

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

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FPSC - COMMISSION CLERK

In the Matter of:

DOCKET NO. 20180049-EI

EVALUATION OF STORM
RESTORATION COSTS FOR
FLORIDA POWER & LIGHT
COMPANY RELATED TO
HURRICANE IRMA.

_____ /

VOLUME 1
PAGES 1 through 214

PROCEEDINGS: HEARING
COMMISSIONERS
PARTICIPATING: CHAIRMAN ART GRAHAM
COMMISSIONER JULIE I. BROWN
COMMISSIONER DONALD J. POLMANN
COMMISSIONER GARY F. CLARK
COMMISSIONER ANDREW GILES FAY

DATE: Tuesday, July 9, 2019

TIME: Commenced: 1:00 p.m.
Concluded: 2:05 p.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: DEBRA R. KRICK
Court Reporter

PREMIER REPORTING
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3 LITCHFIELD, and CHRISTOPHER T. WRIGHT, ESQUIRES, 700
4 Universe Boulevard, Juno Beach, Florida 33408-0420,
5 appearing on behalf of Florida Power & Light Company.

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7 DEPUTY PUBLIC COUNSEL; and STEPHANIE A. MORSE, ESQUIRE,
8 Office of Public Counsel, c/o the Florida Legislature,
9 111 W. Madison Street, Room 812, Tallahassee, Florida
10 32399-1400, appearing on behalf of the Citizens of the
11 State of Florida.

12 ROBERT SCHEFFEL WRIGHT and JOHN T. LAVIA, III,
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19 Street, Tallahassee, Florida 32301, appearing on behalf
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21 SUZANNE BROWNLESS, ESQUIRE, FPSC General
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23 Tallahassee, Florida 32399-0850, appearing on behalf of
24 the Florida Public Service Commission Staff.

25

1 APPEARANCES (CONTINUED):

2 KEITH HETRICK GENERAL COUNSEL; MARY ANNE
3 HELTON, DEPUTY GENERAL COUNSEL, Florida Public Service
4 Commission, 2540 Shumard Oak Boulevard, Tallahassee,
5 Florida 32399-0850, adviser to the Florida Public
6 Service Commission.

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I N D E X

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EXHIBITS

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1	Comprehensive Exhibit List	170	170
6	As identified on the		170
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60	As identified on the		170
	comprehensive exhibit list		

1 PROCEEDINGS

2 CHAIRMAN GRAHAM: Welcome back. I am glad you
3 guys all had your break, had your lunch and ready
4 to dig in here.

5 Let the record show it is still Tuesday,
6 July 9th, and this is the hearing for Docket No.
7 20180049-EI. So we will convene this hearing.

8 If I can get staff to read the notice, please.

9 MS. BROWNLESS: Yes, sir.

10 By notice dated June 13th, 2019, this time and
11 place was set for hearing in Docket No.
12 20180049-EI. The purpose of the hearing is to
13 receive testimony and exhibits relative to the
14 incremental storm restoration costs related to
15 Hurricane Irma, the stipulation and settlement
16 agreement dated June 6th, 2019, and to take action
17 on any motions or other matters that may be pending
18 at the time of the hearing.

19 CHAIRMAN GRAHAM: Thank you, staff.

20 Let's take appearances.

21 MR. RUBIN: Thank you, Mr. Chairman.

22 Ken Rubin and Kevin Donaldson for FPL. I want
23 to mention that Mr. Donaldson transitioning to our
24 litigation department, but we will continue to
25 bring him back here from time to time.

1 I would also like to enter an appearance for
2 Mr. Wade Litchfield and Chris Wright.

3 MR. REHWINKEL: Good afternoon, Chairman and
4 Commissioners. My name is Charles Rehwinkel,
5 appearing with Stephanie Morse and J.R. Kelly with
6 the Office of Public Counsel on behalf of FPL's
7 customers.

8 MR. WRIGHT: Robert Scheffel Wright and John
9 T. LaVia, III, on behalf of the Florida Retail
10 Federation. Thank you.

11 MR. MOYLE: Jon Moyle and Karen Putnal with
12 the Moyle Law Firm on behalf of the Florida
13 Industrial Power Users Group, FIPUG.

14 MS. BROWNLESS: Suzanne Brownless on behalf of
15 Commission staff.

16 MS. HELTON: And Mary Anne Helton. I am here
17 as your advisor, along with your General Counsel,
18 Keith Hetrick.

19 CHAIRMAN GRAHAM: Okay. Preliminary matters,
20 staff.

21 MS. BROWNLESS: Yes, sir.

22 The parties have agreed to excuse FPL's
23 witness Edwardo DeVarona, Thomas Gwaltney and
24 Ronald Reagan, and to stipulate their testimony and
25 exhibits into the record.

1 The parties have also agreed to excuse OPC's
2 witness Helmuth Schultz, and to stipulate his
3 exhibits HWS-1, HWS-2 and HWS-2 as modified in
4 Exhibit 60.

5 (Whereupon, prefiled testimony was inserted.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Evaluation of storm restoration costs for Florida
Power & Light Company related to Hurricane Irma

Docket No. 20180049-EI

Filed: April 24, 2019

ERRATA SHEET OF EDUARDO DEVARONA

August 31, 2018 –Direct Testimony

<u>PAGE #</u>	<u>LINE #</u>	<u>CHANGE</u>
14	11-13	Change “EA retained contractors to repair localized solar plant sites and clear debris and lines to help open roads” to “contractors retained by the External Affairs and Economic Development (EA) business unit were retained to perform localized solar site repairs, Manatee Lagoon facility repairs and supplemental EOC staffing, including some minimal clearing of debris to permit the contractors to access the areas impacted by the storm that they were retained to repair.”

I. INTRODUCTION

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Q. Please state your name and business address.

A. My name is Eduardo DeVarona. My business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. I am employed by NextEra Energy Resources as Executive Director of Transmission Business management. At the time that Hurricane Irma impacted Florida, I was employed by Florida Power & Light Company (“FPL” or the “Company”) as the Senior Director of Emergency Preparedness Power Delivery.

Q. Please describe your duties and responsibilities as the Senior Director of Emergency Preparedness Power Delivery during the time leading up to and including Hurricane Irma.

A. As the Senior Director of Emergency Preparedness Power Delivery, I was responsible for ensuring the effectiveness of FPL’s operational emergency plans and procedures for hurricanes, severe weather, capacity shortfall, and cyber and physical security. In addition, I was responsible for corporate business continuity across NextEra Energy in the event of an emergency.

Q. Please describe your educational background and professional experience.

A. I have a Bachelor of Science degree in Electrical Engineering from the University of Florida. I joined FPL in 1991 and have served in a number of positions of increasing responsibility with FPL, NextEra Energy Transmission, and NextEra Energy

1 Resources. Over the last 10 years, I have held several director level positions within
2 Transmission and Distribution (“T&D”).

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

4 A. No.

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

6 A. The purpose of my testimony is to provide an overview of FPL’s non-T&D activities,
7 restoration efforts, and cost details related to Hurricane Irma. Through this
8 discussion, I support the prudence of those activities and the reasonableness of the
9 associated costs.

10

11 **II. FPL’s NON-T&D STORM RESTORATION ACTIVITIES**

12

13 **Q. Please provide an overview of FPL’s non-T&D business units that engaged in**
14 **storm preparation and restoration activities related to Hurricane Irma, together**
15 **with the associated costs.**

16 A. As outlined in the testimony of FPL witness Miranda, the great majority of the work
17 associated with FPL’s preparations for, response to, and restoration following
18 Hurricane Irma falls within the T&D functional areas. However, virtually every other
19 business unit within FPL was engaged in pre-storm planning and preparation as well
20 as post-storm restoration activities, all of which contributed to the overall success of
21 the restoration efforts. Included within the family of non-T&D business units that
22 contributed to this effort, together with associated costs, are the following:

23

- 1 • Nuclear - \$25.8 million
- 2 • General - \$14.7 million
- 3 • Power Generation Division (“PGD”) - \$12.1 million
- 4 • Customer Service - \$5.2 million

5

6 The costs referenced above are detailed on FPL witness Ferguson’s Exhibit KF-1.

7

8 These costs were necessary as part of storm preparation and the execution of storm
9 restoration efforts and support functions. The majority of these costs are related to
10 payroll (regular and overtime) and for services performed by outside contractors. The
11 activities and associated costs of each of these business units are addressed separately
12 in my testimony.

13 **Q. Please describe your review of the activities and associated costs of the various**
14 **business units discussed in your testimony.**

15 A. In addition to my direct interactions and coordination with the non-T&D business
16 units before, during, and after Hurricane Irma, I met with representatives of each of
17 the business units to understand in greater detail the nature of the work and the
18 associated costs incurred in performing these functions.

19 **Q. Are you familiar with the pre-storm season training undertaken by the various**
20 **business units addressed in your testimony?**

21 A. Yes. Although I briefly address those activities in my testimony, as FPL witness
22 Ferguson describes, costs associated with storm preparedness and training activities

1 are not charged to the storm reserve, and therefore they are not part of the evaluation
2 of costs the Commission is conducting in this proceeding.

3

4

III. NUCLEAR

5

6 **Q. Please provide an overview of FPL's nuclear operations in Florida.**

7 A. FPL has four nuclear units in Florida – two at the Turkey Point Nuclear Generating
8 Center (1,632 MW) in Miami-Dade County and two at the St. Lucie Nuclear Power
9 Plant (1,821 MW FPL share) in St. Lucie County.

10 **Q. Please explain the responsibilities of the Nuclear business unit in preparing for
11 extreme weather events.**

12 A. Each of the nuclear plants has an emergency plan that is used as the basis for storm
13 preparedness and response. As part of this plan, the Nuclear business unit must
14 ensure that each plant and site are secured and adequately staffed for operations
15 before, during, and after the storm. The emergency plan provides for an emergency
16 crew to be stationed to ride out a storm, recognizing that requiring a crew to travel to
17 the plant site during a storm would not be safe. During the storm, crews are housed
18 in safe areas throughout the plant, including a team in the emergency diesel generator
19 building. If the storm impacts the station, emergency crews would respond to start,
20 repair, or troubleshoot any plant equipment to the extent it is safe to do so.

21

22

1 **Q. Identify any regulatory requirements that must be taken in advance of the**
2 **impact of a hurricane.**

3 A. Pursuant to its Station Blackout requirements, the Nuclear Regulatory Commission
4 (“NRC”) requires FPL to commence a shutdown of its nuclear units two hours prior
5 to the expected onset of sustained hurricane force winds at the site. FPL has
6 procedures at the nuclear sites to implement shutdown activities in accordance with
7 these NRC regulations.

8 **Q. Did FPL shut down either of the nuclear sites prior to the impact of Hurricane**
9 **Irma?**

10 A. Yes. In accordance with the requirements mentioned above, Turkey Point Units 3
11 and 4 were brought off-line. In addition, St. Lucie Unit 1 was manually shut down
12 due to salt buildup caused by Hurricane Irma winds blowing water into the
13 switchyard.

14 **Q. What actions were taken at Turkey Point Units 3 and 4 in connection with the**
15 **shutdown?**

16 A. When the hurricane watch or warning was given by the National Hurricane Center,
17 the nuclear plant site personnel filled all necessary fuel and water tanks, completed all
18 scheduled maintenance activities, conducted activities and tasks required to secure the
19 site to weather the storm, and conducted any necessary updates to the training for the
20 operating crew to ensure they were prepared for potential circumstances they could
21 face in the hurricane.

22

23

1 **Q. Did the nuclear plant sites sustain damage or require restoration work as a**
2 **result of Hurricane Irma?**

3 A. Yes. Because of damage caused by the storm, the St. Lucie site required beach
4 restoration and dredging of the intake canal from the headwall to the intake bridge.
5 Both St. Lucie and Turkey Point sustained damage to various buildings and structures
6 at the sites that required roof replacement, A/C repairs on multiple buildings, and
7 restoration of the Emergency Siren System control equipment. The Turkey Point site
8 also sustained damage to additional physical structures resulting in the need to replace
9 lighting, poles, and fixtures.

10 **Q. Explain the role of Nuclear during restoration following Hurricane Irma.**

11 A. The criteria for restarting the nuclear units following a hurricane are based on reviews
12 performed by the NRC and the Federal Emergency Management Agency (“FEMA”)
13 regarding the ability of FPL, the state of Florida, and local governments to effectively
14 implement their emergency plans. The standard used by the NRC and FEMA to
15 evaluate the ability to restart the plant following an event such as a hurricane is
16 whether there is reasonable assurance that both FPL and the state and local
17 governments can protect the health and welfare of the public in the event of a nuclear
18 power plant accident.

19

20 The plant systems required for operation must be able to perform their intended
21 function; the plant has technical specifications that describe what equipment must be
22 operable. In the community surrounding the plant site, the Alert and Notification
23 System (i.e., sirens) must be operable and the local government must be able to

1 support the implementation of public protective actions, such as shelter, evacuation,
2 and the monitoring of evacuees. Additionally, the local government must have the
3 essential personnel and equipment in place for emergency operations.

4 **Q. Did Nuclear retain any contractors to assist in restarting Turkey Point Units 3
5 and 4 and St. Lucie Unit 1?**

6 A. Yes. Contracted support assisted in the unit restoration efforts, which included
7 actions necessary to restart the units to get them back to full power.

8 **Q. Please identify the costs attributable to the activities undertaken by Nuclear.**

9 A. FPL incurred approximately \$25.8 million in storm-related costs related to restoration
10 activities and repairs at its St. Lucie and Turkey Point nuclear sites. These costs were
11 related to storm preparations, storm riders, restart activities, mobilization and
12 demobilization activities, and building repairs.

13

14

IV. GENERAL

15

16 **Q. Please provide an overview of the business units included in the “General”
17 category.**

18 A. The business units grouped in the “General” category primarily include Marketing
19 and Communications (“Communications”), Information Technology (“IT”), Human
20 Resources and Corporate Services (“HRCS”), and External Affairs and Economic
21 Development (“EA”).

22

1 During and after Hurricane Irma, Communications was responsible for all aspects of
2 communications, both internally with employees and externally with customers and
3 stakeholders. More than 30 channels of communication were utilized, including but
4 not limited to email, automated calls, text messaging, media events, news
5 conferences, news releases to the media, and communications to local leaders, state
6 and federal elected officials, regulators, and large commercial customers.

7

8 IT was responsible for the delivery and support of system business solutions,
9 technology infrastructure (client services, mobile services, servers, network, etc.), and
10 both wired and wireless technology.

11

12 HRCS was responsible for overseeing various functions of employee support (e.g.,
13 recruiting, payroll and benefit administration, employee relations and training), as
14 well as the maintenance and management of corporate facilities.

15

16 Lastly, EA worked closely and coordinated with local government partners and
17 county Emergency Operations Centers (“EOCs”) in FPL’s service territory. EA also
18 provided oversight of the External Response Team (“ERT”), which is the team that
19 staffs the EOCs within the FPL service territory that are activated during a storm or
20 other emergency event.

21 **Q. What did these business units do to prepare for Hurricane Irma?**

22 A. Each of the business units prepared for storm events throughout the year as part of
23 their participation in annual corporate-level training drills. Additionally,

1 Communications established Core Emergency Response Plans that outlined
2 emergency communication roles, responsibilities, functional processes, and
3 messaging for multiple types of incidents, including severe weather. IT was involved
4 in all aspects of establishing and maintaining communications systems and
5 applications to facilitate restoration efforts. HRCS supported the storm efforts with a
6 large focus on employee support and communication, along with the security of FPL
7 facilities. EA ensured a key point of contact for addressing any questions or issues
8 raised by local government officials, and established a clear line of communication
9 with these officials to increase awareness about restoration efforts. EA also managed
10 the ERT, which reports to the Liaison Officer during emergency and/or extreme
11 weather events.

12

13 The ERT is comprised of approximately 70 employees from various business units
14 who staff the EOCs. The ERT reports to the EA managers for those locations,
15 coordinates special crews serving the EOCs, and submits any requests for information
16 or action to EA at FPL's Command Center.

17 **Q. Please explain the role of Communications, IT, HRCS, and EA during the time**
18 **Hurricane Irma was impacting FPL's service territory.**

19 A. The roles of these non-T&D functional areas are summarized as follows:

- 20
- For Communications, safety and hurricane preparation communications to
21 customers, stakeholders and employees began 96 hours prior to Irma's
22 forecasted landfall and continued through and after landfall. The primary
23 objective of Communications was to help customers understand the

1 seriousness of the situation and the importance of taking safety precautions.
2 Customers were also directed to stay informed of key safety and restoration
3 information via FPL’s website and use PowerTracker.

4
5 Methods of communications included: TV, radio and digital advertising to
6 help provide safety messages to the widest number of customers as quickly as
7 possible; an automated voice call was made to every residential customer in
8 advance of landfall and immediately after the hurricane passed to provide
9 safety messaging and instruct customers on how to stay informed; an
10 integrated team of Communications and Customer Service Care Center
11 employees monitored social media activity 24 hours a day and responded to
12 thousands of individual customers directly via Facebook and Twitter; and
13 FPL’s website was updated 24 hours a day with the latest outage and
14 restoration information, while government officials were provided additional
15 updates on critical infrastructure facilities and transformer maps.

- 16
17 • IT resources were deployed at FPL facilities and in the field to provide all
18 needed technological support.
- 19
20 • HRCS prepared and safeguarded physical assets, managed increased janitorial
21 demands, completed repairs and clean up at the Company’s facilities
22 following the storm, and assisted employees with anything from temporary
23 housing to storm-related finances. Additionally, the HRCS compensation and

1 payroll teams provided communication, policy, and procedure updates to
2 employees and answered their inquiries.

- 3
- 4 • EA proactively and reactively communicated with local elected officials in the
5 impacted counties and oversaw the EOC representatives staffed in the
6 impacted EOCs. Specific outreach activities included sending email updates
7 to local elected stakeholders, fielding and responding to stakeholder questions,
8 concerns and input, and personally meeting with stakeholders as often as
9 possible.

10 **Q. Did any of the business units in the “General” category retain contractors to**
11 **assist?**

12 A. Yes. As part of its hurricane response plan, Communications utilized trained
13 contractors to provide support for various functions, including: visual communication
14 support (videography and photography); media relations (responding to incoming
15 media calls as part of a 24-hour team); social media staffing (monitoring, writing and
16 posting content in conjunction with Customer Service, also 24 hours a day); and
17 technical support for digital communications. During Hurricane Irma, the trained
18 contractors provided essential services to supplement the Communications
19 employees’ efforts and support the timely communication of safety and
20 restoration/outage information to customers.

21

1 IT utilized a contractor who provided services to support the Trouble Call
2 Management System, which tracks outage tickets and trouble reports during
3 restoration.

4

5 HRCS retained and managed contractors for building services and maintenance.
6 After the storm passed, these assets were returned to normal operations, following
7 damage assessment and necessary repairs. Contractors were also retained for debris
8 removal at corporate offices, substations, and service centers and the replacement of
9 any damaged vegetation as required by the towns, cities, and counties.

