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November 7, 2018

E-PORTAL FILING

Ms. Carlotta Stauffer, Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 20180061-EI – In Re: Petition for Limited Proceeding to Recovery Incremental Storm Restoration Costs by Florida Public Utilities Company.

Dear Ms. Stauffer:

Attached for filing, please find the Rebuttal Testimony of Michael Cassel and the Rebuttal Testimony of P. Mark Cutshaw on behalf of Florida Public Utilities Company.

Thank you for your assistance with this filing. As always, please don't hesitate to let me know if you have any questions whatsoever.

Kind regards,



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Before the Florida Public Service Commission

Docket No. 20180061-EI

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

Prepared Rebuttal Testimony of Michael Cassel

Date of Filing: 11/7/2018

Q. Please state your name and business address.

A. My name is Michael Cassel. My business address is 1750 South 14th Street, Suite 200, Fernandina Beach, FL 32034.

Q. Have you previously filed direct testimony in this case?

A. Yes, I have.

Q. Have you read the testimony of Helmuth Schultz III on behalf of the Citizens of the State of Florida?

A. Yes, I have.

Q. Do you agree with any of Mr. Schultz's recommendations?

A. Yes. While I disagree with most of Mr. Schultz's recommendations, I agree with his recommendation to reduce line clearing costs by \$21,720 for Hurricane Matthew and \$141,987 for Hurricane Irma.

1 **Q. Do you see any overarching problems with Mr. Schultz's**
2 **recommendations?**

3 A. Yes. Mr. Schultz does not appear sufficiently familiar with utility
4 hurricane preparation and response. Consequently, some of his
5 recommendations ignore the real-world difficulties faced by utilities
6 attempting to restore power to customers who urgently need it. Frankly,
7 his recommendations ignore our obligation to serve our customers.

8

9 **Q. Please summarize the areas of your disagreement with Mr. Schultz.**

10 A. I do not agree that FPUC's request should be:

- 11 • Reduced as it relates to payroll cost recovery by \$154,478 with \$114,739
12 in capitalized dollars reclassified as an offset to contractor costs;
- 13 • Reduced as it relates to benefit cost recovery by \$28,561 with \$41,299 in
14 capitalized dollars reclassified as an offset to contractor costs;
- 15 • Reduced as it relates to overhead cost recovery by \$18,298 \$13,981 in
16 capitalized dollars reclassified as an offset to contractor costs;
- 17 • Reduced as it relates to contractor costs by at least \$185,039 to adjust
18 for a storm contractor's hourly rate;
- 19 • Reduced as it relates to contractor costs by an additional \$353,795 to
20 adjust for standby time that Mr. Schultz considers "excessive";
- 21 • Reduced by another \$300,891 to address recapitalization of contractor
22 costs with an additional reduction to the Company's contractor costs by
23 of \$170,019 for the reclassified costs from payroll, benefits and
24 overheads; and

- 1 • Reduced by \$32,800 to address Mr. Schultz’s concerns as it relates to
2 costs for materials and supplies. ;

3 **Q. How is your rebuttal testimony organized?**

4 A. Each of the areas (such as payroll, contractor costs, etc.) identified in Mr.
5 Schultz’s testimony are addressed in the same order below.

6

7 **Payroll**

8 **Q. Please explain how FPUC’s request for \$192,490 in payroll costs is**
9 **consistent with Rule 25-6.0143(1)(d), F.A.C., that allows FPUC to**
10 **recover for costs that “normally would be charged to non-cost**
11 **recovery clause operating expenses [i.e., base rates] in the absence**
12 **of a storm”?**

13 A. FPUC’s request for \$192,490 includes incremental costs related to
14 overtime, as well as the cost of non-electric employees from other
15 divisions, both of which were expended due to the hurricanes. Therefore,
16 our request is both consistent with and permissible pursuant to Rule 25-
17 6.0143(1)(d), F.A.C.

