

Docket No. 20180061-EI
Florida Public Utilities Company
Petition for limited proceeding to recover incremental storm restoration costs,
by Florida Public Utilities Company

Witness: **Direct Testimony of Debra M. Dobiac,**
Appearing on Behalf of the Staff of the Florida Public Service Commission

Date Filed: October 22, 2018

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

3 **DIRECT TESTIMONY OF DEBRA M. DOBIAC**

4 **DOCKET NO. 20180061-EI**

5 **OCTOBER 22, 2018**

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

7 A. My name is Debra M. Dobiac. My business address is 2540 Shumard Oak Boulevard,
8 Tallahassee, Florida, 32399.

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

10 A. I am employed by the Florida Public Service Commission (FPSC or Commission) in the
11 Office of Auditing and Performance Analysis. I have been employed by the Commission since
12 January 2008.

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

14 A. Currently, I am a Public Utility Analyst with the responsibilities of managing regulated
15 utility financial audits. I am also responsible for creating audit work programs to meet a specific
16 audit purpose.

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

18 A. I graduated with honors from Lakeland College in 1993 and have a Bachelor of Arts
19 degree in accounting. Prior to my work at the Commission, I worked for six years in internal
20 auditing at the Kohler Company and First American Title Insurance Company. I also have
21 approximately 12 years of experience as an accounting manager and controller.

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

24 A. Yes. I testified in the Aqua Utilities Florida, Inc. Rate Case, Docket No. 20080121-WS,
25 the Water Management Services, Inc. Rate Case, Docket No. 20110200-WU, and the Utilities,

1 Inc. of Florida Rate Case, Docket No. 20160101-WS. I provided testimony for the Water
2 Management Services, Inc. Rate Case, Docket No. 20100104-WU, the Gulf Power Company
3 Rate Cases, Docket Nos. 20110138-EI and 20130140-EI, the Fuel and Purchased Power
4 Recovery Clause (Hedging Activities) for Gulf Power Company, Docket Nos. 20130001-EI and
5 20140001-EI, and the Fuel and Purchased Power Recovery Clause (Hedging Activities) for
6 Florida Power & Light Company, Docket No. 20180001-EI.

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

8 A. The purpose of my testimony is to sponsor the staff auditor's report issued on June 12,
9 2018, which addresses Florida Public Utilities Company's (FPUC or Utility) application for
10 limited proceeding to recover incremental storm restoration costs. This auditor's report is filed
11 with my testimony and is identified as Exhibit DMD-1.

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

13 A. Yes, it was prepared under my direction.

14 **Q. Please describe the work you performed in this audit.**

15 A. The procedures that we performed in this audit are listed in the Objectives and
16 Procedures section of the attached Exhibit DMD-1, pages 5 through 7 of 10.

17 **Q. Were there any audit findings in the auditor's report, Exhibit DMD-1, regarding the
18 historical amounts in the schedules prepared by the Utility in support of its filing in the
19 current docket?**

20 A. Yes. There were two audit findings reported in this audit and are found in the attached
21 Exhibit DMD-1, pages 8 through 9 of 10. The Direct Testimony of Michael Cassel filed in this
22 Docket on August 20, 2018, indicates that the Utility accepted our findings and made the
23 appropriate entries to reduce the amount of the request being made. These findings are
24 summarized below:

25 **Finding 1 – Capitalizable Costs- Hurricane Irma**

1 Hurricane Irma's recoverable storm costs should be decreased by \$104,773. On
2 December 31, 2017, a journal entry in the amount of \$226,161 was recorded to remove
3 Hurricane Irma's capitalizable costs from Account 228.1 – Storm Reserve and record this to the
4 appropriate plant and cost of removal accounts. This removal included \$32,800 for 24
5 transformers. The Utility determined that the transformers, when placed in service during the
6 storm, were capitalized and never recorded to the storm reserve. Therefore, this journal entry
7 removed costs from the storm reserve, which should not have been removed. Our adjustment to
8 increase storm costs by \$32,800 corrects this error. We also noted that items in the total amount
9 of \$137,573 had been expensed to the storm reserve. It was determined that these items are not
10 recoverable under this docket per Rule 25-6.0143(1)(d), Florida Administrative Code (F.A.C.),
11 because they should have been capitalized. Hurricane Irma's recoverable storm costs should be
12 decreased by \$104,773 (\$32,800 - \$137,573).

