhibit LK-6 for Tropical Storm Eta.

1 A. No. Both Mr. Spoor and Mr. Miranda described their storm response objectives as the
2 restoration of service to as many customers as possible within the shortest time. More
3 specifically, Mr. Spoor stated: “The primary objective of Gulf’s emergency preparedness
4 plan and restoration process is to safely restore critical infrastructure and to restore power
5 to the greatest number of customers in the least amount of time so that Gulf can return
6 normalcy to the communities it serves.”²⁰ Similarly, Mr. Miranda stated: “The primary
7 objective of FPL’s emergency preparedness plan and restoration process is to safely restore
8 critical infrastructure and to restore power to the greatest number of customers in the least
9 amount of time so that FPL can return the communities it serves to normalcy.”²¹ Both Mr.
10 Spoor and Mr. Miranda stated further that “the objective of safely restoring electric service
11 as quickly as possible cannot, by definition, be pursued as a ‘least cost’ process.”²²

12
13 **Q. DOES THAT MEAN THE COMPANIES CANNOT OR SHOULD NOT ATTEMPT**
14 **TO MINIMIZE THE COSTS THAT ARE INCURRED?**

15 A. No. To the contrary, the Companies have an obligation to minimize costs through every
16 phase of the storm planning and restoration process. They have an obligation to accurately
17 assess the range of potential damage, properly size the resourcing necessary to respond to
18 the potential damage, and establish and abide by decision criteria to quantify, acquire, and
19 mobilize the resources necessary to restore service to customers within a reasonable time
20 at the minimum reasonable cost. The accuracy of the damage forecasts is critical. The
21 resourcing is critical. However, the resourcing depends on the decision criteria to restore

²⁰ Direct Testimony of Michael Spoor at p. 5 in Docket No. 20200241-EI.

²¹ Direct Testimony of Manuel Miranda at p. 6 in Docket No. 20210178-EI.

²² Direct Testimony of Michael Spoor at p. 6 in Docket No. 20200241-EI and Direct Testimony of Manuel Miranda at p. 6 in Docket No. 20210178-EI.

1 service to the customers out of service within acceptable and reasonable outage time
2 criteria, neither of which have been established or are used to determine resourcing.

3
4 **Q. WHAT ARE YOUR RECOMMENDATIONS IN RESPONSE TO THESE**
5 **CONCERNS?**

6 A. My recommendations are detailed in each of the following subsections of this section of
7 my testimony. They address improvements in the planning process and in the
8 implementation of the actual storm response, as well as providing an incentive or stake in
9 the recovery of storm costs that will minimize the costs to customers incurred to respond
10 to future storms and to align the Companies' interest in minimizing storm costs with those
11 of their customers.

12
13 **B. Prudent Planning And Implementation of Storm Responses Is Necessary In Order**
14 **to Minimize Storm Costs and Customer Interruptions**

15 **Q. HAVE THE COMPANIES PROVIDED EVIDENCE THAT THEY PLAN OR**
16 **IMPLEMENT THEIR STORM RESPONSES IN ORDER TO MINIMIZE COSTS?**

17 A. No. To the contrary, the Companies state that minimizing the storm costs is not a planning
18 or implementation objective.²³ The Companies have no policy that requires them to
19 minimize costs given specific decision criteria for reasonable outage restoration times.
20 Perhaps rather obviously, the greater the resources that are acquired, the greater the number
21 of customers that are restored, the fewer minutes of interruption, and the shorter the outage
22 restoration times on average. Similarly, the fewer the resources that are acquired, the fewer

²³ Direct testimony of Manuel Miranda at p. 6 in Docket No. 20210178-EI.

1 the number of customers that are restored, the greater the minutes of interruption, and the
2 longer the outage restoration times on average. However, between the excessive and
3 inadequate range of outage restoration times, there are reasonable and appropriate decision
4 criteria that balance the costs to acquire greater resources against the longer restoration
5 times, especially in light of the nearly \$15 billion that FPL proposes to spend on storm
6 hardening and protection activities in the next 10 years.²⁴

7
8 **Q. WHY IS THAT IMPORTANT?**

9 A. It is important because it affects the total costs of the storm response and the costs that
10 customers pay through the ratemaking process, regardless of whether the recovery is
11 obtained through the storm account and a storm surcharge or through the depreciation
12 reserve. Gulf Power Company and FPL ultimately are reimbursed by customers for the
13 entirety of their prudent and reasonable storm costs through the ratemaking process.

14 The Companies have an obligation to act prudently and reasonably to repair damage
15 and restore service within a reasonable period of time. However, this must be balanced
16 against the costs of doing so. The Company also has an obligation to act in an intentional
17 manner to prudently and reasonably minimize costs. This requires more than an after-the-
18 fact review of vendor invoices for resources that have been mobilized. It requires the
19 adoption, communication, and implementation of policies to achieve this objective before
20 resources are mobilized.

21
²⁴ Docket No. 20220051-EI, Direct testimony of Michael Jarro, Exhibit MJ-1, APPENDIX C (Page 2 of 2).
(Total SPP costs for 2023 – 2032 projected to be \$14,854 million (nominal)).

1 **C. Systematic And Accurate Assessments of Risk Exposures Are Necessary In Order**
2 **to Optimize Resources and Minimize Cost of Storm Responses and Customer**
3 **Interruptions**

4 **Q. SHOULD THE COMPANY OPTIMIZE THE SCOPE, AND MINIMIZE THE**
5 **COSTS, OF ITS RESPONSES TO REFLECT THE CONTINUOUS HARDENING**
6 **AND PROTECTION OF ITS SYSTEM ASSETS AND REDUCTIONS IN**
7 **VEGETATION EXPOSURE?**

8 A. Yes. The reality is that, as Gulf Power Company and FPL have made investments in their
9 transmission and distribution systems and expanded their vegetation management
10 programs to improve the resiliency of their systems through storm hardening and storm
11 protection programs and projects approved by the Commission. The investments and
12 expenses incurred and recovered from customers for this purpose should significantly
13 reduce the damage and the cost of the storm responses and service restoration activities.

14 The Companies and other utilities have claimed in multiple forums and in multiple
15 SPP proceedings that these significant hardening and protection investments and
16 vegetation management expenses are justified, at least in part, through savings and
17 reliability improvements due to significant and continuous reductions in physical storm
18 damages and fewer and less severe outages. Indeed, in their storm reports, Gulf Power
19 Company and FPL repeatedly cited the various storm hardening and protection programs
20 they already have implemented as the reasons for no or minimal physical damage to the
21 hardened assets compared the non-hardened assets.²⁵ Thus, this should result in lower
22 storm costs in response to future storm events, not the same or even increased costs.

²⁵ See Confidential Report for Hurricane Sally at pp. 4, 5, 6, 9, 46, 47, and 50 of Confidential Exhibit LK-4 [Bates pp. 024756, 024757, 024758, 024761, 024798, 024799, 024802]. See Confidential Report for Hurricane Isaias at pp. 3, 4, 5, 14, 15, and 16 of Confidential Exhibit LK-5 [Bates pp. 029092, 029093, 029094, 029103,

1 **Q. DESCRIBE FPL'S STORM DAMAGE MODEL.**

2 A. FPL has developed a storm damage model for use in assessing potential damage to its
3 transmission and distribution systems prior to storm landfall. FPL used the storm damage
4 model in the responses to the four storms addressed in these proceedings. Gulf Power
5 Company and FPL provided general descriptions of the storm damage model in their
6 Emergency Preparedness Plans and responses to OPC written discovery. FPL also
7 participated in an informal technical conference with OPC and provided expedited
8 response to OPC written discovery following the technical conference.

9 The FPL storm damage model was developed and is maintained and used
10 exclusively by FPL employees.²⁶ FPL considers the storm damage model to be proprietary
11 and has applied for a patent, which is pending. FPL never has had the model reviewed by
12 an outside consulting firm or obtained external assistance for the purposes of improving
13 the model, improving the model's predictive accuracy, or expanding the model to include
14 algorithms for resourcing.

15 FPL provided a pictorial overview of the storm damage model in its Emergency
16 Preparedness Plan showing the inputs and outputs of the model. Gulf Power Company and
17 FPL provided additional public and confidential descriptions of the inputs and the use of
18 the model in response to OPC discovery in these proceedings.²⁷

029104, 029105]. See Confidential Report for Tropical Storm Eta at pp. 3, 4, 15, 16, 19, 20, 24, 28, 29, and 30 of Confidential Exhibit LK-6 [Bates pp. 029061, 029062, 029073, 029074, 029077, 029078, 029082, 029086, 029087, 029088].

²⁶ Responses to Interrogatory Nos. 55 and 56 in OPC's Fifth Set of Interrogatories provided in Docket No. 20200241-EI. I have attached a copy of these responses as my Exhibit LK-7.

²⁷ Responses to POD No. 18 (Public) in OPC's Second Request for Production of Documents and Interrogatory 52 (Confidential) in Docket No. 20200241-EI. Similar responses were filed for each of the other storms. I have attached copies of these responses in Docket No. 20200241-EI as my Confidential Exhibit LK-8.

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Q. DOES FPL HAVE A USERS' MANUAL OR ANY OTHER FORMAL DOCUMENTATION OF THE STORM DAMAGE MODEL?

A. No. There is no use users' manual for and no other formal documentation of the storm damage model, except for FPL's patent application.³⁰ FPL's patent application provides another general description of the storm damage model, but it does not rise to the level of

²⁸ Responses to Interrogatory Nos. 51 and 54 in OPC's Fifth Set of Interrogatories provided in Docket No. 20200241-EI. I have attached a copy of these responses as my Confidential Exhibit (LK-9).

²⁹ Response to Interrogatory No. 53 in OPC's Fifth Set of Interrogatories provided in Docket No. 20200241-EI. I have attached a copy of this response as my Exhibit LK-10.

³⁰ Response to POD No. 44 in OPC's Third Request for Production of Documents provided in Docket No. 20200241-EI. I have attached a copy of this response as my Exhibit LK-11.

1 a users' manual or provide detailed documentation as to the automated weather feeds, other
2 data inputs, such as asset inventory, vegetation density, and damage curves, other
3 interfaces, operation, sensitivities, outputs and or use of the outputs for resourcing, among
4 other detail typically included in such documentation.

5
6 **Q. IS THE LACK OF A USERS' MANUAL OR OTHER FORMAL**
7 **DOCUMENTATION A CONCERN?**

8 A. Yes. In my experience, this is unusual. It is a concern because the development and the
9 operation of the model rely solely on the collective knowledge of the team that develops,
10 maintains, and uses the model, which may not be shared or accessible by all team members
11 or new team members. It also limits the ability of any outside expert, OPC, or other parties
12 to review and assess the model, including its structure and its use in minimizing costs
13 through the predictive accuracy of the potential damage and the resulting CMH, and,
14 ultimately, the resourcing necessary to repair damage and restore service within a
15 reasonable time period.

16
17 **Q. DOES FPL UTILIZE A RESOURCING MODEL TO OPTIMIZE ITS**
18 **RESOURCING?**

19 A. No.³¹ FPL resourcing analyses are performed manually by the Resource Allocation team,
20 which reports to the Planning Section Chief, who then submits the recommendations to the

³¹ Response to Interrogatory No. 50 in OPC's Fifth Set of Interrogatories provided in Docket No. 20200241-EI. I have attached a copy of this response as my Exhibit LK-12.

1 Area Commander for review and approval.³²

2

3 **Q. IS THE LACK OF A RESOURCE OPTIMIZATION MODEL A CONCERN?**

4 A. Yes. This is a concern because the resourcing is the single largest cost driver and the cost
5 of those resources is the single largest cost incurred by both Companies to repair damage
6 and restore service. Once resources are mobilized, especially contractor resources that
7 must be mobilized and subsequently demobilized, the costs will be incurred, even if the
8 storm damage is less than predicted by the storm damage model. Similarly, the greater the
9 number of resources that are mobilized, the greater the costs that will be incurred.

10

11 **Q. WHAT ARE THE CRITICAL INPUTS INTO A RESOURCE OPTIMIZATION**
12 **MODEL?**

13 A. In addition to the potential damage output from the storm damage model, the optimization
14 of resources requires specific and objective decision criteria in terms of reasonable outage
15 times based on the potential damage, as well as inputs for the available resources and the
16 cost of those resources, including the costs of mobilization, demobilization, and the related
17 travel.

18

19 **Q. DO GULF POWER COMPANY AND FPL HAVE DEFINED DECISION**
20 **CRITERIA THAT INFORM THEIR RESOURCING AND THAT COULD BE**
21 **UTILIZED IN A RESOURCE OPTIMIZATION MODEL?**

³² Response to Interrogatory No. 37 in OPC's Second Set of Interrogatories provided in Docket No. 20200241-EI. Response to Interrogatory No. 36 in OPC's Second Set of Interrogatories provided in Docket No. 20210178-EI. I have attached copies of these responses as my Exhibit LK-13.

1 A. No. Gulf Power Company “does not have defined ‘decision criteria’ that can be applied
2 consistently during each restoration event. . . resource decisions are based on the
3 Construction Man Hours (CMH) damage forecast from the Storm Damage Model,
4 information from historical events, onsystem resource, and the availability and location of
5 external resources.”³³

6

7 **Q. IS THE LACK OF DEFINED DECISION CRITERIA A CONCERN?**

8 A. Yes. Without objective decision criteria, the Companies have no practical ability to
9 optimize their resourcing in order to minimize outage costs. The critical outage cost driver
10 is the resourcing necessary to repair the potential damage and restore service.

11

12 **Q. WHAT ARE YOUR RECOMMENDATIONS?**

13 A. I have several process recommendations that, if adopted, will serve to optimize the quantify
14 of resources acquired, allow the Companies to repair damage and restore service within
15 reasonable outage times, and allow the Companies to minimize storm costs through their
16 resourcing decisions and mobilizations before the costs actually are incurred.

17 First, the Companies should engage an external consulting assistance to review and
18 further develop or replace the storm damage model to enhance its capabilities and
19 predictive capability and accuracy.

20 Second, the Companies should acquire and/or develop resourcing optimization
21 software, all with the goals of establishing and systematically implementing the
22 Companies’ decision criteria for reasonable restoration times and to minimize outage costs.

³³ *Id.*

1 Third, the Companies should adopt written policies that describe and require them
2 to plan and implement its storm damage and outage responses to minimize costs based on
3 specific decision criteria, primarily reasonable outage times.

4 Fourth, the Companies should adopt written documentation of their storm damage
5 model, all related models, and their resourcing models, both prior to landfall and after
6 landfall, including: 1) users' manuals; 2) use of the models and the methodologies
7 employed; 3) and the decision criteria that are used to determine resource requirements,
8 procure embedded and external resources to meet those requirements, and mobilize, move,
9 and demobilize those resources throughout and after the restoration process.

10
11 **D. Prudent Management of Contractor Resources Is Necessary In Order to Minimize**
12 **Storm Costs**

13 **Q. HAVE THE COMPANIES DEMONSTRATED THAT THEY MINIMIZED THE**
14 **STORM COSTS THROUGH THEIR SELECTION OF RESOURCES,**
15 **INCLUDING CONSIDERATION OF THE COSTS TO MOBILIZE AND**
16 **DEMOBILIZE THIRD-PARTY LINE CONTRACTORS?**

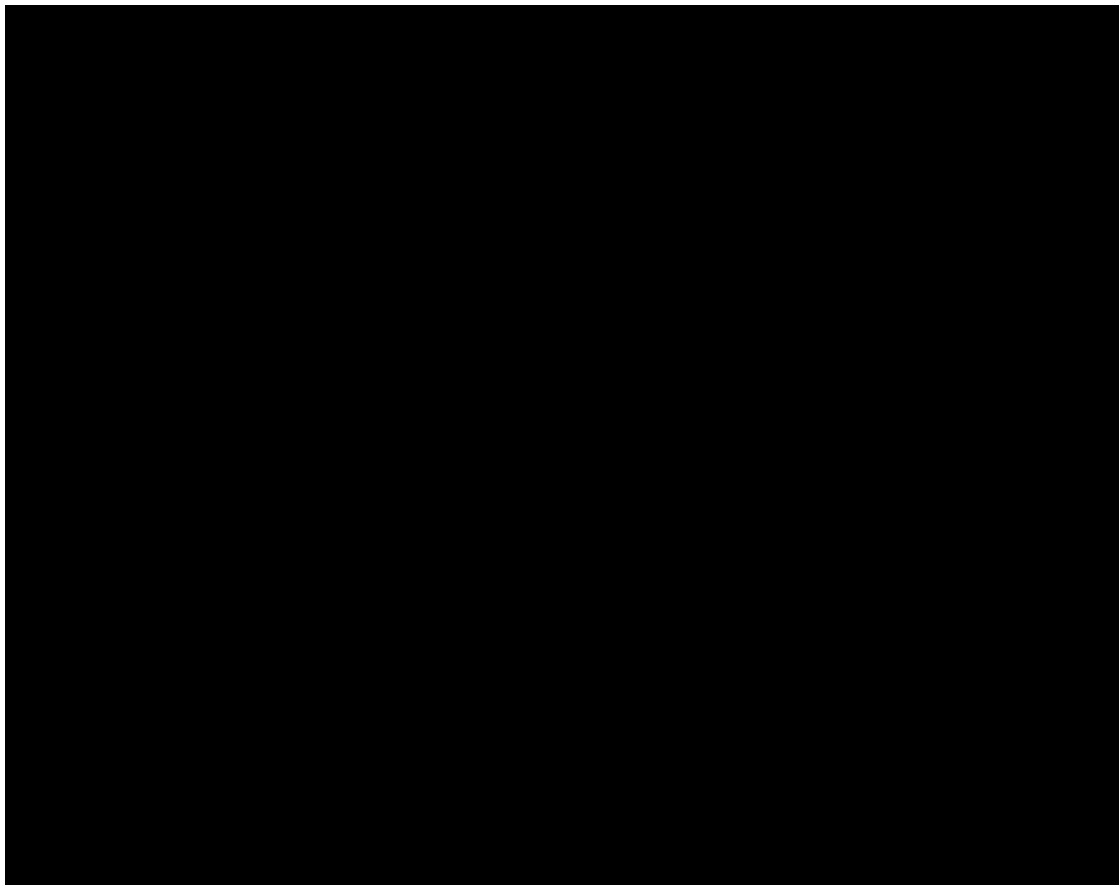
17 A. No. The quantity of resources acquired to respond to the potential storm damage is the
18 primary driver of the costs that will be incurred. The mix of resources also is a driver of
19 the costs that will be incurred. Embedded resources tend to be the lowest cost resources,
20 followed closely by affiliate resources. Mutual assistance resources tend to be the next
21 lowest cost, although it depends greatly on the contract terms and each mutual assistance
22 company's determinations of its costs. Other third-party contractor resources tend to be the
23 highest cost and greater than affiliate and mutual assistance costs, although there are
24 exceptions. The costs for other third-party contractors include mobilization and

1 demobilization costs, including travel and standby costs, in addition to the costs incurred
2 to repair damage and restore service.

3
4 **Q. PLEASE COMPARE THE COMPANIES' USE OF AFFILIATES, MUTUAL**
5 **ASSISTANCE COMPANIES, AND OTHER THIRD-PARTY LINE**
6 **CONTRACTORS.**

7 A. The Companies relied primarily on third party contractors rather than their own employees,
8 affiliate company contractors, or mutual assistance contractors, all of which may have
9 provided lower cost alternatives compared to higher cost third-party contractors.

10 The following table provides a comparison for each storm of the costs for affiliate,
11 mutual assistance utilities, and other third-party overhead line contractors incurred by each
12 of the Companies. The affiliate charges in these proceedings reflect assistance by Gulf
13 Power Company to FPL for Hurricane Isaias and Tropical Storm Eta and by FPL to Gulf
14 Power Company for Hurricane Sally and Hurricane Zeta. The other third-party overhead
15 line contractors includes both embedded contractors, who were redirected to provide storm
16 services at higher rates and costs than the rates and costs for non-storm services, and non-
17 embedded contractors subject to storm related contracts, who generally have the highest
18 rates and costs.



1 **Q. WHAT IS YOUR RECOMMENDATION?**

2 A. The Companies should adopt written policies that describe and require them to optimize
3 the allocation and acquisition of embedded and external resources necessary to respond to
4 the potential damage and outage risk exposures identified in their assessments of those risk
5 exposures.

6 In addition, the Companies should adopt written policies that describe and require
7 them to minimize storm costs through careful management of the mobilization and
8 demobilization of its contractors, including the acquisition and/or development of
9 optimization software.

1 **E. Interest On Unamortized Storm Costs**

2 **Q. DESCRIBE THE INTEREST INCLUDED BY GULF POWER COMPANY IN ITS**
3 **REQUESTS.**

4 A. Gulf Power Company included \$0.311 million in interest on the unamortized storm costs
5 for Hurricane Sally and \$0.001 million for Hurricane Zeta.

6
7 **Q. IS GULF POWER COMPANY ENTITLED TO RECOVER INTEREST?**

8 A. No. Interest is not identified as a recoverable cost in the Rule.

9
10 **Q. WHAT IS YOUR RECOMMENDATION?**

11 A. I recommend that interest be disallowed.

12
13 **F. The Companies Have No Incentive to Minimize Storm Cost**

14 **Q. DO THE COMPANIES HAVE AN INCENTIVE TO MINIMIZE STORM COSTS?**

15 A. No.

16
17 **Q. IS THAT A CONCERN?**

18 A. Yes. If a utility has no direct interest or stake in minimizing storm costs, then its primary,
19 and perhaps, only objective is to restore service as quickly as possible without
20 consideration of the costs that are incurred. In fact, as I noted previously, both Companies
21 state that their primary objective is to restore service as quickly as possible, although they
22 claims that they attempt to do so efficiently.³⁴

³⁴ Direct Testimony of Manuel Miranda at pp. 15-16 in Docket No. 20210178-EI.

1 **Q. WHAT IS YOUR RECOMMENDATION?**

2 A. I recommend that the Commission adopt a ratemaking incentive to ensure that the
3 Companies are focused on continuous improvement in planning and implementation and
4 other processes to minimize costs before costs for a specific storm are incurred, contractors
5 are mobilized, and invoices are issued by the contractors and paid by the Companies. This
6 is particularly important as the Companies expect to spend nearly \$15 billion in additional
7 storm hardening and protection investments and vegetation management in the next 10
8 years, the entirety of which will be recovered from customers through riders, such as the
9 SPPCRC.