10

11 EA retained contractors to repair localized solar plant sites and clear debris and lines
12 to help open roads immediately after the storm passed so that emergency and
13 restoration personnel could safely navigate the roads as soon as possible. Also, due to
14 the size of this storm, recent retirees with EOC experience were brought in to help
15 supplement staffing in EOCs.

16 **Q. Please identify the costs attributable to the activities taken by the business units**
17 **in the “General” category.**

18 A. Total costs incurred by the business units included in the “General” category were
19 approximately \$14.7 million, the majority of which was related to payroll and
20 contractor expenses.

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V. PGD

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Q. Please provide an overview of FPL's PGD operations.

A. PGD operates and maintains all non-nuclear power generation for FPL's customers. The fleet includes approximately 23,000 MW of simple, combined cycle, steam, and solar units.

Q. Please explain the processes utilized by PGD to prepare for Hurricane Irma.

A. PGD has an emergency response plan that is used to facilitate storm response efforts. Every plant has site-specific procedures for securing equipment, identifying personnel that will prepare for and ride out the storm at the plant, and performing storm restoration as quickly as possible after the storm.

Q. Please explain the role of PGD during restoration following Hurricane Irma.

A. PGD's mission was to ensure that any plants shut down or damaged by Hurricane Irma were restored to provide electric generation to customers safely and as quickly as possible.

Q. Did PGD retain contractors to assist?

A. Yes. PGD retained contractors to assist with the preparation and restoration of generating plants to full capacity, as well as to safely secure jet fuel and perform restoration to two fuel storage tanks that were damaged at FPL's Port Everglades facility.

1 All generating sites in the PGD fleet incurred payroll charges for storm preparation
2 and for storm riders at the plants. Contractors were engaged in multiple restoration
3 efforts across the fossil and solar generating fleet.

4
5 The site that incurred the most damage was FPL's combined-cycle unit at the non-
6 nuclear portion of the Turkey Point facility, where contractors assisted with roof and
7 equipment repairs, and fence line cleanup. At the Martin plant, contractors assisted
8 with insulation/lagging repairs, scaffold rental, condenser cleaning, and debris
9 removal at the cooling pond. At the Manatee plant, contractors assisted with
10 insulation/lagging repairs, scaffold rental, and various roof repairs. At the West
11 County Energy Center in western Palm Beach County, contractors assisted with
12 repairs to roofs, gutters, insulation, and combustion turbine inlet damage.

13
14 In addition to payroll charges for Incident Command and support staff that worked
15 on the fuel storage tanks at Port Everglades, contractors were engaged to assist with
16 site safety, environmental impact assessments, fire prevention, transportation of jet
17 fuel to and from the facility, restoration of the roofs, and other tank repairs.

18 **Q. Please identify the costs attributable to the activities undertaken by PGD.**

19 A. PGD incurred approximately \$12.1 million in storm-related costs, the majority of
20 which were related to payroll and contractor services. Included within this total,
21 approximately \$6.7 million of costs were incurred to replace the roof and restore the
22 fuel storage tanks at the Port Everglades facility to their pre-storm storage capability.

23

VI. CUSTOMER SERVICE

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2

3 **Q. Please provide an overview of FPL's Customer Service operations.**

4 A. FPL's Customer Service organization is responsible for developing and executing
5 policies, processes, and systems related to contacts with customers. This includes:
6 customer care centers; customer solutions, which is responsible for account
7 management for large commercial/industrial and governmental customers and other
8 field-related activities; complaint resolution; billing and payment processes; smart
9 meter network operations; development and implementation of FPL's Demand Side
10 Management programs; and credit and collections activities.

11 **Q. Please explain what Customer Service does to prepare for extreme weather
12 events such as Hurricane Irma.**

13 A. In preparation for extreme weather events, Customer Service executes on emergency
14 response plans that are established well in advance. These plans are tested annually
15 through both business unit and corporate drills and workshops designed to improve
16 resiliency and effectiveness. In addition, annual training and awareness of storm
17 roles and responsibilities begin in March and extend through the beginning of storm
18 season. Extensive training is conducted in both an instructor-led classroom setting
19 and through online coursework, where applicable.

20 **Q. Please explain Customer Service's role when Hurricane Irma was impacting
21 FPL's service territory.**

22 A. During the time Hurricane Irma was impacting FPL's service territory, Customer
23 Service primarily handled communications from customers reporting outages and

1 hazardous conditions. Customer Service executed a plan that included increasing
2 staffing at GC Services (FPL’s customer call center partner located in Texas) and
3 having a group of Customer Care employees “ride the storm” at FPL’s Miami call
4 center, allowing them to handle outage-related calls in real time as the storm passed
5 through FPL’s territory. Post landfall, Customer Service employees reported to their
6 storm roles as soon as it was safe to do so. This included increasing staffing at the
7 FPL Customer Care centers by bringing in customer service employees from other
8 departments and extending daily schedules to 12-hour shifts covering 24 hours/day.
9 FPL was also able to secure additional temporary resources through local staffing
10 agencies and executed a mutual assistance plan with Pacific Gas & Electric to assist
11 in handling outage calls.

12
13 In addition, Customer Service advisors worked with FPL’s governmental and major
14 accounts to conduct proactive outreach about power restoration efforts and handle
15 restoration inquiries directly from these customers. Community Action Teams were
16 also deployed post storm to the hardest hit areas to provide customer service support
17 to the community. Customer Service representatives set up and staffed tents in the
18 neighborhoods to assist customers with reporting outages, provide restoration updates
19 and information on local resources (e.g., Red Cross, FEMA), and provide other
20 assistance such as cell phone charging stations, WIFI, and water. Customer Service
21 assessed the impact Hurricane Irma had on FPL’s Smart Meter network and the
22 communication status of network devices, conducted back-office analyses and field
23 investigations, and repaired or replaced non-communicating devices. During

1 restoration, Customer Service was also responsible, along with Power Delivery, for
2 handling customer complaints related to Hurricane Irma.

3 **Q. Did Customer Service retain contractors to assist?**

4 A. Yes. As part of its normal business operations, FPL partners with GC Services to
5 handle customer calls and also uses electrical contractor services for smart meter
6 network maintenance and restoration. For Hurricane Irma, FPL contracted with a
7 local vendor to provide temporary employees to assist with call handling and with a
8 vendor to provide business continuity trailers that included a complete mobile-
9 computing environment for Customer Care phone agents to take calls and conduct
10 business operations. Additionally, as indicated above, FPL executed a mutual
11 assistance plan with Pacific Gas & Electric to assist in handling outage calls.

12 **Q. Please identify the costs attributable to the activities taken by Customer Service.**

13 A. Customer Service incurred approximately \$5.2 million in storm-related costs, the
14 majority of which were related to payroll and contractor services.

15

16 **VII. CONCLUSION**

17

18 **Q. Were the activities of Nuclear, Customer Service, PGD, and the business units**
19 **discussed in the “General” category prudent and the associated costs reasonable**
20 **as part of FPL’s overall response to Hurricane Irma?**

21 A. Yes.

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

23 A. Yes.

1 **I. INTRODUCTION**

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

3 A. My name is Thomas W. Gwaltney. My business address is Florida Power & Light
4 Company, 700 Universe Blvd., Juno Beach, Florida, 33408.

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

6 A. I am employed by Florida Power & Light Company (“FPL” or the “Company”) as
7 Senior Director Emergency Preparedness, Power Delivery.

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

9 A. As the Senior Director of Emergency Preparedness Power Delivery, I am
10 responsible for ensuring the effectiveness of FPL’s operational emergency plans
11 and procedures for hurricanes, severe weather, capacity shortfall, and cyber and
12 physical security. In addition, I am responsible for corporate business continuity
13 across NextEra Energy in the event of an emergency.

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

15 A. I have a Bachelor in Electrical Engineering from the Georgia Institute of
16 Technology. I joined FPL in 1986 and have 32 years of technical, managerial and
17 commercial experience gained from serving in a variety of positions within the
18 Distribution and Power Delivery organizations. From 2009-2018, I served as
19 Senior Director, Central Maintenance, where I was responsible for FPL’s
20 transmission and distribution contractor workforce as well as FPL’s storm
21 preparedness and storm hardening programs, which included vegetation
22 management, pole inspections and feeder hardening. For storm restoration events,
23 I have served in various roles including Incident Commander (for 13 different

1 staging sites during the 2004-2005 storm seasons), and most recently (including the
2 2016 and 2017 storm seasons) as Planning Section Chief. As Planning Section
3 Chief, my role included seeking and securing restoration resources.

4
5 I have also previously served as chair of the Southeastern Electric Exchange's
6 ("SEE") Mutual Assistance Committee. Currently, I serve as the co-chair of the
7 Edison Electric Institute's ("EEI") mutual assistance committee and the National
8 Mutual Assistance Resource Team, a group that oversees the process designed to
9 enhance the industry's ability to respond to national-level events by managing
10 resources nationwide.

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

12 A. Yes. I am sponsoring the following exhibits:

- 13 • Exhibit TWG-1 – Resolution of Contractor Cost “Problems” - FPL
14 Responses to OPC Interrogatories.
- 15 • Exhibit TWG-2 – OPC’s Response to FPL Interrogatories Nos. 44-49.

16 **Q. Have you previously submitted prepared direct testimony in this proceeding?**

17 A. No.

18 **Q. What is the purpose of your rebuttal testimony?**

19 A. The purpose of my rebuttal testimony is to respond to certain portions of the direct
20 testimony submitted by Office of Public Counsel (“OPC”) witness Helmuth W.
21 Schultz III, which recommends that FPL’s Hurricane Irma distribution contractors
22 costs be reduced \$47.8 million. Mr. Schultz claims there are “problems” with
23 contractor mobilization/demobilization times and costs and seeks to impose a 25%
24 or \$30 million reduction of these costs. Mr. Schultz also asserts that FPL provided

1 inadequate detail to support costs paid to mutual aid utilities that supported FPL's
2 Hurricane Irma restoration effort and, therefore, their associated costs should be
3 reduced by 50% or \$17.8 million.

4 **Q. Please summarize your rebuttal testimony.**

5 A. My rebuttal testimony demonstrates that Mr. Schultz's proposed adjustment to
6 reduce contractor mobilization/demobilization times and costs is not factually
7 supported, as the vast majority of his alleged "problems", once investigated, were
8 determined to be non-issues. Additionally, the purported basis for his
9 "conservative" 25% adjustment is inaccurate and, more importantly, his idealized
10 mobilization/demobilization travel theories do not reflect the reality of the
11 circumstances surrounding Hurricane Irma. Additionally, I demonstrate that Mr.
12 Schultz's proposed 50% reduction for mutual aid utility costs is also arbitrary and
13 shows a lack of understanding of mutual aid processes and guidelines. As a result,
14 Mr. Schultz's proposed adjustments are unwarranted and should be rejected.

15
16 **II. ALLEGED "PROBLEMS" WITH FPL'S CONTRACTOR COSTS**

17 **Q. On pages 15 and 16 of his testimony, Mr. Schultz references specific deposition**
18 **transcript pages and exhibits that he believes suggest that there are numerous**
19 **examples of "problems" that raise a concern regarding the reasonableness of**
20 **FPL's contractor costs. Do you agree that Mr. Schultz's "problems" and**
21 **concerns are valid or have merit?**

22 A. No. The vast majority of the examples of "problems" identified by Mr. Schultz on
23 pages 15 and 16 of his testimony were, in fact, addressed and explained in FPL's

1 responses to discovery requests that OPC issued as deposition follow-up questions.
2 Most of these “problems” are claims of excessive time recorded and paid (i.e.,
3 regular, overtime, mobilization/demobilization and standby) and other claimed
4 improper reimbursements of expenses (e.g., fuel, meals), which were addressed by
5 FPL witnesses during OPC’s deposition as well as in FPL’s responses to OPC
6 discovery requests. I have provided these discovery responses in Exhibit TGW-1 –
7 Resolution of Contractor Cost “Problems” - FPL Responses to OPC Interrogatories,
8 which includes FPL’s responses to 22 OPC interrogatories. Additionally, some of
9 these and other “problems” identified by Mr. Schultz (e.g., alleged duplicate
10 contractor payments) have been addressed in FPL witness Manz’s rebuttal
11 testimony.

12 **Q. Can you provide examples of “problems” identified by Mr. Shultz on pages 15**
13 **and 16 of his testimony that, when researched, were not “problems”?**

14 A. Yes. As provided in Exhibit TWG-1, the vast majority of the discovery responses
15 demonstrate that Mr. Schultz’s concerns with numerous “problems” were
16 unfounded. For example, Mr. Schultz was concerned with contractor crews that
17 recorded three days of time as standby time and, on those same three days, the
18 standby time recorded by the crews exceeded the maximum amount of standby
19 time allowed per day under the contract. As explained in FPL’s answer to OPC
20 Interrogatory No. 182, FPL’s research determined that the crews were actually not
21 on standby but were instead performing pre-storm “button up” work, which is a
22 term used for addressing temporary construction situations that, if not addressed
23 before a storm hits, would remain as weak links in the system that are more

1 susceptible to damage and failure. It should also be noted that, in this instance, the
2 standby and regular work time were charged at the same hourly rate and, therefore,
3 it was not necessary to correct the classification of time recorded on these time
4 sheets. Additionally, since the work was, in fact, regular work, the maximum
5 allowable hours per day of standby time was not applicable.

6
7 In other examples, Mr. Schultz identified “problems” associated with what he
8 believed to be excessive amounts of time charged per day (e.g., working in excess
9 of 24 hours straight). While this was not typical, there were a limited number of
10 instances where FPL authorized crews to charge for time working more than 24
11 hours straight. For example, in FPL’s responses to OPC Interrogatory Nos. 146
12 and 179, FPL explained that two crews charged and were paid for time that
13 exceeded working 24 hours straight. These exceptions were approved based upon
14 lodging accommodation issues beyond the control of either FPL or the contractor,
15 e.g., one hotel was not accepting guests because it had lost power and there were no
16 other alternative accommodations readily available. As a result, the crews
17 unfortunately had to sleep in their trucks. While contractor sleeping time is
18 typically non-reimbursable, in this instance, FPL determined an exception was
19 warranted and the crews’ time sleeping in their trucks was reimbursed.

20
21 Mr. Schultz also identified various “problems” concerning excessive
22 mobilization/demobilization time, including: questioning payment for mobilization
23 overtime hours instead of mobilization straight time hours, and questioning the

1 amount of time to travel from location to location. However, as previously noted,
2 once FPL's research was completed, most of Mr. Schultz's alleged "problems"
3 were actually not "problems". For example, as provided in FPL's responses to
4 OPC Interrogatory No. 134, while mobilization hours were all recorded as overtime
5 hours, it was inconsequential since the hourly rates for mobilization straight time
6 and mobilization overtime were the same.

7 **Q. Please explain FPL's research and results from some of the other unfounded**
8 **examples of "problems" identified by Mr. Shultz in his testimony.**

9 A. Mr. Schultz also identifies "problems" with what he believes are excessive amounts
10 of contractor mobilization/demobilization time associated with traveling to and
11 from FPL's service territory. It is apparent that, based on his MapQuest searches,
12 Mr. Schultz believes that convoys of large trucks and equipment traveling into
13 traffic congested evacuation areas should be able to travel much faster than what
14 actually occurs. The questions in OPC Interrogatory Nos. 133, 134 and 144 reflect
15 this misconception. However, as provided in FPL's responses to these discovery
16 requests, when considering average travel speeds, stops for fuel and meals, adding
17 extra miles to obtain lodging, stops for on-boarding at FPL staging sites, as well as
18 other typical travel conditions (e.g., weather, traffic conditions), the distances and
19 time traveled are reasonable. Mr. Schultz's reliance on the travel distances and
20 times taken from MapQuest do not reflect the actual conditions and circumstances
21 that were present at the time.

22

1 **Q. Previously, it was mentioned that Mr. Schultz claimed there were “problems”**
2 **with other contractor reimbursements that appeared to be improperly**
3 **charged and paid. Please provide some examples of these alleged concerns**
4 **raised by Mr. Schultz.**

5 A. Generally, Mr. Schultz’s concerns appear to result from instances where exceptions
6 to the Statement of Work conditions contained within FPL’s contractual
7 arrangements associated with time and expenses were allowed and approved by
8 FPL. Examples of these concerns included reimbursing contractors for: fuel and/or
9 meals purchased by contractors within FPL service territory during the restoration
10 effort; time spent sleeping; and hours worked in excess of 16 hours per day.

11 **Q. Is it true that FPL allowed for such limited exceptions and reimbursed**
12 **contractors for time and expenses that, per contractual arrangements, would**
13 **not otherwise be eligible for reimbursement?**

14 A. Yes. FPL has provided authority to field supervision, e.g., a Production Lead
15 (“PL”), to approve such exceptions on a case-by-case basis. For example, per
16 contractual arrangements, once contractor restoration crews arrive in FPL’s service
17 territory, fuel for their vehicles and all meals are to be provided by FPL at its
18 staging sites and other FPL locations. As such, contractors should not be
19 submitting invoices for fuel and meals while supporting restoration efforts.
20 However, there are situations and conditions that arise during storm restoration
21 where exceptions are appropriately warranted. Examples of this include: crews
22 having to obtain fuel and/or meals because a just-opened staging site is not fully
23 functional; crews asked to travel to other staging sites require more fuel and/or

1 meals as they travel to their new location; and/or crews restoring service in areas
2 located in excess of 25 miles from an FPL staging site obtaining fuel and/or meals
3 locally instead of traveling back and forth to the staging site that is farther away.

4
5 Also, as discussed earlier, there are instances where FPL has provided for the
6 reimbursement of time while crews are sleeping (e.g., sleeping in their trucks
7 because of lodging issues). There are also instances where time that exceeds 16
8 hours per day is approved and reimbursed. This occurs most often when crews are
9 both traveling (e.g., mobilization/demobilization) and performing work on the same
10 day. It can also occur when crews are performing restoration work and several
11 more hours of work can restore service to a critical infrastructure customer (e.g.,
12 hospital, 911 center) or a feeder that, when restored, can provide service to
13 thousands of customers.

14
15 While FPL provides authority to field supervisors to approve exceptions to
16 contractual arrangements in real time on a case-by-case basis based on the actual
17 facts and circumstances that exist at the time, these exceptions are generally due to
18 extenuating circumstances and, in many cases, provide for operational efficiencies
19 and/or shorter restoration times. FPL's responses to OPC Interrogatory Nos. 51,
20 137, 138, 142, 146 and 179, included in Exhibit TWG-1, address these types of
21 concerns raised by OPC and Mr. Schultz. FPL witness Reagan also discusses in
22 further detail how exceptions to the contracts are provided for under certain
23 circumstances.

