

State of Florida



# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

## -M-E-M-O-R-A-N-D-U-M-

**DATE:** February 21, 2019

**TO:** Office of Commission Clerk (Teitzman)

**FROM:** Division of Accounting and Finance (M. Andrews, Mouring)  
Division of Economics (Guffey) SIKG ESD JSH  
Division of Engineering (P. Buys, Graves) RA PDS M  
Office of the General Counsel (Dziechciarz, Weisenfeld) TW AJW RAD

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

**AGENDA:** 03/05/19 – Regular Agenda – Post-Hearing Decision – Participation is Limited to Commissioners and Staff

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brown

**CRITICAL DATES:** 3/5/2019 – Commission vote. Petitioner extended its waiver of the “file and suspend” provisions of Chapter 366, Florida Statutes, through March 5, 2019.

**SPECIAL INSTRUCTIONS:** None

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## Case Background

On February 28, 2018, Florida Public Utilities Company (FPUC or Company) filed its petition for Limited Proceeding to Recover Incremental Storm Restoration Costs. FPUC requested to recover approximately \$2 million for the incremental restoration costs related to several hurricanes and tropical storms named by the National Hurricane Center during the 2016 and 2017 hurricane seasons and to replenish its storm reserve subject to true-up. As a result of the hurricanes, tropical storms, and minor storms, FPUC incurred costs of approximately \$2.8 million, less its storm reserve balance of approximately \$2.3 million, resulting in net recoverable costs of approximately \$500,000. Because the storms fully depleted its storm reserve, FPUC proposed to restore its storm reserve to \$1.5 million pursuant to the provisions of the 2017 Limited Proceeding to Include Reliability and Modernization Projects in Rate Base Settlement Agreement (2017 Settlement) approved by Commission Order No. PSC-2017-0488-PAA-EI.<sup>1</sup> In order to recover the approximately \$2 million in storm damage over a 12-month period, FPUC would need to implement a surcharge of \$3.18 per 1,000 kWh on customer bills. To lessen the impact to its customers, FPUC requested to recover this amount over a 24-month period with a \$1.59 per 1,000 kWh surcharge on customer bills.

The Office of Public Counsel intervened in this docket on March 22, 2018.<sup>2</sup>

On August 14, 2018, Order No. PSC-2018-0404-PCO-EI was issued establishing hearing dates and procedures to be followed in this docket. Order No. PSC-2018-0567-PHO-EI, issued on December 4, 2018, outlined the procedures to be used at the December 11, 2018 hearing.

A formal hearing was held on December 11, 2018, in which FPUC witnesses Michael Cassel and P. Mark Cutshaw, and OPC witness Helmuth Shultz testified. Commission staff witness Debra M. Dobiac's testimony was stipulated.

The Commission has jurisdiction over this matter pursuant to Sections 366.04, 366.041, 366.05, 366.06, and 366.076, Florida Statutes (F.S.), and Rules 25-6.0143, 25-6.0431, and 25-6.044, Florida Administrative Code (F.A.C.).

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<sup>1</sup>Order No. PSC-2017-0488-PAA-EI, issued December 26, 2017, in Docket No. 20170150-EI, *In re: Petition for limited proceeding to include reliability and modernization projects in rate base, by Florida Public Utilities Company*.

<sup>2</sup>Document No. 02484-2018, in Docket No. 20180061-EI, *In re: Petition for limited proceeding to include reliability and modernization projects in rate base, by Florida Public Utilities Company*.

### **Discussion of Issues**

**Issue 1:** What is the appropriate baseline from which incremental costs are derived?

**Recommendation:** This issue has been rendered moot for this particular case by the stipulation of Issues 2, 5, and 6.

**Staff Analysis:** Stipulated

**Issue 2:** In undertaking storm-recovery activities, was the payroll expense Florida Public Utilities Company (“FPUC”) has requested to include for storm recovery reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

**Stipulated Position:** OPC does not object to FPUC's request to recover \$122,857 in incremental payroll costs. The amount identified by FPUC as "extra compensation" in the amount of \$69,632 remains in dispute and is the subject of Issue 3.

**Staff Analysis:** Stipulated

**Issue 3:** Is the "extra compensation" included as part of the Inclement Weather Exempt Employee Compensation submitted for recovery by FPUC an allowable cost under Rule 25-6.0143, Florida Administrative Code?

**Recommendation:** Yes, the "extra compensation" of \$69,632 submitted for recovery by FPUC is an allowable cost under Rule 25-6.0143, F.A.C. (M. Andrews)

**Position of the Parties**

**FPUC:** Yes. The additional compensation in the amount of \$69,632 is compensation that is anticipated, regular pay for salaried employees engaged in storm restoration work as contemplated by the Company's payroll policy. Such pay does not constitute a bonus or special compensation, which are prohibited under Rule 25-6.0143, F.A.C., as these amounts are specifically contemplated by the Company's payroll policy and are not otherwise subject to discretion or being withheld based upon performance.

**OPC:** No, the "extra compensation" is not allowable compensation under Rule 25-6.0143, Florida Administrative Code.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**FPUC**

FPUC witness Cassel testified that during periods of inclement weather, FPUC recognized that additional hours and duties can be required of employees. (TR 160, 214) He contended that the practice is documented in FPUC's Inclement Weather Exempt Employee Compensation Policy. (TR 160) Witness Cassel stated that the extra compensation is part of FPUC's employees standard pay and benefit package. (TR 160) He asserted that every eligible employee receives this supplement to base salary. (TR 214) He added that there was nothing "special" about the compensation, nor was it a "bonus" payment. (TR 160) Witness Cassel contended that it is used as a tool in recruiting new employees, who at times are asked to leave their families to perform restoration work. (TR 178, 214)

Witness Cassel argued that opposing the payments misinterprets Rule 25-6.0143, F.A.C. (TR 186) He stated that the rule disallows special compensation, but not any additional, supplemental compensation. (TR 186) FPUC asserted that instead of treating the payments as "special," it should be treated as standard components of FPUC's pay and benefits package, and considered non-special compensation because it is not discretionary. (FPUC BR 8) FPUC stated that a one-time bonus payment could be made without any objective standard and subject to abuse; however, FPUC's approach is consistent with sound policy by being predictable and objective. (FPUC BR 9)

**OPC**

OPC stated that Rule 25-6.0143(1)(f)2, F.A.C., excludes bonuses or any other special compensation for utility personnel not eligible for overtime. (TR 177) OPC witness Shultz asserted that based on FPUC's response to Citizens' First Interrogatory No. 19, payments to employees not eligible for overtime constitute an added form of employee compensation for

salaried utility personnel that is prohibited from recovery under the Rule. (TR 72) Witness Shultz contends that FPUC is trying to circumvent the prohibition found in Rule 25-6.0143, F.A.C., by paying bonuses. (TR 72; OPC BR 3)

### **ANALYSIS**

Rule 25-6.0143(1)(f)2, F.A.C., states “Bonuses or any other special compensation for utility personnel not eligible for overtime pay” are prohibited from being charged to the reserve under the Incremental Cost and Capitalization Approach (ICCA) methodology. Staff believes that the “extra compensation” of \$69,632 contemplated by the Company’s payroll policy is not a “bonus” or “other special compensation” and is allowable under Rule 25-6.0143, F.A.C.

FPUC asserted that they had many salaried employees perform beyond their regular duties and work in excess of 16 hour days for an extended period of time. The duties far exceeded their normal hours and normal job functions. (EXH 7, BSP 00015) According to FPUC’s Incremental Weather Exempt Employee Compensation Policy, every eligible employee, without discretion, is compensated after every storm. (TR 160; TR 214) The “extra compensation” is part of FPUC’s standard pay and benefit package. (TR 160) Because the “extra compensation” is paid to every eligible employee regardless of the nature of the storm, number of hours worked, or duties, it is not discretionary. Staff interprets the prohibition on recovery for bonuses or any other special compensation under Rule 25-6.0143, F.A.C., as prohibition on giving bonuses or other incentives on a discretionary basis, with no guidelines regarding the distribution or amount of the additional compensation received. In contrast, FPUC has a clear, non-discretionary policy for providing supplemental compensation to account for the additional hours its employees are required to work during an emergency. Staff agrees with FPUC witness Cassel, that the “extra compensation” is not a “special” compensation or a bonus, but rather an additional supplemental compensation for eligible employees, who have performed beyond their regular duties. (FPUC BR 8) Thus, staff believes that the “extra compensation” is not a prohibited cost, but an incremental cost. Rule 25-6.0143(1)(d), F.A.C., allows utilities to charge for “costs that are incremental to costs normally charged to non-cost recovery clause operating expenses in the absence of a storm.”

### **CONCLUSION**

FPUC asserted that their salaried employees worked beyond their regular duties and in excess of 16 hour days for an extended period of time. (EXH 7, BSP 00015) Staff recommends that the additional compensation of \$69,632 contemplated by the Company’s payroll policy is not a bonus or special compensation, but rather an additional supplemental compensation, and is allowable under Rule 25-6.0143, F.A.C., therefore, staff recommends approval of these costs.

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Issue 4

***Issue 4: Stricken by Order No. PSC-2018-0404-PCO-EI.***

**Issue 5:** In undertaking storm-recovery activities, were the benefit costs requested by FPUC for storm recovery reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

**Stipulated Position:** OPC does not object to FPUC's request to recover benefit costs in the amount of \$38,424.

**Staff Analysis:** Stipulated

**Issue 6:** In undertaking storm-recovery activities, were the overhead costs requested by FPUC for storm recovery reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

**Stipulated Position:** OPC does not object to FPUC's request to recover overhead costs in the amount of \$22,856.

**Staff Analysis:** Stipulated

**Issue 7:** In connection with the restoration service associated with electric power outages affecting customers as a result of Hurricanes Matthew and Irma, were the contractor rates that FPUC paid for storm-recovery activities reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

**Recommendation:** The contractor rates are reasonable and were prudently incurred. Therefore, no adjustment should be made for the contractor rates. (P. Buys, Graves, M. Andrews)

### **Position of Parties**

**FPUC:** Yes, the contractor rates paid by FPUC for storm-recovery activities were reasonably and prudently incurred by FPUC for storm-recovery activities. Rates and total costs should be considered on a case-by-case basis and considered within the context of the utility and the storm-recovery efforts encountered. Given the contextual circumstances of FPUC's storm recovery efforts, the rates FPUC paid were appropriate and should be allowed for recovery in full.