10 There are different forms that this incentive could take. For example, the incentive for
11 Gulf Power Company could take the form of no return on the storm costs if the Commission
12 otherwise is inclined to include interest in the recoverable storm costs, despite the fact that
13 it is not identified as a recoverable cost in the Rule. As another example, the incentive for
14 FPL could be to apply a 95% “recovery factor” that results in a sharing of storm costs 95%
15 to customers and 5% to the Company if the storm costs are charged to base O&M expense
16 and the Company otherwise would recover the costs and a return on the costs through the
17 depreciation reserve under the RSAM. In these proceedings, FPL would be allocated
18 \$3.418 million and \$5.744 million (5%) for Hurricane Isaias and tropical Storm Eta,
19 respectively, and customers would be allocated \$64.945 million and \$109.127 million
20 (95%), for Hurricane Isaias and Tropical Storm Eta, respectively, all else equal and before
21 any other disallowances.

V. METHODOLOGY ISSUES

A. ICCA Methodology Set Forth in The Rule Limits Recovery to Incremental Costs

Q. DID THE COMPANIES LIMIT THEIR CLAIMED COSTS TO INCREMENTAL COSTS PURSUANT TO THE REQUIREMENTS SET FORTH IN THE RULE?

A. No. Gulf Power Company failed to limit the costs charged to the storm reserve and FPL failed to limit the costs charged to base O&M expense to the *incremental* costs incurred and failed to exclude all “costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm” pursuant to the requirements of the Rule.

First, the Companies failed to exclude all straight time labor and related loadings costs as required by the Rule. In direct contravention of the Rule, the Companies excluded only a portion of the straight time labor and related loadings for non-cost recovery clause operating expenses included in its 2020 budget.³⁵ More specifically, Gulf Power Company excluded only 45% of the distribution straight time labor costs and 41% of the straight time transmission labor costs for Hurricane Sally and only 40% of the distribution straight time labor costs and 29% of the straight time transmission labor costs for Hurricane Zeta.³⁶ FPL excluded only 48% of the distribution straight time labor costs and 34% of the straight time transmission labor costs for Hurricane Isaias and only 37% of the distribution straight time labor costs and 16% of the straight time transmission labor costs for Tropical Storm Eta.³⁷

Second, the Companies failed to exclude line contractor “costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm.” The

³⁵ Response to Interrogatory No. 35 in OPC’s First Set of Interrogatories in Docket No. 20210178-EI, a copy of which is attached as Exhibit LK-14.

³⁶ Exhibit DH-1(Sally) and Exhibit DH-1(Zeta) attached to the Direct Testimonies of David Hughes in Docket Nos. 20200241-EI and 20210179-EI, respectively.

³⁷ Exhibit DH-1(Isaias) and Exhibit DH-2(Eta) attached to the Direct Testimony of David Hughes in Docket No. 20210178-EI.

1 Companies objected and refused to provide this information in response to OPC discovery,
2 stating that it was irrelevant, immaterial, and not reasonably calculated to lead to the
3 discovery of admissible evidence.³⁸ Only the Companies have this information. It is
4 directly relevant to the review of its claimed storm costs to avoid double recovery of costs
5 that already are included either in the base revenue requirement or in cost-recovery clause
6 revenue requirements. These costs should be treated no differently than the vegetation
7 management costs.

8 Third, the Companies failed to exclude the materials and supplies “costs that
9 normally would be charged to non-cost recovery clause operating expenses in the absence
10 of a storm” pursuant to the ICCA limitations on materials and supplies costs specifically
11 set forth in the Rule. Only in response to OPC discovery did the Company provide the
12 actual annual cost information necessary to calculate a three-year historic average of these
13 operating expenses in the absence of a storm.³⁹ These costs should be treated no differently
14 than the vegetation management costs.

15
16 **B. The Rule Requires that Costs be Prudent and Reasonable**

17 **Q. DOES RULE 25-6.0143(1)(d), F.A.C., ALLOW RECOVERY OF IMPRUDENT OR**
18 **UNREASONABLE COSTS?**

19 **A.** No. The Rule specifically states that “[a]ll costs charged to Account 228.1 are subject to
20 review for prudence and reasonableness by the Commission.” Thus, all claimed costs must
21 be prudent and reasonable to qualify for ratemaking recovery.

³⁸ Objections to Interrogatory No. 6 in OPC’s First Sets of Interrogatories in Docket Nos. 20200241-EI, 20210178-EI, and 20210179-EI.

³⁹ Responses to Interrogatory No. 8 in OPC’s First Set of Interrogatories in Docket Nos. 20200241-EI, 20210178-EI, and 20210179-EI. I have attached copies of these responses as Exhibit LK-15.

1 **Q. WHY IS IT IMPORTANT THAT NON-INCREMENTAL COSTS BE REMOVED**
2 **AS REQUIRED BY THE RULE EVEN WHEN STORM COSTS ARE CHARGED**
3 **TO BASE O&M?**

4 A. As I previously noted, FPL is not subject to the inherent disincentive against charging storm
5 costs to base O&M in a given year, which typically would cause a utility to take a charge
6 against earnings. The FPL RSAM settlement allows it to use the depreciation reserve to
7 defer the storm costs as an offset to the depreciation reserve and to earn a rate of return on
8 the storm costs due to the increase in rate base, all else equal. This form of ratemaking,
9 without any reduction for non-incremental storm costs, allows FPL to recover those non-
10 incremental costs through the depreciation reserve, a result that is contrary to the stated
11 purpose of the Rule and the ICCA methodology. As I previously noted, it also allows the
12 Company to earn a rate of return on those costs at its weighted cost of capital, including
13 the 11.60% return on equity.

14
15 **Q. IS IT REASONABLE OR PRUDENT TO ALLOW NON-INCREMENTAL STORM**
16 **COSTS TO BE CHARGED TO BASE O&M?**

17 A. No, it is not. It causes ratepayers to pay higher rates than they should under the Rule. It is
18 neither reasonable nor prudent to allow customers to pay more merely because of the
19 recovery method the utility chooses to use.

20 21 **VI. DISALLOWANCE ISSUES**

22 **A. Non-Incremental Costs**

23 **Q. HAVE YOU REFLECTED AN ADJUSTMENT ON THE HURRICANE ISAIAS**
24 **AND TROPICAL STORM ETA TABLES IN THE SUMMARY SECTION OF**

1 **YOUR TESTIMONY TO REMOVE FPL's CALCULATION OF NON-**
2 **INCREMENTAL COSTS FROM THE CHARGES TO BASE O&M EXPENSE?**

3 A. Yes.⁴⁰ As I previously discussed, the Rule makes no distinction between the storm costs
4 recoverable through the storm account and a storm surcharge compared to charging the
5 costs to base O&M expense and recovering them through the Reserve. The inherent
6 disincentive in the form of a reduction in the earned return on equity if the storm costs are
7 charged to base O&M expense is not present in this proceeding given FPL's use of the
8 RSAM to recover its storm costs and its failure to apply, let alone properly apply, the ICCA
9 set forth in the Rule.

10
11 **B. Regular Payroll And Related Costs**

12 **Q. DESCRIBE THE REMAINING REGULAR PAYROLL AND RELATED COSTS**
13 **INCLUDED IN THE COMPANIES' CLAIMED COSTS.**

14 A. Gulf Power Company included \$0.966 million total Company, or \$0.957 million on a retail
15 jurisdictional basis, in regular payroll and related costs in its claimed Hurricane Sally costs
16 after reductions for "capitalizable" and "non-incremental" costs. Gulf Power Company
17 included \$0.132 million total Company, or \$0.131 million on a retail jurisdictional basis,
18 in regular payroll and related costs in its claimed Hurricane Zeta costs after reduction for
19 "capitalizable" and "non-incremental" costs.⁴¹

⁴⁰ I used the amounts shown on Exhibit DH-1(Isaias) and Exhibit DH-2(Eta) attached to the Direct Testimony of Mr. David Hughes in Docket No. 202100178-EI for these adjustments.

⁴¹ Exhibit DH-1(Sally) attached to the Direct Testimony of Mr. David Hughes in Docket No. 20200241-EI for Hurricane Sally amounts before retail jurisdictional allocation. Exhibit DH-1(Zeta) attached to the Direct Testimony of Mr. David Hughes in Docket No. 20210179-EI for Hurricane Zeta amounts before retail jurisdictional allocation. Retail allocations for both hurricanes were calculated by Mr. Kollen.

1 FPL included \$0.323 million total Company, or \$0.320 million on a retail
2 jurisdictional basis, in regular payroll and related costs in its claimed Hurricane Isaias costs
3 after reduction for “capitalizable” and “non-incremental” costs. FPL included \$1.478
4 million total Company, or \$1.429 million on a retail jurisdictional basis, in regular payroll
5 and related costs in its claimed Tropical Storm Eta costs after reduction for “capitalizable”
6 and “non-incremental” costs.⁴²

7
8 **Q. HAVE YOU EXCLUDED THESE REMAINING REGULAR PAYROLL AND**
9 **RELATED COSTS FROM EACH COMPANY’S CLAIMED COSTS?**

10 A. Yes. I excluded the remaining regular payroll and related costs as a disallowance on the
11 tables in the Summary section of my testimony.

12
13 **C. Non-Incremental Overtime Payroll And Related Costs**

14 **Q. DESCRIBE THE OVERTIME PAYROLL AND RELATED COSTS INCLUDED IN**
15 **THE COMPANIES’ CLAIMED COSTS.**

16 A. Gulf Power Company included \$3.236 million total Company, or \$3.207 million on a retail
17 jurisdictional basis, in overtime payroll and related costs in its claimed costs for Hurricane
18 Sally. Gulf Power Company included \$0.339 million total Company, or \$0.337 million on
19 a retail jurisdictional basis, in overtime payroll and related costs in its claimed costs for
20 Hurricane Zeta.⁴³

⁴² Exhibit DH-1(Isaias) and Exhibit DH-2(Eta) attached to the Direct Testimony of Mr. David Hughes in Docket No. 202100178-EI for amounts before retail jurisdictional allocation. Retail allocations for both hurricanes were calculated by Mr. Kollen.

⁴³ Exhibit DH-1(Sally) attached to the Direct Testimony of Mr. David Hughes in Docket No. 20200241-EI for Hurricane Sally amounts before retail jurisdictional allocation. Exhibit DH-1(Zeta) attached to the Direct Testimony of Mr. David Hughes in Docket No. 20210179-EI for Hurricane Zeta amounts before retail jurisdictional allocation. Retail allocations for both hurricanes were calculated by Mr. Kollen.

1 FPL included \$4.626 million total Company, or \$4.582 million on a retail
2 jurisdictional basis, in overtime payroll and related costs in its claimed costs for Hurricane
3 Isaias. FPL included \$8.750 million total Company, or \$8.390 million on a retail
4 jurisdictional basis, in overtime payroll and related costs in its claimed costs for Tropical
5 Storm Eta.⁴⁴

6 The Companies reflected no reductions for “capitalizable” or “non-incremental”
7 overtime and related costs.⁴⁵ The Companies simply claim that the entirety of the overtime
8 payroll and related costs is incremental, although the base revenue requirement includes
9 overtime payroll and related costs.

10
11 **Q. DID YOU ATTEMPT TO DETERMINE THE OVERTIME PAYROLL AND**
12 **RELATED COSTS INCLUDED IN THE BASE REVENUE REQUIREMENTS?**

13 A. Yes. The Companies failed to provide the amounts included in the base revenue
14 requirement in response to OPC discovery.⁴⁶ This information is necessary to quantify and
15 exclude the costs that “normally would be charged to non-cost recovery clause operating
16 expenses in the absence of a storm,” a requirement of the Rule. As a result, the costs
17 claimed by the Companies for overtime payroll and related expenses are overstated.

⁴⁴ Exhibit DH-1(Isaias) and Exhibit DH-2(Eta) attached to the Direct Testimony of Mr. David Hughes in Docket No. 202100178-EI for amounts before retail jurisdictional allocation. Retail allocations for both storms were calculated by Mr. Kollen.

⁴⁵ Exhibit DH-1(Sally) attached to the Direct Testimony of Mr. David Hughes in Docket No. 20200241-EI for Hurricane Sally amounts before retail jurisdictional allocation. Exhibit DH-1(Zeta) attached to the Direct Testimony of Mr. David Hughes in Docket No. 20210179-EI for Hurricane Zeta amounts before retail jurisdictional allocation. Exhibit DH-1(Isaias) and Exhibit DH-2(Eta) attached to the Direct Testimony of Mr. David Hughes in Docket No. 202100178-EI for amounts before retail jurisdictional allocation. Retail allocations for all four storms were calculated by Mr. Kollen.

⁴⁶ Response to Interrogatory No. 33 in OPC’s First Set of Interrogatories in Docket No. 20200241-EI. Response to Interrogatory No. 31 in OPC’s First Set of Interrogatories in Docket No. 202100179-EI. Response to Interrogatory No. 34 in OPC’s First Set of Interrogatories in Docket No. 202100178-EI. See Exhibit LK-2.

1 **Q. WHAT IS YOUR RECOMMENDATION?**

2 A. I recommend that the Commission disallow 25%, or \$0.802 million, of Gulf Power
3 Company's claimed overtime payroll and related costs for Hurricane Sally, and \$0.084
4 million for Hurricane Zeta, in the absence of the information to calculate the non-
5 incremental amount more precisely.

6 I recommend that the Commission disallow 25%, or \$1.146 million, of FPL's
7 claimed overtime payroll and related costs for Hurricane Isaias, and \$2.097 million for
8 Tropical Storm Eta, in the absence of the information to calculate the non-incremental
9 amount more precisely

10 The Companies should not be rewarded simply because they refuse to provide the
11 information that only they have access to for these embedded and non-incremental costs.

12

13 **D. Non-Incremental Line Contractor Costs**

14 **Q. PLEASE DESCRIBE THE COSTS INCURRED FOR LINE CONTRACTORS**
15 **INCLUDED BY THE COMPANIES IN THEIR CLAIMED COSTS.**

16 A. Gulf Power Company included \$71.057 million total Company, or \$70.796 million on a
17 retail jurisdictional basis, for line contractors in its claimed costs for Hurricane Sally and
18 \$5.455 million total Company, or \$5.435 million on a retail jurisdictional basis, for
19 Hurricane Zeta. FPL included \$30.622 million total Company, or \$30.618 million on a
20 retail jurisdictional basis, for line contractors in its claimed costs for Hurricane Isaias and
21 \$66.275 million total Company, or \$66.266 million on a retail jurisdictional basis, for
22 Tropical Storm Eta.

1 Neither Company reflected reductions for non-incremental costs. They did not
2 reduce these claimed costs by the “costs that normally would be charged to non-cost
3 recovery clause operating expenses in the absence of a storm,” as required by the Rule. As
4 a result, the claimed costs are overstated.

5
6 **Q. HAVE YOU BEEN ABLE TO PRECISELY QUANTIFY THE LINE**
7 **CONTRACTOR “COSTS THAT NORMALLY WOULD BE CHARGED TO NON-**
8 **COST RECOVERY CLAUSE OPERATING EXPENSES IN THE ABSENCE OF A**
9 **STORM”?**

10 A. No. As I previously noted, the Companies objected to and refused to provide the historic
11 information necessary to quantify these embedded costs in response to OPC discovery.⁴⁷
12 The Companies used embedded line contractors to respond to the storms, which means that
13 the contractors were not available for non-storm activities and did not charge their costs to
14 the non-storm O&M expense accounts. However, the costs of the embedded contractors
15 are recovered in the Companies’ base revenues. The Companies are not entitled to recover
16 these costs twice, once in the base revenues and then again either through a storm surcharge
17 or through a charge to base O&M expense and reduction to the depreciation reserve under
18 the RSAM. The Companies should not be rewarded simply because they refuse to provide
19 the information that only they have access to for these embedded costs.

⁴⁷ Responses to OPC Interrogatory Nos. 5 and 6 in OPC’s First Set of Interrogatories in Docket Nos. 20200241-EI, 20210179-EI, and 20210178-EI. See Exhibit LK-3.

1 **Q. WHAT IS YOUR RECOMMENDATION?**

2 A. I recommend that the Commission disallow \$1.416 million, or 2.0%, of Gulf Power
3 Company's claimed line contractor costs for Hurricane Sally, and \$0.109 million, or 2.0%
4 of the costs for Hurricane Zeta. I recommend that the Commission disallow \$0.612 million,
5 or 2.0%, of FPL's claimed line contractor costs for Hurricane Isaias, and \$1.325 million,
6 or 2.0% of the costs for Tropical Storm Eta. These recommendations are subject to rebuttal
7 by the Companies if they choose to provide the information on embedded costs that OPC
8 requested through discovery. If they do so, then I reserve the right to submit responsive
9 testimony.

10 I also recommend that the Commission direct the Companies to provide and
11 exclude line contractor "costs that normally would be charged to non-cost recovery clause
12 operating expenses in the absence of a storm" pursuant to the ICCA limitations set forth in
13 the Rule in future storm cost proceedings. If these costs cannot be directly quantified by
14 the Companies, then the Commission should direct them to quantify the costs using a three-
15 year historic average similar to the quantification of the three-year historic average used to
16 exclude vegetation management costs pursuant to the Settlement in Docket No. 20180049-
17 EI.

18

19 **E. Non-Incremental Materials and Supplies Costs**

20 **Q. DESCRIBE THE COSTS INCURRED FOR MATERIALS AND SUPPLIES**
21 **INCLUDED IN THE COMPANIES' CLAIMED COSTS.**

22 A. Gulf Power Company included \$7.385 million total Company, or \$7.248 million on a retail
23 jurisdictional basis, after reduction for capitalizable costs for materials and supplies costs

1 in its claimed costs for Hurricane Sally and \$0.075 million total Company, or \$0.074
2 million on a retail jurisdictional basis, for Hurricane Zeta.⁴⁸ FPL included \$0.039 million
3 total Company, or \$0.038 million on a retail jurisdictional basis, after reduction for
4 capitalizable costs for materials and supplies costs in its claimed costs for Hurricane Isaias
5 and \$0.185 million total Company, or \$0.182 million on a retail jurisdictional basis, for
6 Tropical Storm Eta.⁴⁹

7 The Companies did not reduce their claimed costs for the non-incremental “costs
8 that normally would be charged to non-cost recovery clause operating expenses in the
9 absence of a storm,” as specifically required by the Rule.

10
11 **Q. HAVE YOU BEEN ABLE TO QUANTIFY THE MATERIALS AND SUPPLIES**
12 **“COSTS THAT NORMALLY WOULD BE CHARGED TO NON-COST**
13 **RECOVERY CLAUSE OPERATING EXPENSES IN THE ABSENCE OF A**
14 **STORM”?**

15 A. Yes. Although the Companies objected to providing the historic information necessary to
16 quantify these embedded costs in response to OPC discovery, they nevertheless provided
17 three years of history and the amount included in non-storm O&M expense for each storm
18 for the month in which each storm occurred.⁵⁰

19 Gulf Power Company calculated a three-year non-storm expense historic average
20 of \$0.152 million for the months of September 2017, 2018, and 2019, and provided the

⁴⁸ Exhibit DH-1(Sally) and Exhibit DH-1(Zeta) attached to the Direct Testimonies of Mr. David Hughes in Docket Nos. 20200241-EI and 20210179-EI, respectively.

⁴⁹ Exhibit DH-1(Isaias) and Exhibit DH-2(Eta) attached to the Direct Testimony of Mr. David Hughes in Docket No. 20210178-EI.

⁵⁰ Responses to Interrogatory No. 8 in OPC’s First Set of Interrogatories in Docket Nos. 20200241-EI, 20210178-EI, and 20210179-EI. See Exhibit LK-15.

1 non-storm expense of \$0.089 million for September 2020, the month when Hurricane Sally
2 occurred. On this basis, the non-incremental materials and supplies expense is \$0.063
3 million for Hurricane Sally.

4 Gulf Power Company calculated a three-year non-storm expense historic average
5 of \$0.219 million for the months of October 2017, 2018, and 2019, and provided the non-
6 storm expense of \$0.156 million for October 2020, the month when Hurricane Zeta
7 occurred. On this basis, the non-incremental materials and supplies expense is \$0.063
8 million for Hurricane Zeta.

9 FPL calculated a three-year non-storm expense historic average of \$1.429 million
10 for the months of August 2017, 2018, and 2019, and provided the non-storm expense of
11 \$0.828 million for August 2020, the month when Hurricane Isaias occurred. On this basis,
12 the non-incremental materials and supplies expense is \$0.601 million for Hurricane Isaias.

13 FPL calculated a three-year non-storm expense historic average of \$0.913 million
14 for November 2017, 2018, and 2019, and provided the non-storm expense of negative
15 \$0.194 million for November 2020, the month when Tropical Storm Eta occurred. On this
16 basis, the non-incremental materials and supplies expense is \$1.107 million for Tropical
17 Storm Eta.

18
19 **Q. WHAT ARE YOUR RECOMMENDATIONS?**

20 A. I recommend that the Commission reduce Gulf Power Company's claimed materials and
21 supplies costs by \$0.063 million total Company for Hurricane Sally and \$0.063 million
22 total Company for Hurricane Zeta to remove the non-incremental costs, as required by the
23 Rule. I recommend that the Commission reduce FPL's claimed materials and supplies

1 costs by \$0.039 million total Company for Hurricane Isaias and \$0.185 million total
2 Company for Tropical Storm Eta. The reductions for FPL are the entirety of the materials
3 and supplies costs claimed because the reduction in the actual costs incurred compared to
4 the three-year average is greater than the amounts claimed by FPL for each storm.

5 In addition, I recommend that the Commission direct the Company to include such
6 an adjustment to remove the non-incremental costs in future storm cost proceedings if it
7 would reduce the storm costs recoverable through the ratemaking process, regardless of the
8 form of the recovery.

9

10 **Q. DOES THIS COMPLETE YOUR PREPARED DIRECT TESTIMONY?**

11 A. Yes.

1 MS. CHRISTENSEN: I would ask that my witness
2 be allowed to give a summary of his testimony.

3 Thank you.

4 CHAIRMAN FAY: Sure. And we'll see if we can
5 get Mike maybe on -- is yours not turning on?

6 MS. CHRISTENSEN: It wasn't turning on. I
7 will check it in just a minute. Maybe it was just
8 me.

9 CHAIRMAN FAY: Okay.

10 MS. CHRISTENSEN: But we did move the
11 testimony into the record, correct?

12 CHAIRMAN FAY: Correct. Yes. Yes.

13 MS. CHRISTENSEN: Great. Then I would ask
14 that he be allowed to give his summary. Thank you.

15 CHAIRMAN FAY: Okay. You are recognized.

16 THE WITNESS: Thank.

17 You. Good afternoon. FPL and Gulf Power seek
18 a determination that their planning processes and
19 actions in response to these four storms were
20 prudent, and that their costs incurred were prudent
21 and reasonable.