1 **Q. Are there also instances during the accounts payable process (when storm-**
2 **related invoices are reviewed and approved for payment), where PLs or other**
3 **appropriate storm management personnel are contacted to verify or**
4 **substantiate time or other costs (e.g., fuel, meals) charged?**

5 A. Yes. As discussed in FPL witness Manz's rebuttal testimony, there are instances
6 where the team of invoice reviewers may require clarification, verification or
7 substantiation of contractor time and/or other charges (e.g., fuel, meals) included on
8 an invoice. If so, the appropriate PL or other storm management personnel is
9 contacted, typically by phone, to discuss the issue(s) identified. After review and,
10 if necessary, further research, the PL or other storm management personnel
11 confirms or denies the accuracy of the billing.

12 **Q. Mr. Schultz also expresses concerns with FPL's oversight of contractors**
13 **during mobilization/demobilization and claims that FPL failed to sufficiently**
14 **monitor contractor travel time, primarily because the granularity of available**
15 **documentation, in some instances, was insufficient in his opinion. Do you**
16 **agree with his assessment?**

17 A. No. As was explained and discussed on multiple occasions throughout the two
18 days of the deposition taken by OPC, FPL has multiple touchpoints to monitor
19 contractor travel teams as they travel to and from FPL's service territory. This
20 includes FPL "travel coordinators" that communicate (usually by phone) with
21 travel teams as they begin their travel, during actual travel time, and when they stop
22 for the night. Travel coordinators maintain travel logs that document these
23 discussions. Additionally, personnel on FPL's resource acquisition team are also in

1 contact with travel teams to determine and confirm location and travel status.
2 While the level of detail supporting these conversations in the travel log varies by
3 travel coordinator, travel coordinators provided vigilant monitoring and oversight
4 of these travel teams as they traveled to support the Hurricane Irma restoration
5 event. Mr. Schultz's concerns regarding monitoring of travel teams as they travel
6 to and from FPL's service territory are unwarranted.

7 **Q. Did FPL make any adjustments for any issues identified during the discovery**
8 **process?**

9 Yes. There were a few instances where adjustments have been or will be addressed
10 (see FPL's responses to OPC Interrogatory Nos. 138, 145, 174 and 181 in Exhibit
11 TWG-1). These adjustments are discussed in the rebuttal testimonies of FPL
12 witnesses Manz (OPC Interrogatories Nos. 138 and 145) and Ferguson (OPC
13 Interrogatories Nos. 174 and 181).

14
15 Additionally, there were two invoices submitted by Contractor E identified on page
16 60 of Mr. Schultz's direct testimony that included hours for employees whose time
17 was not, absent an exception, permitted to be separately billed under the vendor
18 contract. Consistent with FPL's answer to Interrogatory No. 181, the Company has
19 reflected an adjustment of \$247,817 for these invoices on Exhibit KF-3 attached to
20 FPL witness Ferguson's rebuttal testimony.

21

22

1 **III. PROPOSED MOBILIZATION/DEMobilIZATION ADJUSTMENT**

2 **Q. Mr. Schultz believes line contractor restoration crews’**
3 **mobilization/demobilization times for Hurricane Irma are excessive and**
4 **recommends that contractor costs should be reduced by a “conservative” 25%**
5 **or approximately \$30 million. Do you agree with this proposed adjustment?**

6 A. No. The premise for Mr. Schultz’s proposed adjustment is not factually supported
7 and the purported basis for his “conservative” 25% adjustment is inaccurate and,
8 more importantly, does not reflect reality.

9 **Q. Why do you state that the premise for Mr. Schultz’s proposed “conservative”**
10 **mobilization/demobilization adjustment is not factually supported?**

11 A. As provided in his testimony, Mr. Schultz believes an adjustment for excessive
12 mobilization/demobilization time is warranted because of the alleged problems he
13 claims to have discovered through his review of FPL’s Hurricane Irma invoices,
14 timesheets and other supporting documentation. However, as provided in Section II
15 of my rebuttal testimony, the vast majority of these alleged concerns has been
16 explained and were not, in fact, problems.

17 **Q. Why is Mr. Schultz’s proposed “conservative” mobilization/demobilization**
18 **adjustment inaccurate?**

19 A. Mr. Schultz’s proposed “conservative” adjustment is based on his premise that
20 crews should be able travel 840 miles in a 16-hour day, with 14 hours of driving at
21 60 mph and 2 one-hour stops for meals and fueling. Mr. Schultz then compares his
22 840 miles of travel per day to what he refers to as his FPL “550 mile benchmark”
23 of travel per 16-hour day, with two one-hour stops for meals and fueling. Mr.

1 Schultz then concludes that FPL's benchmark is understated by 33% (840
2 miles/day vs. 550 miles/day), which he alleges results in FPL allowing excessive
3 mobilization/demobilization times and costs. Mr. Schultz then reduces this 33% to
4 25% to be "conservative." However, Mr. Schultz's proposed 840 miles of travel
5 per day is further overstated by approximately 120 miles, even if the convoy of
6 utility trucks could actually travel an average of 60 mph, because it fails to account
7 for the fact that large restoration bucket trucks typically have an average range of
8 only 250 miles per tank and would require three stops for fueling during a 16-hour
9 day of driving. As a result, his "conservative" adjustment is no longer conservative
10 and is diminished even more as this adjustment does not reflect reality.

11 **Q. Why does Mr. Schultz's proposed adjustment not reflect reality?**

12 A. The assumption that a convoy of utility vehicles, weighing 30,000 - 40,000 pounds
13 each, can average 60 mph like a passenger vehicle, while traveling to or from a
14 storm site, is without any factual support and is not realistic. Factors affecting a
15 truck's average travel speed include:

- 16 • Traveling in a convoy – a convoy usually consists of five to thirty vehicles
17 and a convoy only moves as fast as its slowest vehicle;
- 18 • Engine rev limiters/governors – most utility trucks today include such an
19 installation, which, of course, caps maximum speeds;
- 20 • Vehicle breakdowns;
- 21 • Normal and storm related traffic congestion – can be encountered
22 anywhere, especially in major urban areas;
- 23 • Road work construction – can be encountered anywhere;

- 1 • Roadway accident congestion – can be encountered anywhere;
- 2 • Ingress/Egress to highways at beginning/end of day – occurs on roads with
- 3 speeds typically ranging from 35-50 mph; and
- 4 • Adverse weather conditions (e.g., rain, fog) – can be encountered anywhere.

5
6 Notably, Mr. Schultz, fails to account for many of these factors which would affect
7 utility crew travel time as reflected in OPC's responses to FPL Interrogatories Nos.
8 44-49, which are identified in my testimony at Exhibit TWG-2. Additionally, as
9 someone with a career that has involved decades of supporting FPL storm
10 restoration events as well as assistance to other utilities outside of Florida, where I
11 have been involved with the travel of FPL crews to support other utilities'
12 restoration efforts, I can personally attest that it is completely unrealistic for these
13 trucks to average 60 mph. I can also personally attest that the miles per day travel
14 benchmark that FPL utilizes is realistic and reasonable, as it also considers FPL's
15 own experience when it travels to other locations to assist in restoration efforts.

16 **Q. What is your conclusion regarding Mr. Schultz's proposed**
17 **mobilization/demobilization adjustment?**

18 A. Based on the inaccuracy of Mr. Schultz's proposed adjustment, his unrealistic
19 assumption that crews can average 60 mph while travelling, and the fact that FPL's
20 miles per day travel benchmark is realistic and reasonable, Mr. Schultz's proposed
21 25% adjustment for claimed excessive mobilization/demobilization costs is
22 unwarranted and should be rejected.

1 **IV. ALLEGED CONCERNS WITH MUTUAL ASSISTANCE COSTS**

2 **Q. Do you agree with Mr. Schultz’s proposed 50% or \$17.8 million reduction to**
3 **\$35.6 million of mutual assistance costs (associated with 14 invoices from 10**
4 **mutual assistance utilities) because he claims there was inadequate detail**
5 **provided to support the charges?**

6 A. No. It is important to note that Mr. Schultz does not claim that any of these mutual
7 assistance utilities’ costs were unreasonable or imprudent. Additionally, Mr.
8 Schultz does not claim that these costs were unsupported. Rather, Mr. Schultz’s
9 proposed adjustment is based solely on his apparent desire that additional detail
10 should have been provided to support these costs.

11 **Q. Please provide additional details regarding mutual aid support and costs.**

12 A. Mutual assistance storm restoration support is a critical and instrumental
13 component of any large electric utility restoration effort. This was certainly the case
14 for FPL after Hurricane Irma, as FPL received mutual assistance from over 50
15 electric utilities. Mutual assistance costs reflect the actual expenses incurred by the
16 mutual assistance utilities in support of FPL’s Hurricane Irma restoration efforts.
17 While the level of detail provided to support the invoices varies by utility, the final
18 invoices submitted generally include a summary level detail of the costs incurred
19 by the mutual assistance utilities, such as labor, vehicle, material, travel (e.g., hotel,
20 fuel, meals) and other expenses. This is consistent with the level of detail provided
21 historically by mutual assistance utilities and, in fact, is consistent with the level of
22 detail FPL submits when it provides mutual assistance to other utilities’ restoration
23 efforts. It is important to note that restoration support from mutual assistance

1 utilities are most often provided by members of the SEE and/or the EEI. The SEE
2 and EEI provide procedures, guidelines and principles for its members, for both
3 requests and responding to requests for mutual assistance resulting from emergency
4 restoration events. This includes guidelines for responding utilities to keep and
5 maintain cost support records and for requesting utilities to reimburse responding
6 utilities for costs incurred. An overriding principle for providing restoration
7 support is that, unlike non-mutual assistance utility contractors that have negotiated
8 rates, restoration support from SEE and EEI members is provided on a not-for-
9 profit basis, i.e., utilities charge only their actual costs incurred. This ensures that
10 the responding mutual assistance utility's customers are not paying for the costs to
11 restore service to the requesting utility's customers (in this case, FPL) and that the
12 requesting utility's customers are not subsidizing the responding mutual assistance
13 utility's customers.

14 **Q. What is your conclusion regarding Mr. Schultz's proposed recommendation to**
15 **reduce mutual assistance utility costs by \$17.8 million?**

16 A. Mr. Schultz's proposed \$17.8 million reduction of mutual assistance utility costs
17 because he feels the costs lack sufficient support has no factual basis, is arbitrary,
18 reflects a complete lack of understanding of how mutual assistance between electric
19 utilities works and would disallow actual valid expenses incurred by these utilities
20 in support of FPL's Hurricane Irma restoration efforts. As a result, Mr. Schultz's
21 recommended adjustment should be rejected.

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

23 A. Yes.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Evaluation of storm restoration costs for Florida
Power & Light Company related to Hurricane Irma

Docket No. 20180049-EI

Filed: April 24, 2019

ERRATA SHEET OF RONALD R.REAGAN

March 15, 2019 –Rebuttal Testimony

<u>PAGE #</u>	<u>LINE #</u>	<u>CHANGE</u>
Page 4	13-14	Delete page 4, lines 13-14 and insert the following in its place: “Exhibits RR-3 and RR-3A are FPL’s written responses to OPC Request for Production of Documents No. 9 (without the confidential supporting documents)”
Page 4	16	Delete page 4, line 16, and insert the following in its place: “Exhibits RR-4 and RR-4A are FPL’s responses to OPC Interrogatory No. 162.”
Page 27	8	Delete “No”
Page 27	12	Add “and amended response” after “response”
Page 27	14	Delete “in fact”
Page 27	14	Add “and amended response” after “response
Page 27	15	Add “original and amended” after “Copies of”
Page 27	17	Add “Exhibit RR-4A” after “Exhibit RR-4”; delete “Exhibit “RR-5” and add “Exhibit RR-3 and RR-3A”

EXHIBIT # **CHANGE**

Exhibit RR-3A Add FPL’s Amended Response to OPC Request for
Production of Documents No. 9

Exhibit RR-4A Add FPL’s Amended Response to OPC Interrogatory
No. 162

1 **I. INTRODUCTION**

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

3 A. My name is Ronald R. Reagan. My business address is Florida Power & Light
4 Company, 700 Universe Blvd., Juno Beach, Florida, 33408.

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

6 A. I am employed by NextEra Energy, Inc. as Vice President of Engineering and
7 Construction, a role I assumed in November of 2018. From April 2011 through
8 November 2018, including the time that Hurricane Irma impacted FPL's service
9 territory, I was employed as Vice President of Integrated Supply Chain.

10 **Q. Please describe your duties and responsibilities during the time you served as**
11 **Vice President of Integrated Supply Chain.**

12 A. As Vice President of Integrated Supply Chain, I was responsible for procurement,
13 procurement engineering, materials management, logistics, and recycling functions
14 for Florida Power & Light Company ("FPL") as well as the entire NextEra Energy
15 enterprise. During the time leading up to and during the Hurricane Irma
16 restoration, I also served as Logistics Section Chief where I had responsibility for
17 staging site logistics including staging site mobilization/demobilization, meals,
18 transportation, lodging, procurement and inventory management of materials.

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

20 A. I have a Bachelor of Science degree in Electrical Engineering from Clarkson
21 University. I joined FPL in 1990 and have 28 years of technical, managerial and
22 commercial experience gained from serving in a variety of positions within the

1 Power Generation, Business Management, Power Marketing and Trading,
2 Integrated Supply Chain and Engineering and Construction organizations.

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

4 A. Yes. I am sponsoring the following exhibits that are attached to my rebuttal
5 testimony:

- 6 • Exhibit RR-1 is OPC's response to FPL Interrogatory No. 13, which
7 describes Mr. Schultz's experience in the retention or management of storm
8 restoration crews during a storm event;
- 9 • Exhibit RR-2 is OPC's response to FPL Interrogatory No. 19, which
10 describes Mr. Schultz's experience in the negotiation of contractor rates for
11 storm restoration, line clearing, damage assessment, or vegetation crews in
12 anticipation of or during a storm event;
- 13 • Exhibit RR-3 is FPL's written response to OPC Request for Production of
14 Documents No. 9 (without the confidential supporting attachments and
15 invoices); and
- 16 • Exhibit RR-4 is FPL's response to OPC Interrogatory No. 162.

17 **Q. Have you previously submitted testimony in this proceeding?**

18 A. No.

19 **Q. What is the purpose of your rebuttal testimony?**

20 A. The purpose of my rebuttal testimony is to respond to certain portions of the direct
21 testimony of Office of Public Counsel ("OPC") witness Helmuth W. Schultz III.
22 Specifically, I will address Mr. Schultz's claim that the non-mutual assistance line
23 contractor hourly rates charged for storm restoration during Hurricane Irma were

1 excessive. I will also address Mr. Schultz’s concerns regarding the requirements
2 and enforcement of the non-mutual assistance contracts. Additionally, I provide
3 testimony regarding the ability of our Power Delivery Business Unit to make
4 exceptions to the terms of the contract necessary to address situations encountered
5 during Hurricane Irma restoration. Finally, I support the costs that are the subject
6 of Mr. Schultz’s proposed disallowance of certain logistics costs for what he terms
7 “lack of support”.

8 **Q. Please summarize your rebuttal testimony.**

9 A. Mr. Schultz’s criticism of the rates charged by the line contractors who assisted
10 with Hurricane Irma restoration fails to take into account the actual circumstances
11 FPL faced in responding to the significant and widespread damage caused by the
12 storm. His criticism also fails to recognize that the vast majority of the non-mutual
13 assistance contracts were pre-negotiated well in advance of the storm and include
14 the lowest rates that could be obtained at the time.

15
16 Many of Mr. Schultz’s recommended adjustments to the non-mutual assistance
17 contractor costs are based on his contention that FPL abandoned or failed to
18 enforce the non-mutual assistance contracts for storm restoration work. As further
19 explained below, although FPL’s practice is to follow and enforce the terms and
20 conditions of the contracts, FPL must have the flexibility to approve exceptions to
21 contract terms as necessary to respond to the emergent circumstances faced during
22 storm restoration.

23

1 My testimony also describes the services provided by and supports the costs
2 associated with the six logistics vendors whose costs are questioned by Mr.
3 Schultz. And, although FPL witness Miranda discusses logistics in more detail in
4 his direct testimony filed in this docket, for further context and to respond to Mr.
5 Schultz's proposed disallowance, I explain how the services provided by these
6 vendors play a crucial role in FPL's restoration efforts. Through the provision of
7 lodging, meals, transportation, laundry, parking, and other logistical support
8 services, FPL is able to help contractors, employees, mutual aid utilities and others
9 focus on the primary job of safely restoring power to FPL's customers as quickly
10 and safely as possible.

11

12 **II. CONTRACTOR RATES**

13 **Q. Please summarize Mr. Schultz's direct testimony related to line contractor**
14 **rates that you are addressing in your rebuttal testimony.**

15 A. On pages 40-43 of his direct testimony, Mr. Schultz states there were a total of 15
16 line contractors used by FPL that charged rates in excess of \$ [REDACTED] per hour. Mr.
17 Schultz asserts that, based on his experience, these rates are excessive and, on
18 pages 24 and 98 of his direct testimony, Mr. Schultz recommends a reduction of
19 \$60.049 million to FPL's total contractor costs for Hurricane Irma to remove what
20 he claims are excessive hourly rates.

21

22

1 **Q. Do you have any general observations about Mr. Schultz's concerns regarding**
2 **line contractor rates charged for Hurricane Irma?**

3 A. Yes. As stated on page 10 of his direct testimony, Mr. Schultz states he relied on
4 his experience to conclude that the rates charged by 15 line contractors are
5 excessive. Yet, his conclusions are not reflective of any experience in this area and
6 when asked, Mr. Schultz admits that he has no experience in the negotiation or
7 management of contractor rates for storm restoration, line clearing, damage
8 assessment, or vegetation crews in anticipation of or during a storm event. Copies
9 of OPC's responses to FPL Interrogatory Nos. 13 and 19 in which these admissions
10 were made are attached to my rebuttal testimony as Exhibits RR-1 and RR-2,
11 respectively. In short, Mr. Schultz has never been involved in the real world
12 negotiations that are necessary to acquire and have contractors ready to respond
13 when a hurricane strikes.

14
15 More fundamentally, Mr. Schultz's criticism of the rates charged by the line
16 contractors fails to take into account the actual circumstances FPL faced in
17 responding to the significant and widespread damage caused by Hurricane Irma as
18 explained by FPL witness Miranda. Indeed, Mr. Schultz fails to recognize that the
19 reason FPL was able to respond and restore power so quickly was because the vast
20 majority of the non-mutual assistance contracts were pre-negotiated well in
21 advance of the storm as part of FPL's normal, non-storm business. Those pre-
22 storm negotiations allowed FPL to negotiate the best market rates it was able to
23 obtain from the contractors at the time. Mr. Schultz has previously admitted in the

1 Florida Public Utilities Company (“FPUC”) docket (Docket No. 20180061-EI) that
2 utilities typically negotiate rates with contractors and have a contract in place prior
3 to a storm occurring, which is the prudent action to take.¹ This pre-negotiation of
4 non-mutual assistance contracts is exactly what FPL did well in advance of
5 Hurricane Irma impacting its service territory. Moreover, Mr. Schultz’s claim that
6 the rates charged by contractors were excessive simply ignores the market as it
7 existed when the rates were negotiated, as well as the circumstances FPL faced
8 during Hurricane Irma in acquiring, dispatching, and deploying line contractor
9 resources.