18

19 **Q. Mr. Schultz treats FPUC’s payroll costs in base rates as \$4,862,387**
20 **relying on the MFRs from FPUC’s last full rate case. Do you agree**
21 **that this amount is the best available information for determining**
22 **the payroll costs recoverable under Rule 6.0143(1)(d), F.A.C.?**

1 A. No. The \$4,862,387 reflected in the MFRs is not the appropriate
2 comparison for several reasons. First, this amount in the MFRs includes
3 commissions, bonuses and incentive pay, which are items excluded from
4 storm restoration costs. Second, the MFRs are not the best available
5 information for determining costs recoverable because the MFR's in
6 question were part of the Company's rate proceeding that was ultimately
7 settled as part of a black box settlement and therefore there is no
8 discrete detail as to what costs were included. Lastly, in the previous
9 rate case, we requested a \$5,821,209 rate increase, but the Company
10 was only allowed \$3,750,000 so comparing one component of the
11 original MFRs without any consideration of overall outcome is incorrect.

12

13 **Q. Has FPUC's payroll risen to \$4,862,387 as projected in its 2014**
14 **MFRs? If not, why not?**

15 A. No, it has not, because the Company's projected test year included
16 additional pay and positions that the settlement with the Office of Public
17 Counsel didn't include and therefore no revenue would be included in
18 base rates for these amounts. In fact, if you were to compare the
19 Company's rate request related to Regular and Overtime payroll as
20 reflected in the 2014 MFRs, excluding bonuses and additional positions
21 requested in that prior proceeding, you would see that even if you rely on
22 the MFR projections, the Company's storm costs associated with payroll
23 reflected in our current filing exceed the Company's 2014 projections.

24 Q. What did FPUC use as a baseline for determining incremental payroll
25 costs associated with storms?

1 A. FPUC assumed overtime included during storm restoration was
2 incremental. However, although FPUC does not believe that the
3 amounts requested in the rate case should be the baseline, we did
4 compare the regular and overtime pay included in the MFR's, without
5 any additional positions requested, to the 2016 and 2017 regular and
6 overtime pay to verify that the payroll costs in 2016 and 2017 exceeded
7 the MFR regular and overtime pay. In doing so, we verified that the
8 overtime included in storm restoration was, in fact, incremental.

9

10 **Q. Mr. Schultz argues that \$69,632 of the costs FPUC seeks to recover**
11 **constitute impermissible bonuses or other special compensation.**
12 **Is the \$69,632 Mr. Schultz discusses a bonus or other special**
13 **compensation?**

14 A. No. FPUC always provides compensation for exempt employees who
15 perform qualifying functions during or following any extreme inclement
16 weather event since the event requires hours and often duties exceeding
17 those their pay was based on. The Inclement Weather Exempt
18 Employee Compensation Policy provides compensation for these
19 excessive hours which can exceed 16 hours a day. Because it is part of
20 our exempt employees' standard pay and benefits package, and has
21 been the long-standing practice of FPUC, it is not a "bonus" or "special
22 compensation."

23

1 **Q. Has FPUC ever been allowed to recover payments to managerial**
2 **employees as the result of hurricane response?**

3 A. Yes, although we do not consider the payments made to be bonuses,
4 FPUC was previously allowed to include additional pay made to exempt
5 employees in storm costs. In Order No. PSC-05-1040-PAA-GU, the
6 PSC stated:

7 Six of FPUC's directors who are in managerial positions were
8 paid a total of \$10,257 as a one-time payment (bonus). In
9 recognition of the extra effort and time that these managerial
10 employees expended during the storm damage restoration
11 activities for three hurricanes, FPUC awarded them one-time
12 payments (bonuses) in lieu of any overtime pay. These
13 directors are not eligible for any overtime pay. Although the
14 issue of salaried employees receiving bonuses was not directly
15 addressed in either the Florida Power & Light Company or
16 Progress Energy Florida, Inc. storm cost recovery dockets, we
17 did allow all incremental storm damage restoration activity
18 costs related to managerial employee compensation to be
19 charged to the storm damage reserve. Based on the facts of
20 this case, which include the small amount of bonuses, the size
21 of the company, and the extraordinary number of hurricanes,
22 we find that the inclusion of the onetime payments of \$10,257
23 as a cost in the storm damage reserve is reasonable and
24 prudent. Also we note that the directors' regular salaries were
25 not charged to the storm damage reserve.