22 We performed an exhaustive review of these
23 preplanning processes, including the resourcing
24 process and planning tools that were or were not
25 used. We identified deficiencies in their

1 processes that led to excessive costs. Although we
2 do not recommend disallowances due to these
3 deficiencies in this proceeding, we make several
4 specific recommendations to improve their
5 preplanning processes, most importantly the
6 resourcing processes in order to reduce the cost of
7 storms in the future.

8 Our recommendations address the improvement
9 and more effective use of their storm damage model,
10 and implementation of a formalized and systematized
11 resourcing process and planning tools, such as a
12 resourcing model. These recommendations will allow
13 the companies to improve and optimize resourcing
14 decisions and minimize cost to restore service in a
15 prudent and reasonable manner.

16 OPC has a record of making such process
17 recommendations, many of which have been adopted by
18 FPL through settlements, and all of which have
19 reduced costs to customers.

20 In addition, we reviewed the company's costs
21 for compliance with the Commission's cost recovery
22 rule using the incremental cost and capitalization
23 approach. This is the ICCA. The rule requires
24 that costs be prudent and reasonable, and that they
25 are incremental and not recovered through base

1 rates. We identified numerous issues of
2 noncompliance with the requirements of this rule
3 that resulted in excessive storm costs. More
4 specifically, the companies failed to remove all
5 non-incremental costs. Our recommendations address
6 these non-incremental costs and result in
7 disallowances necessary to comply with the
8 requirements of the rule. These recommendations
9 are set forth in more detail in my prefiled
10 testimony.

11 That completes my summary. Thank you.

12 MS. CHRISTENSEN: We tender the witness for
13 cross.

14 CHAIRMAN FAY: Great. Thank you.

15 Mr. Badders, you are recognized.

16 MR. BADDERS: Thank you. We notified OPC last
17 week that we have no questions for this witness.

18 CHAIRMAN FAY: Okay. And there is no
19 redirect.

20 Okay. So we'll go to staff, questions.

21 MR. STILLER: Staff has no questions.

22 CHAIRMAN FAY: Okay. Commissioners?

23 Redirect?

24 All right. Ms. Christensen, we will enter Mr.
25 Kollen's exhibits into the record. I want to make

1 A Yes. My name is Randy A. Futral, J. Kennedy
2 and Associates, Inc., 570 Colonial Park Drive, Suite
3 305, Roswell, Georgia, 30075.

4 Q And did you cause to be filed prefiled direct
5 testimony consisting of 26 pages, inclusive of title
6 pages, et cetera, in Docket Nos. 20200241, 20210178 and
7 20210179?

8 A Yes, I did.

9 Q And do you have any corrections to your
10 testimony?

11 A No.

12 Q And if I were to ask you the same questions
13 today, would your answers be the same?

14 A They would.

15 MS. CHRISTENSEN: I would ask that the
16 testimony be inserted into the record as though
17 read.

18 MR. BADDERS: We'll make the same objection.

19 CHAIRMAN FAY: Okay. With that objection
20 noted, we will enter the testimony into the record.

21 (Whereupon, prefiled direct testimony of Randy
22 A. Futral was inserted.)

23

24

25

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: PETITION FOR LIMITED PROCEEDING)	
FOR RECOVER OF INCREMENTAL)	
STORM RESTORATION COSTS)	DOCKET NO. 20200241-EI
RELATED TO HURRICANE SALLY, BY)	
GULF POWER COMPANY.)	
IN RE: PETITION FOR EVALUATION OF)	
HURRICANE ISAIAS AND TROPICAL)	DOCKET NO. 20210178-EI
STORM ETA STORM COSTS, BY FLORIDA)	
POWER & LIGHT COMPANY.)	
IN RE: PETITION FOR LIMITED PROCEEDING)	
FOR RECOVERY OF INCREMENTAL)	
STORM RESTORATION COSTS AND)	DOCKET NO. 20210179-EI
ASSOCIATED TRUE-UP PROCESS)	
RELATED TO HURRICANE ZETA, BY)	
GULF POWER COMPANY.)	
		FILED: May 2, 2022

DIRECT TESTIMONY AND EXHIBITS

OF

RANDY A. FUTRAL

On Behalf of the Office of Public Counsel

Richard Gentry
Public Counsel

Patricia Christensen
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Office of Public Counsel
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DIRECT TESTIMONY OF RANDY A. FUTRAL1 **I. QUALIFICATIONS AND PURPOSE**2 **A. Qualifications**3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**4 A. My name is Randy A. Futral. My business address is J. Kennedy and Associates, Inc.
5 (“Kennedy and Associates” or “JKA”), 570 Colonial Park Drive, Suite 305, Roswell,
6 Georgia 30075.7 **Q. WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?**8 A. I am a utility rate and planning consultant holding the position of Director of Consulting
9 with the firm of Kennedy and Associates.10 **Q. DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.**11 A. I earned a Bachelor of Business and Science degree in Business Administration with an
12 emphasis in Accounting from Mississippi State University. I have held various positions
13 in the field of accounting for a period of over 35 years, both as an employee and more
14 recently as a consultant. My experience has been focused in the areas of accounting,
15 auditing, tax, budgeting, forecasting, financial reporting, and management.16 Since 2003, I have been a consultant with Kennedy and Associates, providing
17 services to state government agencies and large consumers of utility services in the
18 ratemaking, financial, tax, accounting, and management areas.19 From 1997 to 2003, I served both as the Corporate Controller and Assistant
20 Controller of Telscape International, Inc., an international public company providing

1 telecommunication and high-end internet access services. My tenure with Telscape
2 included responsibilities in the areas of accounting, financial reporting, budgeting,
3 forecasting, banking, and management.

4 From 1988 to 1997, I was employed by Comcast Communications, Inc., then the
5 world's third largest cable television provider, in a series of positions including Regional
6 Controller for their South Central regional office. My duties with Comcast encompassed
7 various accounting, tax, budgeting, forecasting, and managerial functions.

8 From 1984 to 1988, I held various staff and senior level accounting positions for
9 both public accounting and private concerns focusing in the areas of accounting, budgeting,
10 tax and financial reporting.

11 I have testified as an expert on ratemaking, accounting, finance, tax, and other
12 issues in proceedings before regulatory commissions at the federal and state levels on
13 numerous occasions. I have also acted as the lead expert in numerous proceedings
14 involving audits of Louisiana fuel adjustment clauses, environmental adjustment clauses,
15 purchase gas adjustment clauses, energy efficiency rider filings, and formula rate plan
16 filings resulting in written reports that were ultimately approved by the Louisiana Public
17 Service Commission.

18 I previously appeared before the Florida Public Service Commission ("FPSC" or
19 "Commission") as a witness in the recent Tampa Electric Company base rate case
20 settlement hearing in Docket No. 20210034-EI. In addition, I have assisted other Kennedy
21 and Associates experts on numerous occasions in proceedings before the Commission,
22 including base rate, storm cost, fuel adjustment clause, and acquisition proceedings

1 involving Florida Power & Light Company (“FPL”), Duke Energy Florida (“DEF”), and
2 Gulf Power Company.¹

3 **Q. ON WHOSE BEHALF ARE YOU PROVIDING TESTIMONY IN THIS**
4 **PROCEEDING?**

5 A. I am providing testimony on behalf of the citizens of the State of Florida. Kennedy and
6 Associates was retained by the Florida Office of Public Counsel (“OPC”) to perform a
7 review of Gulf Power Company’s costs incurred in response to Hurricane Sally and
8 Hurricane Zeta and FPL’s costs incurred in response to Hurricane Isaias and Tropical
9 Storm Eta and to make recommendations in response to the Petitions, testimonies,
10 discovery, responses, pleadings and Notices of Filings of the confidential documents
11 submitted in these proceedings. My testimony distinguishes each company by name when
12 applicable and also refers to them collectively as the “Companies” when more appropriate.

13 **B. Purpose of Testimony**

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

15 A. The purpose of my testimony is to describe the audits we performed of Gulf Power
16 Company’s and FPL’s costs incurred in response to Hurricane Sally, Hurricane Zeta,
17 Hurricane Isaias, and Tropical Storm Eta, and to present our conclusions and
18 recommendations.

19 **C. Summary of Testimony**

¹ My qualifications are further detailed in Exhibit RAF-1.

1 **Q. PLEASE SUMMARIZE YOUR TESTIMONY**

2 A. I was the lead Kennedy and Associates expert in charge of the audits we performed of the
3 costs incurred for each of the four storms, all of which occurred in 2020. I describe the
4 audits we performed, and present our findings and recommendations, for costs involving
5 the use of the FPL-developed smart phone based iStormed Application (“iStormed App”)
6 used for timesheet and expense costs submitted by all overhead line and vegetation
7 management contractors. These contractor costs make up the great majority of the storm
8 costs incurred. The iStormed App produces Excel-based workbook file invoice extracts
9 that the Companies refer to as “flat files,” which are used by the Companies to perform
10 their own internal audits of submitted cost elements. In addition, I describe the audits we
11 performed, and present our findings and recommendations, for all other contractor and
12 vendor invoice costs.

13 Our audit team found that overall the Companies’ iStormed App and resulting audit
14 and verification processes for all overhead line and vegetation management contractor
15 invoices were systematic, comprehensive, and effective in auditing all submitted costs
16 elements. These processes proved to be very effective in auditing the overhead line and
17 vegetation management vendor invoices, documenting exceptions, making reductions
18 where appropriate, and ultimately in authorizing payments. I recommend no disallowances
19 related to these invoice costs in addition to the exceptions and related disallowances already
20 documented by the Companies.

21 Our audit team found that with the exception of certain reconciling differences
22 between the general ledger and accounts payable transaction detail registers, the costs
23 associated with all other contractor and vendor invoice costs other than those for overhead

1 line and vegetation management contractors were appropriate for storm cost recognition by
2 storm, that the line item costs matched contract and purchase order pricing and limitations
3 when applicable, that the total invoice levels matched details in the general ledger and
4 accounts payable transaction registers, and that there were no duplications of individual cost
5 items included in the storm cost summaries. As confirmed by the Companies in discovery,
6 certain amounts associated with various vendors were accrued as estimates and posted to the
7 general ledger, but the invoices were either double posted, not received and paid, or different
8 in amounts compared to the original estimates. The Companies have committed to reducing
9 the sum of incurred storm costs in the future related to these amounts. Thus, I recommend
10 disallowances for the storms related to these corrections summing to \$0.431 million,
11 amounting to \$0.229 million for Hurricane Sally, \$0.005 million for Hurricane Zeta, \$0.081
12 million for Hurricane Isaias, and \$0.116 million for Tropical Storm Eta. Mr. Kollen has
13 included these amounts on his tables that reflect the OPC's recommended disallowances.

14 I make recommendations for certain process improvements that would further
15 streamline the audit process for future storms. I recommend that the Commission direct
16 the Companies to provide copies of all correct contracts and detailed invoice information
17 for overhead line and vegetation management contractors, as well as all other vendors, with
18 its future Notices of Filings in order to avoid unnecessary delays for reviewers. I also
19 recommend that the Commission direct the Companies to institute a Binder file structure
20 similar to the one that was used by Gulf Power Company in its Hurricane Michael response
21 in order to collect vendor invoices for processing and review by vendor name to streamline
22 the auditing process. Currently, the Companies provide an accounts payable detail list of
23 all invoices and related details as well as hundreds of scanned invoices saved as individual

1 pdf files with only document number references in the file names. This makes the review
2 of all invoices for one particular vendor needlessly cumbersome as an auditor is required
3 to first determine the document number for each applicable vendor invoice and then locate
4 the pdf file associated with that ten-digit document number from a group of hundreds of
5 similar-named files. Finally, assuming that the Companies have not already done so, I
6 recommend that the Commission direct them to extend the application of the effective
7 iStormed App process to all other storm restoration contractors, including, but not limited
8 to, underground line contractors, arborists, transmission storm restoration contractors, and
9 damage assessors.

10 **II. SUMMARY OF INCURRED STORM RECOVERY COSTS BY STORM AND**
11 **DATA PROVIDED WITH EACH PETITION**

12 **Q. BRIEFLY SUMMARIZE GULF POWER COMPANY'S TOTAL REPORTED**
13 **COSTS INCURRED IN THESE PROCEEDINGS.**

14 A. Gulf Power Company reported \$227.5 million in costs incurred for Hurricane Sally and
15 \$11.4 million in costs incurred for Hurricane Zeta.² These were the totals for all costs
16 incurred before reductions for Plant Crist insurance reimbursements, capitalized costs, and
17 other non-incremental costs in accordance with the Incremental Cost and Capitalization
18 Approach (“ICCA”) methodology required under Rule 25-6.0143, Florida Administrative
19 Code (“the Rule”). After reflecting these reductions, Gulf Power Company reported
20 incremental storm losses of \$188.0 million (total Company) for Hurricane Sally and \$10.1
21 million (total Company) for Hurricane Zeta.³

² Exhibit DH-1(Sally) at line 10 in Docket No. 20200241-EI for Hurricane Sally costs and Exhibit DH-1(Zeta) at line 10 in Docket No. 202100179-EI for Hurricane Zeta costs.

³ *Id.* at line 49 of both exhibits.

1 **Q. BRIEFLY SUMMARIZE FPL'S TOTAL REPORTED COSTS INCURRED IN**
2 **THESE PROCEEDINGS.**

3 A. FPL reported \$68.5 million in costs incurred for Hurricane Isaias and \$115.8 million in
4 costs incurred for Tropical Storm Eta.⁴ These were the totals for all costs incurred before
5 reductions for capitalized costs and other non-incremental costs in accordance with the
6 ICCA methodology. After reflecting these reductions, FPL reported incremental storm
7 losses of \$66.4 million (total Company) for Hurricane Isaias and \$113.3 million (total
8 Company) for Tropical Storm Eta.⁵

9 **Q. PLEASE DESCRIBE GULF POWER COMPANY'S AND FPL'S FILINGS AND**
10 **COSTS CLAIMED FOR RECOVERY IN MORE DETAIL FOR EACH OF THE**
11 **STORMS.**

12 A. On November 12, 2021, Gulf Power Company filed its Petitions, Direct Testimonies of Mr.
13 Michael Spoor, Ms. Tiffany Cohen, Mr. Carmine Priore, III, Ms. Clare Gerard, and Mr.
14 David Hughes, and confidential Notice of Filing materials in support of its Petitions related
15 to Hurricanes Sally and Zeta. Gulf Power Company summarized its request for Hurricane
16 Sally costs on Exhibit DH-1(Sally) and for Hurricane Zeta costs on Exhibit DH-1(Zeta),
17 both of which were attached to the Direct Testimonies of Mr. Hughes associated with each
18 storm.

⁴ Exhibit DH-1(Isaias) at line 10 in Docket No. 202100178-EI for Hurricane Isaias costs and Exhibit DH-2(Eta) at line 10 in Docket No. 202100178-EI for Tropical Storm Eta costs. This includes a small revision of costs communicated by FPL in a December 6, 2021 letter to the Commission regarding Tropical Storm Eta costs.

⁵ *Id.* at line 42 of both exhibits.

1 On the same date, FPL filed its Petition, Direct Testimonies of Mr. Manuel
2 Miranda, Ms. Gerard, and Mr. Hughes, and confidential Notice of Filing materials in
3 support of its Petition related to Hurricane Isaias and Tropical Storm Eta. FPL summarized
4 its request for Hurricane Isaias costs on Exhibit DH-1(Isaias) and for Tropical Storm Eta
5 costs on Exhibit DH-2(Eta), both of which were attached to the Direct Testimonies of Mr.
6 Hughes associated with each storm.

7 To support these four exhibits, Gulf Power Company and FPL provided the
8 confidential Excel workbooks used to develop them as well as other confidential materials
9 consisting of Excel workbooks that included invoice information for their overhead line
10 and vegetation management contractors and travel logs. The Excel workbooks
11 summarizing costs for the overhead line and vegetation management contractors are
12 referred to by the two Companies as contractor “flat files.”⁶ These “flat files” are extracts
13 from the FPL-developed smart phone based iStormed App that is now required to be used
14 by all such contractors of both Gulf Power Company and FPL. FPL committed to begin
15 utilizing the iStormed App during the 2019 and 2020 hurricane seasons in phases as part
16 of the Hurricane Irma Settlement Agreement.⁷ As explained in the Direct Testimony of
17 Ms. Gerard,⁸ Gulf Power Company was not required⁸ to begin utilizing the iStormed App
18 until the 2021 hurricane season but implemented its use during 2020. Each “flat file”
19 contains detailed information for each contractor, its crews, and its individual employees.
20 They contain daily timesheet information, hourly rates of pay, per diem reimbursement

⁶ Direct Testimony of Clare Gerard at p. 8 in Docket No. 20200241-EI. Similar references were made in Ms. Gerard’s Direct Testimonies in Docket Nos. 202100178-EI and 202100179-EI.

⁷ Docket No. 20180049-EI, In re: Evaluation of storm restorations costs for Florida Power and Light Company related to Hurricane Irma (“Hurricane Irma Settlement Agreement”) at stipulated paragraphs 6 and 7.

⁸ Direct Testimony of Clare Gerard at p. 4 in Docket No. 20200241-EI.

1 rates, other crew expenses such as lodging during mobilization and demobilization and
2 miscellaneous equipment charges, approvals by responsible employees, documentation of
3 exceptions, and applicable adjustments to final vendor invoices, if any.

4 **Q. PLEASE DESCRIBE THE INVOICE SUPPORT INCLUDED IN THE “FLAT**
5 **FILES” THAT WERE PROVIDED BY GULF POWER COMPANY AND FPL**
6 **WITH THEIR NOTICES OF FILINGS.**

7 A. For Hurricane Sally, Gulf Power Company provided 65 confidential “flat files” detailing
8 costs and summaries for its embedded and non-embedded overhead line and vegetation
9 management contractors.⁹ These contractor costs comprised \$97.2 million of the \$227.5
10 million in total Company costs incurred by Gulf Power Company, after reductions for
11 disallowances resulting from its own audit of the contractor invoices, but before reductions
12 for costs capitalized to plant and reductions to reflect its interpretation of incremental costs
13 pursuant to the Rule. The outside overhead line contractor costs were \$71.1 million total
14 Company, while the vegetation management contractor costs were \$26.1 million total
15 Company.

16 For Hurricane Zeta, Gulf Power Company provided 25 confidential “flat files”
17 detailing costs and summaries for its embedded and non-embedded overhead line and
18 vegetation management contractors.¹⁰ These contractor costs comprised \$6.9 million of
19 the \$11.4 million in total Company costs incurred by Gulf Power Company, after

⁹ There were 53 Confidential Excel files related to overhead line contractors and 12 related to vegetation management contractors provided by Gulf Power Company as part of its Hurricane Sally Petition in Docket No. 20200241-EI.

¹⁰ There were 19 Confidential Excel files related to overhead line contractors and 6 related to vegetation management contractors provided by Gulf Power Company as part of its Hurricane Zeta Petition in Docket No. 202100179-EI.

1 reductions for disallowances resulting from its own audit of the contractor invoices, but
2 before reductions for costs capitalized to plant and reductions to reflect its interpretation of
3 incremental costs pursuant to the Rule. The outside overhead line contractor costs were
4 \$5.3 million total Company, while the vegetation management contractor costs were \$1.6
5 million total Company.

6 For Hurricane Isaias, FPL provided 63 confidential “flat files” detailing costs and
7 summaries for its embedded and non-embedded overhead line and vegetation management
8 contractors.¹¹ These contractor costs comprised \$43.2 million of the \$68.5 million in total
9 Company costs incurred by FPL, after reductions for disallowances resulting from its own
10 audit of the contractor invoices, but before reductions for costs capitalized to plant and
11 reductions to reflect its interpretation of incremental costs pursuant to the Rule. The
12 outside overhead line contractor costs were \$30.4 million total Company, while the
13 vegetation management contractor costs were \$12.8 million total Company.

14 For Tropical Storm Eta, FPL provided 69 confidential “flat files” detailing costs
15 and summaries for its embedded and non-embedded overhead line and vegetation
16 management contractors.¹² These contractor costs comprised \$75.8 million of the \$115.8
17 million in total Company costs incurred by FPL, after reductions for disallowances
18 resulting from its own audit of the contractor invoices, but before reductions for costs
19 capitalized to plant and reductions to reflect its interpretation of incremental costs pursuant

¹¹ There were 50 Confidential Excel files related to overhead line contractors and 13 related to vegetation management contractors provided by FPL as part of its Hurricane Isaias Petition in Docket No. 202100178-EI.

¹² There were 53 Confidential Excel files related to overhead line contractors and 16 related to vegetation management contractors provided by FPL as part of its Tropical Storm Eta Petition in Docket No. 202100178-EI.

1 to the Rule. The outside overhead line contractor costs were \$64.9 million total Company,
2 while the vegetation management contractor costs were \$10.9 million total Company.

3 **Q. DID GULF POWER COMPANY AND FPL PROVIDE COPIES OF CONTRACTS,**
4 **PURCHASE ORDERS, AND OTHER SUPPORTING DOCUMENTATION WITH**
5 **THEIR NOTICES OF FILINGS?**

6 A. No. However, both Companies provided copies of contracts, purchase orders, and other
7 supporting documents in response to OPC discovery including copies of all invoices over
8 \$10,000 for all other outside contractors, mutual assistance companies, vehicle and fuel
9 vendors, and logistics vendors utilized in the Companies' storm responses. The Companies
10 supplied these documents in electronic scanned format as individual files and with
11 supporting Excel files when available.

12 **III. AUDIT PROCESS, CONCLUSIONS, AND RECOMMENDATIONS FOR**
13 **OVERHEAD LINE AND VEGETATION MANAGEMENT CONTRACTOR**
14 **COSTS**

15 **Q. WHAT COMPONENTS OF THE OVERHEAD LINE AND VEGETATION**
16 **MANAGEMENT CONTRACTOR COSTS REPRESENTED THE FOCUS OF**
17 **YOUR AUDITS?**

18 A. Our audits focused on each of the Companies' cost summaries, contractor "flat files,"
19 contracts, travel logs, general ledger transactions, accounts payable transactions, and other
20 documentation supporting the sum of the total costs incurred related to the overhead line
21 and vegetation management contractors for each individual storm.