10 **Q. How many non-mutual assistance line contractors were used by FPL in**
11 **response to Hurricane Irma?**

12 A. FPL brought in approximately 110 different non-mutual assistance line contractors
13 to assist with the Hurricane Irma restoration.

14 **Q. Please describe the process used by FPL to negotiate and retain non-mutual**
15 **assistance line contractors for storm restoration activities.**

16 A. FPL uses a competitive bidding process and negotiates labor rates with the majority
17 of these contractors well in advance of the time their services may be needed. This
18 allows FPL to ensure that the rates received for storm restoration work are
19 competitive, consistent with the market rate, and as low as possible. In general, all
20 potential overhead line contractors throughout the United States and Canada are
21 sent a bid package request for proposals and asked to provide blended hourly rates
22 for all classifications of employees that will be performing work. The hourly rates

¹ See December 20, 2018 Hearing Transcript, Vol. 1, pp. 144-145, available at:
<http://www.psc.state.fl.us/library/filings/2018/07598-2018/07598-2018.pdf>.

1 (working straight time, working overtime, mobilization/demobilization straight
2 time, and mobilization/demobilization overtime) submitted by the bidders are
3 compared to each other and compared against existing rates for storm contracts
4 FPL already has in place. Based on this comparison, as well as the potential need
5 for and availability of resources in the market, FPL can either accept, reject, or
6 counter-offer the proposed rate. If FPL determines that the rate proposed by the
7 contractor is too high, FPL can either counter with lower rates and enter into a
8 contract at the best available rate and use the contractor as a resource of last resort,
9 or simply reject the offer and solicit other resources that may be available.

10 **Q. If FPL chooses to enter into a contract with a non-mutual assistance line**
11 **contractor, does this guarantee that the contractor will be assigned work in the**
12 **event of a storm that requires restoration work?**

13 A. No. There is nothing in these storm restoration contracts that guarantees FPL will
14 give work to the contractor. Likewise, there is nothing in the contract that
15 guarantees the contractor will be available to FPL to respond to a storm event.
16 Rather, the contract sets out the anticipated parameters in the event that FPL needs
17 the contractor to respond to a storm event and the contractor is available. The
18 contract provides the opportunity for work, not a guarantee of work.

19 **Q. Please explain FPL's approach to negotiating contracts with non-mutual**
20 **assistance line contractors.**

21 A. FPL typically negotiates a three-year contract to lock in pricing for that term.
22 Market conditions at the time the contract is negotiated determine the rates. As the
23 contract term nears expiration, FPL evaluates whether to renew or negotiate a new

1 storm restoration contract with the vendor based on resource needs, past experience
2 with the contractor, and market conditions. If FPL decides to attempt to renew or
3 enter into a new storm restoration contract with a vendor, FPL will negotiate and
4 obtain the best and lowest rate it can based on experience and the market conditions
5 at that time.

6 **Q. What is your response to Mr. Schultz's criticism of the range of hourly**
7 **contractor rates?**

8 A. First, as I have already stated, our process of pre-negotiating contracts allows FPL
9 to lock in contractor rates based on market conditions at the time of negotiation.
10 We believe it is prudent to pre-negotiate and execute contracts with vendors
11 capable of performing restoration work so that we have a strong bench and many
12 resources to call upon if and when the need arises. And, while this means that
13 there will always be a range of contractor rates – some higher than others – it is
14 crucial that we have these contracts in place to provide help when needed.

15
16 As FPL witnesses Miranda and Gwaltney outline in their rebuttal testimony, as
17 Hurricane Irma approached the southeastern United States, there was a serious
18 shortage of resources available to assist FPL. Because it had contracts in place,
19 FPL was able to call upon these vendors with whom it had negotiated contracts.

20
21 I have two additional observations about Mr. Schultz's statement. First, while he
22 identifies the high end of the range as \$ [REDACTED] per hour, he neglects to mention
23 that this was the overtime mobilization/demobilization rate, not the working rate.

1 The hourly work rate for this contractor was \$ [REDACTED] And second, in Docket No.
2 20180061-EI, the Commission recently rejected Mr. Schultz's and OPC's
3 argument on this very point, finding that in light of the circumstances created by
4 Hurricane Irma a mobilization rate of \$509 charged to FPUC was reasonable.

5 **Q. Of the total non-mutual assistance contractors used by FPL in response to**
6 **Hurricane Irma, how many contracts were pre-negotiated in advance of**
7 **Hurricane Irma?**

8 A. Out of the approximately 110 line contractors that were brought onto FPL's system
9 in response to Hurricane Irma, 91 had been pre-negotiated. Only 19 contracts had
10 to be negotiated immediately before or during Hurricane Irma. In fact, a majority
11 of these 91 contracts were pre-negotiated prior to the time Hurricane Matthew
12 impacted FPL's service territory in 2016.

13 **Q. How were the rates determined for the few contracts that were negotiated**
14 **immediately before or during Hurricane Irma?**

15 A. Because FPL did not have an existing contract in place with these vendors, the
16 Company contacted a number of line contractors to solicit assistance and succeeded
17 in bringing in crews from the additional 19 companies. Although the contracts
18 with the 19 additional companies had not been pre-negotiated in advance of the
19 storm, the rates agreed to were based on the best rate FPL could obtain from the
20 resources available based on the market conditions at the time.

21

22

1 **Q. At page 41 of his testimony Mr. Schultz made note of 15 vendors with rates in**
2 **excess of \$ [REDACTED] an hour, a figure above which he calls “excessive.” Were any of**
3 **the contracts with these 15 vendors that Mr. Schultz claims charged excessive**
4 **rates negotiated immediately before or during Hurricane Irma?**

5 A. No. All of the 15 vendors identified in Exhibit No. HWS-2, on Schedule C, Page 4
6 of 6, that Mr. Schultz claims charged excessive rates had existing contracts that
7 were pre-negotiated in advance of Hurricane Irma based on the market conditions
8 at the time the contracts were negotiated. The rates set forth in each of these
9 contracts reflect the best and lowest rates that FPL was able to negotiate and obtain
10 using the process described above. Notwithstanding Mr. Schultz’s opinion to the
11 contrary, the rates that were negotiated represented the market at the time.

12 **Q. On page 41 of his direct testimony, Mr. Schultz states that “the range of**
13 **hourly rates for most vendors is around \$ [REDACTED]”. Do you agree with Mr.**
14 **Schultz’s estimated range of hourly rates for purposes of Hurricane Irma?**

15 A. No. Other than his statement that he purportedly observed a range of contractor
16 rates in Florida and other unspecified jurisdictions, Mr. Schultz offers no support
17 for his arbitrary range of \$ [REDACTED] an hour as the “range of hourly rates for most
18 vendors.” Also, as I observed earlier, Mr. Schultz has no personal experience with
19 negotiating such contracts or rates. Neither has Mr. Schultz explained or provided
20 in testimony any details or analysis supporting his statement.

21

1 **Q. Is it appropriate to compare rates paid by FPL for Hurricane Irma**
2 **restoration work to rates charged by vendors for unspecified types of work in**
3 **other unspecified jurisdictions?**

4 A. No. Even putting aside the fact he has provided no details or explanation
5 supporting his assertion, Mr. Schultz's reliance on rates negotiated in other
6 unspecified jurisdictions for other unspecified types of work is misplaced. Line
7 contractors are likely to negotiate for and charge different rates for responding to
8 different types of events in different parts of the country. Mr. Schultz's reliance on
9 storm restoration rates charged in other jurisdictions, without further explanation,
10 does not provide a meaningful comparison and, moreover, ignores the reality of the
11 contractor rates actually charged for storm restoration activities in Florida, which is
12 subject to frequent and devastating hurricanes and tropical storm events.

13
14 Mr. Schultz's range of contractor rates also disregards the fact that FPL pre-
15 negotiated the vast majority of the non-mutual assistance contracts, including all 15
16 line contractors that he claims charged excessive rates, and that FPL negotiated for
17 and obtained the lowest contractor rates based on the prevailing market conditions,
18 existing contracts, and the resources available. The fact that the range of actual
19 rates charged by FPL's line contractors for responding to Hurricane Irma is
20 different from what Mr. Schultz claims to be a reasonable range demonstrates that
21 Mr. Schultz has not taken into account the actual circumstances FPL faced in
22 responding to Hurricane Irma. If FPL only entered into contracts with line
23 contractors with blended hourly rates between \$ [REDACTED] an hour, FPL would not

1 have been able to acquire enough contractors needed for storm restoration work,
2 which, as FPL witness Miranda testifies, would have caused significant delays in
3 restoring power to customers.

4 **Q. Does Mr. Schultz’s attempt to compare a blended FPL rate to a single FPUC**
5 **contractor rate provide an accurate or realistic comparison to the actual labor**
6 **and equipment required for overhead line restoration on FPL’s system during**
7 **Hurricane Irma?**

8 A. No. Mr. Schultz arbitrarily selects a lower rate charged by a single contractor used
9 by another Florida utility to perform restoration work following Hurricane Irma as
10 his purported benchmark. And, although FPL also retained contractors that
11 charged a similar rate, a single example simply cannot be used to justify a
12 reasonable and prudent range of contractor rates based on the market conditions
13 and circumstances that existed at that time. Second, a range is just that – a range.

14
15 Additionally, Mr. Schultz is not comparing apples to apples. In the example that
16 begins on page 41, line 18 of his testimony, Mr. Schultz combines an hourly labor
17 rate (based on the average cost of a General Foreman, Apprentice, and Ground
18 Man) charged by a single vendor of FPUC with an hourly equipment charge that
19 includes only “a pickup, a digger, and a bucket truck” to produce a supposedly
20 comparable hourly straight time cost of \$131.39 and hourly overtime cost of
21 \$147.02.

22

1 FPL's hourly composite blended rate, on the other hand, is inclusive of all
2 requirements of the supplier to furnish labor, miscellaneous materials, and all other
3 costs of doing business, including but not limited to overhead, permits, travel, fuel
4 during mobilization/demobilization travel, tools, maintenance of traffic equipment,
5 taxes, insurance and equipment (including safety equipment) to perform the
6 necessary functions associated with storm restoration line work on FPL's system.
7 FPL's blended rate for labor costs includes billable positions for general foreman,
8 working foreman, lineman, equipment operator, ground man, splicer, and
9 apprentice. Unlike the limited equipment included in Mr. Schultz's example from
10 FPUC (pickup, digger and bucket truck), FPL's blended rate includes costs for
11 significantly more standard equipment required by the vendor contract scope of
12 work. Examples of the types of equipment that FPL's vendors are required to
13 provide, all of which is reflected in the blended rate, are identified below:

- 14 • Aerial device capable of reaching 55 feet;
- 15 • Digger derricks capable of lifting 18,000 pounds at 10 feet load radius and
16 ability to dig to a depth of 15 feet with a 36-inch auger;
- 17 • Pressure diggers capable of digging a 19-foot hole;
- 18 • Pole cargo trailers with 20,000 load capacity;
- 19 • Tower lights for night work;
- 20 • Inaccessible equipment such as backyard digger derricks and aerial devices;
- 21 • Every crew must have Material Handling capability with an aerial device;
- 22 • Motorized and manual pole dollies/gins and capstans;
- 23 • One in every five crews must have pole setting capability;

- 1 • Two backyard machines (one with bucket & one with pole setting
2 capability) and trailer to haul per five crews;
- 3 • No pick-up trucks except those driven by the General Foreman, Assistant
4 General Foreman, or Foreman;
- 5 • Each crew must have a generator, tools and equipment to drill concrete
6 poles, ample supply of grounds, rubber goods and cover gins and capstans;
- 7 • Every group of five crews are expected to have air compressors and pole
8 jetting equipment, rear of machines for pole setting and/or man-lifting;
- 9 • Crews will be equipped with an adequate supply of traffic control devices
10 (cones, signs, vests, flags, etc.) to set and maintain a work zone using the
11 Manual on Uniform Traffic Control Devices as a guide;
- 12 • Crews will need tools or equipment to interrupt primary voltage current
13 (e.g., load break device); and
- 14 • Crews will need to be equipped with live line tools (hot sticks) and
15 attachments to perform switching and grounding operations.

16 Mr. Schultz’s reliance on a single lower cost FPUC contractor rate, which does not
17 include all of the equipment included in FPL’s blended rate, as his standard to
18 identify what he believes to be an “excessive” rate is logically flawed, and is an
19 apples-to-oranges comparison for purposes of analyzing FPL’s blended rate for the
20 line contractors.

21

1 **Q. On page 41 of his direct testimony, Mr. Schultz states that the rates FPL paid**
2 **to vendors do not distinguish between job classifications. Why does FPL**
3 **utilize a blended rate structure?**

4 A. The blended rate allows FPL to establish minimum requirements for several pieces
5 of key equipment and crew qualification levels necessary to support restoration.
6 The blended rate approach is preferred as it would not be efficient or cost effective
7 to track rates by all classification levels and equipment types for thousands of
8 overhead lineman supporting restoration. The administrative and operational
9 burden to track and approve the use of every single type of equipment and labor
10 classification type in the field would be immense, costly, and could potentially
11 slow restoration.

12 **Q. On page 42 of his direct testimony, Mr. Schultz states that FPL had 15**
13 **vendors with excessive rates. Do you agree that the rates charged by the 15**
14 **vendors identified by Mr. Schultz are excessive?**

15 A. No. To arrive at his conclusion that 15 line contractors charged excessive rates,
16 Mr. Schultz compared the average hourly rates charged by these 15 vendors (which
17 I will refer to as the “Alleged High Rate Group”) with the average hourly rates
18 charged by 24 other vendors (which I will refer to as the “Alleged Average Rate
19 Group”) that billed in excess of \$5 million. See page 42 of Schultz testimony and
20 Ex. No. HWS-2, Schedule C, page 4 of 6. However, Mr. Schultz’s comparison is
21 arbitrary, skewed, and cannot be used to draw a conclusion regarding the
22 reasonableness of FPL’s hourly contractor rates.

23

1 **Q. Please explain why you think Mr. Schultz's analysis is arbitrary.**

2 A. First, Mr. Schultz, without any explanation as to why, selected only line contractors
3 that billed in excess of \$5 million for his comparison of contractor rates. Yet, on
4 page 43 of his direct testimony, Mr. Schultz concedes that some of the selected
5 contractors billed less than his \$5 million threshold and that he assumes those line
6 contractors had additional billings for other types of restoration work that would
7 bring their total billings to \$5 million or more. Mr. Schultz's selection of
8 contractors for his excessive rate comparison is arbitrary and based on unsupported
9 assumptions.

10

11 Second, a review of the hourly average rates of the vendors selected by Mr. Schultz
12 demonstrates that both his Alleged High Rate Group and Alleged Average Rate
13 Group are inconsistent and arbitrary. For example, the average hourly rates for 5 of
14 the 15 vendors included in Mr. Schultz's Alleged High Rate Group that he claims
15 to be excessive, in fact, are lower than the arbitrary \$ [REDACTED] hourly rate that Mr.
16 Schultz asserts is a high rate. Mr. Schultz has offered no explanation why these 5
17 vendors allegedly charge excessive rates when each vendor's average hourly rate is
18 within the range that Mr. Schultz claims to be reasonable. Likewise, the average
19 rates for 7 of the 24 vendors included in the Alleged Average Rate Group are in
20 fact higher than the lowest average hourly rate charged by the vendors included in
21 Mr. Schultz's Alleged High Rate Group. Mr. Schultz has offered no explanation
22 why these 7 vendors should be included on his Alleged Average Rate Group when
23 their average hourly rate is higher than rates charged by the vendors on his Alleged

1 High Rate Group. Mr. Schultz's selection of vendors for both his Alleged High
2 Rate Group and Alleged Average Rate Group is not only arbitrary, but also
3 inconsistent.

4
5 Third, Mr. Schultz's comparison fails to account for the difference between rates
6 charged by union and non-union contractors. Generally speaking, union labor rates
7 are inherently higher than non-union contractors. Of the 15 vendors included in
8 Mr. Schultz's Alleged High Rates Group, 14 or 93% of the vendors (comprising
9 99.7% of the total costs among this group) are union contractors. In contrast, only
10 11 of the 24, or 46%, of the vendors included in Mr. Schultz's Alleged Average
11 Rate Group Vendors are comprised of union contractors. Comparing a group of
12 vendor rates that are essentially all union contractor rates to a group of vendor rates
13 that is comprised of less than half union contractor rates would obviously show a
14 disparity in average hourly rates.

15
16 Fourth, and perhaps most importantly, Mr. Schultz's classification of rates above a
17 certain level as "excessive" completely ignores the actual market in which he has
18 no personal experience.

19
20 In summary, Mr. Schultz's analysis to arrive at his excessive rate recommendation
21 is arbitrary, unsupported, and flawed for the many reasons I have explained above.
22 The fact that some vendors charge higher rates than others in no way supports a
23 conclusion that any of the rates shown in Mr. Schultz's analysis are excessive.

1 **Q. Was it reasonable for FPL to utilize higher-cost union labor for restoration**
2 **work following Hurricane Irma?**

3 A. Absolutely. When retaining contractors for any purpose, FPL does not discriminate
4 or distinguish between union and non-union contractors. As explained in the direct
5 and rebuttal testimony of FPL witness Miranda, FPL's overall focus is onboarding
6 safe, closest in proximity to FPL's service territory, and lowest-cost suppliers first
7 to support storm restoration and then as quickly as possible releasing those
8 contractors in reverse order. And, while FPL tries to first bring in lower cost
9 resources located closest to the restoration sites, whether they are union or non-
10 union, following a storm like Hurricane Irma, the Company must reach out to
11 qualified line contractors throughout the country to provide the assistance needed to
12 restore electric service to our customers. It is also important to keep in mind the
13 shortage of available resources which limited FPL's options, as discussed more
14 fully in FPL witness Gwaltney's rebuttal testimony.

15 **Q. Do you agree with Mr. Schultz's criticism of the vendor mobilization and**
16 **demobilization rates?**

17 A. Absolutely not. FPL has provided copies of the vendor contracts to OPC in
18 response to discovery. The contracts clearly set forth that the
19 mobilization/demobilization rate (both straight time and overtime) is an hourly
20 composite rate inclusive of fuel, equipment, and other costs necessary to travel
21 from a crew's normal work location to an area designated by FPL. The all-
22 inclusive mobilization/demobilization rate includes costs, such as mileage and wear
23 and tear on vehicles that are not included in the working rate for restoration work.

1 Therefore, it is not surprising that the mobilization/demobilization rate may be
2 higher than the rate charged by contractors for storm restoration work.

3
4 **III. CONTRACT PROVISIONS AND ENFORCEMENT**

5 **Q. Do you agree with Mr. Schultz that FPL failed to enforce the provisions and**
6 **requirements of the vendor contracts?**

7 A. No. The non-mutual assistance contracts for storm restoration work establish the
8 anticipated parameters of the agreement in the event that FPL needs the contractor
9 to respond to a storm event and the contractor is available. FPL's practice is to
10 follow and enforce the terms and conditions of the contracts unless exceptions are
11 granted. As an example, vendor invoices can be revised or adjusted to be
12 consistent with the contracts where no exceptions were approved by Power
13 Delivery, such as where a vendor charges a rate that is different from the contract
14 rate.