26 **Q. Was it appropriate to capitalize some payroll costs associated with**
27 **storm recovery? If so, why?**

1 A. Yes, it was appropriate to capitalize some payroll costs because Rule
2 25-6.0143(1)(d), F.A.C., states that “capital expenditures for the removal,
3 retirement and replacement of damaged facilities charged to cover
4 storm-related damages shall exclude the normal cost for the removal,
5 retirement and replacement of those facilities in the absence of a storm.”
6 Therefore, the Company estimated the normal cost to remove and
7 replace assets destroyed in the storm based on hours and rates in non-
8 storm conditions. These “normal” cost estimates, which included payroll,
9 were capitalized and not included in the storm costs.

10

11 **Q. Mr. Schultz states that, “[i]f the payroll cannot be considered as**
12 **part of the cost subject to storm recovery because it is actually**
13 **non-incremental, then the payroll costs cannot be capitalized.” Do**
14 **you agree?**

15 A. No. As previously discussed, the payroll included in the storm costs
16 requested is incremental. In addition, although Rule 25-6.0143 (1) (d),
17 F.A.C., requires the Company to charge the normal cost for removal,
18 retirement, and replacement to capital instead of the storm reserve, it
19 does not preclude the Company from charging all costs (normal and
20 incremental) of removal, retirement, and replacement to capital instead
21 of recording them in the storm reserve.

22

23 **Q. Mr. Schultz further states that “[i]f FPUC is using this base labor**
24 **rate [of \$37.34 per hour], then it is not capitalizing the replacement**

1 **plant in accordance with Generally Accepted Accounting Principles**
2 **(“GAAP”).” Do you agree?**

3 A. No. The Company is required to follow the Florida Administrative Code
4 related to regulated utilities for anything approved by the Commission.
5 Generally Accepted Accounting Principles allow for departures in
6 unusual circumstances such as new legislation or conflicting industry
7 practices. The circumstances here do not warrant departure from policy
8 in this case.

9

10 **Benefits and Overhead**

11 **Q. Is the adjustment Mr. Schultz is suggesting to benefits dependent**
12 **on his position to disallow payroll costs due to his assertion that**
13 **2016 and 2017 payroll are less than those included in base rates?**

14 A. Yes, his adjustment to benefits is dependent on his recommended
15 adjustment to payroll. The Company does not agree that an adjustment
16 is warranted to payroll nor the adjustment to benefits.

17

18 **Q. Consequently, does FPUC believe it is entitled to recover the entire**
19 **benefit costs and overhead costs requested in the filing?**

20 A. Yes, the Company is entitled to recover all of the payroll costs included
21 in the filing. As such, the Company believes it is entitled to the benefit
22 and overhead costs associated with those incremental payroll costs.

23

1 **Contractor Costs**

2 **Q. Among other reasons, Mr. Schultz questions PAR's hourly rate**
3 **because the rate is significantly higher than the rates charged in**
4 **Docket No. 20160251-EI, related to FPL's storm recovery request,**
5 **and \$106 per hour charged to FPUC for Hurricane Irma. Are these**
6 **comparisons meaningful?**

7 A. No. Since FPUC is not able to review FPL's detail of the \$106 per hour
8 charge, it is difficult to determine if FPL's average cost is even
9 comparable to the rates of one of our contractors. It is reasonable to
10 assume that FPL has some charges that are higher and some lower.
11 Both Hurricanes Matthew and Irma impacted large areas and contractors
12 were used in record numbers. As a result, contractor services were in
13 high demand and difficult to obtain. Due to our size, we have limited
14 resources at the outset. In a situation in which demand for contractors is
15 state-wide, our ability obtain contractor services for our small system is
16 that much more critical, and challenging. We nonetheless have the
17 same obligation to serve as all other IOUs and a state responsibility to
18 immediately restore power. Therefore, when service is down but our
19 options are limited, as was the case with both of these hurricanes, we
20 simply do not have the luxury of time to search for another contractor or
21 attempt to negotiate a better rate. FPUC's witness Mark Cutshaw
22 explains this in greater detail.

23 **Q. Under the circumstances you've described, were the hourly rates**
24

1 **charged by PAR reasonable?**

2 A. Yes, based on the limited contractor supply and the immediate need to
3 restore service, the rates were reasonable. FPUC's witness Mark
4 Cutshaw discusses this in greater detail.