**OPC:** No. A reduction of contractor costs of at least \$185,039 for a grossly excessive hourly rate charged by Par Electrical Contractors should be made.

### **Staff Analysis:**

This Issue discusses the contractors' rates, Issue 8 addresses the contractors' time, and the final amount of the contractor costs are discussed in Issue 9. The principle dispute in this Issue revolves around the mobilization and standby rates one contractor from Iowa, PAR Electrical Contractors (PAR), charged during Hurricane Irma.

## **PARTIES' ARGUMENTS**

### **FPUC**

FPUC argued that its reliance on contractors with higher than normal hourly rates, under the unique circumstances associated with Hurricane Irma, were reasonable and prudent. (FPUC BR 9)

FPUC asserted:

- It did not have contractors on-site during the approach of Hurricane Irma.
- The magnitude of Hurricane Irma led to many other utilities retaining their on-site contractor resources, and not releasing them for use by FPUC.
- There was a shortage of contractors caused by Hurricane Harvey.

(FPUC BR 10)

The Company discussed two ways contractors may be acquired for restoration work. First, negotiate a right to retain contractors working on-site and negotiate those hourly rates. These contractors, if on-site, form part of a utility's storm response team. Second, acquire contractors through the Southeastern Electric Exchange (SEE). When a storm approaches, the SEE convenes mutual assistance calls to determine the resources needed and the resources available. The resources are released through a SEE-moderated process. (FPUC BR 9-10)

Because FPUC did not have contractors on-site, it worked with the SEE. Due to the shortage of contractors caused by Hurricane Harvey, the SEE reached out to other similar exchanges located in the Northeast and upper Midwest to ascertain the availability of the contractors. FPUC stated that during three mutual assistance calls, utilities were made aware of shortfalls in resources. The shortfalls of resources were 8,400 resources during the first call, 5,900 resources during the second call, and 4,000 resources during the last call. (FPUC BR 10)

FPUC stated that, during Hurricane Irma, Florida Power & Light Company (FPL) released a 40-person crew from PAR while the contractor was enroute to Florida, and it was obvious that PAR would likely be the only contractor available to assist the Company. Such assistance was the only way it could achieve its Estimated Time of Restoration (ETR) goal of one week. FPUC ultimately restored service within 5 days. FPUC argued that if it had not hired PAR, power might not have been restored until two weeks after Hurricane Irma. (TR 267-268) Under the SEE guidelines, the hourly rates PAR charged to FPUC would be no different than those charged to FPL. The Company asserted that it made the responsible decision to put its customers' safety first and retain PAR, who proved to be an excellent contractor. (FPUC BR 11)

The Company argued that OPC misunderstands the SEE's role and process. FPUC explained that:

- The SEE is essentially a moderator to help utilities appropriately allocate contractor resources.
  - The SEE does not set rates.
  - The members of the SEE agree to abide by the guidelines, including those governing payment for resources utilized by a utility.
- (FPUC BR 11-12)

The rates are set between the releasing utility and the contractor. Following the SEE guidelines, the requesting utility pays those rates. FPUC stated the releasing utility has the same oversight and incentives to minimize contractor costs, so it was reasonable to assume that the contractors' rates negotiated by FPL were prudent, reasonable, and market-based rates. (FPUC BR 11-12)

FPUC further argued that OPC's comparison of PAR's rates, in this situation to others, is not an accurate apples-to-apples comparison. Specifically, OPC compared PAR's rates to: 1) other contractors used during Hurricane Irma, 2) contractors used during previous storms, and 3) contractors used in other states. (FPUC BR 12)

The Company stated that PAR was its only option, and that rejecting PAR's assistance would have led to longer restoration times for its customers. OPC conceded that cost is not the sole basis upon which a contractor should be retained. (FPUC BR 12)

In addition, even if under a contract with FPUC, a contractor would not be expected to leave an active response situation, such as Hurricane Harvey, which made landfall about two weeks prior to Hurricane Irma. Nor would a Contractor be expected to ignore calls from other Florida utilities needing help with Hurricane Irma simply because the possibility exist that FPUC might be impacted by the storm. A utility can only "lock down" a contractor if they are already working on that utility's system at the time a storm approaches. FPUC argued that OPC's

proposal of “locking down” contractors would gut the SEE process and a small utility, like FPUC, would be left out in the cold because it would not be able to afford retaining several contractors just in case a hurricane comes. (FPUC BR 13)

The Company argued that OPC’s suggestion that it reach outside the SEE region would also fail. FPUC noted that the SEE in fact did reach out to sister exchanges in other parts of the United States to seek resources. FPUC asserted that obtaining contractors further away would not save any more costs when compared to PAR’s rates if travel time costs are taken into consideration. (FPUC BR 14)

### **OPC**

OPC stated that FPUC requested a total of \$1,978,291 for outside contractor costs and that PAR’s portion was \$1,682,556 just for Hurricane Irma. (OPC BR 5) OPC takes issue with the following:

- PAR charged \$905,074, which is over 54 percent of PAR’s total amount, for mobilization and standby charges. (OPC BR 5)
- PAR’s hourly rates for mobilization and standby periods were significantly higher than the hourly rate it charged for actually performing restoration work. (OPC BR 5-6)
- PAR charged over \$2,000 per hour for a four-man crew to travel. (OPC BR 6)
- FPUC’s statement that PAR’s higher rates for mobilization/demobilization when compared to its standard rates were “due to some extreme costs... incurred while responding to other storm areas and that all the utilities they [PAR] assisted after Hurricane Irma were charged these same rates” does not meet any test for reasonableness or prudence. (OPC BR 7; TR 81-82)
- Through the SEE process, the contractor may begin charging when it is assigned to a utility. (OPC BR 7)
- The rates were all agreed to in anticipation of emergency circumstances. (OPC BR 7)
- PAR’s rates were substantially higher than the average \$141 per hour, including equipment, charged to FPUC by another contractor during Hurricane Matthew. (OPC BR 8)

OPC questioned if FPUC had properly planned for its restoration efforts, in light of PAR’s high mobilization rates, and given that the trip was approximately 20 hours travel time and PAR arrived two days before the storm hit FPUC’s territory. (OPC BR 7) OPC argued that prudent utilities generally have a contract in place prior to a storm hitting its service territory and utilities do not typically negotiate rates with contractors after the damage is known. OPC noted that subsequent to filing its petition for recovery in this docket, FPUC instituted a new internal policy that governs the emergency storm-work process and requires that contractor rates appearing excessive should be negotiated with the contractors as soon as possible. (OPC BR 7)

OPC argued that PAR’s rates are clearly egregious, and that it is unjust and unfair to expect FPUC’s customers to reimburse the Company for such excessive rates. OPC urged the Commission to consider whether FPUC has carried its burden to demonstrate that such costs were reasonable and prudent in the way they were incurred and in amount. OPC is

recommending a reduction of the contractor costs by at least \$185,093 for the grossly excessive rate. (OPC BR 8)

## ANALYSIS

FPUC's request for recovery of storm related restoration costs included \$1,978,291 associated with contractor costs. OPC witness Schultz expressed concern with the amount of contractor costs incurred as a result of Hurricane Irma. (TR 80) Neither OPC witness Schultz nor Commission staff witness Dobiac recommended an adjustment to contractor rates incurred as a result of Hurricane Matthew. (EXH 4, SCH E, 1 of 3; EXH 6)

Witness Schultz's testimony specifically addressed hourly rates (Issue 7), mobilization/standby time (Issue 8), and capitalization of restoration costs (Issue 9) (TR 80). The subject of this Issue is the hourly rate.

Accordingly, OPC witness Schultz expressed multiple concerns with the contractor costs incurred by FPUC during Hurricane Irma, all of which were charged by PAR. Witness Schultz specifically argued that the rates were not reasonable and FPUC's practice of consenting to SEE rates was not appropriate. (TR 80-83) Staff's analysis of PAR rates and the associated SEE process are discussed below.

### PAR's Hourly Rates

OPC witness Schultz testified that the hourly rates charged by PAR are grossly excessive even under the circumstances of storm restoration. For context, the hourly rates charged by PAR in response to Hurricane Irma were: \$509 for mobilization time, \$377 for standby time, and \$216 to \$291 for work and standby time.<sup>3</sup> PAR was reassigned to FPUC utilizing the same rates that were negotiated by FPL. Witness Schultz asserted that these rates are especially concerning when compared to rates charged by another contractor in response to Hurricane Matthew. Witness Schultz specifically cited to the average hourly rate (\$141 including equipment charges) charged by Davis H Elliot Construction during Hurricane Matthew for responding in a storm situation. (TR 81-83, 109-110, 145-146, 239)

Given his concerns, witness Schultz recommended an adjustment to the contractor costs of \$185,093 for what he believes is a grossly excessive rate. This adjustment was calculated by multiplying 1,216 hours, identified as mobilization time, by PAR's working rate of \$290.95 per hour ( $1,216 \times \$290.95 = \$353,795$ ). Witness Schultz then subtracted this amount from the mobilization cost of \$538,889, resulting in his recommended adjustment of at least \$185,093 for contractor hourly rates. (TR 85, EXH 4, SCH E, 1 of 3) Witness Schultz testified that he did not concede that the hourly rate of \$291 was reasonable, but asserted that he did not have an opportunity to develop a reasonable rate. (TR 85-86)

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<sup>3</sup> Witness Schultz's testimony had the mobilization rate at \$307 and the standby rate at \$509. (TR 82) This was corrected at the hearing in which witness Schultz agreed mobilization rate was \$509, the standby rate was \$377, and PAR's actual work rate ranged from \$216 - \$291 per hour. (TR 109)