15
16 Importantly, however, the terms and conditions of the vendor contracts simply
17 cannot anticipate or address all of the potential issues and circumstances that may
18 arise during the course of any construction project. This is true even on any blue
19 sky day, but can especially occur during emergency events such as storm
20 restoration following a major hurricane. And while it might be a best practice on a
21 blue sky day to document exceptions to a contract term, either in writing or through
22 a change order to the contract, it simply is not feasible or beneficial to do so in the
23 midst of a hurricane restoration when literally thousands of people are working to

1 safely restore power as quickly as possible. FPL supervisors, especially the
2 personnel overseeing the line contractors in the field, must have the flexibility to
3 approve exceptions to the contract terms as necessary to respond to the emergent
4 circumstances faced during storm restoration. This process was explained by
5 FPL's witnesses on pages 47-48, 182-184, 230, and 495 of the deposition that is
6 attached as Exhibit HWS-3 to Mr. Schultz's testimony. As further described by
7 FPL witness Manz, when questions arise because of an apparent variation between
8 the vendor invoice and a term in the contract, FPL's Accounts payable team will
9 confirm with Power Delivery that it approved an exception before processing an
10 invoice for payment. This flexibility is necessary to help FPL achieve the primary
11 goal of storm restoration, as stated in the direct testimony of FPL witness Miranda,
12 to safely restore power to critical infrastructure and the greatest number of
13 customers in the least amount of time.

14 **Q. Do you believe it is reasonable to allow FPL field personnel to provide**
15 **exceptions to the terms in the contract while working with line contractors to**
16 **restore power following a hurricane?**

17 A. Yes. Rule 25-6.044 (3), F.A.C. tells us that "Each utility shall make all reasonable
18 efforts to prevent interruptions of service and when such interruptions occur shall
19 attempt to restore service within the shortest time practicable consistent with
20 safety." Providing this type of flexibility is an important tool that we use to help
21 get the lights back on in the shortest practicable time. FPL witness Gwaltney
22 provides examples of reasonable exceptions that are approved in the field given the
23 fluidity of circumstances that occur during a major storm event.

1 **Q. On pages 13-14 and 66-69 of his direct testimony, Mr. Schultz states that the**
2 **mobilization travel log is required by the vendor contract but FPL does not**
3 **require the log to be used for payment processing. Do you agree with his**
4 **interpretation?**

5 A. No. Although the vendor contract requires the vendor to provide an invoice for its
6 mobilization/demobilization time, the vendor contract does not require a specific
7 mobilization travel log to be used for payment processing as suggested by Mr.
8 Schultz. The mobilization travel log is included in a packet of invoice templates
9 that is provided to the vendors to assist the vendors in preparing their invoices for
10 payment. However, these are suggested templates and are not required by the
11 contract to process and approve a vendor invoice for payment. Rather, as stated in
12 the vendor contract and as FPL explained on pages 65-66 and 434 of the deposition
13 of FPL witnesses that is attached as Exhibit HWS-3 to Mr. Schultz's testimony,
14 these invoice templates may reduce the time needed to process payments (*i.e.*,
15 failure to use and complete the invoice templates may result in delays in processing
16 payments) but are not required for payment. FPL's processing of payments is
17 further addressed in the rebuttal testimony of FPL witness Manz.

18 **Q. On page 65 of his direct testimony, Mr. Schultz is critical of FPL for paying**
19 **contractors to stop for meals and fuel during mobilization and demobilization**
20 **when the contract states that meal time is not billable. Please comment on this**
21 **assertion.**

22 A. Mr. Schultz's criticism is unwarranted, misplaced and inconsistent with the plain
23 meaning of the agreements between FPL and contractors traveling to our service

1 territory to assist with restoration. The vendor contract provides that mobilization
2 charges begin when the crew starts its actual drive to the storm area and ends upon
3 arrival at the designated site, and demobilization charges begin when the crew
4 leaves the designated storm area and ends upon arrival at the original departure
5 point. Although the vendor contract further identifies the per diem rate to be paid
6 per person for meals during mobilization and demobilization, it does not state that
7 stopping for fuel and meals during mobilization/demobilization is not billable.

8
9 The portion of the contract referenced by Mr. Schultz states that “[m]eal time is not
10 billable unless the meal is provided by FPL.” However, this contract provision
11 applies to meal time during restoration work, not during
12 mobilization/demobilization time. The purpose of this contract provision is to
13 improve contractor efficiency by reducing time spent traveling to and from
14 restaurants (and for finding restaurants that have power and are open), increases
15 time spent completing restoration work, and assures that crews are being fed.

16 **Q. Mr. Schultz expressed concern for duplicate billing from embedded vendors**
17 **that do work for FPL year round. Please comment on this concern.**

18 A. Mr. Schultz’s expressed concern reflects a complete misunderstanding of the
19 relationships that exist between FPL and its embedded contractors, and the real
20 world management of these contracts. Embedded contractors perform substantial
21 work for FPL on designated projects, in many cases year after year. If anything,
22 the expectation and hope of continuing that business relationship provides an even
23 greater incentive for embedded contractors to provide quality work and accurate

1 additional contracts and agreements are established as needed during a named
2 storm event.

3

4 Acquisition of lodging (hotels) is determined at the time of the event based on the
5 resources working or traveling to a particular area each day and the availability of
6 hotel rooms in that area. With respect to availability, it is important to note that
7 FPL is potentially competing with evacuees while attempting to secure lodging as
8 close as possible to staging sites. Contracts are negotiated based on demand and
9 location by a pre-established third-party lodging provider. Alternative lodging
10 (e.g., mobile sleepers and cots) is determined based on pre-established contracts
11 that are competitively bid.

12 **Q. Please describe the types of services provided by the six vendors whose costs**
13 **are questioned by Mr. Schultz.**

14 A. Mr. Schultz's proposed disallowance targets six vendors that provided a variety of
15 services critical to FPL's Hurricane Irma restoration efforts, including but not
16 limited to the following: acquisition of lodging, including prepayment for same and
17 related administrative tasks; catering; sanitation services at staging sites; trash
18 removal services; laundry services; provision of ice and water; parking services;
19 delivery of poles from staging sites to the field; and the provision of generators,
20 light towers, tents, flooring, tables, chairs and all manner of equipment necessary to
21 operate self-sustaining staging sites.

22

1 **Q. Does Mr. Schultz offer any support to suggest that these services were**
2 **unnecessary, imprudently incurred, or unrelated to restoration activities?**

3 A. No. He does not question the necessity, need or benefit of the services or the
4 reasonableness of the costs, but instead seems primarily concerned with what he
5 terms the “supporting documentation.”

6 **Q. Is Mr. Schultz correct that FPL failed to provide support for \$26 million**
7 **charged by these six logistics contractors?**

8 A. No. First, it is important to understand that following FPL’s receipt of OPC’s
9 Request for Production of Documents No. 9, OPC and FPL agreed that FPL was
10 only to provide supporting detail for invoices over \$75,000. This agreement was
11 confirmed in FPL’s actual response to OPC Request for Production of Documents
12 No. 9. Additionally, and as stated in FPL’s response to OPC Interrogatory No. 162,
13 all invoices and other supporting documentation for the logistics costs that were
14 above the \$75,000 threshold were in fact provided in response to OPC Request for
15 Production of Documents No. 9. Copies of FPL’s responses to OPC Request for
16 Production of Documents No. 9 and OPC Interrogatory No. 162 are attached to my
17 testimony (without the confidential attachments) as Exhibits RR-4 and RR-5,
18 respectively.

19

20 In summary, support for the costs questioned by Mr. Schultz that are associated
21 with the six logistics contractors have all been provided to OPC during the course
22 of this proceeding.

1 **Q. On page 90 of his direct testimony, Mr. Schultz states that the list of logistics**
2 **invoices provided in response to OPC's Request for Production of Documents**
3 **does not match the amounts shown on the invoices. Do you have a response?**

4 A. Yes. While FPL's formal response to the discovery request provided invoices
5 above the \$75,000 threshold pursuant to the agreement with OPC, FPL also created
6 and produced with its response to OPC Request for Production of Documents No. 9
7 an excel spreadsheet that listed all of the logistics costs charged for Hurricane Irma
8 in an effort to aid and assist OPC. Because OPC's Request for Production of
9 Documents No. 9 only asked for invoices and supporting detail, FPL did not
10 include documents related to accruals, which would account for some of the
11 difference between the amounts shown on the excel spreadsheet list and the
12 invoices provided. See Exhibit RR-3. Additionally, some of the differences in
13 amounts for some invoices and the amounts reflected on the excel sheet were
14 associated with sales tax. FPL has a Direct Pay Permit from the Florida
15 Department of Revenue and, as such, the Company does not normally pay the sales
16 tax to the vendors. Instead, FPL self-accrues and pays any applicable taxes directly
17 to the State. See Exhibit RR-4.

18 **Q. Did the six logistics vendors whose costs are the subject of Mr. Schultz's**
19 **proposed disallowance of \$26.039 million provide reasonable and necessary**
20 **services during the course of the Hurricane Irma restoration, and were the**
21 **costs associated with the provision of those services reasonable?**

22 A. Absolutely. The types of services provided by these vendors at reasonable market
23 rates were crucial to FPL's ability to provide lodging, run staging sites, and operate

1 the type of efficient, effective and coordinated restoration effort that contributed to
2 the safe and timely restoration of power to FPL's customers.

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

4 **A. Yes.**

5

DIRECT TESTIMONY**OF****Helmuth W. Schultz, III**

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket No. 20180049-EI

1 **I. STATEMENT OF QUALIFICATIONS**2 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.**

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

7

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

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

14

15 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC**
16 **SERVICE COMMISSION AS AN EXPERT WITNESS?**

1 A. Yes. I have provided testimony before the Florida Public Service Commission
2 (“Commission” or “FPSC”) as an expert witness in the area of regulatory accounting
3 in more than 15 cases.

4

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

7 A. Yes. I have attached Exhibit No. __ (HWS-1), which is a summary of my background,
8 experience and qualifications.

9

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

12 A. Larkin was retained by the Florida Office of Public Counsel (“OPC”) to review the
13 request for approval of the restoration costs associated with Hurricane Irma incurred
14 by Florida Power & Light Company (the “Company” or “FPL”). Accordingly, I am
15 appearing on behalf of the citizens of Florida (“Citizens”) who are customers of FPL.

16

17 **II. BACKGROUND**

18 **Q. PLEASE SUMMARIZE YOUR UNDERSTANDING OF THE REASON**
19 **DOCKET NO. 20180049-EI WAS OPENED.**

20 A. FPL’s petition in this docket states the Company seeks a determination that the costs
21 incurred as a result of responding to Hurricane Irma were reasonable and that FPL’s
22 actions in furtherance of restoring power following Hurricane Irma were prudent. The
23 petition specifically states that FPL is not seeking through this proceeding recovery of
24 the Hurricane Irma costs or replenishment of the storm reserve.

1 **Q. HOW CAN FPL AVOID SEEKING RECOVERY FOR A STORM OF THE**
2 **MAGNITUDE OF HURRICANE IRMA?**

3 A. It is not clear that they can or are avoiding recovery for expended Hurricane Irma storm
4 costs. FPL's petition states that FPL recorded the Hurricane Irma costs as base
5 operation and maintenance ("O&M") expenses and that FPL plans to offset this
6 expense with the expected savings from the Tax Cuts and Jobs Act of 2017 ("TCJA").
7 It appears that FPL is functionally seeking approval of the costs of Irma restoration
8 through a series of roundabout accounting transactions that ultimately mean the
9 customers will pay for costs that the Commission approves to be expensed in this
10 docket.

11

12 **Q. WOULD YOU EXPLAIN HOW FPL PROPOSES TO OFFSET THIS EXPENSE**
13 **WITH THE SAVINGS FROM THE TCJA?**

14 A. Yes. FPL's petition in Docket No: 20180046-EI (Consideration of the tax impacts
15 associated with Tax Cuts and Jobs Act for Florida Power & Light Company) explained
16 that the settlement that was approved in Order No. PSC-16-0560-AS-EI provided a
17 mechanism for FPL to keep its earnings within a range of reasonableness approved by
18 the Commission. The mechanism to which FPL referred relates to the amortization
19 reserve (or "Reserve") that was specifically created by the parties to the settlement
20 using calculated, estimated excess amounts from FPL's depreciation reserve. This
21 reserve was initially provided by ratepayers and has accumulated over time. The
22 amortization reserve, in essence, functions as an insurance policy for FPL, in that it
23 effectively guarantees the Company will achieve a return on equity ("ROE") within the
24 range deemed reasonable by the PSC. To the extent the Company's return on equity

1 would have been reduced below the top point of the range, 11.6%, due to the costs from
2 Hurricane Irma being charged to O&M expense, FPL applied the entire available
3 balance of \$1,148,000,000 in the amortization reserve as a credit to its cost of service.
4 Ordinarily, this would not be a significant concern at this juncture; however, as part of
5 FPL's request in Docket No. 20180046-EI, the Company is proposing to re-establish
6 the amortization reserve by periodically crediting some of the tax savings from the
7 TCJA. Basically, FPL wants to have the depleted insurance policy, initially funded by
8 ratepayers, to be re-established with the tax savings that should, as a matter of fair
9 ratemaking and good public policy, be returned to ratepayers. Even if FPL's theory
10 were to be accepted, which I believe would be unfair, unjust, unreasonable, and bad
11 public policy, allowing excessive costs to be "replenished" into the Reserve would
12 deprive ratepayers of the benefits of the amortization reserve that their payments over
13 the years created; this is unjust, unfair, and unreasonable.

14
15 **Q. WOULD YOU EXPLAIN FURTHER WHY YOU STATE THAT ORDINARILY**
16 **THIS WOULD NOT BE A SIGNIFICANT CONCERN AT THIS JUNCTURE?**

17 A. It appears FPL's idea is that, instead of current ratepayers having to pay the added
18 surcharge for the costs for restoration of Hurricane Irma, those costs could be covered
19 by wiping out the amortization reserve so that future customers will pick up the tab by
20 the return of and on a higher rate base. As a result of FPL's proposed methodology,
21 they are now applying a different standard for accounting for storm costs and proposing
22 to use tax savings that should be refunded to ratepayers to re-establish the amortization
23 reserve. Beyond the fundamental unfairness of FPL effectively keeping money that
24 should fairly be flowed back to ratepayers, an additional problem is that FPL stated in

1 its petition in Docket No. 20180046-EI that it elected to reclassify the storm costs from
2 the storm reserve to base O&M. Then, in its petition filed in this case, FPL stated that
3 because it is not seeking to establish a surcharge to recover Hurricane Irma costs and
4 because it is not seeking replenishment of the storm reserve, the Incremental Cost and
5 Capitalization Approach (“ICCA”) methodology under Rule 25-6.0143, Florida
6 Administrative Code (“F.A.C.”), (“the Rule”) is not applicable to this proceeding.
7 What this translates to under FPL’s proposal is that FPL is essentially asking to recover
8 hurricane-related costs – using ratepayer monies that established the amortization
9 reserve (which it proposes to re-establish with windfall tax savings that belong to the
10 customers) – which it charged to base O&M, even though some of those costs are not
11 eligible for recovery under the Rule. FPL’s decision to reclassify costs that it had
12 originally charged to the storm reserve as O&M should not be a basis for making
13 ratepayers pay for storm costs that otherwise would not have been recoverable from
14 ratepayers under the Commission’s rule (or under ordinary standards of ratemaking
15 based on reasonable and prudent costs). Ironically, FPL has taken the position in this
16 filing that the capitalization of costs incurred for restoration after Hurricane Irma is
17 based on the Rule. That position is clearly inconsistent with its position that the Rule
18 does not apply for restoration costs charged to base O&M. Since one way or, other FPL
19 customers are paying for the Hurricane Irma costs permitted by Commission decision,
20 FPL should not be allowed to avoid the application of the Rule that applies to all
21 companies by the use of a circuitous route of accounting debits and credits.

1 **Q. UNDER FPL'S PROPOSAL, HOW WOULD RATEPAYERS BE FORCED TO**
2 **PAY FOR COSTS THAT THEY WOULD NOT BE REQUIRED TO PAY**
3 **UNDER THE RULE?**

4 A. Certain costs that are not allowed for recovery under the Rule, such as regular payroll
5 that is not incremental, are not allowed to be included in a storm surcharge. Under
6 FPL's tortured reading of the Rule, these costs would then be included in base O&M,
7 and if FPL's ROE is not within what is deemed to be the reasonable range, some or all
8 of those costs (which otherwise would not be recoverable under the Rule) may be
9 covered by the amortization reserve. If the calculated ROE is within the range of
10 reasonableness, none of the costs would be paid for using the ratepayer's funded
11 Reserve. If the ROE is below FPL's desired earnings point within the authorized range,
12 then some or all of the excluded costs would be paid for by ratepayers because the
13 amortization reserve created with ratepayer funds would be used to cover the shortfall
14 and then further offset with customer tax savings or future customers paying the costs
15 of a higher rate base. Under the latter scenario, FPL's implicit suggestion is that it does
16 not matter how the costs are accounted for; however, the accounting treatment does, in
17 fact, matter. The reason it matters is because FPL is proposing to re-establish the
18 amortization reserve with the tax savings that, according to the TCJA and fundamental
19 principles of fair ratemaking, should be flowed back to ratepayers. Thus, in essence,
20 ratepayers are paying for costs that under normal circumstances they would not pay.
21 This payment is either through the use of the amortization reserve or the flowback of
22 the TCJA funds.

1 **Q. COULD YOU PROVIDE A SIMPLE EXAMPLE OF WHAT YOU MEAN?**

2 A. Yes. Assume, for example that storm costs included \$100,000, of which \$10,000 was
3 non-incremental payroll. Under the Rule, only incremental payroll is allowed to be
4 recovered in a surcharge; therefore, in this example, only \$90,000 would be recoverable
5 in a surcharge. In FPL's situation, the \$10,000 would be charged back to O&M and
6 depending on what the Company's ROE is, FPL may or may not need to utilize the
7 amortization reserve. As a result, this special purpose Reserve paid for by FPL's
8 ratepayers may be reduced anywhere from zero to \$10,000. Under FPL's proposal in
9 this docket, because of the magnitude of the storm costs and the depletion of the
10 amortization reserve, FPL wants to keep the tax savings generated by the TCJA to re-
11 establish the Reserve instead of returning that money to ratepayers. In the example
12 above, FPL's ratepayers could not be charged for the \$10,000 in a storm surcharge
13 because the incremental payroll would not be allowed; however, under FPL's proposal
14 the incremental payroll amount of \$10,000 would be reimbursed to the Company
15 through the amortization reserve. In football, this maneuver would be referred to as an
16 "end-around" – or a way for FPL to keep the money which is rightfully due ratepayers,
17 in order to maintain the "insurance policy" even though that particular method is not
18 standard practice in general business accounting or even in conventional utility
19 accounting.