13 **Finding 2 – Non-Incremental Costs- Other Storms**

14 Hurricane Hermine's recoverable storm costs should be decreased by \$6,592. Tropical
15 Storm Julia's recoverable storm costs should be decreased by \$1,279. Other Minor Storms'
16 recoverable storm costs should be decreased by \$4,856. During the testing of the payroll,
17 overhead, and associated costs, we noted that regular time payroll was included for recovery in
18 the storm amounts noted above. Since regular time payroll and its associated costs are
19 considered to be recoverable through base rates, we are removing \$12,727 (\$6,592 + \$1,279 +
20 \$4,856) of regular time payroll, which is not recoverable under this docket as per Rule 25-
21 6.0143(1)(f), F.A.C.

22 **Q. Does that conclude your testimony?**

23 **A.** Yes, it does.
24
25

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tallahassee District Office

Auditor's Report

Florida Public Utilities Company
Storm Recovery Cost Audit

As of December 31, 2017

Docket No. 20180061-EI
Audit Control No. 2018-067-1-1
May 31, 2018

Handwritten signature of Debra Dobiac in black ink.

Debra Dobiac
Audit Manager

Handwritten signature of Marisa N. Glover in blue ink.

Marisa N. Glover
Reviewer

Table of Contents

Purpose..... 1

Objectives and Procedures 2

Audit Findings

 1: Capitalizable Costs – Hurricane Irma 6

 2: Non-Incremental Costs – Other Storms 7

Exhibits

 1: FPUC’s Storm Cost Summary 8

Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated March 7, 2018. We have applied these procedures to the attached schedules prepared by Florida Public Utilities Company in support of its filing for storm recovery costs in Docket No. 20180061-EI.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

FPUC or Utility refers to Florida Public Utilities Company.

Background

In Order No. PSC-2014-0517-S-EI, issued September 29, 2014, the storm reserve accrual of \$121,620 per year was diverted to tree trimming and an underground feasibility study for two years. The order was effective starting in November 2014. The Utility began re-accruing by November 2016 and continued to accrue \$10,135 per month through December 31, 2017. On that date, the storm reserve balance would have been \$2,284,694.

On February 28, 2018, the Utility filed a petition for a limited proceeding seeking recovery of incremental storm restoration costs related to several hurricanes and tropical storms and to replenish the storm reserve. This audit's focus was on FPUC's request for incurred costs related to the following storms.

- Hurricane Irma - \$2,332,934,
- Hurricane Matthew - \$560,897,
- Hurricane Hermine - \$27,359,
- Tropical Storm Julia - \$13,177,
- Tropical Storm Cindy - \$3,381, and
- Other Minor Storms - \$126,120.

These storms total \$3,063,868, which left the reserve balance underfunded by \$779,174 (\$2,284,694 - \$3,063,868) as of December 31, 2017. At that time, the Utility transferred the debit balance of \$779,174 from Account 228.1 – Storm Reserve to Account 182.3 – Extraordinary Property Losses as a regulatory asset.

The Utility requested recovery for 1) \$779,174, which is the regulatory asset discussed above; 2) \$1,500,000, which is the reserve balance allowed by Order No. PSC-2017-0488-PAA-EI, issued December 26, 2017; and 3) \$1,641, which is the amount applicable to the regulatory assessment fee gross-up. This totals \$2,280,815 (\$779,174 + \$1,500,000 + \$1,641), which FPUC is requesting to recover from customers over a two year period beginning with the first billing cycle of May 2018.

It should be noted that the Utility continued the storm reserve accrual of \$10,135 per month as amortization expense for the regulatory asset beginning in January 2018. As time goes on, the regulatory asset amount requested for recovery in the Utility's petition continues to decrease.

Utility Books and Records

Objectives: The objective was to determine whether all the storm costs incurred are supported by the Utility's books and records.

Procedures: Audit staff scheduled total storm costs from Account 228.1 – Storm Reserve by storm from December 31, 2015 through February 28, 2018 and reconciled it to Attachment A, page 1 of 3, from the Utility's petition. No exceptions were noted.

Expense

Payroll, Overhead, and Related Costs

Objectives: The objectives were to determine whether payroll, overtime, and related costs were properly stated, storm related, and recoverable under this docket.

Procedures: We scheduled payroll, overhead, and related costs by cost type and storm. We selected a judgmental sample of costs for detail testing and traced the amounts to the payroll register and allocation schedules. No exceptions were noted.