FPUC witness Cutshaw testified that Hurricane Irma caused an overwhelming need for resources in Florida. He elaborated that the resource market was already constrained as a result of Hurricane Harvey which impacted Texas and Louisiana. Given these conditions, witness Cutshaw explained that the hourly rate charged by PAR and accepted by FPUC was the rate available to suitably meet FPUC's needs. (TR 223)

Witness Cutshaw explained that if a storm is not extensive, and sufficient resources are available in the market, FPUC could reasonably bargain for a better price. (TR 223) He elaborated that FPUC has turned PAR away in the past because of its rates; however, given the situation described above, PAR was the only option available. (TR 227) Witness Cutshaw additionally testified that rejecting PAR could have resulted in insufficient resources to address the damage caused to FPUC facilities by Hurricane Irma, which would have led to much longer restoration times and impacted public safety. (TR 228) At the hearing, witness Cutshaw testified that restoration was completed in four to five days. (TR 267) Absent assistance from PAR, witness Cutshaw reasoned that restoration could have taken up to two weeks. (TR 268)

Rule 25-6.044(3), F.A.C., states that when interruptions occur, each utility "shall attempt to restore service within the shortest time practicable consistent with safety." Staff believes FPUC has demonstrated that the hourly rates paid to PAR were prudent and reasonable when considering the Company's obligation to restore service to its customers within the shortest time practicable. As previously discussed, if FPUC rejected PAR, total restoration time could have doubled. Furthermore, staff believes the record demonstrates that the conditions caused by Hurricane Irma (limited resource availability) did not allow FPUC the flexibility to pursue other contractors while safely and expeditiously restoring electric service. To these two points, OPC witness Schultz acknowledged that cost is not the sole factor during an emergency. (TR 141-142)

As previously discussed, OPC witness Schultz argued that PAR's rates were particularly concerning when compared to rates charged during previous storms. (TR 25) With respect to this argument, staff has concerns with comparing costs incurred during different storms. As testified by witness Cutshaw, the market for resources during Hurricane Irma was constrained because of the extensiveness of the storm, and storm restoration efforts in other states as a result of Hurricane Harvey. Additionally, witness Cutshaw testified that storm related rates can change from year to year. (TR 231, 259) Therefore, staff does not believe that witness Schultz' recommended adjustment is appropriate.

### **SEE Process**

In addition to arguing the level of hourly rate, witness Schultz also expressed concern with FPUC's use of the SEE which he asserted dictates the contractor rates to be charged to a utility. (TR 81) Moreover, based on an interrogatory response, witness Schultz stated that while the SEE is a trade association that is intended to represent the interests of its members, it is the contractor's best interest and not that of the utility that is the SEE's concern. (TR 82)

FPUC witness Cutshaw argued that witness Schultz misunderstands what the SEE is and its purpose. (TR 224) He explained that the SEE provides a collaborative mechanism to share utility and contractor resources where needed following a storm. (TR 226) Witness Cutshaw testified that the SEE mutual assistance process is strictly focused on obtaining and allocating available resources in a fair and equitable manner, and does not consider or dictate rates of participating

resources. (TR 224, 237) Further, witness Cutshaw stated that the utility to which the resources are allocated is the entity responsible for accepting or rejecting the resources, and reimbursing their associated costs. (TR 224-225)

It was explained that under the SEE process, when an actual event occurs, resource assignments are made based on the initial projections for the storm. (TR 224, 231) If the storm projections change, resources can be reassigned to another utility based on the new projection. (TR 225, 231) The utility that receives assistance from the released contractor must pay for services based on the contract that resource had with the utility that originally engaged the contractor. (TR 230)

Witness Cutshaw testified that during a storm event, FPUC would typically need smaller crews due to the Company's size. (TR 231) He elaborated that contractors are less inclined to contract with FPUC as opposed to utilities seeking larger crew sizes. (TR 231) Witness Cutshaw also explained that in the past, utilities would get as many contractors as possible leaving some utilities "out in the cold." (TR 260) Witness Cutshaw explained that the SEE process, which is a process FPUC has followed consistently for several storms over several years, has enabled FPUC to obtain the resources needed despite its size. (TR 231, 259-260)

Staff believes that the record sufficiently demonstrates that the SEE process provides a reasonable mechanism for utilities to obtain resources in response to a storm. Staff also believes that the Company has demonstrated that participating in the SEE process is critical for FPUC to ensure that it has adequate resources to restore service to its customers.

### **CONCLUSION**

Based on the evidence in the record and the discussion above, staff recommends the contractor rates are reasonable and were prudently incurred. Therefore, no adjustment should be made for the contractor rates.

**Issue 8:** In connection with the restoration of service associated with electric power outages affecting customers as a result of Hurricanes Matthew and Irma, were the contractor costs associated with standby time, mobilization time, and demobilization time paid by FPUC for storm-recovery activities reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

**Recommendation:** The contractor costs associated with standby time, mobilization time, and demobilization time are reasonable and were prudently incurred. Therefore, no adjustment should be made to contractor time. (P. Buys, Graves, M. Andrews)

### **Position of Parties**

**FPUC:** Yes, the contractor costs associated with standby time, mobilization time, and demobilization time were reasonably and prudently incurred, and paid, by FPUC for service restoration efforts resulting from Hurricanes Matthew and Irma. There is no basis for any adjustment to these costs.

**OPC:** No. A reduction to contractor costs of at least \$353,795 for an excessive amount of standby time should be made.

### **Staff Analysis:**

This Issue discusses the contractors' time. The final amount of contractor costs is discussed in Issue 9. The principle dispute in this issue revolves around the mobilization and standby time for one contractor, PAR, assessed during Hurricane Irma.

## **PARTIES' ARGUMENTS**

### **FPUC**

FPUC stated that the mobilization of PAR occurred on September 7 and 8, 2017, and PAR crews were on standby during September 9 and 10. FPUC argued:

- The length of PAR's mobilization and standby time was dictated by the timing of its release by FPL.
- PAR crews were originally mobilized by FPL on September 7, 2018, from Des Moines, Iowa.
- FPL subsequently released PAR and FPUC retained them through the SEE process.
- The timing of FPL's original request on September 7 drove PAR's standby time.
- FPUC explains that PAR was re-routed to its service territory and was on standby in Jacksonville on September 9.
- Hurricane Irma struck Florida on September 10 and entered FPUC territory on September 11.
- On September 10, while waiting for Hurricane Irma to approach North Florida, FPUC conducted training to ensure that PAR could work safely and efficiently with FPUC's other resources.
- If training had not occurred on September 10, it would have had to take place after Hurricane Irma passed through FPUC's territory on September 11, which would have delayed the restoration response.

- PAR's stop in Jacksonville on September 9 was a reasonable measure given the other alternatives, such as returning to Des Moines, which would have required additional pointless driving by PAR.  
(FPUC BR 14-15)

FPUC argued that paying for the two days of mobilization time and two days of standby time is reasonable and prudent because predicting the path and timing of hurricanes is notoriously difficult. The Company stated that OPC witness Schultz's strategy of waiting until the last possible day to mobilize contractors could end in disaster for customers, especially when those contractors hit unexpected delays due to evacuations, gas shortages, and bad weather from the leading edge of the hurricane. (FPUC BR 15)

FPUC argued that the amount of mobilization and standby time was fully justified under the unique circumstances caused by Hurricane Irma. The hourly rates for mobilization and standby were paid to the only available contractor consistent with SEE guidelines. (FPUC BR 16)

### **OPC**

OPC argued that FPUC's request for recovery of outside contractor costs in the amount of \$1,978,291 was excessive. In response to discovery, FPUC stated it did not incur any costs for standby time for its contractors; however, OPC witness Schultz testified that the contractor invoices clearly indicate a charge for standby time. (TR 83-84) OPC argued that this raised a concern with FPUC's review process for paying outside vendors. (OPC BR 8-9)

OPC further argued that:

- Payment of standby time can be used to determine how prepared a utility is for storm restoration activities and whether it is monitoring this significant cost element in an efficient manner.
- Ratepayers suffer if contractor crews are standing by for an excessive amount of time, because the ratepayers are experiencing the power outages, and they will ultimately have to pay the storm restoration expenses.
- A prudent utility should require contractors to note on their time sheets as to whether standby time has occurred, and use this information to evaluate its own performance to help develop a process to minimize standby time.  
(OPC BR 9)

### **ANALYSIS**

As discussed in Issue 7, OPC witness Schultz expressed concern with FPUC's request for recovery of storm related restoration costs that included a total of \$1,978,291 associated with contractor costs. (TR 80) OPC witness Schultz further had concerns with the amount of contractor costs incurred as a result of Hurricane Irma. (TR 80) This issue addresses the standby time, mobilization time, and demobilization time.