20

21 **Q. SHOULD THE STORM COSTS BE EVALUATED BASED ON THE RULE?**

22 A. Yes, they should. With FPL's proposed accounting, the ratepayers' funds from the
23 TCJA are being reduced to restore the amortization reserve credit. This would result

1 in funds that are intended for ratepayers being shifted to FPL's insurance policy as a
2 benefit to FPL, at ratepayers' expense.

3

4 **Q. PLEASE SUMMARIZE WHAT THE COMPANY HAS INCLUDED IN ITS**
5 **REQUEST TO THE FLORIDA PUBLIC SERVICE COMMISSION.**

6 A. The August 31, 2018 filing by FPL states that FPL is not seeking recovery of the
7 Hurricane Irma Costs or replenishment of its storm reserve. Instead, FPL says it is
8 requesting the Commission find that the Hurricane Irma costs incurred were reasonable
9 and that FPL's hurricane restoration methods were prudent. FPL has offered testimony
10 and exhibits for evaluation of \$1,270.014 million of Hurricane Irma restoration costs,
11 as shown on the Company's Exhibit KF-1. This consists of \$1,378.405 million in costs,
12 less \$105.128 million of capital costs, less \$2.440 million of third party
13 reimbursements, and less \$822,000 of below the line costs. To *assist* the Commission
14 in evaluating FPL's Hurricane Irma costs, the Company has gratuitously provided FPL
15 Exhibit KF-2 that reflects total restoration costs of \$1,378,405 million. Subtracted from
16 the total costs are the same three categories of costs shown above **plus another** \$17,335
17 million of non-incremental costs. According to FPL, following the ICCA methodology
18 under the Rule, the net restoration costs listed in FPL's Exhibit KF-2 were \$1,252,680
19 million (\$1,248,174 million jurisdictional).

20

21 **Q. HAS FPL UPDATED ITS REPORTED RESTORATION COSTS FOR**
22 **HURRICANE IRMA SINCE IT FILED EXHIBIT KF-1 AND EXHIBIT KF-2?**

23 A. No. There are no corrections or changes that I am aware of.

1 **Q. WHAT TYPES OF ACTIVITIES ARE CONSIDERED DISTRIBUTION**
2 **FUNCTIONS?**

3 A. The Company's request is summarized by functions. The functions include Steam &
4 Other, Nuclear, Transmission, Distribution, General and Customer Service. The
5 distribution function is for costs that are associated with restoration to the distribution
6 system which includes poles, transformers and conductors that provide service to
7 residential, industrial and commercial customers. The distribution function represents
8 the majority of the costs incurred for storm restoration; and it includes payroll,
9 contractor costs, line clearing costs, vehicle and fuel costs, materials and supplies,
10 logistics costs and various other costs. I address each cost category throughout my
11 testimony.

12

13 **Q. WHY ARE YOU DISTINGUISHING BETWEEN DISTRIBUTION AND**
14 **TOTAL COSTS?**

15 A. Throughout my testimony, I will reference the distribution amount as well as the total
16 amount included in the restoration request because the distribution function is the
17 source of the majority of costs being requested by FPL. For Hurricane Irma, the total
18 jurisdictional amount is \$1,248,174 million, of which the distribution function is
19 \$1,184,867 million, or 94.9% of the total request. The distribution function is where
20 the majority of the damage to poles and wires is reflected; therefore, I believe it is
21 helpful to separately identify the costs associated with that function.

22

23 **Q. PLEASE BRIEFLY DESCRIBE THE ISSUES YOU WILL BE ADDRESSING**
24 **IN THIS PROCEEDING.**

1 A. I am addressing the appropriateness of FPL's proposed recovery of costs related to
2 payroll, contractors, line clearing, vehicles and fuel, materials and supplies, logistics
3 and other items as reflected in its petition. As part of my analysis, I relied on my
4 experience in analyzing storm costs in other jurisdictions, past review of storm costs in
5 Florida, and the Rule, which governs what costs should be included and excluded from
6 a utility's request for recovery of storm related costs.

7

8 **Q. IS THERE ANYTHING SPECIAL AND/OR DIFFERENT ABOUT THIS CASE**
9 **COMPARED TO OTHER PROCEEDINGS IN WHICH YOU HAVE**
10 **PARTICIPATED?**

11 A. Yes, there is. This case is unique in that the level of dollars involved is significantly
12 higher than average, the accounting treatment proposed by FPL is not typical when
13 compared to other storm cases, and the amount of documentation requiring review is
14 extraordinarily voluminous - estimated to be at least 82,000 pages. The pages of detail
15 produced for just the contractor costs exceeded 56,000 pages alone. In addition to those
16 56,000 pages, there are thousands of pages related to line clearing, logistics and other
17 costs included in the reported costs for restoration. My efforts to review this massive
18 volume of information have required a significant amount of time, not merely because
19 of the huge volume of pages, but because of the unorthodox accounting treatment
20 proposed by FPL. In fact, more time is needed than the Commission has allotted to
21 appropriately analyze the information that has been received to date, as well as the
22 additional discovery that is anticipated in response to requests that are still outstanding
23 from FPL on the date of filing my testimony. One concern I have is the level and
24 amount of information that FPL has classified as "confidential." In an attempt to be

1 informative in this document without labeling a significant portion of testimony as
2 confidential, I have created a legend that utilizes letters instead of company names, so
3 that I can explain the concerns and issues that have been identified thus far as part of
4 my evaluation.

5
6 **Q. WOULD YOU CONSIDER THE POSTURE OF THIS CASE TO PROVIDE AN**
7 **OPPORTUNITY FOR A NORMAL ANALYSIS OF STORM COSTS?**

8 A. No. To begin with, the dollars involved are significantly higher than average storm
9 cases which is further complicated by the facts that FPL has (1) taken the position that
10 the Commission's storm cost recovery rule does not apply, (2) elected to charge the
11 costs to base O&M and to utilize the amortization reserve to offset the storm costs, and
12 (3) proposed to utilize the tax savings from the TCJA to re-establish the exhausted
13 amortization reserve. Further, in performing the analysis, I have identified significant
14 invoice approval integrity issues that magnify the concern from an accounting and
15 regulatory policy standpoint as to whether the costs incurred were in fact reasonable,
16 and whether they were properly verified by FPL. Because of these serious issues, I
17 determined that additional time to perform the analysis would be necessary to
18 determine whether the issues were isolated or whether they were pervasive throughout
19 both the storm invoice submittal process and FPL's invoice verification, approval and
20 payment process.

21
22 **Q. WHAT ISSUES ARE YOU REFERRING TO?**

23 A. The issues I identified include contractors submitting duplicate invoices (double
24 billing) and FPL paying both invoices, duplicate billings of crew members within

1 multiple invoices, and cases where the bill includes certain crew members, yet the daily
2 time sheets do not reflect those crew members working on the days billed.
3 Incongruities of these types all raise an issue as to whether FPL was properly
4 overseeing the restoration process and payment of bills, which ultimately it will seek
5 its ratepayers to pay. On November 15, 2018 and December 13, 2018 the OPC deposed
6 three FPL employees designated by the Company as persons who collectively had
7 responsibility and knowledge about the management and oversight of line crew vendor
8 contracts and contract compliance, and overall responsibility and knowledge about
9 FPL's review and processing of the invoices for payment. The deposition testimony
10 by FPL's corporate representatives did not provide me confidence in the integrity of
11 FPL's invoice review process. I have made these depositions and the deposition
12 exhibits a consolidated Exhibit HWS-3 to this testimony.

13

14 Q. **DO YOU HAVE ANY EXAMPLES OF WHAT RAISED YOUR CONCERN?**

15 A. Yes. When asked if the witnesses were aware of any invoices being rejected because
16 they were not appropriate, one of the deponents stated that she was not aware of any
17 specific invoices, with the caveat that she did not review every invoice.¹ Even though
18 I did not have time to review every invoice, I found duplicate payments and payments
19 that were not supported, yet this witness and the FPL review team apparently did not
20 discover these errors. Another source of doubt in the integrity of FPL's review
21 processes involved a large number of contractors' invoices that appeared to have been
22 approved by a single individual within a short period of time. I can attest to the fact that

¹ Exhibit HWS-3, p. 53, lines 1-17.

1 that would be a monumental task based on what I reviewed, and the level of review
 2 that apparently changed from invoice to invoice. Furthermore, there was the question
 3 as to whether the deponents were familiar with the form identified as the “Daily
 4 Contractor Mobilization Log Storm Travel.” All three deponents indicated they were
 5 not familiar with this document. In fact, one deponent testified that he had not even
 6 seen the form.² That is somewhat concerning since this document existed as support
 7 for a very large number of the invoices provided, and the fact individuals that
 8 supposedly had the responsibility for approving costs lacked familiarity with the forms
 9 FPL apparently provided to its vendors to support their invoices further casts doubt on
 10 the credibility and integrity of FPL’s review processes. In my opinion, this document
 11 should have been included with every invoice, as it appears to have been required by
 12 FPL contract provisions and this would be especially true when there were charges for
 13 mobilization/demobilization. FPL’s contract Exhibit A1³ specifically states that
 14 [REDACTED]
 15 [REDACTED]
 16 [REDACTED]⁴

17
 18 **Q. WHY DO YOU STATE THAT THE DAILY CONTRACTOR MOBILIZATION**
 19 **LOG DOCUMENT SHOULD HAVE BEEN INCLUDED WITH EVERY**

² Exhibit HWS-3, p. 61, line 16 through p. 63, line10.

³ Response to Citizens’ production of Documents No. 19.

⁴ Response to Citizens’ production of Documents No. 19, Bates No. 073674, titled “Florida Power & Light Company Statement of Work Distribution Storm and Emergency Restoration Exhibit A1” at p. 14.

1 **INVOICE AND APPEARED TO BE REQUIRED PURSUANT TO FPL'S**
 2 **CONTRACT PROVISIONS?**

3 A. In the contractual documents provided by FPL, the provisions referenced in each
 4 contract specify that [REDACTED]

5 [REDACTED]⁵ Moreover, as was pointed
 6 out in the deposition, the document itself states [REDACTED]

7 [REDACTED]
 8 [REDACTED] When asked what these statements mean,
 9 FPL's corporate representatives responded [REDACTED]

10 [REDACTED] and [REDACTED] The questions were not who
 11 reviewed the individual document, but what do the words "should" and "must" mean
 12 in the context of this document. The only explanation offered by the FPL
 13 representatives from that interchange was [REDACTED]

14 [REDACTED]⁶ In the accounting profession,
 15 the word "should" means you will do it. The discussion regarding this document
 16 continued, and when FPL's corporate representatives were asked if the Daily
 17 Contractor Mobilization Log was required for the invoice to be paid, one of the
 18 representatives stated [REDACTED]⁷ In my opinion,

19 FPL's contract attachment entitled Exhibit A1, which is referenced in and made a part
 20 of all the vendors' contracts, states the contrary – i.e., [REDACTED]

21 [REDACTED]

⁵ *Id.*

⁶ Exhibit HWS-3, p. 63, line 11 through page 64 line 11.

⁷ Exhibit HWS-3, p. 65, lines 17-21.

1 **Q. WERE THERE MORE DISCUSSIONS OF SIMILAR PROBLEMS DURING**
2 **THE DEPOSITIONS?**

3 A. Yes. Examples of duplicate or erroneous or questionable billings, and examples of
4 numerous and systematic abandonment of the principles, provisions, requirements and
5 safeguards found in the contract documents are shown on the following pages of
6 Exhibit HWS-3:

- 7 • Reviewers unfamiliar with required mobilization documentation; vagueness about
8 required documentation despite clear contract language: 61-67
- 9 • Invoice reviewers not privy to mobilization documentation: 69
- 10 • Electronic maps appear to be inadequately used for the “commensurability”
11 purposes required by contract language: 76; 304-306; 376: 414-415
- 12 • Excessive standby time: 87-92; 411-417; 478-484; 485-492
- 13 • Instances of excessive time recorded – greater than or equal to 24 hours: 102-110;
14 Dep. Ex. 7; 210-212; Dep. Ex. 18 (42 hours out of 48); 232-234 (40 hours); 417-
15 422; Dep. Ex. 27 (40 hours)
- 16 • Excessive mobilization time: 103-110; Dep. Ex. 7;110-119; Dep. Ex. 8; 123-127;
17 Dep. Ex. 9; 136-140; 194-199; 204-207; Dep. Ex. 16; 212 -216; Dep. Ex. 19 (sit
18 down meals); 221-231; Dep. Ex. 20; 368-373; 375-376; 377-381; 411-417; 438-
19 444 ; Dep. Ex.. 28: 444-445 (18 hours of mobilization between Broward and North
20 Dade County well after storm had left the very northern part of the state): 478-484:
21 485-492
- 22 • No documentation or substantiation; time sheets not signed: 42-48; 141-142; 182-
23 184

- 1 • Fuel improperly reimbursed: 174-180; Dep. Ex. 12; 207-210; Dep. Ex. 17; 221-
2 231; Dep. Ex. 20
- 3 • Meals improperly billed while working: 189-192
- 4 • Inadequate demobilization documentation: 216-221
- 5 • Double billing: 237-244; 501-502; 505-506; Dep. Exs. 22-23
- 6 • In-territory mobilization rate allowed even with FPL-provided fuel 286-292; 295-
7 293
- 8 • Strict conditions in contract illusory as all subject to undocumented exceptions in
9 the discretion of Power Delivery: 297-300 (no mustering paid); 300-302 (roster
10 information required); 304-306, 309-311 (strict mobilization/demobilization
11 documentation required); 330-331 (strict overtime limits); 331-332 (double time
12 reimbursement prohibited); 333 (sleeping time not paid); 334-335 (non-FPL meals
13 not reimbursed in territory); 337-340 (meal time not reimbursed)
- 14 • Acknowledged that signatures on time sheets not really required (contrast 42, lines
15 5-11; Statement of Work): 389-390
- 16 • Late-arriving crew shuffled around for days in-territory without performing work:
17 390-392
- 18 • Crew reported time for 16 hour days but billed for 18 hours: 393-396; Dep. Ex. 24
- 19 • Crew on standby for 4 days before storm: 400-405; Dep. Ex. 25
- 20 • Time billed for names not appearing on time sheets: 406-409; Dep. Ex. 26
- 21 • Improper separate billing for labor types included in “all-inclusive” rate: 465-472;
22 Dep. Ex. 29; 472-475
- 23 • Double time billed despite strict contractual prohibition; 475-477

1 **Q. HAVE YOU HAD A REASONABLE OPPORTUNITY TO REVIEW FPL'S**
2 **RESEARCH INTO QUESTIONS RAISED IN THE NOVEMBER 15, 2018**
3 **SEGMENT OF EXHIBIT HWS-3?**

4 A. I have only had an opportunity to perform a cursory review as it was received by me
5 late last week. The explanations we sought for the December 13, 2018 segment will
6 not be due for several weeks.

7

8 **Q. IS IT POSSIBLE THAT SOME OF THE EXPLANATIONS PROVIDED**
9 **WOULD CAUSE YOU TO CHANGE YOUR OPINION REGARDING THE**
10 **NEED TO REVIEW MOST OF NOT ALL INVOICES?**

11 A. It is highly unlikely given the admitted excessive or double billing and the numerous
12 examples of exceptions made to the strict provisions that supposedly protect customers
13 from excessive costs. I will, however, consider any evidence that FPL submits in
14 response to the deposition and follow-up discovery.

15

16 **Q. BASED ON YOUR REVIEW OF A SUBSET OF THE INVOICES IN THE TIME**
17 **ALLOTTED, DO YOU BELIEVE THAT A "RISK-BASED SAMPLING OF**
18 **RELEVANT INVOICES AND VENDOR DOCUMENTS" AS SUGGESTED BY**
19 **FPL IS WARRANTED?**

20 A. No, I do not. With \$825 million in vendor costs at issue, a risk-based sampling method,
21 at this time, will be grossly inadequate to produce a meaningful determination of the
22 actual, reasonable and prudent storm costs to be passed on to the ratepayers. Risk-
23 based sampling uses identified risks and a review of less than 100 percent of the invoice
24 population to obtain reasonable assurance and ultimately form a "reasonable opinion."

1 The determination of costs to be passed on to customers is not a financial audit exercise
2 where the auditor is formulating an opinion based on a reasonable assurance obtained
3 from sampling results. I have been hired by the customers of FPL to determine the
4 reasonableness of the **total** legitimate and correct storm costs which can only be done
5 by reviewing most if not all storm invoices for FPL. The customers are not seeking
6 reasonable assurance about the true and correct storm costs. Instead, as is the standard
7 in public utility regulation, in cases where rates are determined an accurate and certain
8 determination of costs for customer recovery such as these costs based on substantially
9 all of the storm invoice population is fundamentally necessary. Using either random
10 sampling, or a subset that FPL claims are relevant, I cannot be reasonably certain of
11 the actual, legitimate, reasonable, and prudent storm costs incurred, paid and to be
12 passed on to the customers. Any sampling to be relied on must be based only on the
13 sampler's judgement in determining what should be tested. This determination must
14 be an independent determination. FPL has already pierced the independence by
15 choosing to modify what threshold should be used in evaluating costs.

16
17 **Q. BASED ON THE EVIDENCE YOU HAVE SEEN TO DATE, THE EXAMPLES**
18 **PROVIDED IN YOUR TESTIMONY AND THE DEPOSITION INCLUDED AS**
19 **EXHIBIT HWS-3, WHAT IS THE NECESSARY AND PROPER ANALYTICAL**
20 **TOOL TO APPLY IN EVALUATING THE COSTS CUSTOMERS SHOULD**
21 **PAY?**

22 A. To provide an accurate determination of the actual storm costs paid by the utility, a
23 target audit approaching 100 percent of the invoices must be conducted; otherwise, the
24 random sampling will yield only an estimation or extrapolation of storm costs, and such

1 incomplete estimation may miss instances of overbilling, duplicate billing, or even a
2 possible misappropriation. Based on the discovery and analysis performed to date, I
3 do not believe that simple statistical sampling would provide reliable results for
4 determining the total legitimate and prudent storm costs in this docket.

5
6 There are a significant amount of costs that at this juncture that will not be analyzed
7 because FPL objected to the sampling level requested. FPL's claim that a detailed
8 review of the scope limited documentation already in hand is not necessary and a
9 sampling is sufficient is not appropriate. To ignore the issues at hand and base a
10 conclusion on a simple sampling as suggested would provide a disservice to customers
11 and the Commission.