5

6 **Q. Mr. Schultz recommends a reduction of \$353,795 based on**
7 **excessive standby time because PAR was on standby from**
8 **September 7 until the storm entered FPUC territory on September**
9 **11. Was it reasonable to pay for PAR's standby time for this entire**
10 **period?**

11 A. PAR was not on standby from September 7 thru September 11. PAR
12 crews were travelling to the area on September 7 and 8. This travel is
13 labeled as "mobilization/demobilization" on the bill. The PAR crews were
14 on standby on September 9 and 10. It is necessary that contractors
15 arrive in advance of the storm so that overall restoration time is reduced.
16 The crews may not be able to travel once the storm has actually
17 occurred because the storm may impact the travel route of the
18 contractor. If a contractor were to delay travel to the area until after the
19 storm has hit, it is quite possible that the contractor's arrival to assist us
20 may be significantly delayed, or prevented entirely, due to damage and
21 debris on the route to our service territory. In addition, as I observed in
22 more than 4 years as part of the Air Force's Meteorology Service,
23 although storm predictions have improved over the years, storms
24 strength and speed changes on a daily, sometimes hourly basis; thus, it
25 is impossible to accurately predict the exact time a storm will impact the

1 area. Therefore, it is necessary to mobilize our crews, including
2 contractors, several days in advance based on an estimated impact,
3 even though the actual impact of the storm may vary and require some
4 standby time. And, again, as described in the rebuttal testimony of Mark
5 Cutshaw, resource availability after Hurricanes Matthew and Irma were
6 extremely constrained because of the nature and path of the hurricanes,
7 as well as an unusually high utilization of resources in the Houston area
8 in response to Hurricane Harvey.

9

10 **Q. Do you agree with Mr. Schultz's recommendation to remove the**
11 **amount of hours and costs that are associated with**
12 **mobilization/demobilization and with standby time?**

13 A. No, I do not. Both mobilization/demobilization and standby time is
14 essential to restoring power. FPUC obtained the resources it needed to
15 restore power and scheduled those resources based on the best
16 estimate of impact available at the time. Removing the costs associated
17 with these activities would force FPUC to delay the acquisition of needed
18 restoration resources until the hurricane impacts its customers. This is
19 not only unrealistic, but it is irresponsible. The delay in obtaining
20 restoration resources directly impacts the Company's ability to restore
21 power to its customers and to do so in a timely manner. FPUC's witness
22 Mark Cutshaw discusses this in greater detail.

23

1 **Q. Please explain which costs FPUC chose to capitalize and those**
2 **costs it included in its storm recovery request?**

3 A. FPUC did not choose to capitalize one type of cost instead of another in
4 its storm recovery request. Since Rule 25-6.0143(1)(d), F.A.C., requires
5 that the normal cost of capital expenditures for removal, retirement, and
6 replacement of damaged facilities be included as capital expenditures;
7 therefore, only the excess is allowed to be included in recoverable storm
8 costs. FPUC normally uses its own crews to remove and replace assets.
9 Therefore, the normal cost to install and remove was determined based
10 on the type of asset being installed or removed using in house personnel
11 rates. Average hours for the installation and removal in normal
12 conditions were determined by operations management and average
13 payroll and overhead rates in pre-storm conditions were used in the
14 calculation. Inventory normally charged to capital accounts was also
15 included in normal costs. When FPUC was asked to report costs in
16 different categories in the interrogatories, certain parts of the calculation
17 were recorded as payroll and some as contractor costs. However, the
18 categorization in the interrogatories had no bearing on the calculation of
19 normal costs that FPUC was required to include as capital expenditures
20 as required by the rule.

21

22 **Q. Why did FPUC decide to capitalize some costs and not others?**

23 A. FPUC capitalized the costs consistent with Rule 25-6.0143 (1) (d), F.A.C.
24 The rule does not preclude the Company from charging all costs (normal

1 and incremental) of removal, retirement, and replacement to capital
2 instead of recording them in the storm reserve.

3

4 **Q. How did FPUC arrive at a labor rate of \$37.34 per hour, and is that**
5 **rate reasonable and appropriate for capitalizing labor costs?**

6 A. Operations management provided an estimated rate, which was
7 compared to the actual average labor and overhead rates prior to the
8 storm.