The record indicates that PAR began charging mobilization time when it was first reassigned to FPUC on September 7, 2017, which is four days before Hurricane Irma hit FPUC's service area on September 11. (EXH 14, BSP 00077; EXH 20, BSP 00126) Witness Cassel testified that PAR

crews were traveling from Des Moines, Iowa to Florida, on September 7 and 8 and were on standby September 9 and 10. (EXH 20, BSP 00126) Witness Cutshaw explained that safety training, system configurations, reporting requirements, and logistics information were presented to contractor crews while waiting for the storm to clear. (EXH 20, BSP 00127)

OPC witness Schultz testified that the trip from Des Moines, Iowa to Florida is approximately 20 hours and PAR was in Jacksonville, Florida on September 8. (TR 82) He argued that this raises a major concern as to proper planning by FPUC. (TR 82) Witness Schultz asserted that standby time can be used to determine how prepared a utility is for storm restoration activities and whether it is monitoring this cost element of restoration in an efficient manner. (TR 84) He stated if contractor crews are standing by and waiting for assignments for an excessive amount of time, then this is an indication the Company is not properly monitoring crew activities and resources efficiently. (TR 84) Witness Schultz also argued that it is not reasonable to expect ratepayers to have to pay for contractors to just sit around. (TR 84)

Given his concerns, witness Schultz recommended an adjustment of \$353,795 to the contractor costs. (TR 85) He explained that he determined that two days (1,216 hours), instead of four days (2,432 hours), was a reasonable amount of time for PAR to travel to Florida and be available to perform restoration work. (TR 86) Witness Schultz testified that because he considers half of the time billed to be excessive, he multiplied \$707,591 (the amount of mobilization/standby labor costs adjusted due to OPC's recommendation to contractor rates as discussed in Issue 7) by 50 percent, which resulted in an adjustment of \$353,795 for excessive standby time. (TR 86, EXH 4, SCH E, 1 of 3)

At the hearing, witness Schultz was asked how one could evaluate effectively what an adequate and fair amount of standby time is, giving consideration to the uncertainties associated with hurricanes such as how they can slow down or stay over time. (TR 120) Witness Schultz responded that he worked from his experience in reviewing storm costs. (TR 120) Witness Schultz acknowledged that he has never done damage assessment following a storm; however, he spoke of his familiarity with how long such an assessment may take. (TR 122) As an example, he discussed a snowstorm that he was involved in, and he stated that he interacted with crews doing storm restoration and they knew right away where damage occurred. (TR 122) He explained that a crew may come in early and standby and that it is a judgment call on whether those costs are appropriate. (TR 121)

FPUC witness Cutshaw testified that witness Schultz's recommended adjustment reflects an inadequate understanding of necessary hurricane preparation. (TR 223) He explained that a critical factor in hurricane restoration and response is having sufficient restoration resources appropriately staged in order to respond promptly without being impacted by travel restrictions. (TR 223) He further explained that mobilization and staging of resources must occur in conjunction with the path and impact of the impending storm. (TR 223) Witness Cutshaw elaborated that it is necessary that contractors arrive in advance of the storm so that overall restoration time is reduced. (TR 165) In the same vein, FPUC witness Cassel stated that a delay in obtaining restoration resources directly impacts the Company's ability to restore power to its customers in a timely manner. (TR 166) He further explained that if a contractor were to delay

travel to the area until after the storm has hit, it is quite possible that the contractor's arrival to assist the Company may be significantly delayed or prevented entirely. (TR 165)

Witness Cutshaw also testified that in the case of Hurricane Irma, paying for standby time was necessary to ensure that the contractor would be appropriately staged near, but not too close, to the path of the hurricane. (TR 223) He additionally explained that during Hurricane Irma, FPUC was assigned a small crew based on the initial forecast of the intensity and path. (TR 227) Witness Cutshaw continued, stating that as the forecast of the hurricane changed, FPUC became aware that the initial resources requested would be insufficient to address the anticipated damage and meet the estimated times of restoration targets. (TR 227) FPUC then requested additional resources; however, all resources were previously assigned to other utilities. (TR 227) Witness Cutshaw testified that PAR was released by another utility and at that time FPUC had no other option but to utilize PAR. (TR 227)

As previously stated in Issue 7, Rule 25-6.044(3), F.A.C., states that when interruptions occur each utility "shall attempt to restore service within the shortest time practicable consistent with safety." Based on the testimony of witnesses Cassel and Cutshaw, staff believes that obtaining service from PAR, starting on September 7, was prudent and reasonable when considering FPUC's obligation to restore power expeditiously. Staff further believes that if the Company did not obtain PAR's service, this action would have adversely impacted FPUC's ability to restore power expeditiously. Furthermore, staff does not believe that OPC witness Schultz provided persuasive testimony that cutting the standby and mobilization time in half is reasonable. As discussed, witness Schultz's adjustment was based on his experience in reviewing storm costs not specific to hurricane restoration or the circumstances associated with Hurricane Irma. Therefore, staff recommends no adjustment is necessary.

### **CONCLUSION**

Based on the evidence in the record and the discussion above, staff recommends the contractor costs associated with standby time, mobilization time, and demobilization time are reasonable and were prudently incurred. Therefore, no adjustment should be made for contractor time.

**Issue 9:** In undertaking storm-recovery activities associated with Hurricanes Matthew and Irma, were the contractor costs FPUC has included for storm recovery reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

**Recommendation:** The original contractor costs of \$2,148,743 should be reduced by \$170,452. The remaining contractor costs of \$1,978,291 are reasonable and were prudently incurred by FPUC and these costs should be approved for recovery. (P. Buys, Graves, M. Andrews)

### **Position of Parties**

**FPUC:** Yes, the total amount of contractor costs associated with Hurricanes Matthew and Irma for which FPUC seeks recovery were reasonably and prudently incurred and should be approved. There is no basis for adjustments to these costs for recapitalization and reclassifications.

**OPC:** No. FPUC's request for contractor costs related to recapitalization for contractor costs should be reduced by at least \$300,891. Additionally, FPUC's request for contractor costs should be reduced by \$170,019 for reclassified costs from payroll benefits and overheads.

### **Staff Analysis:**

This issue discusses the final amount of the contractor costs. The principle dispute in this issue revolves around the capitalizable costs for Hurricane Irma.

## **PARTIES' ARGUMENTS**

### **FPUC**

In its Post Hearing Brief, FPUC argued:

- That its capitalization of costs is consistent with Rule 25-6.0143(1)(d), F.A.C., which requires 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. (FPUC BR 16) FPUC stated that its methodology did precisely what the rule requires. (FPUC BR 17)
- That it calculated the normal cost using in-house rates for each type of asset being installed or removed and then subtracted the total costs resulting from the hourly rate of \$37.34 from the costs incurred for the same work during the storm. (FPUC BR 17; TR 167, 208, 209)
- That the \$37.34 rate is FPUC's average time for installation and removal in pre-storm conditions. (FPUC BR 17)

FPUC argued that OPC witness Schultz's objections are not entirely clear. (BR 17) Witness Shultz asserted:

The method used by FPUC ignores the fact that, if the capital work was performed by FPUC employees incurring incremental time, then that work would be at an overtime rate and not at the \$37.34 an hour applied by FPUC. Moreover, the capitalized costs are

further understated once you factor in the contractor's hourly rate, which is even higher than FPUC's overtime rates. (TR 87)

FPUC asserted that overtime rates and storm contractors' rates "performed during restoration," which witness Schultz argued are the appropriate rates for hourly work, are not "normal" by definition. (FPUC BR 17) The Company states that Rule 25-6.0143(1)(d), F.A.C., requires excluding "the normal cost." (FPUC BR 17)

FPUC disagreed with witness Schultz's criticisms of the costs the Company seeks to recover as not being incremental costs, and that "If FPUC labor is not incremental, then it cannot be capitalized which means the amount capitalized should be adjusted based on what capital labor dollars are incremental. The only such labor dollars available for capitalization are the contractor dollars." (TR 88) FPUC backed out the normal costs from the storm costs so that it is seeking to only capitalize the normal costs and recover the remainder. (TR 167, 208-209) The Company argued that witness Schultz's statement ignores the reasonable and valid methodology used to separate "normal costs" which cannot and were not charged to the reserve. (FPUC BR 17-18)

FPUC stated that OPC witness Schultz urges rejection of FPUC's capitalized amounts using the normal cost rate that exists under normal conditions as being inconsistent with Generally Accepted Accounting Principles (GAAP), and that restoration takes place under abnormal conditions. (BR 18; TR 90) FPUC asserted that this argument is at odds with the Rule language, which does not mention GAAP, and specifically address what to do with normal and abnormal costs. (FPUC BR 18)

### **OPC**

OPC argued:

- That it does not appear FPUC has a set policy for capitalization of storm costs or a standard methodology in place.
- A prudent utility should have a capitalization policy in place and develop a method for appropriately capitalizing storm restoration costs.
- The methodology should factor in contractor rates and crew sizes because contractors perform a significant portion of capital restoration work and contractor rates are significantly higher than either regular or overtime rates of FPUC employees.

(OPC BR 11)

OPC stated that the capitalization rate FPUC proposed to use for storm restoration is the same it uses in the normal course of its business operations under normal conditions. (OPC BR 5) OPC asserted that after a storm, circumstances dictate a different response and level of cost incurred; a difference that cannot and should not be ignored. (OPC BR 11) Because contractors perform a large portion of capital restoration work and at a much higher cost, it is unreasonable to apply a capitalization rate that is based on FPUC's normal business operations. (OPC BR 11) As stated earlier, FPUC used both internal and external crews; as such, FPUC's request for contractor costs related to recapitalization should be reduced by at least \$300,891 for the difference between the Company's capitalization rate and the adjusted average hourly capitalization rate of \$221 for its contractors. (OPC BR 11) OPC asserted that this adjustment does not preclude the Company

from recovering these costs, but rather spreads the cost over the life of the assets that were replaced. (OPC BR 11-12)

OPC asserted that as a result of the revision of payroll as discussed earlier, the reclassification of \$170,019 of capitalized payroll, benefits, and overhead costs to reduce the recoverable amount of contractor costs is no longer required. (OPC BR 12)

## ANALYSIS

As discussed in Issue 7, FPUC's request for recovery of storm related restoration costs included a total of \$1,978,291 associated with contractor costs. In his testimony, OPC witness Schultz expressed concern with the amount of contractor costs incurred as a result of Hurricane Irma. Witness Schultz's testimony specifically addressed hourly rates (Issue 7), mobilization/standby time (Issue 8), and capitalization of restoration costs, which are addressed here. (TR 80, EXH 13, BSP 00066, Supporting Document for Question 6)

Staff witness Dobiac testified that the staff audit identified a finding concerning the capitalizable costs for Hurricane Irma. (TR 14-15) She explained that audit staff listed items in the amount of \$137,573 that had been incorrectly expensed to the storm reserve. (TR 15) Witness Dobiac asserted that these items are not eligible for recovery under Rule 25-6.0143(1)(d), F.A.C, because they should have been capitalized. (TR 15)