12
13 Based on the discovery and the deposition examples, there appears to be a lack of
14 control(s) by FPL within the control environment for reviewing invoices, and that either
15 established controls are not working or are not being followed as designed. It is clear
16 from the documentation or lack thereof that purported controls were overridden by
17 management authorizing duplicate payments and creating ad hoc exceptions to what
18 appear to be iron-clad provisions in the control documents. Notably these "override"
19 instances are not documented, but verbally communicated to FPL staff and ostensibly
20 denoted by the absence of a contrary indication on the invoice. Such a lack of controls
21 and lack of documentation or the override of the controls could be indicative of a fraud
22 risk factor. The increased control risk associated with the inability to rely upon the
23 FPL's purported process controls provides evidence that 100 percent – or near 100

1 percent -- invoice review is necessary in order to properly validate the correct storm
2 costs.

3

4 **Q. IS THERE AN ACCOUNTING PROFESSION STANDARD THAT SUPPORTS**
5 **YOUR OPINION?**

6 A. Yes there is. Auditing standard AU 350.07 provides:

7 AU 350.07, Uncertainty and Audit Sampling, PCAOB, states
8 that "Some degree of uncertainty is implicit in the concept of "a
9 reasonable basis for an opinion" referred to in the third standard
10 of field work. The justification for accepting some uncertainty
11 arises from the relationship between such factors as the cost and
12 time required to examine all of the data and the adverse
13 consequences of possible erroneous decisions based on the
14 conclusions resulting from examining only a sample of the data.
15 If these factors do not justify the acceptance of some uncertainty,
16 the only alternative is to examine all of the data.
17

18 Even though this process I am undertaking on behalf of the ratepayers is not an audit,
19 even if it were, sampling as endorsed by the Commission would not be sufficient to
20 achieve the intended purpose of a review.

21

22 **Q. DOES THIS STANDARD INFLUENCE YOUR OPINION AS TO THE**
23 **ADVISABILITY OF USING SAMPLING IN THIS CASE?**

24 A. Yes it does. It is my professional opinion that adverse consequences will occur if risk-
25 based sampling is used as a basis for the Commission's determination of the true and
26 correct total storm costs, resulting in misstated or inflated storm costs being passed on
27 to customers. In accordance with AU 350.07, the only alternative is to examine as
28 close to 100 percent of the invoices as time will permit. There are no time constraints
29 that should prevent this scope of examination.

1 Again, based upon my review of the documentation and/or lack thereof in this docket,
2 the instances of poor controls, the number of incorrect invoices, the duplicate payments
3 and the indications of possible fraud supports the need to shift from a risk-based
4 sampling methodology to a 100 percent invoice target audit allowing for a deeper dive
5 into the remaining invoices.

6
7 **Q. IF RISK-BASED SAMPLING IS USED, WHAT WOULD BE THE POTENTIAL**
8 **IMPACT ON THE CUSTOMERS WHO ARE BEING ASKED TO PAY THE**
9 **COST OF THE VENDORS FPL HIRED?**

10 A. The basis for determining the total storm costs could potentially be erroneous causing
11 significant overpayment of millions of dollars. Based on my review to date, there are
12 a number of payment errors, poor controls, and a risk for fraud, which ultimately could
13 result in an incorrect storm cost calculation as well as unjust enrichment (payment and
14 recovery of unreasonable and imprudent amounts) to FPL and its providers at the
15 expense of the customers.

16
17 **Q. YOU INITIALLY STATED THAT ADDITIONAL TIME WOULD HAVE**
18 **BEEN IMPORTANT TO HELP DETERMINE WHETHER OR NOT FPL'S**
19 **INVOICE AND PAYMENT ISSUES WERE PERVASIVE. WASN'T THE OPC**
20 **ALREADY GRANTED ADDITIONAL TIME?**

21 A. Yes, they were. However, as I have discussed, as more information is analyzed and
22 more anomalies found, there appears to be a greater need to expand that analysis.
23 Sometimes when performing an analysis you have to keep peeling the layers to get a
24 better understanding and determine the extent of issues identified. This is the case here.

1 The OPC requested more time because of the volume of documents and the issues
2 identified thus far. FPL opposed OPC's request for additional time, and suggested
3 sampling certain invoices and documents was sufficient. The Commission adopted
4 FPL's argument, and said a "risk-based sampling of relevant invoices and vendor
5 documents" is more reasonable than the analysis undertaken by OPC.
6

7 **Q. GIVEN THE ISSUES AND WEAKNESSES IN FPL'S VENDOR WORK-**
8 **MONITORING AND INVOICE PROCESSING CONTROLS, WHAT IS YOUR**
9 **POSITION REGARDING THE BASIS FOR MAKING ADJUSTMENTS?**

10 **A.** As I have stated, there are serious issues with the documents I have analyzed so far,
11 and if FPL and the Commission together believe that customers are protected by an
12 arbitrary sampling process, then they have to accept what was determined from
13 sampling. For example, the mobilization of contractors, based on sampling, was not
14 monitored efficiently, contrary to FPL's claims. Based on the excess travel hours
15 allowed by FPL, at least 33% of the mobilization and demobilization time should be
16 considered excessive. The same applies to standby time. Based on what I have
17 discerned from the evidence provided by FPL, the requirement to have non-embedded⁸
18 contractors sitting in hotels some 2 days prior to the storm and the day of the storm is
19 not justified, and all standby time for non-embedded contractors could be considered
20 excessive. There is insufficient time provided by the docket schedule to try and

⁸ In deposition testimony, one of FPL's corporate representatives testified that [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED] See, HWS-3, p. 97, lines 17-24.

1 distinguish whether some was justified, considering the fact that with embedded crews
2 already in Florida, the addition of non-embedded crews only adds to the chaos a storm
3 like Hurricane Irma brings to FPL and its customers. Moreover, there are the duplicate
4 billing issues. I discovered some examples of duplicate billing by chance in a sample
5 review of whether the weekly reports used to generate the invoices were supported by
6 the daily time sheets. After discovering that double billing had occurred, I expanded
7 the review by looking at more invoices; however, I did not review the weekly and daily
8 time sheets that are supposed to support each and every invoice. If I had, I feel
9 confident I would have found more duplicate payments than the 15 or so that I will
10 discuss later in my testimony. I would also note that FPL's invoice practices hindered
11 the analysis process. FPL's guideline requires that its vendors submit invoices on a
12 weekly basis. FPL apparently allowed contractors to send, for a single crew, two or
13 three invoices for the same week. This created an issue when you see the same "Travel
14 Team ID" on multiple invoices that say they are for the same week ending on a
15 particular date. The appearance is that the contractor billed two or three times for that
16 same week ending on a given date. When researched, it was found that the contractor
17 billed for Monday and Tuesday, then submitted a second bill for maybe Wednesday
18 and Thursday, and then a third bill for the remainder of the week. Sampling would
19 have proven valueless here, as it would have led to an erroneous conclusion that the
20 contractor was paid three times for that specific crew and specific week when in reality
21 FPL was not following its own guidelines, and allowed daily billings instead of a
22 weekly billing.

1 **III. SUMMARY OF RECOMMENDED ADJUSTMENTS**

2 **Q. PLEASE SUMMARIZE YOUR RECOMMENDED ADJUSTMENTS.**

3 A. Based upon what I have been able to review to date, and on a jurisdictional basis, I
4 recommend a reduction of at least \$4.104 million to FPL's request for regular payroll
5 expense since these costs are already covered by amounts collected through base rates
6 and they are not incremental costs, as discussed below. I recommend a reduction of at
7 least \$29.571 million to FPL's request for overtime payroll expense to remove non-
8 incremental payroll and to properly reflect the capitalization of restoration work. I
9 recommend a reduction of at least \$278.726 million to FPL's reported storm costs
10 related to contractor costs to adjust for the increased amount of contractor costs which
11 should be capitalized. I recommend a reduction of at least \$4.068 million to account
12 for the obvious instances of double billing that I discovered in the sample I was able to
13 review in the time allotted, as well as the instances in the subset of reviewed invoices
14 of improper billing for employees who were not listed on daily time sheets as having
15 performed work, thus whose time was neither documented nor verified in writing. I
16 recommend a reduction to contractor cost of at least \$60.049 million for excessive rates,
17 and at least \$34.177 million for an excessive amount of mobilization/demobilization
18 and standby time. Next, I recommend a reduction of at least \$50.076 million for
19 accruals and mutual aid costs included in contractor costs because the costs cannot be
20 substantiated as storm costs. Finally, I recommend a reduction of at least \$26.039
21 million to logistics costs for lack of support. In total, I recommend a reduction of at
22 least \$486.769 million to FPL's overall storm restoration cost. I have reflected each of
23 these categories of costs as minimums due to the large amount of invoices that, despite
24 diligence, have not been fully reviewed given the time and volume.

1 **IV. PAYROLL ADJUSTMENTS**

2 **Q. WHAT DID FPL ASSERT AS RECOVERABLE PAYROLL COSTS AS PART**
3 **OF ITS STORM RESTORATION COSTS FOR HURRICANE IRMA?**

4 A. Included in FPL's storm restoration costs are \$16.753 million of regular payroll and
5 \$38.663 million of overtime payroll for a total restoration payroll of \$55.416 million.
6 Pursuant to the Rule, FPL excluded from its request \$6.752 million of regular payroll
7 identified as non-incremental and \$5.847 million of regular payroll that was capitalized.
8 FPL reported net total incremental payroll in the amount of \$42.816 million. The
9 Company requested approval of \$12.333 million in regular distribution payroll, of
10 which \$7.604 million is excludable as capitalized and non-incremental; therefore, the
11 net total regular distribution payroll FPL reported amounts to \$4.729 million (\$4.729
12 million jurisdictional). The distribution overtime payroll reported by FPL, with no
13 exclusion for capital or non-incremental, is \$29.490 million (\$29.487 million
14 distribution jurisdictional).

15

16 **Q. ARE THE PAYROLL DOLLARS AT ISSUE STRICTLY PAYROLL?**

17 A. No, they are not. According to FPL's responses to Citizens' Interrogatory Nos. 41 and
18 42, the costs listed as payroll include overhead loadings. The loadings typically include
19 medical and dental insurance, thrift plan, life insurance, pension, long term disability
20 benefits, social security, Medicare, and state and federal unemployment taxes.

21

22 **Q. DID FPL PROPERLY APPLY THE RULE IN DETERMINING THE**
23 **INCREMENTAL PAYROLL ADJUSTMENT REFLECTED IN EXHIBIT KF-**

24 **2?**

1 A. No. As stated in FPL’s testimony, the regular payroll adjustment for non-incremental
2 costs was for informational purposes only and was determined by calculating the
3 budgeted base O&M payroll percentage as compared to the budgeted payroll for the
4 month in which the storm occurred. I am not aware that FPL has requested a waiver
5 of the Rule. Since customers will ultimately bear the costs of restoration, as I discuss
6 elsewhere, this Rule clearly applies. For this reason, and contrary to FPL’s claim, this
7 Rule does apply in determining the prudent and reasonable costs attributable to
8 Hurricane Irma. Rule 25-6.0143 proscribes that, under the ICCA methodology, “the
9 utility will be allowed to charge to Account No. 228.1 costs that are **incremental** to
10 cost normally charged to non-cost recovery clause operating expenses in the absence
11 of the storm.” (Emphasis added). The Rule prohibits “base rate recoverable payroll
12 and regular payroll-related costs for utility managerial and non-managerial personnel”
13 from being charged to the reserve. Accordingly, FPL’s method is inconsistent with the
14 requirements outlined in the Rule.

15

16 **Q. IN YOUR OPINION, HOW SHOULD THE COMMISSION DETERMINE**
17 **INCREMENTAL PAYROLL COSTS UNDER RULE 25-6.0143(1)(f)1., F.A.C.?**

18 A. Based upon my years of experience as an accountant in the utility field and a plain
19 reading of the Rule, the Rule requires that the amount of regular payroll included in a
20 utility’s applicable base rates must be established *before* a determination can be made
21 as to whether any of the regular payroll costs are incremental, thus eligible for storm
22 cost recovery.

1 **Q. IS A BUDGETED LEVEL OF PAYROLL AN APPROPRIATE MEASURE FOR**
2 **ESTABLISHING INCREMENTAL PAYROLL COSTS?**

3 A. No, it is not. The Rule plainly states “[b]ase **rate** recoverable.” (Emphasis added.)
4 Thus, payroll included in a utility’s established, currently effective rates – not the
5 utility’s budgeted spending levels of payroll as FPL proposes – is the appropriate
6 measurement. Rates are set at a point in time and those rates include a set level of
7 payroll expense. The budget levels used by FPL were established *after* rates were
8 established; therefore, the budget amount is not an appropriate benchmark for
9 determining which costs are incremental. Using FPL’s approach would be akin to an
10 Olympic team switching lab samples after the sample is taken but before it is tested.

11

12 **Q. HOW DID YOU DETERMINE THE THRESHOLD LEVEL OF PAYROLL**
13 **COSTS THAT SHOULD BE CONSIDERED THE NORMAL COST LEVEL**
14 **INCLUDED IN BASE RATES FOR THIS PROCEEDING?**

15 A. In determining whether the payroll costs requested by FPL were incremental to its
16 normal costs included in its base rates, I requested that FPL identify what amount of
17 payroll was included in its base rates for 2017. In response to Citizens’ Interrogatory
18 No. 73, FPL stated that they were unable to provide the amount requested because rates
19 were settled in Docket No. 20160021-EI. However, FPL provided for informational
20 purposes the amount of payroll dollars reflected in FPL’s MFRs for the projected test
21 year 2017. I made my determination using the MFR payroll amounts provided by FPL.

22

23 **Q. IS IT APPROPRIATE TO USE THE LEVEL OF PAYROLL INCLUDED IN**
24 **THE 2016 RATE CASE MFRS EVEN THOUGH THAT CASE WAS SETTLED?**

1 A. Yes, it is appropriate. The 2016 Settlement was a black box settlement (i.e., settled to
2 a revenue requirement without specifically addressing all revenue inputs).
3 Notwithstanding the settlement, the payroll levels included in the 2016 rate case MFRs
4 were part of and expressly supported by the sworn testimonies of FPL witnesses in the
5 2016 rate case, and they are the best available information regarding payroll included
6 in base rates by the Company at the time Hurricane Irma occurred. As discussed above,
7 the level of regular payroll included in base rates must be established before a
8 determination of whether any regular payroll can be considered incremental, thus
9 eligible for storm cost recovery.

10

11 Based on FPL's representation that the payroll information it provided in response to
12 Citizens' Interrogatory No. 73 was the amount charged to O&M expense included in
13 its base rates, I relied on FPL's response as being the payroll amount to be used in
14 determining what payroll costs were incremental in 2017 as part of the storm restoration
15 costs. I, as well as the Commission, must assume that FPL would not have requested
16 the Commission to approve more payroll than they the Company actually needed in
17 2017. To assume otherwise would mean that FPL padded its payroll request.

18

19 **Q. IS IT REASONABLE TO ASSUME THAT THE PAYROLL AMOUNT**
20 **REQUESTED IN A RATE CASE WOULD BE DIFFERENT FROM THE**
21 **PAYROLL AMOUNT INCLUDED IN A SETTLEMENT?**

22 A. It is possible; however, absent additional, contrary evidence, and in accordance with
23 FPL having the burden of proof for cost recovery, the Commission must assume payroll
24 would be the last item to change. For example, when a settlement occurs, one part of

1 that settlement would be a change to the return on equity (“ROE”). This is typical even
2 when the settlement is called a “black box” settlement. In my experience, maintenance
3 costs are commonly reduced and rate base is generally adjusted in an effort to achieve
4 a desired result. Since FPL provided sworn testimony regarding the number of
5 personnel necessary to provide safe and reliable service, it should be sufficient to rely
6 on that personnel complement as “absolutely necessary” for evaluation of storm costs.
7 If the Company claims that the payroll was reduced as part of the settlement, regulators
8 would have to wonder whether the payroll in the original application was padded and
9 the testimony was not truthful.

10

11 **Q. WHAT WAS THE AMOUNT OF PAYROLL THE COMPANY STATED WAS**
12 **INCLUDED IN ITS 2017 BASE RATES?**

13 A. In response to Citizens’ Interrogatory No. 73, FPL states its base rates in effect during
14 2017, the period during which the Hurricane Irma occurred, included \$511,977,245 of
15 regular payroll charged to O&M expense and \$55,457,346 of overtime charged to
16 O&M expense.

17

18 **Q. WHAT WAS THE AMOUNT OF ACTUAL PAYROLL RECORDED TO O&M**
19 **EXPENSES IN 2017?**

20 A. In response to Citizens’ Interrogatory No. 72, the Company stated that in 2017, O&M
21 expense included \$484,913,366 of regular payroll and \$74,258,632 of overtime payroll.
22 These amounts do include payroll costs associated with the storm restoration because
23 FPL expensed the storm costs when it reclassified the costs from Account 228.1 to base
24 O&M expense.

1 **Q. WAS ANY OF THE REQUESTED REGULAR PAYROLL COST**
2 **INCREMENTAL AND THEREFORE ELIGIBLE FOR STORM COST**
3 **RECOVERY?**

4 A. No, it was not. As shown on Exhibit No. HWS-2, Schedule B, Page 4 of 4, it is clear
5 that the \$511,977 million of regular payroll included in base rates that was being
6 collected during the time Hurricane Irma impacted Florida exceeded the \$484,913
7 million of regular payroll costs that FPL actually incurred in 2017. Thus, all of the
8 Company's regular payroll included in the restoration costs should be excluded as non-
9 incremental costs. Since the regular payroll included in base rates exceeded the 2017
10 actual O&M payroll expense by \$27,064 million, it would be impractical to assume
11 that any regular payroll could be considered as incremental storm restoration costs.
12 Any allowance of regular payroll as part of storm restoration costs could result in
13 **double recovery** for FPL – first as part of base rates, and then recovered a second time
14 as part of FPL's proposal to re-establish the amortization reserve with tax savings from
15 the TCJA.

16

17 **Q. AS PART OF EXHIBIT KF-2, DID FPL EXCLUDE ANY REGULAR**
18 **PAYROLL FROM ITS RECOVERABLE COSTS AS NON-INCREMENTAL?**

19 A. Yes, it did. The Company excluded \$6.752 million of total regular payroll and
20 overhead costs from the \$16.754 million total regular payroll charged to the storm
21 restoration costs for Hurricane Irma.

22

23 **Q. DO YOU AGREE WITH THE METHOD FPL USED TO ESTABLISH ITS**
24 **NON-INCREMENTAL REGULAR PAYROLL?**

1 A. No, I do not. As I explained earlier, FPL's adjustment is based on budgeted dollar
2 amounts rather than the actual amounts reflected in base rates. The use of budgeted
3 dollars ignores the requirement under the Rule to exclude regular payroll included in
4 base rates, and instead focuses on the "budgeted" payroll included in O&M – a
5 methodology that is not compliant with the ICCA methodology contemplated by the
6 Rule. A budgeted number established after the fact only results in an apples to oranges
7 comparison. The budgeted amount fluctuates, whereas the amount included in base
8 rates is fixed. A determination of what is incremental and what is non-incremental
9 cannot be made when using a moving benchmark. Use of a fixed amount like that
10 included in the MFRs is the most appropriate yardstick for determining what amount
11 is correctly classified as "non-incremental."