9

10 **Materials and Supplies**

11 **Q. Mr. Schultz recommends a reduction of \$32,800 for the costs**
12 **associated with new transformers because he says these were**
13 **capitalized and are impermissible material and supply**
14 **replenishment costs. Do you agree?**

15 A. No. As reported in the Commission's audit report and numerous
16 interrogatories, in preparing its computation of normal costs, the
17 Company removed \$32,800 for transformers from the recoverable costs
18 and capitalized them. It was later determined that the \$32,800 for the
19 transformers erroneously had never been included in the storm costs
20 since, according to FERC, the transformers were capitalized at the time
21 of purchase which was before the storm. Therefore, this reduction of
22 costs was made for costs that were never in the recoverable costs to
23 begin with. The FPSC audit report contained a finding related to this
24 amount and the books and the recoverable storm costs included in

1 Exhibit MC-1 of Mike Cassel's testimony were adjusted for the audit
2 report. Mr. Schultz is proposing to remove a cost that was never
3 included in recoverable costs. Therefore, his proposed adjustment is
4 simply wrong.

5

6 **Other Costs**

7 **Q. Is FPUC seeking to recover \$67,548 in lost revenue?**

8 A. No. FPUC is only seeking to recover O&M costs that we cannot recover
9 because we did lose revenue. The \$67,548 represents the recovery of O
10 &M costs in our base rates, not the lost profit or lost revenue that reach
11 our bottom line. FPUC only charged overtime payroll incurred during
12 storm restoration to the storm reserve. Payroll during regular hours for
13 storm restoration was not charged to the storm reserve since these are
14 typically and historically recovered in base rates. Because FPUC's
15 revenue was reduced due to minimal electric usage because customers
16 left the island before the storm impact, and in the case of Hurricane
17 Matthew, mandatory evacuations that remained several days after the
18 storm impact, these regular payroll costs were not recovered in base rate
19 revenue. FPUC is not asking for the lost revenue or lost profit; but we
20 are asking for recovery of typical O & M costs that should have been
21 recovered in base rates but were not covered because of impacts to our
22 customers from the storm. Lost revenue was calculated to determine the
23 amount of O&M costs that were not recovered in base rates due to the
24 storm.

1 **Q. Are these costs appropriately considered under the storm reserve**
2 **based on previous Commission decisions?**

3 A. Yes. Our inclusion of these costs is consistent with previous commission
4 decisions. For example, in Order No. PSC-05-0937-FOF-EI, the
5 Commission stated: “due to the outages that resulted from these storms,
6 FPL has not realized the level of base rate revenues expected to cover
7 these normal O&M costs. Thus, while we agree that lost revenues are
8 not a cost, we find that the normal O&M costs that FPL charged to the
9 storm reserve, which we removed from the storm reserve as set forth
10 above, have not been recovered in base rates and should be eligible for
11 recovery in the storm recovery mechanism.” Like FPL in this previous
12 order, FPUC has not charged normal O&M costs to storm reserve, and
13 so the Commission’s previous rationale is equally applicable to FPUC.
14 Further, because the Commission agreed that lost revenues were not
15 recoverable, the subsequent change to Rule 25-6.0143(1)(f) explicitly
16 prohibiting recovery of lost revenue does not impact the Commission’s
17 previous analysis. Therefore, the distinction made in that decision
18 between prohibited lost revenue recovery and permissible O&M cost
19 recovery remains,

20

21 **Capitalizable Costs**

22 **Q. Mr. Schultz recommends a set policy for capitalization of storm**
23 **costs or a standard methodology for FPUC. Do you agree with this**
24 **recommendation?**

1 A. No. Rule 25.6.0143 (1) (d) establishes the appropriate standard..

2

3 **Summary**

4 **Q. Can you please summarize the amounts that FPUC is seeking in**
5 **each of the areas identified in your rebuttal testimony?**

6 A. FPUC believes that all Mr. Shultz's adjustments, except for the \$163,700
7 reduction for line clearing, be rejected.

8

9 **Q. What is FPUC's requested recovery?**

10 A. FPUC is reducing the requested recovery of \$2,163,230 filed as Exhibit
11 MC-1 for the \$163,700. The revised request is \$1,999,523.