FPUC witness Cassel agreed with staff's audit report finding. (TR 38-39) FPUC identified additional adjustments in responses to interrogatories. (EXH 13, BSP 00066, Supporting Document for Question 6) The adjustments were for certain contractor costs that were determined to be related to capital additions. These adjustments totaled \$22,742 for Hurricane Irma contractor costs. (EXH 13, BSP 00066, Supporting Document for Question 6) The total contractor costs for Hurricane Irma with the additional adjustments and staff's audit adjustments totaled \$1,661,100 (\$1,821,416 - \$22,742 - \$137,573). (EXH 13, BSP 00066, Supporting Document for Question 6) FPUC also made adjustments for the contractor costs for Hurricane Matthew; the adjusted total equals \$312,718 (\$322,854 - \$10,137). (EXH 13, BSP 00066, Supporting Document for Question 6) These adjustments bring the total for contractor costs to \$1,978,291 from \$2,148,743. (TR 38-39, EXH 13, BSP 00066, Supporting Document for Question 6; EXH 7, BSP 00021)

OPC witness Schultz did not take issue with the adjustments discussed above. However, he testified that there are multiple concerns with the contractor costs requested by FPUC. (TR 80) He argued that the proper capitalization of this component of restoration costs is an issue. (TR 80) He explained the initial capitalized contractor dollars were primarily for materials; therefore, the labor costs must be capitalized otherwise storm recovery costs will be overstated and capital costs will be understated. (TR 86)

Witness Schultz further testified that because FPUC used \$37.34 an hour for capital work performed by FPUC employees instead of an overtime rate, the capital costs are further understated. (TR 87) Witness Schultz argued if FPUC is allowed to understate the capital amount, current ratepayers would pay for capital costs that will benefit future ratepayers. (TR 87)

He does not believe that FPUC is complying with GAAP requirements for capitalization of plant based on actual costs. (TR 87-88)

Based on his concerns, witness Schultz recommended an adjustment to the contractor costs of \$300,891. (TR 89) He explained the adjustment of \$300,891 is the difference between FPUC's capitalization rate of \$37.34 an hour and his adjusted average hourly capitalization rate of \$221 for contractors. (TR 89) Witness Schultz calculated an average contractor hourly rate of \$221 after adjusting for what he considered to be excessive rates charged by PAR (which is the subject of Issue 7). The capitalization costs are based on the estimated capital restoration hours multiplied by the average contractor rate of \$221. (TR 89, EXH 4, SCH E, 2 of 3)

In total, witness Schultz recommended FPUC's contractor costs charged against the storm reserve be reduced by \$839,780; from \$1,978,291 to \$1,138,511. (TR 101) He explained the adjustment includes \$185,093 of excessive rates charged for Hurricane Irma (Issue 7), \$353,795 of excessive standby time charges also for Hurricane Irma (Issue 8), and \$300,891 understatement of capitalization costs for contractor labor rates for Hurricane Irma. (TR 90; TR 103-104)

FPUC witness Cassel disagreed with witness Schultz's recommended adjustment of \$300,891. (TR 157) He explained since Rule 25-6.0143(1)(d), F.A.C., requires that the normal cost of capital expenditures for removal, retirement, and replacement of damaged facilities be included as capital expenditures, the excess is allowed to be included in recoverable storm costs. (TR 167) He testified that the Rule does not preclude the Company from charging all costs of removal, retirement, and replacement to capital instead of recording them in the storm reserve. (TR 167-168) He explained that FPUC normally uses its own crews to remove and replace assets and therefore the normal cost to install or remove was determined based upon the type of asset being installed or removed using in-house personnel rates. (TR 167) Witness Cassel explained that FPUC arrived at a labor rate of \$37.34 per hour by comparing the actual average labor and overhead rates prior to the storm, which he believes is reasonable since it is the rate for work done in normal circumstances. (TR 208-209)

Staff believes that FPUC has capitalized the contractor costs consistent with Rule 25-6.0143(1)(d), F.A.C. The Rule requires FPUC to exclude the costs that would normally be charged to the non-cost recovery clause operating expenses in the absence of the storm. Rule 25-6.0143(1)(d), F.A.C., states that, "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." FPUC calculated the normal cost to be excluded from the storm reserve by using in-house rates under normal conditions for the same work. FPUC stated that its average in-house labor rate is \$37.34 per hour. (TR 168, 208-209) Consistent with the Rule, any incremental costs may be charged to the storm reserve. OPC witness Shultz's method of using an adjusted average hourly capitalization rate of \$221 per hour is inconsistent with the Rule because it does not reflect normal conditions in the absence of a storm.

## **CONCLUSION**

Based on the evidence in the record and the discussion above, staff recommends the original contractor costs of \$2,148,743 should be reduced by \$170,452. The remaining contractor costs of \$1,978,291 are reasonable and were prudently incurred by FPUC, and these costs should be approved for recovery.

***Issue 10: Stricken by Order No. PSC-2018-0404-PCO-EI.***

**Issue 11:** In connection with the restoration of service associated with storm-related electric power outages affecting customers, were the line clearing costs FPUC included for storm recovery reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

**Recommendation:** The original line clearing costs of \$261,431 should be reduced by \$163,707. The remaining line clearing costs of \$97,724 are reasonable and were prudently incurred by FPUC and should be approved for recovery. (P. Buys, Graves, M. Andrews)

### **Position of Parties**

**FPUC:** FPUC agrees that its initial request for recovery of line clearing costs in the amount of line clearing costs in the amount of \$261,431 should be adjusted downward by \$163,707. The remaining \$97,731 in line clearing costs were reasonably and prudently incurred, and paid, by FPUC for service restoration efforts associated with storm-related electric power outages affecting FPUC's customers, and should therefore be approved.

**OPC:** No. A reduction of at least \$163,700 to FPUC's request for line clearing cost recovery should be made.

### **Staff Analysis:**

## **PARTIES' ARGUMENTS**

### **FPUC**

FPUC agreed with OPC's adjustment of \$163,707 for recovery of line clearing costs. (FPUC BR 18) FPUC argued the remaining \$97,731 in line clearing costs were reasonably and prudently incurred, and paid, by FPUC for service restoration efforts associated with storm-related electric power outages affecting FPUC's customers. (TR 28, 31) FPUC asserted these costs should be approved.<sup>4</sup> (FPUC BR 18)

### **OPC**

OPC explained that FPUC has agreed to OPC's recommendation of a reduction of \$163,707 to FPUC's request for line clearing costs. (OPC BR 12; TR 156)

## **ANALYSIS**

Table 11-1 reflects FPUC'S initially requested recovery of line clearing costs related to Hurricanes Hermine, Matthew, and Irma, and other minor storms.

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<sup>4</sup>The amount of \$97,731 is incorrect. Line clearing costs of \$261,431 reduced by \$163,707 is \$97,724, not \$97,731.

**Table 11-1**  
**Line Clearing Costs**

<u>Storms</u>	<u>Costs</u>
Hurricane Hermine	\$1,641
Hurricane Matthew	37,698
Hurricane Irma	219,276
Other Minor Storms	2,816
<b>Total</b>	<b><u>\$261,431</u></b>

(EXH 13, BSP 00066, Supporting Document for Question 6)

Table 11-2 FPUC reflects when costs were first incurred for the storms as listed below:

**Table 11-2**  
**Costs First Incurred for Storms**

<u>Storms</u>	<u>Costs First Incurred</u>
Hurricane Hermine	9/8/2016
Hurricane Matthew	10/6/2016
Hurricane Irma	9/19/2017
Other Minor Storms	2/9/2016

(EXH 7, BSP 00003-00005)

FPUC provided a summary list of its line clearing invoices for Hurricanes Matthew and Irma. (EXH 7, BSP 00019) It appears that no invoices listed for Hurricanes Matthew and Irma had dates before the first costs were incurred. In staff's audit report, no exceptions were noted for FPUC's line clearing category. (EXH 6, DMD-1, 5 of 10)

OPC witness Schultz testified that he is recommending an adjustment of \$21,720 for Hurricane Matthew and \$141,987 for Hurricane Irma. (TR 91) He testified that, based on the guideline set forth in Rule 25-6.0143(1)(f)8, F.A.C., "an adjustment is required when tree trimming expenses incurred in any month in which storm damage restoration activities are conducted are less than the actual monthly average of tree trimming costs charged to O&M expense for the same month in the three previous calendar years." He explained that FPUC's three year average for normal tree trimming exceeded the actual costs for storm restoration. (TR 91-92)

FPUC witness Cassel agreed with witness Schultz's recommendation to reduce line clearing costs by \$21,720 for Hurricane Matthew and \$141,987 for Hurricane Irma. (TR 156) Based on the Rule above, staff agrees with OPC and FPUC that an adjustment of \$163,707 should be made to the line clearing costs.

### **CONCLUSION**

Based on the evidence in the record and the discussion above, staff recommends the original line clearing costs of \$261,431 should be reduced by \$163,707. The remaining line clearing costs of \$97,724 are reasonable and were prudently incurred by FPUC, and these costs should be approved for recovery.

**Issue 12:** In connection with the restoration of service associated with storm-related electric power outages affecting customers, were the vehicle and fuel costs FPUC included for storm reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

**Recommendation:** The vehicle and fuel costs of \$34,231 are reasonable and were prudently incurred by FPUC and should be approved for recovery. (P. Buys, Graves, M. Andrews)

**Position of Parties**

**FPUC:** Yes, the vehicle and fuel costs in the amount of \$34,231 were reasonably and prudently incurred, and paid, by FPUC for service restoration efforts associated with storm-related electric power outages affecting FPUC's customers, and should therefore be approved for recovery without adjustment.

**OPC:** The Citizens have not identified any issues related to vehicle and fuel costs, but the Commission should satisfy itself that FPUC has carried its burden to demonstrate that such costs were reasonable and prudent in the way they were incurred and in amount.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**FPUC**

FPUC argued that the vehicle and fuel costs in the amount of \$34,231 were reasonably and prudently incurred. (FPUC BR 19) These services were paid by FPUC for service restoration efforts associated with storm-related electric power outages affecting FPUC's customers. (FPUC BR 19) FPUC asserted these costs should be approved for recovery without adjustment and that OPC does not disagree. (FPUC BR 19)

**OPC**

OPC asserted that FPUC identified the amount of vehicle and fuel costs being charged to the reserve to be \$34,231. (OPC BR 13) OPC's witness Schultz testified that, following his review of the costs and the supporting detail provided, he has not identified any issues that would require an adjustment to FPUC's requested vehicle and fuel costs. (OPC BR 13; TR 92) OPC argued; however, the Commission must still satisfy itself that FPUC has carried its burden to demonstrate that such costs were reasonable and prudent in the way they were incurred and in the amount. (OPC BR 13)

**ANALYSIS**

FPUC has requested recovery for vehicle and fuel costs related to the storms listed in its petition. Table 12-1 reflects the requested amounts for vehicle and fuel costs per storm.