Vehicle and Fuel

Objectives: The objectives were to determine whether vehicle and fuel costs were properly stated, storm related, and recoverable under this docket.

Procedures: We scheduled vehicle and fuel costs by storm. We selected a judgmental sample of costs for detail testing and traced the amounts to the payroll allocation schedules. No exceptions were noted.

Contractors and Line Clearing

Objectives: The objectives were to determine whether contractors and line clearing costs were properly stated, storm related, and recoverable under this docket.

Procedures: We scheduled contractors and line clearing costs by storm. We selected a judgmental sample of costs for detail testing and traced the amounts to the supporting invoices. No exceptions were noted.

Materials and Supplies

Objectives: The objectives were to determine whether materials and supplies were properly stated, storm related, and recoverable under this docket.

Procedures: We scheduled material and supplies by storm. We selected a judgmental sample of costs for detail testing and traced the items to the inventory system printouts or supporting invoices. Finding 1 discusses our recommended adjustment to capitalizable costs.

Logistics

Objectives: The objectives were to determine whether logistics costs were properly stated, storm related, and recoverable under this docket.

Procedures: We scheduled logistics costs by storm. We selected a judgmental sample of costs for detail testing and traced the items to the supporting invoices. No exceptions were noted.

Other Costs

Objectives: The objectives were to determine whether other costs were properly stated, storm related, and recoverable under this docket.

Procedures: We scheduled other costs by storm. We selected a judgmental sample of costs for detail testing and traced the items to the supporting invoices or the lost revenue calculation worksheets. No exceptions were noted.

Non-Incremental Costs

Objectives: The objective was to determine whether the non-incremental costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143, Florida Administrative Code (F.A.C.).

Procedures: We requested a detailed description of non-incremental costs as well as the policies and procedures for recording these costs. We scheduled payroll and overhead by storm and cost type. We traced the amounts to each storm's payroll schedule, supporting documentation, and removed the capitalized payroll costs. We reviewed the Utility provided schedule comparing base rate payroll per the last rate case with 2016 and 2017 payroll costs. Finding 2 discusses our recommended adjustment to payroll.

Third-Party Reimbursements

Objectives: The objective was to determine whether third-party reimbursement costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143 (1)(b), F.A.C.

Procedures: We requested a detail listing of any third-party reimbursements or insurance claims. We noted that there were no third-party reimbursements.

Capitalizable Costs

Objectives: The objectives were to determine whether the capitalizable costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143(1)(d), F.A.C. This rule states that the utility will be allowed to charge to Account No. 228.1, costs that are incremental to costs normally charged to non-cost recovery clause operating expenses in the absence of a storm. In addition, capital expenditures for the removal, retirement and replacement of damaged facilities charged to cover storm-related damages shall exclude the normal cost for the removal, retirement and replacement of those facilities in the absence of a storm.

Procedures: We requested a detailed description of the capitalizable costs as well as the policies and procedures for recording these costs. We tested the capitalizable costs to determine if the Utility included for recovery only those costs that are allowed by the applicable Rule. Finding 1 discusses our recommended adjustment to capitalizable costs.

Other

Jurisdictional Factors

Objectives: The objective was to determine whether the Utility used the appropriate jurisdictional factors for the filing.

Procedures: We reviewed Order No. PSC-2014-0517-S-EI and the last rate case exhibit from Docket No. 20140025-EI, Schedule B-6 – Jurisdictional Separation Factors-Rate Base. We determined that FPUC was authorized to use the jurisdictional factors of 100 percent. No further work performed.

Audit Findings

Finding 1: Capitalizable Costs – Hurricane Irma

Audit Analysis: According to the Utility’s petition, recoverable storm costs for Hurricane Irma were \$2,332,934. We determined that the recoverable storm costs for Hurricane Irma should be \$2,228,161.

On December 31, 2017, a journal entry in the amount of \$226,161 was recorded to remove Hurricane Irma’s capitalizable costs from Account 228.1 – Storm Reserve and record this to the appropriate plant and cost of removal accounts. This removal included \$32,800 for 24 transformers. The Utility determined that the transformers, when placed in service during the storm, was capitalized and never recorded to the storm reserve. Therefore, this journal entry removed costs from the storm reserve, which should not have been removed. Our adjustment to increase storm costs by \$32,800 corrects this error.