1 **Q. PLEASE DESCRIBE THE INDIVIDUAL EXCEL “FLAT FILES” SUPPLIED BY**
2 **THE COMPANIES FOR THE OVERHEAD LINE AND VEGETATION**
3 **MANAGEMENT CONTRACTORS IN GREATER DETAIL.**

4 A. The costs summarized in the “flat files” comprised over 64% of the total storm costs for
5 the three storms, Hurricane Isaias, Tropical Storm Eta, and Hurricane Zeta. The overhead
6 line and vegetation management contractor costs comprised only 43% of the total costs for
7 Hurricane Sally, which incurred \$45 million in generation-related costs due primarily to
8 the flooding at Plant Crist. Of the total storm costs for all four storms, the overhead line
9 and vegetation management contractor costs detailed in these Excel files comprise almost
10 53% of the total storm costs. The “flat files” consist of linked multi-worksheet tab files
11 and provide extensive detail. The files include various summary worksheet tabs as well as
12 comprehensive “Timesheets” and “Expenses” worksheet tabs that provide hundreds of
13 lines data containing time worked, rates of pay, and travel-related meal per diem rates for
14 each employee for each day as well as hotel travel costs for all contractors and separate
15 equipment charges for the vegetation management contractors.

16 The rates of pay for each of the overhead line and vegetation management
17 contractors are provided on the “Timesheets” worksheet tab in each vendor file on a
18 blended rate basis separately for work hours and for mobilization/demobilization hours for
19 both regular and overtime hours. The same rate per hour was paid for each contractor
20 employee, regardless of the level of expertise of each individual position. For the overhead
21 line contractors, these hourly rates include equipment charges for the work-related hours
22 and equipment and vehicle fuel and related costs for the mobilization/demobilization-
23 related hours. The same generally applies to the vegetation management contractors as

1 well. However, certain vegetation management contracts specify additional hourly
2 equipment charges that are not included in the hourly rates. The hourly rates paid for
3 mobilization/demobilization are generally greater than those paid for normal work hours.

4 In each of the “Timesheets” tabs, hourly costs for each contractor employee are
5 detailed by day and split between regular time and overtime and travel regular time and
6 travel overtime and then multiplied by the contractor hourly rates noted above to determine
7 the billed amount per day. Exceptions to any accepted billing practices are noted by the
8 Companies for each applicable line item. Those exceptions are either explained in detail
9 and accepted or used to reduce the invoice amounts paid to the contractors.

10 The “Expenses” worksheet tabs are designed very similarly to the “Timesheets”
11 worksheet tabs. During mobilization and demobilization only, per diem meal or daily meal
12 rates are detailed by day for each contractor employee. Hotel costs incurred during
13 mobilization and demobilization are also detailed by day. Finally, pre-authorized
14 specialized equipment charges are included for applicable vegetation management
15 contractors. Like that on the “Timesheets” worksheet tab, exceptions to any accepted
16 billing practices are noted by the Companies for each applicable line item. Those
17 exceptions are either explained in detail and accepted or used to reduce the invoice amounts
18 paid to the contractors.

19 **Q. PLEASE DESCRIBE YOUR AUDITS OF THE COSTS ASSOCIATED WITH THE**
20 **CONTRACTOR “FLAT FILES” PERFORMED FOR EACH OF THE STORMS.**

21 A. Since the great majority of the costs incurred for the storms related to the overhead line
22 and vegetation management first responder costs, our audits focused extensively on the
23 review of each aspect of the contractor “flat files.” Four Kennedy and Associates

1 professionals, including myself, dedicated a portion of our time to a detailed audit of the
2 “flat files.” To focus that review, I created a “flat file” audit plan to guide and ensure that
3 our review of each of the “flat files” was consistent and complete. I held training sessions
4 with each auditor and participated in numerous follow-up question discussions throughout
5 the review process. We summarized our findings on summary spreadsheets that were
6 created to coincide with the various levels of information contained in the “flat files.”¹³ I
7 reviewed the information summarized by each member of the audit team and verified the
8 findings therein with the information contained in each of the individual “flat files” as
9 another level of review. The information from these summaries proved invaluable in order
10 to provide the basis to draft additional discovery required as well as to form our conclusions
11 and recommendations, especially since we were auditing the costs of four separate storms
12 simultaneously.

13 **Q. PLEASE IDENTIFY THE MAJOR COMPONENTS BEING VERIFIED IN YOUR**
14 **REVIEW OF THE CONTRACTOR “FLAT FILES” PERFORMED FOR EACH OF**
15 **THE STORMS.**

16 A. Below I have identified in bullet point format the major components we were seeking to
17 verify in our review of the “flat files” for each contractor.

- 18 • Whether the total costs included in the “flat file” in the “Payment” tab matched the
19 total costs for that contractor on worksheet tabs 1(c) and 1(d) in the Exhibit DH-1
20 and DH-2 confidential Excel workbooks that were provided with the petitions;
21

¹³ I have provided a copy of the Hurricane Sally summary review spreadsheets as my Confidential Exhibit RAF-2, a copy of the Hurricane Zeta summary review spreadsheets as my Confidential Exhibit RAF-3, a copy of the Hurricane Isaias summary review spreadsheets as my Confidential Exhibit RAF-4, and a copy of the Tropical Storm Eta summary review spreadsheets as my Confidential Exhibit RAF-5.

- 1 • Whether the total labor-related costs on the “Payment” tab matched the total costs
2 for all detail lines on the “Timesheets” tab;
3
- 4 • Whether the total expenses-related costs on the “Payment” tab matched the total
5 costs for all detail lines on the “Expenses” tab;
6
- 7 • Whether the hourly labor rates for each data line in the “Timesheets” tab matched
8 the contracted regular and overtime rates for all labor distinctions (product IDs);
9
- 10 • Whether the hourly labor rates included in the “Timesheets” tab appeared
11 reasonable in comparison to those of other contractors and there were no outliers
12 requiring further discovery;
13
- 14 • Whether the hourly and daily per diem rates for each data line in the “Expenses”
15 tab matched the contract rates for all product IDs and that they were consistent
16 across all contracts;
17
- 18 • Whether the specialized equipment costs summarized in the “Expenses” tab for
19 applicable vegetation management contractors matched copies of separate invoice
20 detail and contract rates per hour;
21
- 22 • Whether there were any instances in which double time rates were utilized on the
23 “Timesheets” tab;
24
- 25 • Whether there were days in which more than the contracted and standard
26 International Brotherhood of Electrical Workers (IBEW) 16 hours in a day were
27 charged for overhead line contractors as reflected on the “Timesheets” tab;
28
- 29 • Whether each regular working day for each individual line item was charged with
30 8 hours of regular time and the remainder overtime on the “Timesheets” tab;
31
- 32 • Whether the working day rates for overtime were appropriately charged for any
33 weekend days or holidays on the “Timesheets” tab;
- 34 • Whether there were any contractors reflecting separate standby hours and hourly
35 rates on the “Timesheets” tab and whether those very limited occasions were
36 charged at separate contracted hourly rates;
37
- 38 • Whether the timesheet dates for each individual line item on the “Timesheets” tab
39 for mobilization, demobilization, and regular working hours matched the range of
40 dates for actual storm restorations for each individual event;
41
- 42 • Whether there were any instances in which fuel costs were charged for any reason
43 on the “Expenses” tab since such costs are to be included as a part of hourly labor
44 rates or paid for by the host utility at the staging site;

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- Whether there were any instances in which hotel costs were charged for days other than during mobilization and demobilization on the “Expenses” tab since such costs are to be paid by the host utility at the staging site or other prearranged sites;
 - Whether there were any separate equipment charges for any reason on the “Expenses” tab not preauthorized contractually;
 - Whether justifications for exceptions to any of the above were properly made and documented;
 - Whether there were any other cost items that appeared out of the ordinary; and
 - Whether there were additional invoices for the same contractors for which “flat files” were not produced.

16 **Q. DID THE COMPANIES PERFORM COMPREHENSIVE AUDITS OF THEIR**
17 **OVERHEAD LINE AND VEGETATION MANAGEMENT CONTRACTOR**
18 **INVOICES AND DISALLOW EXCESSIVE CHARGES THROUGH USE OF**
19 **THEIR iSTORMED APP AND RESULTING “FLAT FILE” REVIEWS FOR EACH**
20 **STORM?**

21 A. Yes. Both Companies utilized the iStormed App and “flat files” review processes that were
22 originally developed by FPL, and described above, to audit the overhead line and
23 vegetation management vendor invoices, document exceptions, make reductions where
24 appropriate, and ultimately to authorize payments. As explained in the Direct Testimony
25 of Ms. Gerard,¹⁴ one of the most significant benefits of the iStormed App was the
26 conversion of the timesheet creation and review to a digital process and away from a more
27 cumbersome use of paper timesheets and manual approvals.

¹⁴ Direct Testimony of Clare Gerard at p. 13 in Docket No. 20200241-EI.

1 **Q. WERE THE COMPANIES' AUDITS EFFECTIVE IN IDENTIFYING AND**
2 **EXCLUDING EXCESSIVE COSTS DUE TO CONTRACTOR INVOICES THAT**
3 **DID NOT COMPLY WITH CONTRACT TERMS?**

4 A. Yes. The Companies' audits were effective and resulted in the comprehensive reviews and
5 disallowances of costs originally invoiced by the overhead line and vegetation management
6 contractors that otherwise would have been included in the storm costs charged. The
7 Companies' audits of the invoices and individual line items were systematic and
8 comprehensive.

9 The Companies compared the "flat file" invoice individual line items to the vendor
10 contract provisions and pay rates, identified exceptions, followed-up with the contractors
11 and authorized personnel from the Companies, and disallowed invoiced amounts that did
12 not comply. The Companies reviewed the number of hours billed at each individual rate,
13 the number of miles driven as captured on the travel logs and other travel coordinator
14 documentation versus the claimed hours during mobilization/demobilization, and the
15 claimed time versus approved timesheet data.

16 In those instances when the claimed number of hours did not match contract
17 provisions, travel log and other travel coordinator entries, or timesheet data, the review
18 team entered exception amounts and reasons. The review team reduced invoice amounts
19 and communicated those reductions to the respective contractors or provided reasons why
20 it did not do so, all of which it documented in the "flat file" Excel workbooks. There were
21 some instances in which the number of travel-related hours invoiced exceeded the 16 hour
22 per day contract stated norms by an hour or two per day and no exception explanations
23 were identified. In those cases, exceptions were identified by the Companies but there

1 were no explanations as to the reasons why they were not reduced or why they were deemed
2 acceptable. Nevertheless, those instances were few and did not lead to a material
3 overstatement of costs. Regardless, we believe that the requirement for the Companies to
4 document exceptions means that absent justification, the costs should not be passed on to
5 customers.

6 **Q. DID THE NOTICES OF FILINGS FOR THE STORMS PROVIDE ALL**
7 **NECESSARY INFORMATION IN SUFFICIENT DETAIL TO AUDIT THE “FLAT**
8 **FILES” AND ALL OTHER STORM COSTS INCURRED?**

9 A. No. The Companies did not provide copies of any vendor contracts or purchase orders
10 with their Notices of Filings. Matching contract pricing for the various contractors with
11 the amounts invoiced was a key verification process in the “flat file” review we completed.
12 The Companies also did not file any vendor invoices for those vendors that were not
13 overhead line and vegetation management contractors with its Notices of Filings.

14 OPC had to attempt to obtain the missing information through discovery. The
15 Companies still did not provide all of the correct missing information in response to OPC’s
16 initial discovery. Thus, OPC had to attempt a second time to obtain the correct missing or
17 incomplete information through additional discovery. These delays to OPC in obtaining
18 vital information were avoidable and unnecessary.

19 **Q. YOU MENTION ABOVE THAT NOT ALL OF THE SUPPORTING**
20 **INFORMATION OBTAINED BY OPC IN THE FIRST ROUND OF DISCOVERY**
21 **WAS CORRECT. CAN YOU DESCRIBE WHAT YOU MEAN BY THAT**
22 **STATEMENT?**

1 A. Yes. Among other supporting documentation requested in the first round of discovery,
2 OPC sought copies of contracts in order to verify the pricing rates included in the “flat
3 files” as well as for other vendor invoices. The “flat files” include references to the contract
4 number associated with the costs for each overhead line and vegetation management
5 contractor. The Companies complied with OPC’s data requests and sent scanned copies of
6 contracts in pdf format by contract number for the vast majority of its contractors and other
7 vendors. Although there was a small number of missing contract copies altogether, a
8 bigger concern was that a large number of the contract copies provided containing pricing
9 that either did not match the pricing contained in the “flat files” or contained no pricing per
10 hour at all. The pricing in the provided contract copies was in some cases higher and in
11 some cases lower than the 2020 storm rates per hour included in the “flat files.” It appeared
12 that the higher rates in the contract copies originally provided were more applicable to
13 2021. It also appeared that the lower rates in the contract copies originally provided were
14 more applicable to 2019 or earlier pricing evidenced by the fact that a number of the
15 contract effective dates on the copies provided ended as of December 31, 2019.

16 **Q. DID THE COMPANIES EVENTUALLY PROVIDE COPIES OF THE CORRECT**
17 **CONTRACT PAGES PERTAINING TO THE 2020 STORM RATES PER HOUR?**

18 A. Yes. The Companies provided the correct contract page copies applicable to 2020 hourly
19 rates in subsequent responses to discovery. Those responses also included the following
20 explanation excerpt as to the reasons for the problems found, at least for those contract
21 copies believed to be based on 2021 hourly rates:¹⁵

¹⁵ The data response excerpt provided was included in Gulf Power Company’s response to POD No. 52 in OPC’s Fourth Request for Production of Documents in Docket No. 202000241-EI. Similar responses were made in

1 The previously provided Flat Files contain the correct rates that were
2 applicable to the work performed by overhead line and vegetation
3 management contractors during the 2020 storm season. The rates included
4 in the flat files were the rates used to pay contractors that provided storm-
5 related assistance in 2020, and payments made at those rates were included
6 in Gulf's compilation of storm related costs.

7 Providing vendor contracts in response to discovery requests requires the
8 Company to engage in a manual and time-consuming process. The FPL
9 overhead line and vegetation management storm contracts are maintained
10 as 'Condition Records.' This allows the Company to set up multi-year
11 agreements without having to go in each year to manually change the labor
12 rates. The system automatically changes the rate to the date of the condition
13 record for the appropriate year. In 2021, when FPL pulled the individual
14 contracts in anticipation of discovery in these proceedings, the system
15 automatically pulled the then-current (i.e., 2021) contract rates, versus the
16 2020 contract rates.

17 **Q. WHAT IS YOUR RECOMMENDATION?**

18 A. Since the correct 2020 hourly rates were used in the compilation of the "flat files" and the
19 total storm related costs, I do not recommend a disallowance. However, assuming the
20 Companies have not already done so, the Commission should direct them to provide a copy
21 of all contracts and detailed invoice information for overhead line and vegetation
22 management contractors, as well as all other vendors, with its future Notices of Filings.
23 This will facilitate the ability of Commission Staff, OPC, and other parties to audit the
24 Companies' storm costs. The response excerpt above indicates that the supporting contract
25 copies were pulled by the Companies in 2021 in anticipation of discovery in these
26 proceedings. Thus, the supporting information was readily available when the Companies
27 filed the Notices of Filings in November 2021. The Commission should also direct the

Gulf Power Company's response to POD No. 36 in OPC's Second Request for Production of Documents in Docket No. 202100179-EI and FPL's responses to POD Nos. 44 and 45 in OPC's Third Request for Production of Documents in Docket No. 202100178-EI. I have attached copies of the narrative portion of these responses, which show lists of the incorrect contract copies originally provided, as my Confidential Exhibit RAF-6.

1 Companies to take greater care in pulling the correct supporting documentation in the
2 future to avoid unnecessary delays for reviewers.

3 **IV. AUDIT PROCESS, CONCLUSIONS, AND RECOMMENDATIONS FOR**
4 **ALL OTHER INVOICE COSTS**

5 **Q. WHAT COMPONENTS OF THE INVOICE COSTS NOT RELATED TO**
6 **OVERHEAD LINE AND VEGETATION MANAGEMENT CONTRACTS**
7 **REPRESENTED THE FOCUS OF YOUR AUDITS?**

8 A. While our audits focused first on the costs associated with each of the contractor “flat files”,
9 we then turned our attention to a review of individual invoices for all other contractors and
10 vendors. To do so, we reviewed invoice copies, contracts, purchase orders, general ledger
11 transactions, accounts payable transactions, and other documentation supporting the sum
12 of the total costs incurred for each individual storm that were not associated with overhead
13 line and vegetation management contractors. As noted above, the Companies provided
14 copies of all invoices over \$10,000 in response to OPC discovery for all other outside
15 contractors, mutual assistance companies, vehicle and fuel vendors, and logistics vendors
16 utilized in the Companies’ storm responses. The Companies supplied these invoice copies
17 in electronic scanned format as individual files and with supporting Excel files when
18 available.

19 **Q. BRIEFLY DESCRIBE THE AUDIT PROCESS RELATED TO ALL OF THESE**
20 **OTHER INVOICE COSTS.**

21 A. Our audit team focused on the review of each individual invoice and the related contracts
22 and purchase orders provided in response to discovery. We verified such things as the
23 timing of the costs incurred, the costs being appropriate for storm cost recognition by

1 storm, line item costs matching contract and purchase order pricing and limitations when
2 applicable, the total invoice levels matching cost details in the general ledger and accounts
3 payable transaction registers, and there being no duplications of individual cost items
4 included in the storm cost summaries.

5 **Q. DID THE AUDIT REVEAL ANY PROBLEMS LEADING TO RECOMMENDED**
6 **DISALLOWANCES OF COSTS?**

7 A. Yes. As confirmed by the Companies in discovery,¹⁶ certain amounts associated with
8 various vendors were accrued based on estimated amounts due and posted to the general
9 ledger, but the invoices were not received and paid or the amounts paid were different than
10 the original estimates. These amounts were noted as reconciling differences in the
11 Companies' accounts payable and general ledger detail registers. The Companies'
12 discovery responses indicated three main reasons for each of the overstatements in storm
13 costs that should be corrected.¹⁷ First, the responses indicated that some accrual estimates
14 represented double postings of costs in the general ledger. Second, some estimates were
15 made for which no actual invoices were ever received. Third, some actual invoices
16 received were less than the accrued estimates. The Companies have committed to reducing
17 the sum of incurred storm costs in future filings related to these amounts. Thus, I
18 recommend disallowances for the storms related to these corrections summing to \$0.431
19 million, amounting to \$0.229 million for Hurricane Sally, \$0.005 million for Hurricane

¹⁶ Gulf Power Company's Confidential response to Interrogatory No. 48 in OPC's Fourth Set of Interrogatories in Docket No. 20200241-EI. Gulf Power Company's Confidential response to Interrogatory No. 42 in OPC's Third Set of Interrogatories in Docket No. 20210179-EI. FPL's Confidential responses to Interrogatory Nos. 49, 51, and 52 in OPC's Fourth Set of Interrogatories in Docket No. 20210178-EI. I have attached copies of these responses as Confidential Exhibit RAF-7.

¹⁷ *Id.*

1 Zeta, \$0.081 million for Hurricane Isaias, and \$0.116 million for Tropical Storm Eta. Mr.
2 Kollen has included these amounts on his tables that reflect the OPC's recommended
3 disallowances. With the exception of these specific reconciling amounts, we found that
4 the invoice supporting documentation and detailed general ledger and accounts payable
5 transaction ledgers were sufficient to justify the costs included in the storm cost summaries.

6 **Q. DO YOU MAKE A SIMILAR RECOMMENDATION RELATED TO THESE**
7 **OTHER INVOICE COSTS REGARDING THE COMPANIES' PROVISIONS OF**
8 **INVOICE SUPPORTING DOCUMENTATION IN CONJUNCTION WITH THEIR**
9 **NOTICES OF FILINGS?**

10 A. Yes. I recommend, for the same reasons as described above, that the Companies provide
11 in future Notices of Filings copies of all relevant invoice supporting documentation related
12 to all remaining contractors and vendors that do not utilize the iStormed App.

13 **Q. WAS THE COMPANIES' FILE STRUCTURES EFFICIENT FOR AUDITING**
14 **THE INVOICES OTHER THAN THOSE FOR THE OVERHEAD LINE AND**
15 **VEGETATION MANAGEMENT CONTRACTORS?**

16 A. No. The file structures used by the Companies are inefficient and make it unnecessarily
17 difficult to audit these storm costs. As previously noted, the Companies provided general
18 ledger and accounts payable detail in an Excel workbook that allows the user to search for
19 a document number for each invoice. The Companies also provided a group of file folders
20 in which hundreds of invoices were provided as individual files and simply named by
21 document number. The individual files were not grouped or identified by vendor. In order
22 to perform an audit, it was necessary to visually search through the hundreds of files in

1 these folders to search for individual document numbers to find the invoice for review and
2 analysis purposes.

3 **Q. DO YOU RECOMMEND A PROCESS IMPROVEMENT THAT WOULD**
4 **STREAMLINE THE AUDIT PROCESS?**

5 A. Yes. The Companies should institute a Binder file structure similar to the one that was
6 used by Gulf Power Company in Docket No. 20190038-EI, in which it sought recovery of
7 the costs it incurred in response to Hurricane Michael. In such a system, each vendor is
8 assigned a Binder number, which is referenced in the accounting system and used to collect
9 the vendor's invoices for processing and reference purposes. The Gulf Power Company
10 file structure used in conjunction with Hurricane Michael costs would facilitate the review
11 of the invoices, improve the efficiency of the auditing process, and potentially reduce the
12 costs of the auditing process for the Companies, Commission Staff, OPC, and other parties.

13 **Q. WHY WAS THE iSTORMED APP AND RESULTING "FLAT FILES" NOT**
14 **UTILIZED AS PART OF THE COMPANIES' AUDIT AND VERIFICATION**
15 **PROCESSES FOR MORE TYPES OF CONTRACTORS?**

16 A. FPL originally committed to use the iStormed App in the Hurricane Irma Settlement
17 Agreement for "line crews and vegetation management crews."¹⁸ Although there was no
18 distinction in the settlement between different kinds of line crews, FPL and Gulf Power
19 Company have thus far interpreted that to mean overhead line crews only. That is due to

¹⁸ Docket No. 20180049-EI, Hurricane Irma Settlement Agreement at stipulated term paragraph 6.

1 the fact that the great majority of the restoration work following a storm is performed by
2 the overhead line crews and vegetation management crews.