**Table 12-1**  
**Storm-related Vehicle and Fuel Costs**

<u>Storms</u>	<u>Vehicle and Fuel Costs</u>
Hurricane Hermine	\$4,989
Hurricane Matthew	2,425
Hurricane Irma	2,711
Tropical Storm Cindy	812
Tropical Storm Julia	2,345
Other Minor Storms	20,949
<b>Total</b>	<b><u>\$34,231</u></b>

(EXH 4; EX 13, BSP 00066, Supporting Document for Question 6)

The record indicates that FPUC's vehicle costs are allocated based on the employee's payroll. (EXH 7, BSP 00008-00009) FPUC initially listed the vehicle and fuel costs as part of the department expenses for payroll and overhead. (EXH 7, BSP 00014, Supporting Document for Question 17) FPUC later broke out the vehicle and fuel costs out of the department expenses for payroll and overhead. (EXH 13, BSP 00066, Supporting Document for Question 6) The objectives of the staff audit report were to determine whether vehicle and fuel costs were properly stated, storm related, and recoverable under this docket. Audit staff selected a judgmental sample of the costs and traced the amounts to the payroll allocation schedules. In staff's audit report, no exceptions were noted for FPUC's vehicle and fuel category. (EXH 6, DMD-1, 5 of 10) OPC's witness Schultz did not recommend any adjustments to the vehicle and fuel costs. (TR 92) He testified that he did not have any concerns with this level being requested by FPUC. (TR 92) Based on the staff audit and staff's review of the record, staff recommends no adjustment is necessary.

### **CONCLUSION**

Based on the evidence in the record and the discussion above, staff recommends the vehicle and fuel costs of \$34,231 are reasonable and were prudently incurred by FPUC and these costs should be approved for recovery.

**Issue 13:** In connection with restoration of service associated with storm-related electric power outages affecting customers, were the material and supply costs FPUC included for storm recovery reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

**Recommendation:** The original material and supply costs of \$56,495 should be increased by \$32,800. The total amount of \$89,295 for material and supply costs are reasonable and were prudently incurred by FPUC and should be approved for recovery. (P. Buys, Graves, M. Andrews)

### **Position of Parties**

**FPUC:** Yes, the material and supply costs in the amount of \$89,295 were reasonably and prudently incurred, and paid, by FPUC for service restoration efforts associated with storm-related electric power outages affecting FPUC's customers. These costs are not associated with replenishment of the Company's supplies or inventories or related to capital additions, and should therefore be approved for recovery without adjustment.

**OPC:** No. A reduction of at least \$32,800 to FPUC's request for materials and supplies cost recovery should be made.

### **Staff Analysis:**

## **PARTIES' ARGUMENTS**

### **FPUC**

FPUC argued that material and supply costs in the amount of \$89,295 were reasonably and prudently incurred and that the costs are not associated with replenishment of FPUC's supplies or inventories or related to capital additions. (BR 19) FPUC explained that it included \$32,800 to rectify an accounting error that began when FPUC removed this amount from its recovery request. (BR 19; TR 168-169) FPUC believed that it had originally included this amount in error in its recovery request. (TR 168) However, this amount had not in fact been included in the recovery request and therefore, was made for costs that were never categorized as recoverable costs. (TR 168) FPUC asserted that it now is seeking to add this amount back into its recovery request to rectify this accounting error. (FPUC BR 19)

FPUC argued that OPC apparently believed that FPUC is seeking to recover \$32,800 to replenish its transformer supplies and misunderstands the adjustment as described above. FPUC explained the original transformer costs of \$32,800 were capitalized, consistent with what OPC stated would be appropriate. (TR 168) FPUC argued that OPC did not apparently realize that FPUC never sought to recover the amount before it was mistakenly removed. (TR 169) FPUC further argued that it should not be penalized for this short-term accounting mistake and should be allowed to recover the \$32,800 because it is not in fact associated with replenishment of the transformer supplies. (FPUC BR 20)

### **OPC**

OPC explained that based upon evidence presented at the hearing, it is no longer recommending an adjustment to materials and supply costs. (OPC BR 13)

## ANALYSIS

FPUC has requested recovery for material and supply costs related to Tropical Storm Julia, Hurricanes Hermine, Matthew and Irma, and other minor storms. FPUC originally requested recovery for the following amounts as shown in Table 13-1:

**Table 13-1**

### Material and Supply Costs

<u>Storms</u>	<u>Material and Supply Costs</u>
Tropical Storm Julia	\$991
Hurricane Hermine	645
Hurricane Matthew	17,153
Hurricane Irma	21,652
Other Minor Storms	16,053
Total	<u>\$56,495</u>

(EXH 13, BSP 00066, Supporting Document for Question 6)

Staff witness Dobiac testified that the staff audit identified a finding concerning the capitalizable costs for Hurricane Irma, which affected FPUC's original request amount of \$56,495. She explained that a journal entry in the amount of \$226,161 was recorded to remove Hurricane Irma's capitalizable costs from the storm reserve account and recorded to the appropriate plant and cost of removal accounts. (TR 15) However, this journal entry included \$32,800 for 24 transformers that FPUC placed in service during the hurricane, which were capitalized, and were never recorded to the storm reserve. (TR 15) The staff audit indicates that this journal entry removed costs from the storm reserve, which should not have been removed and suggests the storm costs be increased by \$32,800 to correct this error. (TR 15; EXH 6) Therefore, with the adjustment, the material and supply costs for Hurricane Irma increases to \$54,452 (\$21,652 + \$32,800) and increases the total material and supply costs amount to \$89,295. (TR 92) FPUC witness Cassel agreed with staff's audit report findings. (TR 38-39)

OPC witness Schultz testified that he is recommending an adjustment of \$32,800. (TR 93) He testified that the transformers are to be capitalized and therefore, including this cost in the amount to be recovered is not appropriate. (TR 93) Witness Schultz further testified that Rule 25-6.0143(1)(f)10, F.A.C., prohibits charging the cost for replenishment of materials and supplies inventory to the storm reserve. (TR 93)

Witness Cassel disagreed with witness Schultz's analysis of the material and supplies costs. He testified that FPUC removed \$32,800 for transformers from recoverable costs and capitalized them. (TR 168) It was later determined that the \$32,800 for the transformers erroneously had

never been included in the storm costs. (TR 168) Witness Cassel testified the transformers were capitalized at the time of purchase, which was before the storm; therefore, this reduction was made for costs that were never in the recoverable costs to begin with. (TR 168-169)

In its brief, OPC stated that based on the evidence at the hearing, it is no longer recommending an adjustment to this account. (OPC BR 13) Based on the staff audit and staff's review of the record, staff recommends that \$32,800 be added to FPUC's material and supply account for storm recovery.

### **CONCLUSION**

Based on the evidence in the record and the discussion above, staff recommends the original material and supply costs of \$56,495 be increased by \$32,800. The total amount of \$89,295 for material and supply costs is reasonable and was prudently incurred by FPUC, and these costs should be approved for recovery.

**Issue 14:** In connection with the restoration of service associated with storm-related electric power outages affecting customers, were the logistic costs FPUC included for storm recovery reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

**Recommendation:** The original requested logistic costs of \$245,705 should be reduced by \$4,155 due to the lack of evidence in the record. The remaining logistic costs of \$241,550 are reasonable and were prudently incurred by FPUC, and should be approved for recovery. (P. Buys, Graves, M. Andrews)

### **Position of Parties**

**FPUC:** Yes, the logistics costs in the amount of \$245,705 were reasonably and prudently incurred in accordance with Rule 25-6.0143(1)(e), and paid, by FPUC for service restoration efforts associated with storm-related electric power outages affecting FPUC's customers, and should therefore be approved for recovery without adjustment.

**OPC:** No. More information is required from FPUC to determine what adjustments, if any, should be made. The Commission should satisfy itself that FPUC has carried its burden to demonstrate that such costs were reasonable and prudent in the way they were incurred and in amount.