Audit staff also noted that the items listed in Table 1-1 had been expensed to the storm reserve. It was determined that these items are not recoverable under this docket per Rule 25-6.0143(1)(d), F.A.C., because they would have been capitalized.

Table 1-1

Description	Amount
200-4/0 AUTO SPLICES	\$ 3,799
1-MOST 9B SWITCHGEAR	25,423
1-MOST 9B SWITCHGEAR	25,423
397 AND 477 FULL TENSION SPLICE	4,734
SUB AUTO TX TESTING & TROUBLESH	6,045
AUTO TX BUSHING/ARRESTOR CHANGE	13,942
CONNECTORS /SPLICES	5,897
REPLACE ENERGIZED ARRESTORS	52,310
	<u>\$ 137,573</u>

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Hurricane Irma’s recoverable storm costs should be decreased by \$104,773 (\$32,800 - \$137,573).

Finding 2: Non-Incremental Costs – Other Storms

Audit Analysis: According to the Utility’s petition, total recoverable storm costs for Hurricane Hermine were \$27,359, Tropical Storm Julia was \$13,177, and Other Minor Storms were \$126,120. We determined that the recoverable storm costs for Hurricane Hermine should be \$20,767, Tropical Storm Julia should be \$11,898, and Other Minor Storms should be \$121,264.

During the testing of the payroll, overhead, and associated costs, we noted that regular time payroll was included for recovery as shown in Table 2-1.

Table 2-1

Storm	Utility Balance	Audit Adjustments	Audit Balance
Hurricane Hermine	\$ 27,359	\$ (6,592)	\$ 20,767
Tropical Storm Julia	13,177	(1,279)	11,898
Other Minor Storms	126,120	(4,856)	121,264
Total	\$ 166,656	\$ (12,727)	\$ 153,929

Since regular time payroll and its associated costs are considered to be recoverable through base rates, we are removing \$12,727 of regular time payroll, which is not recoverable under this docket as per Rule 25-6.0143, F.A.C.

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Hurricane Hermine’s recoverable storm costs should be decreased by \$6,592. Tropical Storm Julia’s recoverable storm costs should be decreased by \$1,279. Other Minor Storms’ recoverable storm costs should be decreased by \$4,856.

Exhibits

Exhibit 1: FPUC's Storm Cost Summary

Florida Public Utilities Company Storm Cost Recovery Account 228 Storm Reserve Summary		ATTACHMENT A PAGE 1
Line Number		Account 228.100 Storm Reserve
1	Reserve Balance September 2015 (Credit)	\$ 2,142,805
2	Monthly Accruals to Reserve (Note A)	\$ 141,890
3	Tropical Storm Cindy (2017)	\$ (3,381)
4	Tropical Storm Julia (2016)	\$ (13,177)
5	Hurricane Hermine (2016)	\$ (27,359)
6	Hurricane Matthew (2016)	\$ (560,897)
7	Hurricane Irma (2017)	\$ (2,332,934)
8	Other Minor Storms	\$ (126,120)
9	Reserve Balance Underfunded nt December 31, 2017	<u>\$ (779,174)</u>
10	Reserve Balance Allowed Per Commission Order No. PSC-2017-0488-PAA-EI	\$ 1,500,000
11	Revenue Needed to Fund Reserve to \$1.5M Level	<u>\$ 2,279,174</u>
12	Regulatory Assessment Fee Multiplier	1.00072
13	Total System Storm Losses to Be Recovered From Customers	<u>\$ 2,280,815</u>
14	Jurisdictional Factor	100%
15	Jurisdictional Total System Storm Losses to Be Recovered From Customers	<u>\$ 2,280,815</u>
16	Total 2017 kWh	\$ 628,069,401
17	Rate Per kWh per year	\$ 0.003631
18	Rate Per 1,000 kWh Over 1 Year	\$ 3.63
19	Rate Per 1,000 kWh Over 2 Years	\$ 1.82
20	Note A: Per 2015 Rate Case Settlement Reserve funding was stopped until October 2016 to fund tree trimming.	

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for limited proceeding to recover incremental storm restoration costs, by Florida Public Utilities Company.

DOCKET NO. 20180061-EI

DATED: October 22, 2018

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the Direct Testimony and Exhibits of Debra M. Dobiak has been filed with the Commission Clerk and a true copy has been served to the following by electronic mail this 22nd day of October, 2018:

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