3 **Q. SHOULD THE USE OF THE iSTORMED APP AND THE RESULTING “FLAT**
4 **FILES” BE EXPANDED TO APPLY TO MORE CONTRACTORS IN ORDER TO**
5 **FURTHER STREAMLINE THE AUDIT PROCESS FOR FUTURE STORMS?**

6 A. Yes. As noted above, this new invoice verification process has proven to be systematic,
7 comprehensive, and effective. Thus, it should be used in all cases in which it makes sense
8 to do so. At a minimum, the Commission should direct the Companies to begin to use it
9 for underground line crews that are instrumental in storm restoration activities. In response
10 to discovery, the Companies described the activities of underground crews in the following
11 manner:¹⁹

12 [T]hese underground crews assist with overhead restoration activities
13 including switching, hereby allowing overhead crews to remain productive
14 with major overhead restoration activities. Underground crews are also
15 required during restoration to inspect, repair, replace, and restore service to
16 underground areas that have the potential to be impacted by uprooted trees
17 and possible flooding due to heavy rains and/or storm surge.

18 Many of the underground line crews utilized by the Companies work for the same
19 contractor companies that are required to use the iStormed App, so an expansion of that
20 process should not be unduly burdensome to the contractors.

21 The Commission should also direct the Companies to begin using the iStormed App
22 process for all other storm restoration contractors, including, but not limited to, arborists,
23 transmission storm restoration contractors, and damage assessors who work closely with

¹⁹ The description above was excerpted from FPL’s response to Interrogatory No. 43 in OPC’s Second Set of Interrogatories in Docket No. 20210178-EI.

1 other crews during the early restoration process and in many cases work for the same
2 contractors that employ the overhead line and vegetation management crews.

3 **Q. DOES THIS COMPLETE YOUR PREPARED DIRECT TESTIMONY?**

4 A. Yes.

1 BY MS. CHRISTENSEN:

2 Q Mr. Futral, did you prefile with your
3 testimony seven exhibits attached labeled RFA-1 through
4 should have been RAF-7?

5 A Yes.

6 Q And do you have any corrections to those
7 exhibits?

8 A No.

9 Q Okay. Do you have any -- I am sorry, could
10 you please summarize your testimony for us?

11 A Yes, I will.

12 Good afternoon, Commissioners. I was in
13 charge of the audits performed of the costs incurred for
14 each of the 2020 storms. My direct testimony describes
15 those audits and presents our findings and
16 recommendations.

17 The majority of the costs for these storms
18 relate to overhead line and vegetation management
19 contractors. These contractors are required to utilize
20 FPL's iStorm app that's already been described here by
21 others in order to submit its invoice data. The
22 companies utilize the Excel-based flat files from this
23 app to perform their own verifications and document
24 disallowances.

25 Our audit team found that the company's iStorm

1 app and its resulting audit and verification processes
2 were systematic, comprehensive and effective in auditing
3 and processing the applicable contractor invoices. I
4 recommend no disallowances related to these invoice
5 costs in addition to the costs already documented for
6 disallowance by the companies. In fact, I recommend
7 that the use of the iStorm app process be expanded in
8 the future to include all other line crews and storm
9 restoration contractors, including but not limited to
10 underground line contractors, arborists, transmission
11 storm restoration contractors and damage assessors.

12 In terms of all other contractor and invoice
13 costs, our team found that, for the most part, the costs
14 were appropriate for storm cost recognition and there
15 was no duplications of individual costed items.

16 I did recommend disallowances for all four
17 storms summing to approximately \$431,000 for certain
18 differences between originally accrued estimates and
19 actual invoice costs. The companies confirmed in
20 discovery that adjustments for these differences were
21 appropriate, and they later adjusted for them as part of
22 their rebuttal testimony.

23 I also made recommendations for certain
24 process improvements that would further streamline the
25 audit process for future storms. I recommend the

1 companies be required to provide copies of all correct
2 and applicable vendor contracts and vendor information
3 up front in the process when it files its flat files and
4 cost summary workbooks as part of its notices of
5 filings.

6 Finally, I recommend that the companies be
7 required to institute a binder file structure similar to
8 the one used for Hurricane Michael by Gulf Power in
9 order to collect vendor invoices for processing and
10 review by vendor name instead of the cumbersome search
11 process that's currently required.

12 This concludes my summary. Thank you.

13 MS. CHRISTENSEN: We tender the witness for
14 cross.

15 CHAIRMAN FAY: Okay. Mr. Badders.

16 MR. BADDERS: No questions. Thank you.

17 CHAIRMAN FAY: All righty. Staff.

18 MR. STILLER: Staff has no questions.

19 CHAIRMAN FAY: Commissioners?

20 Redirect?

21 Okay. We will then enter Exhibits 36 through
22 42 without objection into the record.

23 (Whereupon, Exhibit Nos. 36-42 were received
24 into evidence.)

25 CHAIRMAN FAY: And, Mr. Futral, you are -- did

1 I pronounce that right? Futral?

2 THE WITNESS: Futral.

3 CHAIRMAN FAY: Futral, you are excused. Thank
4 you.

5 THE WITNESS: Thank you.

6 (Witness excused.)

7 MS. CHRISTENSEN: Did we enter Mr. Futral's
8 exhibits identified for the record 36 through 42
9 into the record?

10 CHAIRMAN FAY: We did, Ms. Christensen.

11 MS. CHRISTENSEN: Thank you.

12 CHAIRMAN FAY: Yep.

13 All right. We will now move on to rebuttal.
14 Gulf and FPL, you are recognized.

15 MS. COTNER: Thank you, Chairman. I would
16 like to call back David Hughes.

17 Whereupon,

18 DAVID HUGHES

19 was recalled as a witness, having been previously duly
20 sworn to speak the truth, the whole truth, and nothing
21 but the truth, was examined and testified as follows:

22 EXAMINATION

23 BY MS. COTNER:

24 Q Hello again, Mr. Hughes. Can you please state
25 your name and business address for the record again?

1 A Yes. David Hughes, 700 Universe Boulevard.

2 Q By whom are you employed and in what capacity?

3 A I am employed by Florida Power & Light as the
4 Assistant Controller.

5 Q Were you the Assistant Controller at the time
6 of the hurricane season in 2020?

7 A Yes.

8 Q Have you prepared or caused to be filed 21
9 pages of rebuttal prefiled testimony in this proceeding?

10 A Yes.

11 Q If -- do you have any changes or revisions to
12 your rebuttal prefiled testimony?

13 A No, I do not.

14 Q If asked the questions contained in your
15 rebuttal prefiled testimony, would the answers be the
16 same?

17 A Yes.

18 MS. COTNER: Chairman, I would ask that Mr.
19 Hughes' rebuttal prefiled testimony be inserted
20 into the record as though read.

21 CHAIRMAN FAY: Without objection show that as
22 entered.

23 (Whereupon, prefiled rebuttal testimony of
24 David Hughes was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
FLORIDA POWER & LIGHT COMPANY
REBUTTAL TESTIMONY OF DAVID HUGHES
DOCKET NOS. 20210178-EI, 20210179-EI, 20200241-EI
JUNE 6, 2022

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is David Hughes, and my business address is Florida Power & Light Company (“FPL”), 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. Did you previously submit direct testimony in this proceeding?

A. Yes.

Q. Are you sponsoring any rebuttal exhibits?

A. Yes. I am sponsoring the following exhibits:

- DH-5 - Updated Hurricane Sally Costs as of April 30, 2022, which is an update to the storm restoration costs provided in original Exhibit DH-1 (Sally), renumbered as DH-1 – Hurricane Sally Incremental Cost and Capitalization Approach Adjustments included with my direct testimony under Docket No. 20200241-EI.
- DH-6 - Updated Hurricane Zeta Costs as of April 30, 2022, which is an update to the storm restoration costs provided in original Exhibit DH-1 (Zeta), renumbered as DH-2 – Hurricane Zeta Incremental Cost and Capitalization Approach Adjustments included with my direct testimony under Docket No. 20210179-EI.
- DH-7 - Updated Hurricane Isaias Costs as of April 30, 2022, which is an update to the storm restoration costs provided in original Exhibit DH-1 (Isaias), renumbered as DH-3 – Hurricane Isaias Incremental Cost and

1 Capitalization Approach Adjustments included with my direct
2 testimony under Docket No. 20210178-EI.

3 • DH-8 - Updated Tropical Storm Eta Costs as of April 30, 2022, which
4 is an update to the storm restoration costs provided in original Exhibit
5 DH-2 (Eta), renumbered as DH-4 – Tropical Storm Eta Incremental
6 Cost and Capitalization Approach Adjustments included with my direct
7 testimony under Docket No. 20210178-EI.

8 **Q. How will you refer to FPL and Gulf Power Company (“Gulf Power”) when**
9 **discussing them in testimony?**

10 A. For consistency purposes, FPL and Gulf Power will be referred to in a similar
11 manner as to how Office of Public Counsel (“OPC”) witness Kollen referenced
12 them in his testimony. Gulf Power and FPL will be referred to as “the
13 Companies” or as separate entities, where applicable.

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

15 A. The purpose of my rebuttal testimony is to respond to certain portions of the
16 direct testimonies of Lane Kollen and Randy A. Futral submitted on behalf of
17 the OPC. Specifically, I will explain that FPL and Gulf Power followed Rule
18 25-6.0143, Florida Administrative Code (the “Storm Rule”), in effect at the time
19 Hurricanes Isaias, Sally, Zeta, and Tropical Storm Eta (the “storm events”)
20 impacted the Companies, to identify storm costs charged to base Operations &
21 Maintenance (“O&M”), capital, or the storm reserve, and properly applied the
22 Incremental Cost and Capitalization Approach (“ICCA”) methodology to those
23 costs in all four storm events. In so doing, I will show that Mr. Kollen’s

1 recommended adjustments to the categories of regular payroll, overtime
2 payroll, materials and supplies, and line contractor expenses are inappropriate,
3 contrary to the Storm Rule, ignore the facts, and therefore should be rejected. I
4 will also discuss why it is appropriate to charge interest on Gulf Power's
5 unrecovered storm costs until fully recovered from customers through a
6 surcharge and briefly address Mr. Kollen's comments regarding FPL's use of
7 the reserve amortization mechanism to charge the storm restoration costs to
8 base O&M expense, an issue that has no place in this proceeding.

9
10 Finally, I will provide an update to my direct testimony exhibits with final
11 restoration costs for the storm events, including adjustments the Companies
12 identified in its responses to discovery which are also discussed by OPC witness
13 Futral in his testimony.

14

15 **II. THE STORM RULE**

16

17 **Q. Please identify the Storm Rule the Companies were required to follow in**
18 **the identification of and accounting for costs associated with the storm**
19 **events.**

20 A. The Storm Rule, as identified above, clearly delineates both the categories of
21 costs allowed to be charged to the reserve under the ICCA methodology, and
22 the categories of costs prohibited from being charged to the reserve under the
23 ICCA methodology.

1 **Q. Did the Companies comply with the Storm Rule in identifying incremental**
2 **storm-related costs and then apply the ICCA methodology to those costs?**

3 A. Yes. The Companies followed the requirements of the Storm Rule, in effect at
4 the time of the storm events, governing the identification of incremental storm-
5 related costs incurred. The Storm Rule was modified during the year 2021 and
6 the version of the Storm Rule in effect today does not apply to the storm events
7 addressed in this proceeding.

8 **Q. Mr. Kollen claims that the Companies refused to provide certain data in**
9 **response to OPC's discovery requests regarding costs in base rates, as well**
10 **as the three-year average of costs which Mr. Kollen mistakenly believes to**
11 **be relevant to this case. What is your response to these comments?**

12 A. It is hard to understand Mr. Kollen's concerns on these issues given the fact he
13 himself points to documents that: (1) explain the Companies' base rates are the
14 product of a comprehensive settlement; (2) provide the three-year averages
15 where available; and (3) explain why three-year average cost information is not
16 available with certain costs.

17 **Q. What is your response to Mr. Kollen's complaints about the scope and**
18 **quantity of the information provided by the Companies in support of the**
19 **initial filings?**

20 A. It is again hard to understand why Mr. Kollen would complain about the vast
21 amount of information provided by the Companies in support of the initial
22 filings. Utilities' initial filings in storm dockets have traditionally included a
23 petition and perhaps two or three pieces of direct testimony. In this case, in

1 accordance with the Hurricane Irma Settlement approved by the Commission
2 in Order No. PSC-2019-0319-S-EI, Docket No. 20180049-EI, the Companies’
3 initial filings provided a tremendous amount of additional information
4 consisting of confidential sortable spreadsheets with cost support for
5 renumbered Exhibits DH-1 through DH-4, containing more than 100
6 confidential line and vegetation contractor flat files with detailed invoice-
7 related information (e.g., crew timesheet and expenses, documentation of
8 exceptions, adjustments, etc.), and a compilation of confidential data exported
9 from the REDi system (Resources for Emergency Deployment) providing
10 certain contractor travel information. The notion that the filing is insufficient
11 because the Companies did not include all contracts with its initial filing –
12 notwithstanding the absence of any rule, precedent, or agreement requiring this
13 - is simply not credible and ignores the fact that it complies with requirements
14 of the Commission-approved Hurricane Irma Settlement to which OPC is a
15 party.

16 **Q. Are there other criteria outside of the Storm Rule that Mr. Kollen asserts**
17 **should be considered by the Commission?**

18 A. Yes. Mr. Kollen introduces a one-directional penalty system regarding the
19 recovery of storm related costs in order to incentivize the Companies to
20 minimize the cost of storm restoration – a proposal which, as discussed by FPL
21 witness Miranda, is unnecessary and inappropriate in this proceeding.

22

1 **Q. It seems that OPC, through Mr. Kollen, is suggesting that the Commission**
2 **ignore the clear intent of the governing Storm Rule by asking the**
3 **Commission to consider other criteria outside of the Storm Rule. What is**
4 **the Companies' position with respect to these suggestions?**

5 A. This docket – opened to determine the prudence and reasonableness of storm-
6 related costs associated with the storm events – is not a rulemaking proceeding
7 and simply is not the forum within which these other criteria should even be
8 considered. As stated above, in both its filing and its responses to discovery,
9 the Companies have fully complied with the Storm Rule and those aspects of
10 the Commission-approved, OPC-supported Hurricane Irma Settlement
11 Agreement that apply. The Companies respectfully submit that the
12 Commission should reject Mr. Kollen's efforts to turn this docket into a
13 rulemaking proceeding.

14 **Q. On page 5 of his testimony, OPC witness Futral recommends that the**
15 **Commission require the Companies "to institute a Binder file structure"**
16 **to streamline the audit process of storm restoration costs related to future**
17 **storm events. Do you agree with his recommendation?**

18 A. No. Instituting such a recommendation is not required under the Storm Rule
19 nor does it fall under the provisions of FPL's Hurricane Irma Settlement. In
20 addition, the Companies provided searchable electronic files for each of the
21 storm events when filing its petitions in this proceeding, which is more efficient
22 when reviewing a large volume of data.

23

1 **III. ACCOUNTING TREATMENT AND THE ICCA METHODOLOGY**

2

3 **Q. Do you agree with OPC witness Kollen’s statement on Page 37, Lines 3**
4 **through 8 that the Companies failed to limit the costs charged to the storm**
5 **reserve or O&M expenses?**

6 A. No, I do not agree. It appears Mr. Kollen believes that only the incremental
7 storm restoration costs under the ICCA method are charged to customers and
8 that the non-incremental storm restoration costs under the ICCA method are
9 “disallowed” (i.e., not charged to customers). Of course, that is not true. Under
10 the ICCA methodology, all reasonable and prudently incurred non-incremental
11 storm restoration costs are charged as base O&M expense or capital.

12 **Q. Did the FPSC conduct an audit to review the Companies’ application of**
13 **the ICCA methodology related to the costs for the storm events?**

14 A. Yes. The FPSC conducted an audit to determine if the storm costs in the storm
15 events were properly stated and recorded. The final audit report reflects no
16 findings regarding the application of the ICCA methodology to the costs for the
17 storm events presented in this proceeding. Therefore, the Commission auditors
18 have acknowledged and validated that the Companies followed the
19 requirements of the ICCA methodology to calculate incremental storm costs for
20 recovery in this proceeding.

21

22

23

1 **IV. INCREMENTAL STORM COSTS**

2

3 **Q. Does Mr. Kollen offer any evidence to suggest that any of the costs under**
4 **what he calls his “Disallowance Issues” starting on Page 39 of his testimony**
5 **were imprudently or unreasonably incurred?**

6 A. No. Witness Kollen does not claim that any of the storm restoration costs
7 presented for the storm events in this proceeding are unreasonable or imprudent.
8 Rather, his proposed adjustments to the regular payroll, overtime payroll,
9 materials and supplies, line contractor expense, and interest associated with the
10 unrecovered storm costs are based entirely on his erroneous application of the
11 ICCA methodology.

12

13 **A. Regular Payroll Storm Restoration Costs**

14 **Q. Please summarize Mr. Kollen’s recommended adjustment to the regular**
15 **payroll expense for the storm events.**

16 A. On Page 40, lines 12 through 19 and Page 41, Lines 1 through 11 of his direct
17 testimony, Mr. Kollen contends that all regular payroll expense associated with
18 all storm restoration costs is non-incremental and should be disallowed. Mr.
19 Kollen’s adjustment to remove the total amount of regular payroll costs for the
20 storm events presented in this proceeding is unsupported and based solely on
21 his flawed application of the ICCA.

22 **Q. Do you agree with Mr. Kollen’s adjustment to regular payroll expense?**

23 A. No. As stated in my direct testimony, regular payroll normally recovered
24 through capital or cost recovery clauses can be charged to the storm reserve

1 based on paragraphs 21 and 22 of Order No. PSC-2006-0464-FOF-EI, Docket
2 No. 20060038-EI. The regular payroll expense calculated by the Companies as
3 incremental storm expense would have been incurred as a component of capital
4 or cost recovery clauses absent the storm events' restoration efforts.
5 Importantly, Mr. Kollen does not claim that any portion of the regular payroll
6 expense incurred by the Companies was unreasonable or imprudent. Rather,
7 Mr. Kollen's adjustments to the regular payroll expense is based entirely on his
8 erroneous application of the ICCA method.

9
10 Unless a non-incremental regular payroll expense is found to be imprudent, it
11 would be charged to base O&M expense or capital, which is where all of the
12 regular payroll expense for the storm events has been charged. Mr. Kollen's
13 attempt to reclassify all the regular payroll expense as non-incremental costs
14 does not mean the costs are disallowed as a base O&M expense as suggested
15 by Mr. Kollen. In the case of Hurricane Isaias and Tropical Storm Eta, it simply
16 shifts where the regular payroll expense on renumbered Exhibit DH-3 and
17 renumbered Exhibit DH-4 filed in my direct testimony would be reflected and
18 would have no other impact on FPL's books and records. For Hurricanes Sally
19 and Zeta, it would just move costs from the storm reserve to base O&M. For
20 these reasons, Mr. Kollen's arbitrary reduction in regular payroll misapplies the
21 ICCA method and is not consistent with the Storm Rule.

22

1 **Q. Do you have any additional concerns with Mr. Kollen’s application of the**
2 **ICCA method?**

3 A. Yes. While the Storm Rule does not expressly state how the ICCA
4 methodology should be applied to regular payroll, the Storm Rule does provide
5 significant guidance on the purpose and intent of it. Part (1)(f)(1) of the Storm
6 Rule prohibits “base rate recoverable regular payroll and regular payroll-related
7 costs for utility managerial and non-managerial personnel” from being charged
8 to the storm reserve, and Part (1)(d) of the Storm Rule provides that “... costs
9 charged to cover storm-related damages shall exclude those costs that normally
10 would be charged to non-cost recovery clause operating expenses in the absence
11 of a storm.” In addition, Part (1)(f)(7) of the Storm Rule specifically refers to
12 the use of budgeted call center and customer service costs when calculating
13 incremental costs for those functions. When these parts of the Storm Rule are
14 read together, it is clear that the purpose of the Storm Rule is to exclude the
15 normal regular payroll base O&M expense that would have been incurred *in the*
16 *absence of the storm.*

17

18 There is nothing in the Storm Rule that states all regular payroll expense must
19 be disallowed for recovery or considered non-incremental. Mr. Kollen fails to
20 support his exclusion of all regular payroll as a disallowance or non-incremental
21 expense and provides no reasoning for suggesting such adjustment.

22

1 **Q. Did the Companies apply the ICCA methodology to regular payroll and**
2 **exclude those costs that normally would be charged to non-cost recovery**
3 **clause operating expenses in the absence of a storm? Please explain your**
4 **answer.**

5 A. Yes. The Companies used its current period operating budget as the baseline
6 to calculate its non-incremental payroll storm costs per the ICCA methodology,
7 which was reflected on renumbered Exhibits DH-1, DH-2, DH-3, and DH-4
8 attached to my direct testimony, and the updated Exhibits DH-5 through DH-8
9 attached to this testimony. The use of the budgeted amount of regular payroll
10 expenses to calculate the baseline from which incremental recoverable costs are
11 derived is consistent with the intent and purpose of the ICCA methodology
12 under the Storm Rule because it reflects the actual amount of regular payroll
13 expense that would be charged to base O&M expense in the absence of the
14 storm. Further, the use of the budgeted amount of regular payroll expenses to
15 calculate the baseline from which incremental recoverable costs are derived
16 properly recognizes that: (1) the base rates in effect were the result of a
17 comprehensive settlement with a significantly reduced revenue requirement
18 from what was initially requested; and (2) the actual amount of regular O&M
19 payroll to be charged to base rates can and does fluctuate from year to year.

20

21

22

23

1 **B. Overtime Payroll Storm Restoration Costs**

2 **Q. Please summarize Mr. Kollen’s recommended adjustment to the storm**
3 **events’ overtime payroll expense.**

4 A. Starting on page 41, lines 13, through page 43, line 11 of his testimony, Mr.
5 Kollen recommends that an arbitrary and unsupported 25% of the Companies’
6 overtime payroll expense associated with the storm events to be disallowed and
7 excluded under the ICCA methodology.

8 **Q. Are you able to identify the basis of the arbitrary and unsupported**
9 **recommended adjustment of 25% of all the storms events’ overtime**
10 **payroll?**

11 A. No. Mr. Kollen readily admits that he simply “assumed” that 75% of the
12 storms’ overtime was incremental and 25% was non-incremental. This
13 assumption appears to be based on a number of additional incorrect
14 assumptions, none of which support his conclusion.

15
16 He claims at page 42, starting on line 13 of his testimony that “[t]he Companies
17 failed to provide the amounts included in the base revenue requirement in
18 response to OPC discovery.” The Companies in fact provided a detailed answer
19 as seen on his Exhibit LK-2 explaining: (1) that base rates in effect during 2020
20 were the result of full comprehensive settlement agreements entered by both
21 FPL and Gulf Power in separate rate case dockets and approved by the

1 Commission,¹ and that the fixed based rates approved were designed to achieve
2 the settled revenue requirement, not the as-filed revenue requirement; and (2)
3 that overtime payroll for the storm events (as a qualifying storms events) were
4 neither budgeted nor planned, and that as a result any and all associated
5 overtime payroll is by definition incremental.