### **Staff Analysis:**

## **PARTIES' ARGUMENTS**

### **FPUC**

FPUC argued that the logistics costs in the amount of \$245,705 were reasonably and prudently incurred. (FPUC BR 20) FPUC explained that OPC is not recommending an adjustment to these costs, but questions why FPUC is only seeking to recover \$40,000 out of \$82,390 for one invoice. (FPUC BR 20; TR 94) FPUC explained that OPC did not explore this matter in discovery and the record reflects that there is no dispute about the amount. (FPUC BR 20-21) FPUC argued that its decision to ask for recovery of only \$40,000 of the subject contractor's invoice does not indicate that this amount was not prudently incurred, nor does it provide a basis to reject FPUC's request. (FPUC BR 20-21)

### **OPC**

In its brief, OPC explained the logistics costs are costs related to the establishment and operation of storm restoration sites, and to support employees and contractors who are working on storm restoration. (OPC BR 14) OPC identified an invoice for Hurricane Matthew totaling \$82,390; however, FPUC requested recovery of only \$40,000. (TR 94) OPC explained that its witness Schultz identified the \$40,000 as a down payment. (TR 94) OPC argued that "FPUC should have explained how this invoice was accounted for, as it was not clear why only the down payment was reflected and whether any subsequent payments were made." (OPC BR 14) OPC further argued that "FPUC failed to provide any additional explanatory information in rebuttal or at hearing as to why only the down payment was made." (OPC BR 14) OPC recommended the Commission should disallow the \$40,000, as FPUC did not meet its burden of proof to justify this cost for recovery. (OPC BR 14)

## ANALYSIS

FPUC has requested recovery for logistic costs related to Hurricane Matthew and Hurricane Irma. For Hurricane Matthew, FPUC is requesting recovery of \$73,455 and for Hurricane Irma, FPUC is requesting recovery of \$172,250. (EXH 13, BSP 00066, Supporting Document for Question 6) FPUC indicated that it first incurred costs for Hurricane Matthew on October 6, 2016. (EXH 7, BSP 00004) For Hurricane Irma, FPUC indicated its first costs were incurred on September 19, 2017. (EXH 7, BSP 00004) FPUC also provided a summary list of its logistic invoices for both Hurricanes Matthew and Irma. (EXH 14, BSP 00079) It appears that the invoices mostly involve meals and lodging. In addition, there were no invoices listed for both hurricanes before the first costs were incurred. In staff's audit report, no exceptions were noted for FPUC's logistic category. (EXH 6, DMD-1, 6 of 10)

OPC's witness Schultz testified that he was not recommending an adjustment to the logistic costs. However, he had concerns with FPUC paying a \$40,000 down payment for a catering service during Hurricane Matthew but not paying the full invoice amount of \$82,390. (TR 94)

Witness Schultz testified that the full bill for this caterer was included in the request for recovery for Hurricane Irma, and he questioned if this service was provided by this contractor. (TR 93-94) The amount paid to this contractor during Hurricane Irma was \$59,786. (EXH 4, SCH I, 2 of 2; EXH 14, BSP 00079)

The invoice that OPC had concerns with was identified as a P-Card purchase. Listed on the invoice was a note saying that \$40,000 was paid as a down payment with a transaction number. (EXH 9, BSP 00030, Supporting Document for POD 6 and 9) However, after reviewing the invoice, it appears to list breakfast, lunch and dinners for October 7 through 10, 2016. (EXH 9, BSP 00030, Supporting Document for POD 6 and 9) This is during the time when FPUC mobilized and demobilized for Hurricane Matthew. (EXH 7, BSP 00004) The invoice showed the following as demonstrated in Table 14-1:

**Table 14-1**

### Logistic Costs

<u>Item Description</u>	<u>Cost</u>
Meals	\$21,750
Refrigeration Truck	750
Mobilization and Demobilization	11,000
Minimum Contract Amount	65,250
7 Percent Tax	5,390
Total	<u>\$82,390</u>

(EXH 9, BSP 00030, Supporting Document for POD 6 and 9)

FPUC did not offer any rebuttal testimony to witness Schultz's concerns about this invoice. As discussed in FPUC's brief, FPUC believed that the decision to ask for only part of an invoice and not the full amount does not indicate that the amount was not prudently incurred. (FPUC BR 20-21) However, staff has determined there is not enough evidence in the record to justify the full \$40,000 payment. Staff considers the meals (\$21,750), refrigeration truck (\$750), mobilization and demobilization (\$11,000), and 7 percent tax for that amount (\$2,345) were prudently paid. The total paid should have been \$35,845 (\$21,750 + \$750 + \$11,000 + \$2,345). Based on staff's review of the record, staff recommends that an adjustment of \$4,155 (\$40,000 - \$35,845) should be made to the requested logistic costs.

### **CONCLUSION**

Based on the evidence in the record and the discussion above, staff recommends the original logistic costs of \$245,705 be reduced by \$4,155 due to the lack of evidence in the record. The remaining logistic costs of \$241,550 are reasonable and were prudently incurred by FPUC, and should be approved for recovery.

**Issue 15:** In connection with the restoration of service associated with storm-related electric power outages affecting customers, were the costs identified by FPUC as “Normal Expenses Not Recovered in Base Rates” and included as “other operating expenses” reasonable and prudent, in incurrence and amount? If not, what amount should be made?

**Recommendation:** No, the costs identified by FPUC as “Normal Expenses Not Recovered in Base Rates” in the amount of \$67,548 are not reasonable and prudent for storm surcharge recovery and should be disallowed. (M. Andrews)

### **Position of Parties**

**FPUC:** Yes, the category of costs identified as “Normal Expenses Not Recovered in Base Rates” in the amount of \$67,548 were reasonably and prudently incurred in accordance with Rule 25-6.0143 (1)(e), and paid, by FPUC for service restoration efforts associated with storm-related electric power outages affecting FPUC’s customers. These amounts reflect expenses that were anticipated in base rates, but not recovered as result of the storm outages. As such, these amounts should be approved for recovery without adjustment.

**OPC:** No. The request for \$67,548 should be disallowed.

### **Staff Analysis:**

## **PARTIES’ ARGUMENTS**

### **FPUC**

FPUC witness Cassel stated that in accordance with Rule 25-6.0143(1)(e), F.A.C., the costs identified as “Normal Expenses Not Recovered in Base Rates” in the amount of \$67,548 was not lost revenue. (TR 180) He stated that the amount is a portion of O&M costs not recovered through base rates because of the storm outages. (TR 169, 180) Witness Cassel asserted that before the current formulation of Rule 25-6.0143, F.A.C., the Commission did approve recovery of O&M expenses reasoning that while lost revenues are not a cost, the normal O&M expenses not recovered in base rates should be recovered in the storm recovery mechanism. (TR 170) Witness Cassel stated that under the current rule, no change in this position is required. (TR 170) Witness Cassel argued that FPUC is not seeking lost revenue, but rather the O&M expenses not addressed in this Rule. (TR 169; FPUC BR 21-22)

### **OPC**

OPC asserted that FPUC is relying on a decision predating the June 11, 2007 amendment to Rule 25-6.0143, F.A.C. (TR 182-186; OPC BR 15) OPC stated that the Rule proposal made clear that the objective of the amendment was to establish a single, consistent, and uniform methodology for determining which storm damage restoration costs can be appropriately charged to the storm reserve. (TR 183-184; OPC BR 15) OPC stated that the new paragraph (f) in Rule 25-6.0143(1), F.A.C., came directly from the Commission’s decisions in the 2004 and 2005 hurricane cost recovery dockets (TR 183-184; OPC BR 15-16) Furthermore, OPC stated that the amendment laid out a non-exhaustive list of types of costs prohibited from being charged to the storm reserve. (TR 184; OPC BR 15)

## **ANALYSIS**

FPUC has requested to recover \$67,548 in O&M costs that were not recovered in base rate revenue as a result of reduced electric usage during and after the storm. (TR 169) Witness Cassel stated that the O&M costs were payroll during regular hours for storm restoration, and only overtime payroll was charged to the storm reserve. (TR 169) He asserted that to determine the amount of O&M costs not recovered in base rates, FPUC calculated the revenue lost from reduced usage. (TR 169)

Staff believes that FPUC's request for "Normal Expenses Not Recovered in Base Rates" is incongruent with Rule 25-6.0143(1)(d), F.A.C. The \$67,548 amount represents the recovery of O&M costs, and these costs were regular payroll costs not recovered in base rate revenues. They were not incremental to costs normally charged to non-cost recovery clause operating expenses in the absence of a storm. Rule 25-6.0143(1)(d), F.A.C., precludes FPUC from recovering these non-incremental costs under the ICCA methodology.

Also, under Rule 25-6.0143(1)(f)9, F.A.C., lost revenues from services not provided due to a storm are prohibited from being charged to the reserve under the ICCA methodology. Witness Cassel stated that the \$67,548 is not lost revenues, and represents the recovery of O&M costs not recovered from the base rate revenue while the Company was unable to provide service. (TR 169) Witness Cassel acknowledged that regular payroll cost would typically be recovered through base rates. (TR 180) The O&M costs were determined from the calculated lost revenue. (TR 169) While staff acknowledges that the O&M costs are a distinct cost, staff believes they are also a portion of lost revenue not eligible to be charged to the reserve. Although staff agrees with the Company's differentiation between lost revenues and "O&M costs not recovered," the Rule clearly prohibits any base rate recoverable costs from being charged to the reserve.

## **CONCLUSION**

Based on Rule 25-6.0143(1)(d) and (f)9, F.A.C., staff recommends that costs incurred by FPUC as "Normal Expenses Not Recovered in Base Rates" are not reasonable and prudent for storm surcharge recovery, and should be disallowed.

**Issue 16:** What is the correct amount to be included in storm recovery to replenish the level of FPUC's storm reserve?

**Recommendation:** The appropriate amount of storm recovery to replenish the level of FPUC's storm reserve to \$1.5 million is \$1,927,648. (M. Andrews)

**Position of the Parties**

**FPUC:** The Company's storm reserve should be replenished to its pre-storm level of \$1.5 million from its deficit as of December 31, 2017 of \$497,967.

**OPC:** No more than \$1,022,561 should be included in storm recovery to replenish the level of FPUC's storm reserve.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**FPUC**

FPUC asserted that it should be allowed to fully replenish its storm reserve to \$1.5 million from its deficit of \$497,976, as of December 31, 2017. (EXH 24; FPUC BR 22).

**OPC**

OPC has not taken issue with the level of FPUC's storm reserve to replenish. However, OPC disputes the recovery of the costs associated with replenishing the reserve and, consequently, the resolution of this issue depends on the resolution of the previous issues in dispute. Based on the previous adjustments, OPC contended no more than \$1,022,561 should be included in storm recovery to replenish the level of FPUC's storm reserve to \$1.5 million. (TR 98; OPC BR 16)

**ANALYSIS**

Pursuant to the provisions of the 2017 Settlement, approved by the Commission in Order No. PSC-2017-0488-PAA-EI, the level of storm reserve is \$1.5 million. The appropriate amount of storm recovery to replenish the reserve to this level is \$1,927,648.

**CONCLUSION**

Pursuant to the provisions of the 2017 Settlement, approved by the Commission in Order No. PSC-2017-0488-PAA-EI, the level of storm reserve is \$1.5 million. The appropriate amount of storm recovery to replenish the reserve to this level is \$1,927,648.

**Issue 17:** What is the total amount of storm-related costs and storm reserve replenishment FPUC is entitled to recover?