12

13 **Q. Is there anything further you wish to add?**

14 A. Yes. These hurricanes have brought tremendous devastation to our
15 service territory. It cannot be ignored that we have an obligation to serve
16 our customers not just because of regulatory requirements but because
17 the timely provision of electric service restores the community and gets
18 people back to work. The statewide interest in this ought not be ignored
19 and public counsel and his witnesses should not look at these issues in a
20 vacuum. We do not have the luxury in times of crises to compare our
21 contractor rates, for example, with those of FPL's. Instead, we focus on
22 restoration and we focus on the needs of our customers.

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

2 A. Yes.

1 Before the Florida Public Service Commission

2 Docket No. 20180061-EI

3 In re: Petition for a limited proceeding to recover incremental storm restoration costs by
4 Florida Public Utilities Company

5
6 Prepared Rebuttal Testimony of P. Mark Cutshaw

7 Date of Filing: 11/7/2018

8
9 **Q. Please state your name and business address.**

10 A. My name is P. Mark Cutshaw. My business address is 1750 South 14th Street,
11 Suite 200, Fernandina Beach, FL 32034.

12
13 **Q. Have you previously filed direct testimony in this case?**

14 A. No, I have not.

15
16 **Q. By whom are you employed?**

17 A. I am employed by Florida Public Utilities Company ("FPUC" or "Company").

18
19 **Q. Could you give a brief description of your background and business
20 experience?**

21 A. I graduated from Auburn University in 1982 with a B.S. in Electrical Engineering.
22 My electrical engineering career began with Mississippi Power Company in June
23 1982. I spent nine years with Mississippi Power Company and held positions of
24 increasing responsibility that involved budgeting, as well as operations and
25 maintenance activities at various locations. I joined FPUC in 1991 as Division
26 Manager in our Northwest Florida Division and have since worked extensively in
27 both the Northwest Florida and Northeast Florida divisions. Since joining FPUC,

1 my responsibilities have included all aspects of budgeting, customer service,
2 operations and maintenance. My responsibilities also included involvement with
3 Cost of Service Studies and Rate Design in other rate proceedings before the
4 Commission as well as other regulatory issues. During 2015, I moved into my
5 current role as Director, Business Development and Generation.
6

7 **Q. Have you previously testified before the Commission?**

8 **A.** Yes, I've provided testimony in a variety of Commission proceedings, including
9 the Company's 2014 rate case, addressed in Docket No. 20140025-EI. Most
10 recently, I provided written, pre-filed testimony in Docket No. 20180001-EI, the
11 Commission's regular fuel cost recovery proceeding, and also provided both pre-
12 filed and live testimony the prior year, in Docket No. 20170001-EI, regarding the
13 Commissions' regular fuel cost recovery docket.
14

15 **Q. Have you read the testimony of Helmuth Schultz III on behalf of the Citizens
16 of the State of Florida?**

17 **A.** Yes, I have.
18

19 **Q. What is the purpose of your direct testimony in this Docket?**

20 **A.** The purpose of my testimony is to discuss Mr. Schultz's adjustments for the
21 hourly rate and standby charges charged by PAR.
22

23 **Q. Mr. Schultz recommends excluding \$185,039 as an excessive hourly rate
24 charged by PAR, an electrical line repair contractor, and an additional
25 \$353,795 for an excessive amount of standby time by this same contractor.
26 What is your opinion regarding these recommendations?**

1 A. These recommendations reflect an inadequate understanding of necessary
2 hurricane preparation and recovery procedures and should be rejected.
3 Specifically, as explained in more detail below, the hourly rate was the rate
4 available under the market conditions shortly before Hurricane Irma given the
5 limited number of storm restoration contractors available and suitable for FPUC's
6 needs. A critical factor in hurricane restoration and response is the ability to
7 have sufficient restoration resources appropriately staged in order to respond
8 promptly without being impacted by travel restrictions or damage caused by the
9 storm. In order to ensure this response occurs appropriately, mobilization and
10 staging of resources must occur in conjunction with the path and impact of the
11 impending storm. This process must be flexible and change with the storm,
12 which is always challenging. In the case of Hurricane Irma, paying for standby
13 time was necessary to ensure that the contractor would be appropriately staged
14 near, but not too close, to the path of the hurricane given the inherent uncertainty
15 of the hurricane's speed and path of travel. Hurricane Irma was a particularly
16 challenging situation. FPUC, along with most other utilities on the Florida
17 peninsula, was bracing for a major hurricane that would impact a majority of the
18 land area in the state. This caused an overwhelming need by all the impacted
19 utilities to get resources to the peninsula. Additionally, the resource market was
20 already constrained as a result of Hurricane Harvey in Texas and Louisiana. In
21 this situation, FPUC had to decide to either use the resources available or delay
22 the start of its restoration efforts. While there are situations where the storm is
23 not as erratic, the impact area is not as extensive, and there are sufficient
24 resources available in the market where FPUC could reasonably bargain with the
25 restoration time of its customer's service for a better price - Hurricane Irma was
26 not this situation.