6

7 **C. Non-Incremental Contractor Costs**

8 **Q. Please summarize Mr. Kollen’s recommended adjustment to line**
9 **contractor expense for the storm events.**

10 A. On pages 43 through 45 of his direct testimony, Mr. Kollen contends that the
11 Companies did not properly apply the ICCA methodology to “line contractor
12 costs.” Mr. Kollen recommends a disallowance of an arbitrary and unsupported
13 2% of line contractor costs, once again incorrectly claiming “the Companies
14 objected to and refused to provide the historic information necessary to quantify
15 these embedded costs in response to OPC discovery.” Similar to his
16 adjustments for payroll and overtime payroll, his adjustment for line contractor
17 costs is unsupported and contrary to the Storm Rule.

18

19

¹ See FPL’s 2016 Stipulation and Settlement Agreement approved by the Commission in Order No. PSC-2016-0560-AS-EI in Docket No. 20160021-EI (the “2016 Settlement Agreement”) and Gulf Power’s 2017 Stipulation and Settlement Agreement approved by the Commission in Order No. PSC-17-0178-S-EI, Docket No. 160186-EI.

1 **Q. Do you agree with Mr. Kollen that the Companies did not properly apply**
2 **the ICCA methodology to line contractor costs?**

3 A. No. The Companies followed Part (1)(e)(1) of the Storm Rule in determining
4 the amount of line contractor costs that are allowed to be recovered, which
5 included “additional contract labor hired for storm restoration activities.”
6 Similar to overtime payroll, line contractor costs are neither budgeted nor
7 planned – they are incremental in nature. Indeed, but for each storm, the
8 Companies would not have incurred this line contractor expense.

9

10 **D. Non-Incremental Materials and Supplies**

11 **Q. Do you agree that materials and supplies should be treated in the same**
12 **manner as tree trimming expenses as witness Kollen contends on page 38,**
13 **Lines 8 through 14 of his testimony? Please explain.**

14 A. No. Part (1)(f)(8) of the Storm Rule, addressing tree trimming expenses,
15 specifically requires the use of a three-year average of tree trimming expenses
16 to determine incremental storm-related expenses. That is the only section of
17 the Storm Rule where the use of a three-year average is the benchmark for
18 determining costs recovered in base rates as opposed to incremental storm-
19 related costs. In the instance of materials and supplies, the use of a three-year
20 average is not required by the Storm Rule. Notwithstanding that fact, Mr.
21 Kollen criticizes the Companies for failing to use the three-year average to
22 identify incremental materials and supplies costs. It is obvious that witness
23 Kollen is disregarding the Storm Rule by comparing tree trimming to the

1 materials and supplies rule requirements. Therefore, his proposed adjustment
2 for this item should be ignored.

3

4 **E. Interest on the Unamortized Storm Costs**

5 **Q. Do you agree with witness Kollen that Gulf Power should be disallowed the**
6 **interest accrual on unamortized storms costs for Hurricanes Sally and**
7 **Zeta?**

8 A. No. On page 35, Lines 1 through 11 of witness Kollen’s testimony, he states
9 that Gulf Power should not be able to include interest on the unrecovered
10 incremental storm costs related to Hurricanes Sally or Zeta because “[i]nterest
11 is not identified as a recoverable cost in the Rule.” Gulf Power should be
12 allowed to earn interest on the amount of total unrecovered incremental storm
13 costs until they are fully recovered from customers consistent with prior
14 Commission precedent for recovery of Hurricanes Matthew and Michael storm
15 costs.²

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² See Order No. PSC-2020-0349-S-EI, Docket No. 20190038-EI (approving the Stipulation and Settlement Agreement in Gulf Power’s Petition for Limited Proceeding for Recovery of Incremental Storm Restoration Costs Related to Hurricane Michael) and Order No. PSC-2018-0359-FOF-EI, Docket No. 20160251-EI (approving the Stipulation and Settlement Agreement in FPL’s Petition for Limited Proceeding for Recovery of Incremental Storm Restoration Costs Related to Hurricane Matthew).

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V. RESERVE AMORTIZATION MECHANISM

Q. On pages 39, Lines 8 through 11 of his testimony, Mr. Kollen takes issue with FPL’s use of the reserve amortization mechanism for storm restoration costs and states that it results in additional ratemaking recovery. Do you have a response?

A. Yes. FPL’s use of the reserve amortization is not a proper issue in this proceeding, as this proceeding was initiated to evaluate the Companies’ storm restoration costs related to the storm events.

In Docket No. 20180046-EI, Order No. PSC-2019-0225-FOF-EI, issued on June 10, 2019, the Commission found that FPL’s use of the reserve amortization mechanism to pay for Hurricane Irma costs was appropriate, which is exactly how Hurricane Isaias and Tropical Storm Eta costs are being treated. Mr. Kollen’s claim that FPL’s use of the reserve amortization results in additional recovery of storm costs ignores the fact that non-incremental costs are charged to base O&M regardless of FPL’s use of the storm reserve. Mr. Kollen’s attempt to introduce what he calls the “ratemaking implications of FPL’s request” are misplaced, inappropriate in the context of this case, and should be rejected by the Commission.

1 **Q. Does FPL have the discretion to charge storm restoration costs to base**
2 **O&M expense rather than to the storm reserve?**

3 A. Yes. Part (1)(h) of the Rule states that “*a utility may, at its own option, charge*
4 *storm related costs as operating expenses rather than charging them to Account*
5 *No. 228.1.*” This is precisely what FPL opted to do rather than implementing
6 an optional interim incremental storm surcharge permitted by Section 6 of
7 FPL’s 2016 Settlement.

8
9 Further, Section 6 of the 2016 Settlement Agreement gives FPL the option, but
10 does not require, the Company to seek incremental storm cost recovery. FPL
11 decided to forgo that option for incremental recovery through a storm surcharge
12 with respect to Hurricane Isaias and Tropical Storm Eta storm restoration costs
13 because another option was available through the framework of the 2016
14 Settlement Agreement and is authorized by the Rule. Using that alternative
15 option, FPL recorded Hurricane Isaias and Tropical Storm Eta non-capitalized
16 storm-related costs as a base O&M expense in accordance with Part (1)(h) of
17 the Rule.

18 **Q. Had FPL utilized the storm surcharge for recovery of Hurricane Isaias and**
19 **Tropical Storm Eta storm costs, would its treatment of non-incremental**
20 **costs have been any different?**

21 A. No. The non-incremental costs were prudently incurred and would have been
22 charged to base O&M regardless of whether a storm surcharge had been sought.
23 FPL’s incurred *incremental* costs would have been charged to the storm reserve

1 and the reasonable and prudently incurred *non-incremental* costs would have
2 been charged to base O&M expense or capital.

3

4 **VI. FINAL STORM RESTORATION COSTS**

5

6 **Q. Have the Companies identified any adjustments to the Storm and**
7 **Restoration costs filed on November 12, 2021?**

8 A. Yes. Since the filing of renumbered Exhibits DH-1 through DH-4 on November
9 12, 2021, the Companies' total retail recoverable incremental storm costs for
10 each of the storm events decreased as shown below:

Storm Event	Direct Testimony Estimated Costs (\$000)	Rebuttal Testimony Final Costs (\$000)	Final True-Up Amount (\$000)	% of Storm Costs
Sally	\$186,840	\$186,619	(\$221)	(0.12%)
Zeta	\$10,079	\$10,075	(\$4)	(0.04%)
Isaias	\$66,346	\$66,341	(\$5)	(0.01%)
Eta	\$112,729	\$112,654	(\$75)	(0.07%)

11

12 **Q. Did the Companies incorporate all known adjustments to its final true-up**
13 **of costs for the storm events?**

14 A. Yes. The Companies incorporated all adjustments to the final storm costs for
15 the storm events and reflected them in my Exhibits DH-5 through DH-8. This
16 includes adjustments identified by the Companies in its responses to discovery
17 requests, which are also attached to OPC witness Futral's testimony as Exhibit

1 RAF-7 and incorporated into the adjustments to incremental storm costs
2 reflected in OPC witness Kollen's testimony. Note, the Per Book adjustments
3 identified by the Companies in the referenced discovery responses agree to the
4 amounts reflected in OPC witness Kollen's testimony, however, the
5 jurisdictional factors applied to the Per Book amounts in his testimony are not
6 accurate as they appear to be average jurisdictional factors and not at the
7 functional level. Exhibits DH-5 through DH-8 include the proper
8 functionalization and application of separation factors for each of the identified
9 adjustments.

10 **Q. Does this conclude your rebuttal testimony?**

11 A. Yes.

1 BY MS. COTNER:

2 Q Okay. We also have four exhibits that were
3 prepared with your rebuttal prefiled testimony, is that
4 correct?

5 A Yes, it is.

6 Q Were they prepared under your direction,
7 supervision and control?

8 A Yes, they were.

9 MS. COTNER: Chairman, I would note that the
10 exhibits are Exhibits 43, 44, 45 and 46, and we can
11 admit them afterwards.

12 CHAIRMAN FAY: Okay. Noted. Thank you.

13 MS. COTNER: I am sorry?

14 CHAIRMAN FAY: I said, noted. Thank you.

15 MS. COTNER: Okay. Thank you.

16 BY MS. COTNER:

17 Q Have you prepared a summary of your rebuttal
18 testimony, Mr. Hughes?

19 A Yes, I have.

20 Q Would you please provide that to the
21 Commission?

22 A Thank you.

23 Good afternoon, Commissioners. Thank you for
24 the opportunity to speak with you today.

25 The purpose of my rebuttal testimony is to

1 respond to the direct testimonies presented by Lane
2 Kollen and Randy A. Futral on behalf of the Office of
3 Public Counsel relating to the accounting treatment of
4 storm restoration costs of Hurricanes Isaias, Sally,
5 Zeta and Tropical Storm Eta. More collectively, the
6 storm events. In addition, I provide the final storm
7 restoration costs for each storm. Let me touch briefly
8 on some of the recommended adjustments to FPL and Gulf
9 Power for the company's 2020 storm costs proposed by OPC
10 Witnesses Kollen and Futral.

11 First, OPC Witnesses Kollen and Futral assert
12 that criteria outside of Rule 25-6.0143, or the storm
13 rule, and Commission-approved settlement agreements
14 should be considered in this docket. Specifically Mr.
15 Kollen's proposed adjustment to exclude the
16 non-incremental regular and overtime payroll expense
17 from the total restoration costs is based on an
18 incorrect application of the ICCA methodology.

19 As explained in detail in my rebuttal
20 testimony, FPL and Gulf Power followed the storm rule in
21 effect at the time of the storm events to identify storm
22 costs charged to base operations and maintenance
23 expense, capital or the storm reserve, and to properly
24 apply the ICCA methodology for all four storm events.
25 In doing so, I so that Mr. Kollen's recommended

1 adjustments inappropriately ignore the facts and are
2 contrary to the storm rule, therefore, should be
3 rejected.

4 Witness Kollen also argues that Gulf Power
5 should not be able to include interest on the
6 unrecovered incremental storm costs related to
7 Hurricanes Sally or Zeta. His request is inconsistent
8 request prior Commission precedent for recovery of
9 Hurricanes Matthew and Michael storm costs.

10 Additionally, Mr. Kollen takes issue with
11 FPL's use of the reserve amortization mechanism for
12 storm restoration costs. Use of reserve amortization
13 has already been approved by the Commission in prior
14 dockets and is not a proper issue in this proceeding,
15 which was initiated to evaluate the company's storm
16 restoration costs related to the storm events.

17 Finally, I provide the final storm costs of
18 each of the storm events. The companies incorporated
19 all adjustments, including those identified in its
20 responses to discovery as part of the final storm costs
21 and reflected the adjustments in my exhibits DH-5
22 through DH-8. The total amount of retail recoverable
23 incremental storm costs for all four storm events is
24 305,000 lower than originally presented in my direct
25 testimony.

1 In conclusion, the Commission has available
2 all financial information that is necessary and relevant
3 to determine that the storm events costs were properly
4 accounted for in accordance with the storm rule in the
5 2016 rate case settlement.

6 This concludes my summary.

7 **Q Thank you, Mr. Hughes.**

8 MS. COTNER: I tender the witness for
9 cross-examination.

10 CHAIRMAN FAY: Ms. Christensen.

11 MS. CHRISTENSEN: No questions.

12 CHAIRMAN FAY: Okay. Staff.

13 MR. STILLER: Staff has no questions.

14 CHAIRMAN FAY: Commissioners.

15 No redirect. Okay.

16 MS. COTNER: No redirect. Thank you,
17 Chairman.

18 CHAIRMAN FAY: Okay. We will then enter
19 Exhibits 43 through 46 into the record without
20 objection.

21 (Whereupon, Exhibit Nos. 43-46 were received
22 into evidence.)

23 CHAIRMAN FAY: All right. And with that, we
24 will officially excuse you, Mr. Hughes.

25 THE WITNESS: Thank you.

1 CHAIRMAN FAY: Thank you.

2 (Witness excused.)

3 CHAIRMAN FAY: And our last witness.

4 MR. BADDERS: Yes, Chairman. We call Mr.
5 Miranda back to the stand.

6 Whereupon,

7 MANUEL B.MIRANDA

8 was recalled as a witness, having been previously duly
9 sworn to speak the truth, the whole truth, and nothing
10 but the truth, was examined and testified as follows:

11 EXAMINATION

12 BY MR. BADDERS:

13 Q Mr. Miranda, please state your name and your
14 address for the record.

15 A Yes. Manuel B. Miranda, Florida Power &
16 Light, 700 Universe Boulevard, Juno Beach, Florida,
17 33408.

18 Q And by whom are you employed and in what
19 capacity? I am sorry, by whom are you employed and in
20 what capacity?

21 A I am sorry, I didn't hear you. Florida Power
22 & Light. I am Executive Vice-President for our Power
23 Delivery Business Unit.

24 Q Have you prepared and caused to be filed 17
25 pages of rebuttal prefiled rebuttal testimony in this

1 docket?

2 A I did, yes.

3 Q Do you have any changes or revisions to your
4 rebuttal testimony?

5 A No.

6 Q If I asked you the questions contained in your
7 rebuttal today -- in your prefiled testimony today,
8 would your answers be the same?

9 A Yes, they would be.

10 MR. BADDERS: Chairman, I ask that Mr.
11 Miranda's rebuttal prefiled testimony be inserted
12 into the record as though read.

13 CHAIRMAN FAY: Without objection, show that
14 entered.

15 (Whereupon, prefiled rebuttal testimony of
16 Manuel B. Miranda was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
FLORIDA POWER & LIGHT COMPANY
REBUTTAL TESTIMONY OF MANUEL B. MIRANDA
DOCKET NOS. 20210178-EI, 20210179-EI, 20200241-EI
JUNE 6, 2022

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I. **INTRODUCTION**

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Q. Please state your name and business address.

A. My name is Manuel B. Miranda. My business address is Florida Power & Light Company, 700 Universe Blvd., Juno Beach, Florida, 33408.

Q. Have you previously submitted prepared direct testimony in this proceeding?

A. Yes. I submitted direct testimony and accompanying Exhibits MBM-1 through MBM-7 on November 12, 2021.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimony submitted by Office of Public Counsel (“OPC”) witness Lane Kollen. Mr. Kollen’s “process conclusions” and “process recommendations” reflect his misunderstanding of what is required to restore service safely and as quickly as possible. My testimony also elaborates on why Mr. Kollen’s “process recommendations” are unrealistic, unsound, and not in the best interests of customers.

Q. Please summarize your rebuttal testimony.

A. My testimony demonstrates that despite Mr. Kollen’s benefit of hindsight in evaluating Florida Power & Light Company’s and Gulf Power Company’s (the “Companies”) response to Hurricanes Isaias, Sally, Zeta, and Tropical Storm Eta, he reached flawed conclusions regarding the Companies’ storm restoration preparations and procedures, and as such, reflects his lack of operational and storm restoration experience. As these severe storms approached our service areas, the Companies took all prudent and reasonable steps to be prepared to restore service safely and

1 quickly to our customers. Mr. Kollen’s conclusions and recommendations, even with
2 the benefit of hindsight, fail to recognize the uncertainty associated with forecasting
3 the path, timing, and intensity of a major storm and ignores the Companies’ valuable
4 lessons learned and the excellent restoration results achieved in these and other
5 previous storms. Mr. Kollen’s proposed recommendations ignore the real life and
6 real time decisions with which the Companies face as storms approach, ignoring the
7 Companies’ combined experiences in successfully responding to hurricanes and
8 restoring power safely and quickly, and should be rejected by the Commission. If
9 accepted, Mr. Kollen’s proposed recommendations would be detrimental to the
10 Companies’ customers and to the State as a whole, as they would result in longer
11 restoration times and will hamper the Companies’ flexibility and ability to “attempt
12 to restore service within the shortest time practicable consistent with safety” (Rule
13 25-6.044(3), Florida Administrative Code).

14
15 **II. FPL AND GULF’S HURRICANE AND TROPICAL STORM RESPONSE**

16
17 **Q. Having reviewed Mr. Kollen’s criticisms of the Companies’ storm response, do**
18 **you see any overarching problems with his recommendations?**

19 **A.** Yes. Mr. Kollen fails to recognize and appreciate the complexity and severity of
20 conditions a utility faces as it prepares its service area for the potential impending
21 impacts of a major hurricane. Mr. Kollen’s testimony and exhibits show that while
22 he does have extensive regulatory *accounting* experience, he does not appear to have
23 operational or decision-making experience that is relevant or required before, during,

1 or after a storm threatens, or impacts a utility's service area. In addition, despite Mr.
2 Kollen's benefit of hindsight, his retrospective opinions fail to recognize the
3 Companies' strategy to restore service to our customers safely and as quickly as
4 possible.

5 **Q. Does operational and management experience matter when determining what**
6 **actions a utility should take in preparing to respond to an impending storm?**

7 A. Yes. I have been involved with FPL's storm response efforts from 1992 to the
8 present. During this time, I have supported storm restoration for Hurricane Andrew,
9 the 2004 and 2005 storm seasons when seven storms impacted FPL's service area,
10 Hurricanes Matthew, Irma, and Dorian, and most recently in 2020 as Hurricanes
11 Isaias, Sally, Zeta, and Tropical Storm Eta impacted FPL's and Gulf's service areas.
12 My experience includes being involved with or responsible for making operational
13 decisions regarding when and how many resources (internal and/or external) the
14 Companies require to respond to a storm and whether to send resources to assist with
15 other utilities' storm response efforts (e.g., Hurricane Laura in 2020 and Hurricane
16 Ida in 2021, both category 4 hurricanes devastating the State of Louisiana). Actual
17 storm operational and management experience informs and helps to guide a
18 company's actions, activities, and response, considering the conditions and
19 circumstances that are known when decisions must be made. For the Companies,
20 these operational and managerial decisions, made as the storms approached centered
21 around the key components of our emergency preparedness plan, which I provided
22 in my direct testimony. For instance, pre-negotiating contractor rates at market rates

1 in advance of a storm assists the Companies in deciding what resources to bring onto
2 its system, and when it is prudent to do so.

3
4 Contrary to Mr. Kollen's fundamental misunderstanding of the storm preparedness
5 and restoration process, pre-storm contractor negotiations do not guarantee that those
6 contractor resources are going to be available when called upon to travel to assist the
7 Companies. For example, a contractor may be supporting another currently active
8 restoration event, may be committed to assist another utility, or may have other
9 business reasons preventing dispatch to the Companies. Mr. Kollen's lack of
10 operational and storm restoration experience is further illustrated by his
11 misunderstanding of how, why, and when the Companies manage both internal and
12 external storm restoration resources to successfully implement its restoration
13 process.

14 **Q. How would you characterize the Companies' response to Hurricanes Isaias,**
15 **Sally, Zeta and Tropical Storm Eta?**

16 A. As witness Spoor and I outlined in our respective direct testimonies, the Companies'
17 primary goal during storm restoration is to safely restore critical infrastructure and
18 to restore power to the greatest number of customers in the least amount of time. The
19 Companies prudently prepared, based on the best information available at the time,
20 to respond to the very real threat posed by each of these storms as they approached
21 the Companies' service areas. The Companies' preparation and rapid response
22 resulted in an efficient and effective restoration, allowing the affected customers to
23 return to normalcy soon after the storms had passed.

1 **III. OPC’s FLAWED CONCLUSIONS AND RECOMMENDATIONS**

2

3 **Q. On pages 14 and 15 of his testimony, Mr. Kollen describes “Process**
4 **Conclusions” in which he presents his perspective of the Companies’ Storm**
5 **Damage Model utilized in the restoration process. What are your thoughts**
6 **regarding these conclusions?**

7 A. Mr. Kollen wants FPL to utilize a model or software that can predict damage and
8 determine resource requirements for storm restoration. I am not aware of any such
9 software existing in the industry at this time that is comparable to FPL’s Storm
10 Damage Model. As I previously mentioned in my discussion of the emergency
11 preparedness processes in my direct testimony, the Storm Damage Model is one of
12 many tools that the Companies utilizes to evaluate resource requirements for
13 restoration following a major weather event. Forecasted damage assessments from
14 the Storm Damage Model, real time resource availability and location of these
15 resources, historical performance for similar storms, and operational and managerial
16 experience all factor into making these critical decisions. The Storm Damage Model
17 is a valuable tool, but it does not replace, nor is it intended to replace the other inputs
18 needed to make the critical pre-landfall and real time decisions around resource
19 requirements and availability for restoration activities.

20

21 The Storm Damage Model is updated annually to reflect the infrastructure
22 improvements from storm hardening. This includes work associated with our
23 Commission-approved storm hardening programs. As the Companies continue their

1 infrastructure hardening efforts, the corresponding information is entered into FPL's
2 Geographic Information System ("GIS") system and those components are
3 incorporated in the Storm Damage Model, as a result, the corresponding
4 Construction Man Hours estimated within the model are reduced. Consequently, as
5 more of the Companies' distribution infrastructure is hardened, the associated
6 Construction Man Hours produced by the Storm Damage Model should continue to
7 decline over time.

8 **Q. On page 20 of his testimony, Mr. Kollen describes his "Process**
9 **Recommendations" which include "engage outside consulting assistance" for**
10 **the FPL's Storm Damage Model. What is your assessment of Mr. Kollen's**
11 **recommendation?**

12 A. Mr. Kollen's recommendation is not necessary. The Storm Damage Model is a
13 proprietary, in-house developed, product designed exclusively for the Companies'
14 use and FPL currently has a patent pending for the Storm Damage Model. After each
15 storm season, FPL continues to identify opportunities to improve its performance
16 and updates the algorithms used in the Storm Damage Model.