**Recommendation:** The appropriate amount to recover prudently incurred storm restoration costs of \$427,648 and to replenish the level of FPUC's storm reserve to \$1.5 million is \$1,927,648. (M. Andrews)

**Position of the Parties**

**FPUC:** The Company has revised its request for recovery to exclude certain line clearing costs for a revised total request of \$1,999,523, which is the appropriate amount to recover costs incurred during the 2016-2017 storms and to replenish the Company's storm reserve.<sup>5</sup>

**OPC:** None provided.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**FPUC**

The appropriate amount to recover costs incurred from the storms and replenish the storm reserve is \$1,999,405. (EXH 24; FPUC BR 23)

**OPC**

None provided.

**ANALYSIS**

Table 17-1 below reflects the Major Cost Categories from the previous issues, FPUC's associated amounts, and staff's recommended amounts.

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<sup>5</sup> The amount of \$1,999,523 is incorrect. The amount requested was revised from \$2,163,230 to \$1,999,405 on Exhibit MC-1, and in the direct testimony of Michael Cassel. (EXH 24; TR 42)

**Table 17-1**  
**FPUC'S Storm Restoration Costs**

<u>Major Cost Category</u>	<u>FPUC Requested</u>	<u>Staff Recommended</u>
Payroll and Related Costs	\$192,489	\$192,489
Benefits	38,425	38,425
Overhead	22,856	22,856
Contractor	1,978,291	1,978,291
Line Clearing	97,724	97,724
Vehicle and Fuel	34,231	34,231
Materials and Supplies	89,294	89,294
Logistics	245,705	241,550
Other	83,643	16,096
<b>Total Costs</b>	<b><u>\$ 2,782,661*</u></b>	<b><u>\$ 2,710,956</u></b>

Source: FPUC Post Hearing Brief DN: 00209-2019

\*FPUC cost categories are rounded.

Table 17-2 reflects the reserve balance and the amount to be recovered by customers to replenish the storm reserve.

**Table 17-2**  
**Amount of Storm Recovery to Replenish Reserve to \$1.5M Level**

<u>Description</u>	<u>FPUC Requested</u>	<u>Staff Recommended</u>
Storm Reserve Balance	\$2,142,805	\$ 2,142,805
Monthly Accruals to Reserve	\$141,890	\$141,890
Total Storm Costs Charged to Reserve	\$2,782,661	\$2,710,956
Reserve Balance	(\$497,966)	(\$426,261)
Reserve Needed to Fund Reserve to \$1.5 M Level	\$1,997,966	\$1,926,261
Regulatory Assessment Fee Multiplier	1.00072	1.00072
<b>Total System Losses to be Recovered From Customers</b>	<b><u>\$1,999,405</u></b>	<b><u>\$1,927,648</u></b>

Source: Exhibit MC-1-revised, Page 1

### **CONCLUSION**

Based on staff's recommendations in Issues 3, 7, 8, 9, 11, 12, 13, 14, and 15, the appropriate amount to recover prudently incurred storm restoration costs of \$427,648 and to replenish the level of FPUC's storm reserve to \$1.5 million is \$1,927,648.

**Issue 18:** Should the Commission approve Florida Public Utilities Company's proposed tariff and associated charge?

**Recommendation:** No. If the Commission approves Issue 17, the Commission should give staff administrative authority to approve the revised tariff and associated storm recovery surcharge that implement the Commission vote regarding FPUC's storm-related costs and storm reserve replenishment. FPUC should file the revised tariff and associated charge within seven days of the Commission's vote. The storm recovery surcharge should be effective with the first billing cycle for April 2019 through the last billing cycle for March 2021 (two-year recovery period). (Guffey)

**Staff Analysis:**

**Position of the Parties**

**FPUC:** Yes. Given that the Company has agreed to additional adjustments since the tariff and charge were submitted, and other adjustments may be required by the Commission. The Company should be directed to file a revised tariff within 7 days of the Commission's decision in this proceeding consistent with the Commission decision. The Commission should direct the Commission staff to verify that said tariffs are consistent with the Commission's decision.

**OPC:** No, FPUC's proposed tariffs should be recalculated in accordance with Witness Schultz's recommended adjustments.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**FPUC**

FPUC asserted that since the Company has agreed to additional adjustments since the tariff and charge were submitted, and other adjustments may be required by the Commission. The Company should be directed to file a revised tariff within 7 days of the Commission's decision in this proceeding consistent with the Commission decision. (FPUC BR 23) The Commission should direct the Commission staff to verify that said tariffs are consistent with the Commission's decision. (FPUC BR 23)

**OPC**

OPC contended that FPUC's proposed tariffs should be recalculated in accordance with witness Schultz's recommended adjustments. (OPC BR 16)

**ANALYSIS**

In revised Exhibit MC-1 of the direct testimony of FPUC witness Cassel, FPUC provided the calculation of its proposed storm recovery surcharge. Based on FPUC's requested amount (\$1,999,405), the calculated surcharge is 0.003183 per kilowatt-hour (kWh). (EXH 2, pg 1) Recovering the amount over a one-year period would result in a \$3.18 impact on a 1,000 kWh

residential bill. (EXH 2, page 1) Witness Cassel testified in direct testimony that in order to help lessen the impact to its customers, FPUC proposed that the surcharge be collected over a two-year period. (TR 42) A two-year recovery period would lessen the residential 1,000 kWh bill impact from \$3.18 to \$1.59. (EXH 2) During the hearing, witness Cassel explained that FPUC considered different recovery periods and that FPUC has been significantly impacted by Hurricane Michael. (TR 51-52) Witness Cassel asserted that the two-year recovery period seemed like the most reasonable and prudent way to proceed to lessen the bill impact. (TR 52) OPC took no position on whether the two-year recovery period is appropriate. While the Commission has the option to approve a one-year surcharge, staff believes that witness Cassel presented a reasonable argument that a two-year surcharge in this instance is appropriate and would lessen customer impact.

### **Customer Notification**

FPUC explained that it will notify its customers of the Commission-approved surcharge by mail during the week of March 11, 2019. FPUC shall provide the notification to staff for review and approval prior to it being mailed.

### **CONCLUSION**

If the Commission approves Issue 17, the Commission should give staff administrative authority to approve the revised tariff and associated storm recovery surcharge that implement the Commission's vote regarding FPUC's storm-related costs and storm reserve replenishment. FPUC shall file the revised tariff and associated charge within seven days of the Commission's vote. The storm recovery surcharge should be effective with the first billing cycle for April 2019 through the last billing cycle for March 2021 (two-year recovery period). The first billing cycle for April is on April 5, 2019, which will be 30 days after the vote.

**Issue 19:** If applicable, how should any under-recovery or over-recovery be handled?

**Recommendation:** At the end of the storm restoration surcharge period, the actual amount recovered through the surcharge should be compared to the appropriate amount approved by the Commission, and a determination made whether any under/over recovery has occurred. The disposition of any over/under recovery, and associated interest, should be considered by the Commission at a later date. (M. Andrews)

### **Position of the Parties**

**FPUC:** Any over or under-recovery should be handled by way of a true-up rate, which applies interest at the commercial paper rate to the over or under-recovered amount. Any true-up rate calculation should be allocated consistent with the Company's current, Commission-approved cost allocation methodology.

**OPC:** The over recovery should be handled as a one-time adjustment to customers' bills or, in the alternative, a one-time adjustment to the fuel clause for the remainder of 2019.

### **Staff Analysis:**

## **PARTIES' ARGUMENTS**

### **FPUC**

FPUC asserts that any over or under-recovery should be handled by way of a true-up rate, which applies interest at the commercial paper rate to the over or under-recovered amount. (FPUC BR 23) Any true-up rate calculation should be allocated consistent with the Company's current, Commission-approved cost allocation methodology. (FPUC BR 23)

### **OPC**

OPC contends that the over recovery should be handled as a one-time adjustment to customers' bills or, in the alternative, a one-time adjustment to the fuel clause for the remainder of 2019. (OPC BR 17)

## **ANALYSIS**

At the end of the storm restoration surcharge period, the actual amount recovered through the surcharge should be compared to the appropriate amount approved by the Commission, and a determination will be made whether any under/over recovery has occurred. The disposition of any over/under recovery, and associated interest, would be considered by the Commission at a later date.

## **CONCLUSION**

At the end of the storm restoration surcharge period, the actual amount recovered through the surcharge should be compared to the appropriate amount approved by the Commission, and a determination made whether any under/over recovery has occurred. The disposition of any over/under recovery, and associated interest, should be considered by the Commission at a later date.

**Issue 20:** Should the docket be closed?

**Recommendation:** No, this docket should remain open until a determination has been made at the end of the storm restoration surcharge period regarding whether any under/over recovery has occurred. The disposition of any under/over recovery should be considered by the Commission, and the docket closure should be determined at that time. (Dziechciarz, Weisenfeld)

**Position of the Parties**

**FPUC:** This docket should remain open until FPUC's costs are finalized and any over or under-recovery has been determined. Thereafter, the docket should be closed after the appropriate appellate period has concluded.

**OPC:** No.

**Staff Analysis:**

**PARTIES' ARGUMENTS**

**FPUC**

FPUC contended that FPUC and OPC have agreed that the docket should remain open until FPUC's storm costs are finalized and any over- or under-recovery has been determined. (FPUC BR 24) FPUC added that the docket should be closed after the appropriate appellate period has concluded. (FPUC BR 24)

**OPC**

OPC asserted that once the Commission makes the findings contained herein, it will be unnecessary to keep this docket open. Therefore, the docket should be closed. (OPC BR 17)

**ANALYSIS**

This docket should remain open until a determination has been made at the end of the storm restoration surcharge period regarding whether any under/over recovery has occurred. The disposition of any under/over recovery should be considered by the Commission, and the docket closure should be determined at that time.

**CONCLUSION**

This docket should remain open until a determination has been made at the end of the storm restoration surcharge period regarding whether any under/over recovery has occurred. The disposition of any under/over recovery should be considered by the Commission, and the docket closure should be determined at that time.