1 **Q. Is Mr. Schultz's statement that the "SEE process dictates the rates"**
2 **accurate?**

3 A. No. The Southeastern Electric Exchange (SEE) mutual assistance process is
4 strictly focused on obtaining and allocating available resources in a fair and
5 equitable manner. This process does not consider or dictate rates of
6 participating resources. The company to which the resources are allocated is the
7 entity responsible for accepting or rejecting the resource and reimbursement of
8 cost to the resource.

9
10 **Q. What dictates the rates paid by FPUC to its storm restoration contractors**
11 **(i.e., PAR)?**

12 A. The Company participates in the SEE Mutual Assistance Committee (MAC)
13 which focuses on response to electrical transmission and distribution
14 emergencies for the member companies. The member companies (Investor-
15 Owned Utilities) involved are generally located near the Southeastern United
16 States. When emergencies arise, the SEE convenes a MAC call where impacted
17 utilities communicate the number of line and tree crew resources needed to
18 achieve an acceptable Estimated Time of Restoration (ETR) based on available
19 information on the storm event. Available utility and contractor resources that
20 can respond in accordance with utility requirements are then identified by the
21 MAC. Requesting utilities then meet via conference call and allocate these line
22 and tree resources based on a number of factors such as utility/contractor,
23 location, travel times, crew sizes, self-contained ability, security, etc. When the
24 allocation process concludes, each requesting utility contacts the utility or
25 contractor resources to work out the arrangements for restoration assistance.

1 During this part of the process, the utility and the responding resource discuss
2 safety requirements, travel requirements, contracting requirements (which
3 includes rates), staging requirements, etc. Based on these discussions (or
4 possibly a change in the storm path or intensity), the utility can request the
5 resource to mobilize and begin moving to the staging location or reject and
6 redirect that resource to another utility that may be in need of additional
7 resources.

8 In most situations, resources from the SEE are not sufficient to cover the entire
9 initial request of all the requesting utilities, so it is critical that these resources be
10 utilized by the requesting utilities. It is also commonplace that storms, hurricanes
11 in particular, are unpredictable and change the path and intensity many times
12 before the actual impact. To meet ETR goals, these changes also require that
13 the requesting utilities modify their resource needs during the event and redirect
14 previously mobilized resources to a higher priority destination, which may include
15 assignment to a different requesting utility. Again, at this point, the resource and
16 the requesting utility discuss safety, travel, contracting (which includes rates),
17 staging, security, etc. The requesting utility has the ability at that point to accept
18 or reject and redirect the resource. However, since resources are almost non-
19 existent at this time, redirecting the resource could result in the requesting utility
20 having fewer resources than needed to achieve an acceptable ETR.

21 As is evident by the process described above, a storm similar to Hurricane Irma
22 can result in a number of changes due to the erratic path and significant
23 increases in intensity which greatly influences the number and location of the
24 resources required. This is very different than a tornado, which typically has a
25 more limited impact, or a winter storm that is much more predictable.

1 During natural disasters such as Hurricane Irma and other similar storms, the
2 most critical concern is to restore power as safely and quickly as possible while
3 minimizing loss of life and property. Navigating the constant changes during
4 Hurricane Irma was challenging and allocating resources appropriately was
5 extremely difficult. Rejecting resources based on the standby charges and
6 higher than anticipated rates was not an option when the safety of our customers
7 was at risk.