17 **Q. Also, on page 20 of his testimony, Mr. Kollen describes his "Process**
18 **Recommendations" which include several statements that "the Companies**
19 **should adopt written policies" to "minimize costs". What are your views of**
20 **those "Process Recommendations"?**

21 A. Mr. Kollen's "Process Recommendations" appear to be an effort to have the
22 Companies memorialize, in written policies, his idealized view of storm restoration
23 processes and how those processes should "minimize costs", which apparently is his

1 ultimate goal for a storm restoration effort. Mr. Kollen's objective of minimizing
2 costs, however, does not account for the impact on the Companies' customers or the
3 State of Florida's economy of a protracted restoration effort. As I stated in my direct
4 testimony, "restoring electric service as quickly as possible cannot, by definition, be
5 pursued as a 'least cost' process." Stated simply, restoration of electric service at the
6 lowest possible cost in the wake of storms will not result in the most rapid restoration.
7 Mr. Kollen's assertion is premised on the flawed assumption that the Companies
8 either have perfect knowledge of when, where, and with what strength a hurricane
9 will strike, or alternatively have the luxury to wait for the storm to impact its service
10 area, assess the level of damage and customer interruptions, and then, and only then,
11 proceed to procure external resources to commence restoration efforts in order to
12 "minimize cost". Mr. Kollen fails to acknowledge that the Companies must prepare
13 and make decisions in anticipation of the potential damage that a storm can cause in
14 the Companies' service area based on the National Hurricane Center's ("NHC")
15 forecasts, which are subject to significant degree of uncertainty in terms of path,
16 timing of impact and level of storm intensity.

17 **Q. On page 20 of his testimony, Mr. Kollen describes his "Process**
18 **Recommendations" which include "adopt written documentation of their Storm**
19 **Damage Model...". What are your views of adopting written documentation of**
20 **the Storm Damage Model to include those items recommended by Mr. Kollen?**

21 A. Mr. Kollen's recommendation appears to assert that written documentation of the
22 Storm Damage Model should provide a step by step "manual" to determine resource
23 requirements before, during, and after a storm response. To assist in understanding

1 FPL's Storm Damage Model, the Companies conducted an informal technical
2 conference with OPC to discuss and elaborate on the functionality of the Storm
3 Damage Model. Subsequently, FPL responded to additional discovery regarding the
4 Storm Damage Model. As I previously mentioned, the Storm Damage Model is only
5 one of the many tools used to forecast storm damage and by no means is the only
6 determinant in storm response and resource decisions. As I discussed in page 7 of
7 my direct testimony, there are many other components of the Companies' emergency
8 preparedness plan. The Companies' comprehensive plan has provided prompt and
9 effective responses to extreme weather events. The written documentation of the
10 Storm Damage Model would provide little benefit in the determination of the
11 Companies' decision criteria for resource acquisition during the storm restoration
12 process.

13 **Q. Mr. Kollen's testimony further states that "the Companies have an obligation**
14 **to minimize costs through every phase of the storm planning and restoration**
15 **process." What is your response to this statement?**

16 A. The Companies consider costs in its decisions, including the storm planning and
17 restoration processes. Mr. Kollen may have focused on the discussion at page 7 of
18 my direct testimony describing the key components of the Companies' operational
19 emergency preparedness plan, while ignoring portions of my testimony detailing the
20 Companies' utilization and redeployment of its employees, utilization of embedded
21 contractors, pre-storm negotiation of vendor rates at market prices, the Companies'
22 practice of bringing in (acquiring least cost first) and releasing resources to mitigate
23 costs (releasing high cost first) wherever possible, and the overall efficiencies

1 employed by the Companies' in the execution of its well planned and storm-tested
2 processes. Each of these actions and practices serve to minimize the costs of
3 restoration. Costs are always a factor in every decision that the Companies make
4 during a restoration event, but it cannot be the primary driver behind the decisions if
5 the Companies are going to restore service to our customers as quickly and safely as
6 possible.

7 **Q. Please explain how the Companies acquire additional external restoration**
8 **resources in response to a storm that is approaching their service area?**

9 A. As described more extensively in my direct testimony, an important component of
10 each restoration effort is the Companies' ability to scale up its resources to match the
11 increased volume of the projected restoration workload, which first includes
12 engaging our Companies' team and embedded contractors. The next important
13 component is the "scaling-up" effort which includes acquiring additional external
14 contractors and mutual assistance resources from other utilities through industry
15 organizations (e.g., the Southeastern Electric Exchange ("SEE") and Edison Electric
16 Institute ("EEI")), as well as other restoration power line contractors, which the
17 Companies independently acquire. While the Companies are mindful of costs when
18 acquiring additional external resources (e.g., acquiring resources based on a low-to-
19 high cost ranking where possible), a storm's path, intensity and size, if significant
20 enough, can substantially limit the availability of external resources, as the demand
21 for available resources can exceed the available supply, especially if other utilities
22 have been impacted by previous storms, or other utilities have the potential to be
23 impacted by the same storm. In such instances, the Companies have limited

1 alternatives and may be required to acquire external restoration resources that are at
2 the higher end of the low-to-high cost ranking.

3 **Q. Did FPL assess the need for resources and mitigate contractor labor costs by**
4 **utilizing its contractor workforce effectively and diligently for these storms?**

5 A. Yes. As explained in more detail in my direct testimony, the Companies respond to
6 storms by taking specified and well-rehearsed actions at specified intervals prior to
7 a storm's impact. These actions include activating the Companies' Command Center
8 based on the storm's NHC-forecasted track and timing; forecasting resource
9 requirements; developing initial restoration plans; activating contingency resources;
10 preparing communications to inform and prepare customers; and identifying
11 available resources from mutual assistance utilities. The Companies endeavor to
12 acquire resources based on a low-to-high cost ranking and release resources in
13 reverse order, subject to the overriding objective of safely restoring critical
14 infrastructure and restoring power to the greatest number of customers in the least
15 amount of time.

16 **Q. On page 32, lines 17-24 and page 33, lines 1-2 of his testimony, Mr. Kollen alleges**
17 **that the Companies have not provided evidence that it assigns and/or acquires**
18 **resources through a prudent and reasonable mix of its own employees, affiliate**
19 **company contractors, mutual assistance contractors, and third-party**
20 **contractors in a manner that minimizes storm costs. Please comment on Mr.**
21 **Kollen's opinion.**

22 A. Mr. Kollen continues to ignore parts of my direct testimony, specifically pages 14
23 through 17 where I describe the formalized industry and Companies' processes to

1 request mutual assistance resources for storm restoration. Mr. Kollen also continues
2 to ignore responses to interrogatories in this docket describing pre-established
3 contracts with line contractors that are competitively bid for three-year terms to lock-
4 in pricing. In Mr. Kollen's view of storm restoration, the allocation of all these
5 resources can be optimized to "minimize storm costs." Mr. Kollen's view, however,
6 lacking any practical experience, incorrectly presumes that all those resources will
7 be available to the Companies and only to the Companies in the event of a storm,
8 which they are not.

9
10 On page 33 of his testimony Mr. Kollen states that the "Companies relied primarily
11 on third party contractors rather than their own employees, affiliate company
12 contractors, or mutual assistance contractors." This is not true. The first responders
13 to a storm event are the Companies' employees. Virtually all employees are engaged
14 in the storm restoration process as each employee has a specific storm assignment.
15 Some employees such as line crews perform their normal responsibilities and ramp
16 up for storm response and other staff employees have been trained to perform other
17 storm assignment roles in addition to their normal work assignments. In many cases,
18 employees whose homes and property are in the path of the storm continue to report
19 to work and perform their storm assignment in support of the storm restoration. What
20 Mr. Kollen expresses is exactly what happens during an event, but what he does not
21 understand is that all these resources must be engaged at the same time for a
22 successful and efficient restoration. Mr. Kollen's chart on page 34 of his testimony
23 is not completely accurate because he fails to show the percentage of the overall

1 resource numbers (number of workers) that make up the categories. The number of
2 workers is what drives these categories, not the cost of the workers.

3 **Q. On page 34 of his testimony, Mr. Kollen recommends that the Companies**
4 **acquire and/or develop an “optimization software” for resources. What is**
5 **your view of this recommendation?**

6 A. Mr. Kollen’s recommendation is both unnecessary and inappropriate for this
7 proceeding. The Storm Damage Model provides an initial input into the planning
8 process with construction man-hour estimates distributed across the Companies’
9 regions. The team then takes this information along with all other available
10 information at the time, combines that with their knowledge, experience, and the
11 Companies’ historical responses to similar storms, to formulate an optimized
12 resource plan. That plan must consider industry indicators such as what other
13 restoration activities are going on across the country, what other utilities may be
14 impacted by this storm, together with resource costs, location, and travel time of such
15 resources. Currently, I am not aware of and would not expect to see an industry
16 recognized software application that would be able to handle the myriad of variables
17 and inputs required by a utility as complex as FPL in a state which is frequently
18 impacted by extreme weather events.

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1 **Q. On page 36 of his testimony, Mr. Kollen recommends that the Commission**
2 **adopt a one-directional penalty system in order to incentivize the Companies**
3 **to focus on continuous improvement in planning and implementation and other**
4 **processes to minimize costs before costs for a specific storm are incurred,**
5 **contractors are mobilized, and invoices are issued by the contractors and paid**
6 **by the Companies. What is your view of this recommendation?**

7 A. Mr. Kollen's recommendation is both unnecessary and inappropriate for this
8 proceeding. The Companies do not need to be subjected to a one-directional penalty
9 system regarding the recovery of storm-related costs to incentivize what the
10 Companies have been doing and performing as an industry leader for years:
11 preparing for and responding to hurricanes and other weather events. Time and again
12 the Companies have demonstrated to the Commission that its actions in preparing
13 for and responding to major weather events, including hurricanes, were prudent and
14 the associated costs were reasonable. Continuous improvements in planning,
15 implementation, and all aspects of our operations are firmly instilled as part of the
16 Companies' practices and culture. Moreover, the Commission always has the final
17 say on prudence and reasonableness issues.

18 **Q. On page 28 of Mr. Kollen's testimony, he states "The Company considers**
19 **multiple sources of weather information, but relies exclusively...from the**
20 **National Hurricane Center...as inputs to the Storm Damage Model...". Is this**
21 **an accurate reflection of the Storm Damage Model inputs?**

22 A. No, the Companies do not rely *exclusively* on weather data from the NHC. The
23 Companies utilize several weather sources as it prepares our response to extreme

1 weather events. The European Centre for Medium Range Weather Forecasts, US
2 National Weather Service, National Oceanic and Atmospheric Administration, as
3 well as up to 39 different weather sources for information and storm models. The
4 Companies use the numerical prediction models by the NHC to produce the official
5 forecast which is input into the Storm Damage Model. The other information and
6 models allow us to understand the wide range of the storm forecast to determine
7 additional parameters, but the utilization of the NHC-forecast provides our starting
8 point. It is also important to note that the NHC-forecast is based on numerous
9 modeling algorithms and sources and not just a single forecast itself. The Companies
10 strive to use the best and most up-to-date information available from NHC in making
11 these critical decisions.

12
13 Lastly, I have one final comment regarding Mr. Kollen's statement questioning the
14 utilization of the NHC "exclusively". As explained above not only is that inaccurate,
15 but I found it peculiar that he questioned relying upon the NHC for storm forecasting
16 purposes. As a division of the United States' National Weather Service, the NHC is
17 primarily responsible for tracking and predicting tropical weather systems, as well
18 as providing real time hurricane data through the aerial surveillance of active
19 hurricanes. The NHC is not only responsible for tracking extreme weather for the
20 United States, but also the Eastern Pacific and North Atlantic as the World
21 Meteorological Organization recognizes the NHC as a Regional Specialized
22 Meteorological Center. The NHC is a recognized world leader in the prediction and
23 tracking of extreme weather events.

1 **Q. What is your conclusion regarding Mr. Kollen's comments pertaining to storm**
2 **restoration?**

3 A. Mr. Kollen's testimony reflects a fundamental lack of understanding of the storm
4 restoration processes of electric utilities and his proposals would ultimately hinder
5 the Companies' ability to restore power to its customers, which comprise more than
6 half of Florida's population.

7

8 The Companies successfully executed their emergency preparedness plan. Relying
9 on proven restoration processes and through deployment of our own employees,
10 embedded contractors, external contractors, and mutual assistance from other
11 utilities to safely restore critical infrastructure and the greatest number of customers
12 in the least amount of time.

13 **Q. Does this conclude your rebuttal testimony?**

14 A. Yes.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
FLORIDA POWER & LIGHT COMPANY
REBUTTAL TESTIMONY OF DAVID HUGHES
DOCKET NOS. 20210178-EI, 20210179-EI, 20200241-EI
JUNE 6, 2022

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is David Hughes, and my business address is Florida Power & Light Company (“FPL”), 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. Did you previously submit direct testimony in this proceeding?

A. Yes.

Q. Are you sponsoring any rebuttal exhibits?

A. Yes. I am sponsoring the following exhibits:

- DH-5 - Updated Hurricane Sally Costs as of April 30, 2022, which is an update to the storm restoration costs provided in original Exhibit DH-1 (Sally), renumbered as DH-1 – Hurricane Sally Incremental Cost and Capitalization Approach Adjustments included with my direct testimony under Docket No. 20200241-EI.
- DH-6 - Updated Hurricane Zeta Costs as of April 30, 2022, which is an update to the storm restoration costs provided in original Exhibit DH-1 (Zeta), renumbered as DH-2 – Hurricane Zeta Incremental Cost and Capitalization Approach Adjustments included with my direct testimony under Docket No. 20210179-EI.
- DH-7 - Updated Hurricane Isaias Costs as of April 30, 2022, which is an update to the storm restoration costs provided in original Exhibit DH-1 (Isaias), renumbered as DH-3 – Hurricane Isaias Incremental Cost and

1 Capitalization Approach Adjustments included with my direct
2 testimony under Docket No. 20210178-EI.

3 • DH-8 - Updated Tropical Storm Eta Costs as of April 30, 2022, which
4 is an update to the storm restoration costs provided in original Exhibit
5 DH-2 (Eta), renumbered as DH-4 – Tropical Storm Eta Incremental
6 Cost and Capitalization Approach Adjustments included with my direct
7 testimony under Docket No. 20210178-EI.

8 **Q. How will you refer to FPL and Gulf Power Company (“Gulf Power”) when**
9 **discussing them in testimony?**

10 A. For consistency purposes, FPL and Gulf Power will be referred to in a similar
11 manner as to how Office of Public Counsel (“OPC”) witness Kollen referenced
12 them in his testimony. Gulf Power and FPL will be referred to as “the
13 Companies” or as separate entities, where applicable.

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

15 A. The purpose of my rebuttal testimony is to respond to certain portions of the
16 direct testimonies of Lane Kollen and Randy A. Futral submitted on behalf of
17 the OPC. Specifically, I will explain that FPL and Gulf Power followed Rule
18 25-6.0143, Florida Administrative Code (the “Storm Rule”), in effect at the time
19 Hurricanes Isaias, Sally, Zeta, and Tropical Storm Eta (the “storm events”)
20 impacted the Companies, to identify storm costs charged to base Operations &
21 Maintenance (“O&M”), capital, or the storm reserve, and properly applied the
22 Incremental Cost and Capitalization Approach (“ICCA”) methodology to those
23 costs in all four storm events. In so doing, I will show that Mr. Kollen’s

1 recommended adjustments to the categories of regular payroll, overtime
2 payroll, materials and supplies, and line contractor expenses are inappropriate,
3 contrary to the Storm Rule, ignore the facts, and therefore should be rejected. I
4 will also discuss why it is appropriate to charge interest on Gulf Power's
5 unrecovered storm costs until fully recovered from customers through a
6 surcharge and briefly address Mr. Kollen's comments regarding FPL's use of
7 the reserve amortization mechanism to charge the storm restoration costs to
8 base O&M expense, an issue that has no place in this proceeding.

9
10 Finally, I will provide an update to my direct testimony exhibits with final
11 restoration costs for the storm events, including adjustments the Companies
12 identified in its responses to discovery which are also discussed by OPC witness
13 Futral in his testimony.

14

15 **II. THE STORM RULE**

16

17 **Q. Please identify the Storm Rule the Companies were required to follow in**
18 **the identification of and accounting for costs associated with the storm**
19 **events.**

20 **A.** The Storm Rule, as identified above, clearly delineates both the categories of
21 costs allowed to be charged to the reserve under the ICCA methodology, and
22 the categories of costs prohibited from being charged to the reserve under the
23 ICCA methodology.

1 **Q. Did the Companies comply with the Storm Rule in identifying incremental**
2 **storm-related costs and then apply the ICCA methodology to those costs?**

3 A. Yes. The Companies followed the requirements of the Storm Rule, in effect at
4 the time of the storm events, governing the identification of incremental storm-
5 related costs incurred. The Storm Rule was modified during the year 2021 and
6 the version of the Storm Rule in effect today does not apply to the storm events
7 addressed in this proceeding.

8 **Q. Mr. Kollen claims that the Companies refused to provide certain data in**
9 **response to OPC's discovery requests regarding costs in base rates, as well**
10 **as the three-year average of costs which Mr. Kollen mistakenly believes to**
11 **be relevant to this case. What is your response to these comments?**

12 A. It is hard to understand Mr. Kollen's concerns on these issues given the fact he
13 himself points to documents that: (1) explain the Companies' base rates are the
14 product of a comprehensive settlement; (2) provide the three-year averages
15 where available; and (3) explain why three-year average cost information is not
16 available with certain costs.

17 **Q. What is your response to Mr. Kollen's complaints about the scope and**
18 **quantity of the information provided by the Companies in support of the**
19 **initial filings?**

20 A. It is again hard to understand why Mr. Kollen would complain about the vast
21 amount of information provided by the Companies in support of the initial
22 filings. Utilities' initial filings in storm dockets have traditionally included a
23 petition and perhaps two or three pieces of direct testimony. In this case, in

1 accordance with the Hurricane Irma Settlement approved by the Commission
2 in Order No. PSC-2019-0319-S-EI, Docket No. 20180049-EI, the Companies’
3 initial filings provided a tremendous amount of additional information
4 consisting of confidential sortable spreadsheets with cost support for
5 renumbered Exhibits DH-1 through DH-4, containing more than 100
6 confidential line and vegetation contractor flat files with detailed invoice-
7 related information (e.g., crew timesheet and expenses, documentation of
8 exceptions, adjustments, etc.), and a compilation of confidential data exported
9 from the REDi system (Resources for Emergency Deployment) providing
10 certain contractor travel information. The notion that the filing is insufficient
11 because the Companies did not include all contracts with its initial filing –
12 notwithstanding the absence of any rule, precedent, or agreement requiring this
13 - is simply not credible and ignores the fact that it complies with requirements
14 of the Commission-approved Hurricane Irma Settlement to which OPC is a
15 party.

16 **Q. Are there other criteria outside of the Storm Rule that Mr. Kollen asserts**
17 **should be considered by the Commission?**

18 A. Yes. Mr. Kollen introduces a one-directional penalty system regarding the
19 recovery of storm related costs in order to incentivize the Companies to
20 minimize the cost of storm restoration – a proposal which, as discussed by FPL
21 witness Miranda, is unnecessary and inappropriate in this proceeding.

22

1 **Q. It seems that OPC, through Mr. Kollen, is suggesting that the Commission**
2 **ignore the clear intent of the governing Storm Rule by asking the**
3 **Commission to consider other criteria outside of the Storm Rule. What is**
4 **the Companies' position with respect to these suggestions?**

5 A. This docket – opened to determine the prudence and reasonableness of storm-
6 related costs associated with the storm events – is not a rulemaking proceeding
7 and simply is not the forum within which these other criteria should even be
8 considered. As stated above, in both its filing and its responses to discovery,
9 the Companies have fully complied with the Storm Rule and those aspects of
10 the Commission-approved, OPC-supported Hurricane Irma Settlement
11 Agreement that apply. The Companies respectfully submit that the
12 Commission should reject Mr. Kollen's efforts to turn this docket into a
13 rulemaking proceeding.

14 **Q. On page 5 of his testimony, OPC witness Futral recommends that the**
15 **Commission require the Companies "to institute a Binder file structure"**
16 **to streamline the audit process of storm restoration costs related to future**
17 **storm events. Do you agree with his recommendation?**

18 A. No. Instituting such a recommendation is not required under the Storm Rule
19 nor does it fall under the provisions of FPL's Hurricane Irma Settlement. In
20 addition, the Companies provided searchable electronic files for each of the
21 storm events when filing its petitions in this proceeding, which is more efficient
22 when reviewing a large volume of data.

23

1 **III. ACCOUNTING TREATMENT AND THE ICCA METHODOLOGY**

2

3 **Q. Do you agree with OPC witness Kollen’s statement on Page 37, Lines 3**
4 **through 8 that the Companies failed to limit the costs charged to the storm**
5 **reserve or O&M expenses?**

6 A. No, I do not agree. It appears Mr. Kollen believes that only the incremental
7 storm restoration costs under the ICCA method are charged to customers and
8 that the non-incremental storm restoration costs under the ICCA method are
9 “disallowed” (i.e., not charged to customers). Of course, that is not true. Under
10 the ICCA methodology, all reasonable and prudently incurred non-incremental
11 storm restoration costs are charged as base O&M expense or capital.

12 **Q. Did the FPSC conduct an audit to review the Companies’ application of**
13 **the ICCA methodology related to the costs for the storm events?**

14 A. Yes. The FPSC conducted an audit to determine if the storm costs in the storm
15 events were properly stated and recorded. The final audit report reflects no
16 findings regarding the application of the ICCA methodology to the costs for the
17 storm events presented in this proceeding. Therefore, the Commission auditors
18 have acknowledged and validated that the Companies followed the
19 requirements of the ICCA methodology to calculate incremental storm costs for
20 recovery in this proceeding.

21

22

23

1 **IV. INCREMENTAL STORM COSTS**

2

3 **Q. Does Mr. Kollen offer any evidence to suggest that any of the costs under**
4 **what he calls his “Disallowance Issues” starting on Page 39 of his testimony**
5 **were imprudently or unreasonably incurred?**

6 A. No. Witness Kollen does not claim that any of the storm restoration costs
7 presented for the storm events in this proceeding are unreasonable or imprudent.
8 Rather, his proposed adjustments to the regular payroll, overtime payroll,
9 materials and supplies, line contractor expense, and interest associated with the
10 unrecovered storm costs are based entirely on his erroneous application of the
11 ICCA methodology.

12

13 **A. Regular Payroll Storm Restoration Costs**

14 **Q. Please summarize Mr. Kollen’s recommended adjustment to the regular**
15 **payroll expense for the storm events.**

16 A. On Page 40, lines 12 through 19 and Page 41, Lines 1 through 11 of his direct
17 testimony, Mr. Kollen contends that all regular payroll expense associated with
18 all storm restoration costs is non-incremental and should be disallowed. Mr.
19 Kollen’s adjustment to remove the total amount of regular payroll costs for the
20 storm events presented in this proceeding is unsupported and based solely on
21 his flawed application of the ICCA.

22 **Q. Do you agree with Mr. Kollen’s adjustment to regular payroll expense?**

23 A. No. As stated in my direct testimony, regular payroll normally recovered
24 through capital or cost recovery clauses can be charged to the storm reserve

1 based on paragraphs 21 and 22 of Order No. PSC-2006-0464-FOF-EI, Docket
2 No. 20060038-EI. The regular payroll expense calculated by the Companies as
3 incremental storm expense would have been incurred as a component of capital
4 or cost recovery clauses absent the storm events' restoration efforts.
5 Importantly, Mr. Kollen does not claim that any portion of the regular payroll
6 expense incurred by the Companies was unreasonable or imprudent. Rather,
7 Mr. Kollen's adjustments to the regular payroll expense is based entirely on his
8 erroneous application of the ICCA method.

9
10 Unless a non-incremental regular payroll expense is found to be imprudent, it
11 would be charged to base O&M expense or capital, which is where all of the
12 regular payroll expense for the storm events has been charged. Mr. Kollen's
13 attempt to reclassify all the regular payroll expense as non-incremental costs
14 does not mean the costs are disallowed as a base O&M expense as suggested
15 by Mr. Kollen. In the case of Hurricane Isaias and Tropical Storm Eta, it simply
16 shifts where the regular payroll expense on renumbered Exhibit DH-3 and
17 renumbered Exhibit DH-4 filed in my direct testimony would be reflected and
18 would have no other impact on FPL's books and records. For Hurricanes Sally
19 and Zeta, it would just move costs from the storm reserve to base O&M. For
20 these reasons, Mr. Kollen's arbitrary reduction in regular payroll misapplies the
21 ICCA method and is not consistent with the Storm Rule.

22

1 **Q. Do you have any additional concerns with Mr. Kollen’s application of the**
2 **ICCA method?**

3 A. Yes. While the Storm Rule does not expressly state how the ICCA
4 methodology should be applied to regular payroll, the Storm Rule does provide
5 significant guidance on the purpose and intent of it. Part (1)(f)(1) of the Storm
6 Rule prohibits “base rate recoverable regular payroll and regular payroll-related
7 costs for utility managerial and non-managerial personnel” from being charged
8 to the storm reserve, and Part (1)(d) of the Storm Rule provides that “... costs
9 charged to cover storm-related damages shall exclude those costs that normally
10 would be charged to non-cost recovery clause operating expenses in the absence
11 of a storm.” In addition, Part (1)(f)(7) of the Storm Rule specifically refers to
12 the use of budgeted call center and customer service costs when calculating
13 incremental costs for those functions. When these parts of the Storm Rule are
14 read together, it is clear that the purpose of the Storm Rule is to exclude the
15 normal regular payroll base O&M expense that would have been incurred *in the*
16 *absence of the storm.*

17

18 There is nothing in the Storm Rule that states all regular payroll expense must
19 be disallowed for recovery or considered non-incremental. Mr. Kollen fails to
20 support his exclusion of all regular payroll as a disallowance or non-incremental
21 expense and provides no reasoning for suggesting such adjustment.

22

1 **Q. Did the Companies apply the ICCA methodology to regular payroll and**
2 **exclude those costs that normally would be charged to non-cost recovery**
3 **clause operating expenses in the absence of a storm? Please explain your**
4 **answer.**

5 A. Yes. The Companies used its current period operating budget as the baseline
6 to calculate its non-incremental payroll storm costs per the ICCA methodology,
7 which was reflected on renumbered Exhibits DH-1, DH-2, DH-3, and DH-4
8 attached to my direct testimony, and the updated Exhibits DH-5 through DH-8
9 attached to this testimony. The use of the budgeted amount of regular payroll
10 expenses to calculate the baseline from which incremental recoverable costs are
11 derived is consistent with the intent and purpose of the ICCA methodology
12 under the Storm Rule because it reflects the actual amount of regular payroll
13 expense that would be charged to base O&M expense in the absence of the
14 storm. Further, the use of the budgeted amount of regular payroll expenses to
15 calculate the baseline from which incremental recoverable costs are derived
16 properly recognizes that: (1) the base rates in effect were the result of a
17 comprehensive settlement with a significantly reduced revenue requirement
18 from what was initially requested; and (2) the actual amount of regular O&M
19 payroll to be charged to base rates can and does fluctuate from year to year.

20

21

22

23

1 **B. Overtime Payroll Storm Restoration Costs**

2 **Q. Please summarize Mr. Kollen’s recommended adjustment to the storm**
3 **events’ overtime payroll expense.**

4 A. Starting on page 41, lines 13, through page 43, line 11 of his testimony, Mr.
5 Kollen recommends that an arbitrary and unsupported 25% of the Companies’
6 overtime payroll expense associated with the storm events to be disallowed and
7 excluded under the ICCA methodology.

8 **Q. Are you able to identify the basis of the arbitrary and unsupported**
9 **recommended adjustment of 25% of all the storms events’ overtime**
10 **payroll?**

11 A. No. Mr. Kollen readily admits that he simply “assumed” that 75% of the
12 storms’ overtime was incremental and 25% was non-incremental. This
13 assumption appears to be based on a number of additional incorrect
14 assumptions, none of which support his conclusion.

15
16 He claims at page 42, starting on line 13 of his testimony that “[t]he Companies
17 failed to provide the amounts included in the base revenue requirement in
18 response to OPC discovery.” The Companies in fact provided a detailed answer
19 as seen on his Exhibit LK-2 explaining: (1) that base rates in effect during 2020
20 were the result of full comprehensive settlement agreements entered by both
21 FPL and Gulf Power in separate rate case dockets and approved by the

1 Commission,¹ and that the fixed based rates approved were designed to achieve
2 the settled revenue requirement, not the as-filed revenue requirement; and (2)
3 that overtime payroll for the storm events (as a qualifying storms events) were
4 neither budgeted nor planned, and that as a result any and all associated
5 overtime payroll is by definition incremental.

6

7 **C. Non-Incremental Contractor Costs**

8 **Q. Please summarize Mr. Kollen’s recommended adjustment to line**
9 **contractor expense for the storm events.**

10 A. On pages 43 through 45 of his direct testimony, Mr. Kollen contends that the
11 Companies did not properly apply the ICCA methodology to “line contractor
12 costs.” Mr. Kollen recommends a disallowance of an arbitrary and unsupported
13 2% of line contractor costs, once again incorrectly claiming “the Companies
14 objected to and refused to provide the historic information necessary to quantify
15 these embedded costs in response to OPC discovery.” Similar to his
16 adjustments for payroll and overtime payroll, his adjustment for line contractor
17 costs is unsupported and contrary to the Storm Rule.

18

19

¹ See FPL’s 2016 Stipulation and Settlement Agreement approved by the Commission in Order No. PSC-2016-0560-AS-EI in Docket No. 20160021-EI (the “2016 Settlement Agreement”) and Gulf Power’s 2017 Stipulation and Settlement Agreement approved by the Commission in Order No. PSC-17-0178-S-EI, Docket No. 160186-EI.

1 **Q. Do you agree with Mr. Kollen that the Companies did not properly apply**
2 **the ICCA methodology to line contractor costs?**

3 A. No. The Companies followed Part (1)(e)(1) of the Storm Rule in determining
4 the amount of line contractor costs that are allowed to be recovered, which
5 included “additional contract labor hired for storm restoration activities.”
6 Similar to overtime payroll, line contractor costs are neither budgeted nor
7 planned – they are incremental in nature. Indeed, but for each storm, the
8 Companies would not have incurred this line contractor expense.

9

10 **D. Non-Incremental Materials and Supplies**

11 **Q. Do you agree that materials and supplies should be treated in the same**
12 **manner as tree trimming expenses as witness Kollen contends on page 38,**
13 **Lines 8 through 14 of his testimony? Please explain.**

14 A. No. Part (1)(f)(8) of the Storm Rule, addressing tree trimming expenses,
15 specifically requires the use of a three-year average of tree trimming expenses
16 to determine incremental storm-related expenses. That is the only section of
17 the Storm Rule where the use of a three-year average is the benchmark for
18 determining costs recovered in base rates as opposed to incremental storm-
19 related costs. In the instance of materials and supplies, the use of a three-year
20 average is not required by the Storm Rule. Notwithstanding that fact, Mr.
21 Kollen criticizes the Companies for failing to use the three-year average to
22 identify incremental materials and supplies costs. It is obvious that witness
23 Kollen is disregarding the Storm Rule by comparing tree trimming to the

1 materials and supplies rule requirements. Therefore, his proposed adjustment
2 for this item should be ignored.

3

4 **E. Interest on the Unamortized Storm Costs**

5 **Q. Do you agree with witness Kollen that Gulf Power should be disallowed the**
6 **interest accrual on unamortized storms costs for Hurricanes Sally and**
7 **Zeta?**

8 A. No. On page 35, Lines 1 through 11 of witness Kollen’s testimony, he states
9 that Gulf Power should not be able to include interest on the unrecovered
10 incremental storm costs related to Hurricanes Sally or Zeta because “[i]nterest
11 is not identified as a recoverable cost in the Rule.” Gulf Power should be
12 allowed to earn interest on the amount of total unrecovered incremental storm
13 costs until they are fully recovered from customers consistent with prior
14 Commission precedent for recovery of Hurricanes Matthew and Michael storm
15 costs.²

16

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² See Order No. PSC-2020-0349-S-EI, Docket No. 20190038-EI (approving the Stipulation and Settlement Agreement in Gulf Power’s Petition for Limited Proceeding for Recovery of Incremental Storm Restoration Costs Related to Hurricane Michael) and Order No. PSC-2018-0359-FOF-EI, Docket No. 20160251-EI (approving the Stipulation and Settlement Agreement in FPL’s Petition for Limited Proceeding for Recovery of Incremental Storm Restoration Costs Related to Hurricane Matthew).

1 V. RESERVE AMORTIZATION MECHANISM

2

3 **Q. On pages 39, Lines 8 through 11 of his testimony, Mr. Kollen takes issue**
4 **with FPL’s use of the reserve amortization mechanism for storm**
5 **restoration costs and states that it results in additional ratemaking**
6 **recovery. Do you have a response?**

7 A. Yes. FPL’s use of the reserve amortization is not a proper issue in this
8 proceeding, as this proceeding was initiated to evaluate the Companies’ storm
9 restoration costs related to the storm events.

10

11 In Docket No. 20180046-EI, Order No. PSC-2019-0225-FOF-EI, issued on
12 June 10, 2019, the Commission found that FPL’s use of the reserve amortization
13 mechanism to pay for Hurricane Irma costs was appropriate, which is exactly
14 how Hurricane Isaias and Tropical Storm Eta costs are being treated. Mr.
15 Kollen’s claim that FPL’s use of the reserve amortization results in additional
16 recovery of storm costs ignores the fact that non-incremental costs are charged
17 to base O&M regardless of FPL’s use of the storm reserve. Mr. Kollen’s
18 attempt to introduce what he calls the “ratemaking implications of FPL’s
19 request” are misplaced, inappropriate in the context of this case, and should be
20 rejected by the Commission.

21

22

1 **Q. Does FPL have the discretion to charge storm restoration costs to base**
2 **O&M expense rather than to the storm reserve?**

3 A. Yes. Part (1)(h) of the Rule states that “*a utility may, at its own option, charge*
4 *storm related costs as operating expenses rather than charging them to Account*
5 *No. 228.1.*” This is precisely what FPL opted to do rather than implementing
6 an optional interim incremental storm surcharge permitted by Section 6 of
7 FPL’s 2016 Settlement.

8
9 Further, Section 6 of the 2016 Settlement Agreement gives FPL the option, but
10 does not require, the Company to seek incremental storm cost recovery. FPL
11 decided to forgo that option for incremental recovery through a storm surcharge
12 with respect to Hurricane Isaias and Tropical Storm Eta storm restoration costs
13 because another option was available through the framework of the 2016
14 Settlement Agreement and is authorized by the Rule. Using that alternative
15 option, FPL recorded Hurricane Isaias and Tropical Storm Eta non-capitalized
16 storm-related costs as a base O&M expense in accordance with Part (1)(h) of
17 the Rule.

18 **Q. Had FPL utilized the storm surcharge for recovery of Hurricane Isaias and**
19 **Tropical Storm Eta storm costs, would its treatment of non-incremental**
20 **costs have been any different?**

21 A. No. The non-incremental costs were prudently incurred and would have been
22 charged to base O&M regardless of whether a storm surcharge had been sought.
23 FPL’s incurred *incremental* costs would have been charged to the storm reserve

1 and the reasonable and prudently incurred *non-incremental* costs would have
2 been charged to base O&M expense or capital.

3

4 **VI. FINAL STORM RESTORATION COSTS**

5

6 **Q. Have the Companies identified any adjustments to the Storm and**
7 **Restoration costs filed on November 12, 2021?**

8 A. Yes. Since the filing of renumbered Exhibits DH-1 through DH-4 on November
9 12, 2021, the Companies' total retail recoverable incremental storm costs for
10 each of the storm events decreased as shown below:

Storm Event	Direct Testimony Estimated Costs (\$000)	Rebuttal Testimony Final Costs (\$000)	Final True-Up Amount (\$000)	% of Storm Costs
Sally	\$186,840	\$186,619	(\$221)	(0.12%)
Zeta	\$10,079	\$10,075	(\$4)	(0.04%)
Isaias	\$66,346	\$66,341	(\$5)	(0.01%)
Eta	\$112,729	\$112,654	(\$75)	(0.07%)

11

12 **Q. Did the Companies incorporate all known adjustments to its final true-up**
13 **of costs for the storm events?**

14 A. Yes. The Companies incorporated all adjustments to the final storm costs for
15 the storm events and reflected them in my Exhibits DH-5 through DH-8. This
16 includes adjustments identified by the Companies in its responses to discovery
17 requests, which are also attached to OPC witness Futral's testimony as Exhibit

1 RAF-7 and incorporated into the adjustments to incremental storm costs
2 reflected in OPC witness Kollen's testimony. Note, the Per Book adjustments
3 identified by the Companies in the referenced discovery responses agree to the
4 amounts reflected in OPC witness Kollen's testimony, however, the
5 jurisdictional factors applied to the Per Book amounts in his testimony are not
6 accurate as they appear to be average jurisdictional factors and not at the
7 functional level. Exhibits DH-5 through DH-8 include the proper
8 functionalization and application of separation factors for each of the identified
9 adjustments.

10 **Q. Does this conclude your rebuttal testimony?**

11 A. Yes.

1 BY MR. BADDERS:

2 Q Mr. Miranda, have you prepared a summary of
3 your rebuttal testimony?

4 A I have.

5 Q Please provide that to the Commission today.

6 A Good afternoon, Commissioners.

7 The rebuttal testimony responds to OPC Witness
8 Kollen's recommendation to modify FPL's storm
9 restoration processes. His recommendations are
10 unrealistic and fail to recognize and appreciate the
11 complexity and the severity of conditions a utility
12 faces as it prepares for a service area for the
13 potential impact of a hurricane. Mr. Kollen's proposal
14 would actually hinder FPL's ability to quickly restore
15 powers its customers, which comprise of more than half
16 of Florida's population.

17 Mr. Kollen recommends that FPL add resource
18 optimization software to determine resource requirements
19 for storm restoration in addition to the forecast damage
20 assessments from the storm damage model. FPL considers
21 the realtime resource availability, location of these
22 resources, historical performance for similar storms and
23 current, active restoration events in other states, and
24 operational and managerial experience. These dynamic,
25 complex decisions cannot be made by a piece of software.

1 Mr. Coal also recommends that FPL adopt
2 written policies that require FPL to implement a storm
3 restoration goal to minimize costs. His recommendation
4 does not account for the impact on the company's
5 customers or the state of Florida's economy of
6 protracted restoration effort. Simply stated,
7 restoration of electric service at the lowest possible
8 cost in the wake of storms will not result in the most
9 rapid restoration.

10 As I explained in both my direct and rebuttal,
11 the company considers costs in its decisions, including
12 the storm planning and restoration processes. Examples
13 of cost management includes utilization of employees and
14 embedded contractors, pre-storm contract negotiations
15 and the practice of bringing in least cost first and
16 releasing resources to mitigate via a high cost first.

17 Costs are always a factor in every decision
18 the company makes during a restoration event. It cannot
19 be the primary driver for the decisions if the companies
20 are going restore service to our customers as quickly
21 and safely as possible.

22 Despite the benefit of hindsight in evaluating
23 FPL and Gulf's response to Hurricanes Isaias, Sally,
24 Zeta and Tropical Storm Eta, Mr. Kollen reached a
25 conclusion regarding FPL and Gulf's restoration,

1 preparations and procedures, Mr. Kollen's proposed
2 recommendations ignored the real life and realtime
3 decision that the companies face when as storms approach
4 of the company combined extensive experiences to
5 successfully responding to hurricanes and restoring
6 power quickly and safely. Therefore, Mr. Kollen's
7 recommendations should be rejected by the Commission.

8 And that can concludes my summary, and thank
9 you.

10 MR. BADDERS: We tender Mr. Miranda for
11 cross-examination.

12 EXAMINATION

13 BY MS. CHRISTENSEN:

14 Q Good afternoon, again, Mr. Miranda.

15 A Good afternoon.

16 Q Yeah. I would like to refer you to your
17 rebuttal testimony, page 11, line 18, I think, through
18 19. Let me know when you get there.

19 CHAIRMAN FAY: I am sorry, Ms. Christensen,
20 what lines did you say?

21 MS. CHRISTENSEN: 18 through 19.

22 CHAIRMAN FAY: Thank you.

23 THE WITNESS: I am there.

24 BY MS. CHRISTENSEN:

25 Q And you see in your testimony you talk about

1 **acquiring resources based on a low to high cost ranking**
2 **where possible, is that correct?**

3 A That's correct.

4 Q Okay. And I wanted to get from you what costs
5 are considered by FPL in that ranking process?

6 A So we look at a couple of things. What we
7 look at is obviously the negotiated contractor rate is
8 the primary objective, as well as we look at the move
9 and demobilization costs associated with those vendors
10 as well. So we look at kind of those combined costs,
11 but we look at all those rates and see how far they are
12 coming from when we make that decision. So you might
13 have a really high cost vendor, for example, but might
14 be only six hours away, might be more cost-effective
15 than a lower cost contractor that's further away.

16 Q And that's because -- would you generally
17 agree the mobilization and demobilization rates for
18 these external resources are usually higher than their
19 general labor rates?

20 A Yes, I would agree with that, yes. They
21 include different things, that's why. The move and
22 demove rates include things such as hotels, fueling and
23 other costs. That's why their rates are higher during
24 those periods sometimes.

25 Q Okay. And when you acquire the resources, you

1 have to consider how long you are going to be incurring
2 those mobilization and demobilization rates in
3 determining whether it's cost-effective to bring down
4 those contractors, correct?

5 A Yes. So -- yeah. It's a complex question you
6 are asking. But, yes, you would look at all those --
7 all those components of the mobe/demobe rates, how long
8 they are going to be here for, and also, you know, their
9 regular set standard hours, because you -- so you are
10 going to have -- for example, let's say it's going to be
11 a ten-day storm, something we had to rebuild. Let's say
12 it's a catastrophic type storm, and we know we are going
13 to have to extended restoration period. It might be --
14 it's probably the better decision to pay a little bit
15 higher mobe/demobe but with a lower standard rate so the
16 total cost experienced for the customer would be lower.
17 So that's how we could go about making those decisions.

18 Q Okay. And it would also be considered -- you
19 said how long the restoration period you anticipate is
20 going to be, you look at that when you bring down
21 contractors based on their travel time, if they are
22 going to cost you -- if it's going to take them three
23 days to get here, but you think you are going to have
24 power restored in three days, you wouldn't bring,
25 necessarily, that contractor down?

1 A That's correct. I mean, unless there is
2 something dire going on, but -- but no, we would
3 probably not bring those contractors down.

4 Q Okay. Well, that answers my question. Thank
5 you.

6 CHAIRMAN FAY: Great. Thank you.

7 Staff.

8 MR. STILLER: No questions.

9 CHAIRMAN FAY: Commissioners.
10 Redirect?

11 MR. BADDERS: No redirect.

12 CHAIRMAN FAY: Okay. And I don't believe we
13 have any exhibits in your rebuttal.

14 All right. With that, Mr. Miranda, you are
15 excused.

16 THE WITNESS: Thank you, Commissioners.

17 CHAIRMAN FAY: Thank you.

18 (Witness excused.)

19 CHAIRMAN FAY: All right. Mr. Stiller, let me
20 make sure you get me in line here for the
21 proceeding. So do we have anything else that we
22 have not addressed at this point we need to take
23 up?

24 MR. STILLER: Staff is aware of no other
25 matters. And according to my CEL, all 67 exhibits

1 have been admitted.

2 CHAIRMAN FAY: Okay. Great.

3 And then based on the prehearing discussion, I
4 am presuming that at least one parties wants to
5 file a brief in this.

6 MS. CHRISTENSEN: Yeah, I think you can
7 anticipate we will be filing a brief.

8 CHAIRMAN FAY: Okay. All righty. With that,
9 let me make sure we've got everything.

10 We would set it to not exceed 40 pages. And I
11 believe based on the OEP, the due date would be
12 August 16th, does --

13 MR. BADDERS: That's right.

14 CHAIRMAN FAY: Sound appropriate?

15 MS. CHRISTENSEN: August 16th, yeah, that
16 sounds --

17 CHAIRMAN FAY: Yeah. I believe the prehearing
18 officer granted an extension on that time for that
19 date.

20 MS. CHRISTENSEN: The additional time, yes.

21 CHAIRMAN FAY: Okay. Great.

22 All righty. With that, unless the parties
23 have any other matters, this hearing is adjourned.
24 Thank you so much.

25 MR. BADDERS: Thank you.

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(Proceedings concluded.)

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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 22nd day of July, 2022.



DEBRA R. KRICK
NOTARY PUBLIC
COMMISSION #HH31926
EXPIRES AUGUST 13, 2024