8
9 **Q. Did FPUC have difficulty finding a contractor to assist with Hurricane Irma**
10 **repairs? Why?**

11 A. Yes, as previously stated utility resources and utility contractors are in high
12 demand after a storm. The SEE is used as a resource to equitably allocate the
13 resources to the requesting utilities based on availability which typically does not
14 meet the stated needs. This requires some utilities to reach far outside of the
15 eastern half of the United States to achieve the resources requirements. The
16 FPUC resource request is typically for a smaller crew size compared to those
17 requested by larger utilities. Larger utilities request crew sizes that would be
18 much too large to meet the FPUC resource needs. For example, some utilities
19 may be requesting 5,000 – 10,000 personnel while FPUC may be requesting 40
20 personnel. As such, relatively few of the SEE contractors could respond to the
21 FPUC requirements. Also, since the path and intensity of Hurricane Irma
22 changed, allocations for initial resources were changed during the process which
23 further reduced the Company's ability to eliminate any available resource based
24 on cost.

1 A further complication to obtaining resources included a limitation on resources
2 due to those contractors that were still in the Texas/Louisiana area assisting after
3 Hurricane Harvey impacted that area. Hurricane Harvey's dramatic intensity
4 changes and the erratic path that made three landfalls in that area from August
5 25, 2017, through August 30, 2017, required significant resources from the same
6 resource pool called upon for Hurricane Irma. With limited resources available
7 and the fact that Hurricane Irma made landfall in Florida on September 10, 2018,
8 and impacted practically all of Florida, available resources were extremely limited
9 and very difficult to obtain.

10 During Hurricane Irma, FPUC was assigned a small crew based on the initial
11 forecast of the intensity and path. As the hurricane forecast changed, it was
12 apparent that the initial resource request was insufficient to address the
13 anticipated damage and meet the ETR targets. With this information, FPUC
14 went back to the SEE and requested additional resources, all of which had been
15 previously assigned to other requesting utilities. When the PAR contractor was
16 released by another requesting utility and became available, there were no other
17 options but to utilize them. PAR was the only contractor available at that time,
18 and while we have in the past turned PAR away because of their rates, we had
19 no other resources available to us this time. We also had no leverage or time to
20 negotiate more favorable rates. When a significant storm appears imminent
21 based on the current forecast, it is critical that resources available be utilized to
22 ensure prompt restoration and public safety.

23

24 **Q. Given the rates charged by PAR, why didn't FPUC get another contractor to**
25 **perform the work?**

1 A. As described above, the process of obtaining contractors during a hurricane
2 restoration event is exceptionally challenging based on the path and intensity
3 changes of the hurricane. When unexpected changes occur, it is incumbent on
4 the responding utility to make the necessary preparations to respond to the
5 situation in the most expeditious and safe manner. In this case, changes in the
6 forecast coupled with the limited number of available contractors and the short
7 response time did not allow time to develop other resource options. Therefore,
8 rejecting this resource could have resulted in insufficient resources to address
9 the damage caused to FPUC facilities by Hurricane Irma which would have led to
10 much longer ETR's and impacted public safety. While performing restoration
11 activities, PAR performed exceptionally and helped meet the ETR goals set for
12 Hurricane Irma restoration. PAR has been in the electrical contracting business
13 for over 60 years and has consistently performed storm restoration work for
14 utilities across the nation in a safe and efficient manner.

15

16 **Q. What steps did FPUC take to find contractors to assist with repairs for**
17 **Hurricane Irma?**

18 A. As previously stated, the SEE mutual assistance process is an industry standard
19 that provides for the most efficient method of identifying and allocating resources
20 to the electric utility industry during times of system emergencies. The system
21 has been proven time after time with excellent results. Also, as previously
22 mentioned, the number of resources typically required by larger utilities
23 necessitates bringing in resources from the western United States and Canada,
24 but this is not a good match for a small system similar to FPUC. However,
25 FPUC has had excellent results for many years utilizing the SEE to acquire

1 resources for emergency system restoration and has worked well in allocating
2 resources with the other utilities represented in the SEE. We feel that obtaining
3 resources through the SEE is the best methodology for FPUC.

4

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

6 A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the Rebuttal Testimonies of Michael Cassel and Mark Cutshaw filed in the referenced docket this day on behalf of Florida Public Utilities Company have been served by Electronic Mail this 7th day of November, 2018, upon the following:

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By: _____


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