12

13 **Q. DID OPC ASK FPL WHY REGULAR PAYROLL COSTS WERE INCLUDED**
14 **AS PART OF THE STORM-RELATED RESTORATION COST RECOVERY?**

15 A. Yes, we did. In response to Citizens' Interrogatory No. 6, FPL stated it is not seeking
16 any incremental recovery of storm costs through either a surcharge or depletion of the
17 storm reserve; therefore, the ICCA is not applicable. This response further stated that
18 because of the TCJA, the costs that would have been charged to the storm reserve were
19 charged to base O&M. FPL did concede that, in general, regular payroll costs
20 recovered through base O&M are non-incremental, and would not be charged to the
21 storm reserve if the ICCA was applicable.

22

23 The problem is that FPL's position in this docket is that because of the TCJA, it elected
24 to charge all the storm expenses to base O&M. If approved in another docket, FPL's

1 election to completely exhaust the amortization reserve and then attempt to re-establish
2 it with the TCJA tax savings (which should have been returned to ratepayers) would
3 allow FPL to evade the requirement in the Rule to compare the actual amount of regular
4 payroll costs to the amount of payroll that was included in base rates for O&M. This
5 would mean that FPL's accounting election – which it contends allows the Company
6 to ignore the Commission Rule – would effectively force customers to pay for costs
7 that the Commission has determined should not be imposed on customers. Bypassing
8 the Rule requirement designed to prevent possible double recovery will then
9 predictably result in a double recovery for FPL. First, the payroll is recovered as part
10 of existing base rates, and then again as part of FPL's proposal to re-establish the
11 amortization reserve with the ratepayers' tax savings.

12
13 **Q. DOES FPL HAVE THE OPTION TO FOREGO CHARGING THE STORM**
14 **COSTS TO THE STORM RESERVE AND INSTEAD EXPENSE THE STORM**
15 **COSTS TO BASE O&M?**

16 A. Yes, it does. As explained in response to Citizen's Interrogatory No. 35, the 2016
17 Stipulation and Settlement Agreement provides the option, but does not require, FPL
18 to seek incremental storm cost recovery. Again, it is not a question of whether the
19 Company can or cannot charge the costs to O&M, the issue is with the method FPL
20 used, i.e., charging costs initially charged to the reserve to base O&M, then
21 extinguishing the amortization reserve to cover those costs in order to allow the
22 Company to achieve a desired ROE and then asking ratepayers to pay for the re-
23 establishment of the Reserve with the tax savings that should be refunded to ratepayers.
24 In other words, FPL is asking that ratepayers use their own tax refund money to re-

1 establish the reserve used to pay for the storm and/or to pay back FPL for storm
2 restoration costs FPL claimed to have written off in December 2017.

3

4 **Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO THE COMPANY'S**
5 **REPORTED REGULAR PAYROLL COSTS?**

6 A. As shown on Exhibit No. HWS-2, Schedule B, Page 1 of 4, I am recommending the
7 reported distribution regular payroll be reduced by \$10 million and the total regular
8 payroll costs as shown on Company Exhibit KF-2 be reduced by \$4.153 million (\$4.104
9 million jurisdictional).

10

11 **Q. HOW CAN THE TOTAL REGULAR PAYROLL FOR DISTRIBUTION BE**
12 **REDUCED BY MORE THAN WHAT IS INCLUDED IN THE COMPANY'S**
13 **STORM RESTORATION COSTS LISTED IN EXHIBIT KF-2?**

14 A. FPL's regular payroll of \$4.153 million on Exhibit KF-2 was calculated as a net
15 adjustment of capitalization costs in the amount of \$5.847 million and non-incremental
16 costs in the amount of \$6.752 million. This resulted in regular payroll for some
17 functions reflected as negative amounts. Because the regular payroll is actually non-
18 incremental, it cannot be considered as part of the cost subject to storm recovery;
19 therefore, the regular payroll costs cannot be capitalized. Any capitalization of FPL
20 payroll must be applied solely to overtime payroll, if overtime is incremental. As a
21 result, the adjustment to the Company's regular payroll amounts, as presented in its
22 Exhibit KF-2, would be a reduction of \$4.729 million for distribution and \$4.153
23 million in total (\$4.104 million jurisdictional). In addition, the capitalized amount of
24 \$5.847 million should be reclassified and reflected as a reduction to overtime payroll.

1 **Q. WHAT DO YOU MEAN REGULAR PAYROLL CANNOT BE CAPITALIZED;**
2 **THEREFORE, THE CAPITALIZATION OF PAYROLL MUST BE SOLELY**
3 **OVERTIME PAYROLL?**

4 A. FPL determined that its personnel performed some level of restoration work that must
5 be capitalized. Since regular payroll is clearly non-incremental, there are no regular
6 payroll dollars that can be capitalized. Thus, the only option is to assign the
7 capitalization to FPL's overtime restoration costs.

8

9 **Q. WILL THE DETERMINATION DENY FPL FROM RECOVERING THE**
10 **PAYROLL COSTS IN QUESTION?**

11 A. Not necessarily. These costs are currently in base O&M expense and a determination
12 that they are not recoverable as storm costs under the Rule does not preclude recovery.
13 Since the costs are part of base O&M, FPL's base rates should cover those O&M costs.

14

15 **Q. WHAT DID YOU DETERMINE IN YOUR REVIEW OF THE OVERTIME**
16 **PAYROLL REPORTED BY FPL?**

17 A. FPL's overtime payroll charged to O&M expense of \$74.259 million in 2017 exceeded
18 the \$55.457 million of overtime payroll which was included in base rates. Therefore,
19 \$18.801 million of overtime costs would be eligible to be charged to the storm reserve
20 as incremental.

21

22 **Q. WOULD YOU EXPLAIN HOW THE EXCLUSION OF REGULAR PAYROLL**
23 **WOULD MEAN THE CAPITALIZATION MUST BE APPLIED TO**
24 **OVERTIME PAYROLL?**

1 A. Yes. FPL's filing did not reflect any reduction to overtime for capitalization. Since all
2 regular payroll was non-incremental, these costs are not permitted for recovery as storm
3 restoration costs and, thus cannot be capitalized. Therefore, any capitalization of FPL's
4 payroll costs must be applied to the overtime payroll.

5
6 **Q. IN ITS EVALUATION OF FPL'S FILING, SHOULD THE COMMISSION**
7 **CONSIDER WHETHER THE COMPANY'S OVERTIME PAYROLL**
8 **SHOULD BE CAPITALIZED?**

9 A. Yes. FPL's own filing indicated some Company labor should be capitalized. The fact
10 that regular payroll is all non-incremental means that it is being recovered through
11 regular base rates and there is no amount remaining to be capitalized. Thus, the amount
12 of capitalized labor costs should be applied to the overtime payroll dollars in FPL's
13 request prior to being included as part of the overtime FPL labor costs to be recovered
14 as storm restoration costs.

15
16 **Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO THE COMPANY'S**
17 **REQUEST?**

18 A. I am proposing three adjustments to FPL's reported overtime and overhead of \$38.663
19 million. First, as shown on Exhibit No. HWS-2, Schedule B, Page 2 of 4, I am
20 recommending the distribution overtime payroll be reduced by \$17.381 million for the
21 2017 non-incremental overtime included in the \$38.663 million amount. Second, a
22 reduction of \$5.847 million is required for the reclassification of the non-incremental
23 regular payroll that was capitalized by FPL. This is the first amount of overtime payroll
24 to be classified as capitalized. Finally, I recommend an additional capitalization

1 adjustment of \$6.710 million to reflect a more accurate cost of restoration based on the
2 actual costs incurred during the restoration.

3

4 **Q. WHY IS AN ADJUSTMENT REQUIRED FOR NON-INCREMENTAL**
5 **OVERTIME?**

6 A. As discussed earlier, FPL incurred \$74.259 million of overtime payroll in 2017, which
7 exceeded the \$55.457 million included in base rates by \$18.801 million. Since the
8 \$18.801 million is the incremental amount of overtime in 2017, the reported storm
9 restoration overtime and overhead cost of \$38.662 million is overstated and should be
10 reduced by at least the 2017 known and measurable difference.

11

12 **Q. WASN'T SOME OF THE \$38.662 MILLION INCURRED IN 2018?**

13 A. Yes, it was. To be clear, the \$38.662 million amount is overtime payroll and overhead.
14 FPL's response to Citizen's Interrogatory No. 19 indicates the actual overtime payroll
15 excluding overhead was \$36,375,544. Included in the \$36,375,544 is \$193,171 of
16 overtime incurred in 2018, leaving the remaining \$36,182,373 of overtime being
17 recorded in 2017. Since there was \$36,182,373 of overtime reported as storm related
18 in 2017, and only \$18,801,286 of that amount was incremental, the remaining
19 difference of \$17,381,087 is non-incremental and should be excluded from storm
20 restoration costs. That adjustment is shown on line 9 of Exhibit HWS-2, Schedule B,
21 Page 2 of 4. My recommended adjustment does not include any 2018 overtime and
22 does not include any associated overhead charges.

1 **Q. PLEASE EXPLAIN THE SECOND ADJUSTMENT.**

2 A. The second adjustment simply reclassifies the Company's calculated payroll
3 adjustment for capitalization applied to regular payroll to overtime payroll. This
4 adjustment is necessary because regular payroll is not incremental, so any capitalization
5 of payroll associated with storm restoration must be applied to overtime payroll. This
6 adjustment leads to the final adjustment where I recommend the Company's overtime
7 payroll be adjusted to reflect an appropriate capitalization rate.

8

9 **Q. WHY IS THE FPL CAPITALIZATION RATE INAPPROPRIATE?**

10 A. The capitalization rate applied by FPL for storm restoration is the same as it uses in its
11 normal course of business under normal conditions.⁹ That capitalization rate is not
12 appropriate because the storm restoration work performed is being done under
13 abnormal conditions. Under normal conditions, restoration is done at both regular pay
14 rates and overtime pay rates because restoration work under normal conditions is
15 typically scheduled. After an extraordinary storm, it is normal for the workload to
16 increase and the incremental work to be done at overtime rates. FPL's use of a normal
17 capitalization rate under normal conditions ignores this very important difference, thus
18 it significantly understates the costs that should be capitalized.

19

20 Additionally, the Company used a payroll rate of \$141.85 per hour for normal work
21 conditions, which includes labor overhead, vehicle costs and miscellaneous costs.¹⁰

⁹ FPL's response to Citizens' Interrogatory No. 34.

¹⁰ FPL's response to Citizens' Interrogatory No. 33.

1 The problem with using FPL's normal condition rate for capitalization is that the 2016
2 overall average overtime rate for FPL personnel to replace distribution poles and to
3 install transformers and conductors was \$61 per hour.¹¹ To the extent capital work is
4 performed by FPL personnel under the abnormal conditions of storm restoration, the
5 typical crew size for an accessible pole replacement would be a three man crew.¹²
6 Three crew members at \$61 per hour amount is \$183 per hour just for the payroll alone.
7 Clearly, the \$140.45 per person-hour rate is not appropriate for purposes of calculating
8 the capitalized labor costs, especially when factoring in the adders, such as overhead,
9 vehicle costs and miscellaneous costs that are presumably included in the average rate
10 being utilized by FPL.

11

12 **Q. WHAT RATE ARE YOU RECOMMENDING FOR CALCULATING THE**
13 **OVERTIME COST ASSOCIATED WITH FPL PERSONNEL?**

14 A. I used an average overtime rate of \$63 per hour per person, based on the 2016 hourly
15 rate escalated by 3%. That rate is grossed up to \$67 per hour for labor overhead of
16 6.29%. That grossed up, or "loaded" rate, is then multiplied by the 3 employees per
17 crew to get an hourly crew rate of \$200. I then multiplied the \$200 per hour by the
18 calculated capitalized number of hours that was based on FPL capitalized costs, divided
19 by FPL's \$140.46 capitalization rate. This is the method that should be applied to
20 calculate the loaded labor costs. Once that is determined, a vehicle cost should be
21 added. I have made this calculation on Exhibit No. HWS-2, Schedule B, Page 3 of 4.
22 I determined the estimated cost for FPL overtime plus overhead to be \$8,339,906 and

¹¹ FPL's response to Citizens' Interrogatory No. 79 in Docket No. 20160251-EI.

¹² FPL's response to Citizens' Interrogatory No. 78 in Docket No. 20160251-EI.

1 estimated the vehicle cost to be \$4,217,517, resulting in a total overtime cost for
2 capitalization in the amount of \$12,557,422. Since I already recommended the
3 reclassification of the \$5.847 million of capitalization which FPL classified as regular
4 payroll, I am recommending an additional adjustment of \$6,710,422.

5
6 **Q. WOULD ANY OF THESE ADJUSTMENTS TO OVERTIME IMPACT THE**
7 **LEVEL OF COSTS THAT COULD OR WOULD CAUSE FPL TO USE THE**
8 **RE-ESTABLISHED AMORTIZATION RESERVE?**

9 A. Even if FPL is ultimately allowed to re-establish the amortization reserve and replenish
10 it with TCJA savings, which I strongly believe is contrary to fundamental principles of
11 fair, just, and reasonable ratemaking, the adjustment to exclude non-incremental
12 overtime may or may not impact FPL's use of the amortization reserve, depending on
13 how other costs are accounted for. The reclassification of overtime should not impact
14 any requirement for the amortization reserve since this is just a reclassification and the
15 capitalized dollars have already been excluded from O&M. The added capitalization
16 adjustment of \$6,710,422 will reduce the amount of any use of the amortization reserve.
17 Further, I would note that this adjustment does not prevent FPL from recovering this
18 cost because it simply spreads the cost recovery over the lives of the capitalized assets
19 created as part of the replacement of plant destroyed or damaged by Hurricane Irma
20 instead of depleting the amortization reserve. This adjustment will help preserve the
21 amortization reserve for its intended uses, assuming that the Commission allows FPL
22 to re-establish the amortization reserve using TCJA savings, contrary to what I
23 understand to be the position of the OPC.

1 **V. CONTRACTOR COSTS**

2 **Q. WHAT IS INCLUDED IN THE STORM RESTORATION COSTS FOR**
3 **CONTRACTORS AND WHAT AMOUNT OF CONTRACTOR COSTS WERE**
4 **CAPITALIZED?**

5 A. The Company identified \$825.088 million in contractor costs associated with
6 Hurricane Irma on its Exhibits KF-1 and KF-2. Based on each exhibit, there are
7 \$72.404 million in contractor costs being capitalized, which results in restoration costs
8 of \$752.684 million sought to be recovered from ratepayers by means of the application
9 of the amortization reserve credit and the TCJA.

10

11 **Q. DID YOU IDENTIFY ANY CONCERNS WITH THE REPORTED**
12 **CONTRACTOR COSTS?**

13 A. Yes, I identified a number of concerns, as follows:

- 14 • Various vendors charged hourly rates that are excessive
- 15 • Various contractors charged for an excessive amount of
16 mobilization/demobilization and standby time
- 17 • Payments to vendors included some duplicate payments and improper
18 payments for contract workers whose hours were not supported by any
19 documentation
- 20 • The capitalization amount for contractors is understated
- 21 • Distribution costs labeled as “Not Assigned” totaled \$156.901 million, which
22 included accruals, and lacked sufficient supporting details,
- 23 • FPL failed to enforce the general contract requirements contained in its
24 restoration contracts

- FPL appears to lack adequate controls or implementation of controls to insure the integrity of the vendor billings sufficient to demonstrate reasonableness and prudence of the costs for customer re-imburement.

Q. WHY DO YOU ASSERT THERE ARE VENDORS WITH EXCESSIVE HOURLY RATES?

A. In reviewing storm costs in other jurisdictions and in Florida, I have observed a range in rates. This range is fairly wide; however, with Hurricane Irma, I noted excessive hourly rates for some vendors. The range of hourly rates for most vendors is around [REDACTED] to [REDACTED] FPL has 15 vendors with rates in excess of [REDACTED] an hour. What makes this a concern is that in some cases an individually high rate may be justified for someone classified as a general foreman, yet with FPL there is no distinction between job classifications – every vendor employee, regardless of qualification, experience or job title, is billed at the same set rate. It is not reasonable to expect that an apprentice or lower level lineman would be billed at a rate in excess of [REDACTED], but because FPL uses a “blended” rate this is exactly what occurred. In fact, [REDACTED] per hour is more in line with the very high end of what the General Foreman rate would be, not what you would pay for an apprentice lineman. For example, in Docket No. 20180061-EI, FPUC used a contractor who charged the following rates: (1) General Foreman was billed at \$122.74 for straight time and \$143.19 for overtime; (2) an Apprentice was billed at \$93.62 for straight time and \$109.23 for overtime; (3) and at the low end, a Ground Man was billed at \$65.04 for straight time and \$75.87 for overtime. That averages out to an average labor rate of \$93.80 for straight time and \$109.43 at overtime. The equipment was billed separately, so assuming a pickup, a digger and a

1 bucket truck are added at \$17.95 per hour, \$48.76 per hour and \$46.05 per hour,
2 respectively, the overall equipment average per hour would be \$37.59. By adding the
3 overall labor averages of \$93.80 and \$109.43 to the overall equipment average of
4 \$37.59 results in a comparable straight time cost of \$131.39 and an overtime cost of
5 \$147.02. That is clearly indicative that a [REDACTED] per hour rate is very high, and the
6 combined rates that are even higher are clearly excessive. When coupled with FPL's
7 inadequate enforcement of contract requirements designed to prohibit slow
8 mobilization and demobilization, the overbilling impact of these excessive rates is
9 amplified.

10

11 **Q. HAVE YOU PERFORMED AN ANALYSIS COMPARING THE VARIOUS**
12 **VENDOR RATES?**

13 A. Yes, I have. Exhibit No. HWS-2, Schedule C, Page 4 of 6, summarizes the fifteen
14 contractors with rates considered to be excessive and compared them to another twenty-
15 four contractors whose billing exceeded \$5 million. The average hourly rate for the
16 high cost contractors exceeds the other contractors' rate by [REDACTED] per hour. The high
17 rate contractors billed [REDACTED] hours; multiplied by the excessive incremental rate of
18 [REDACTED] per hour, equates to an excess billing of \$60,055,233. As shown on Schedule C,
19 Page 4 of 6, the hourly rate for the contractors with excessively high rates ranges from
20 [REDACTED] per hour to [REDACTED] per hour. The other major contractors, excluding
21 patrollers, charged hourly rates ranging from [REDACTED] to [REDACTED]

1 **Q. IF YOUR COMPARISON SAMPLE INCLUDES CONTRACTORS THAT**
2 **BILLED OVER \$5 MILLION, WHY ARE SOME OF THE COSTS UNDER \$5**
3 **MILLION?**

4 A. The selection took into consideration all of the vendor billings. Some of the vendors
5 had billings that were under the \$100,000 threshold and some were contractors that
6 billed for other types of restoration work as part of their total billing. Therefore, the
7 total cost for these contractors exceeded the \$5 million threshold.

8

9 **Q. WITH RESPECT TO ENSURING THAT FPL'S RATEPAYERS PAY ONLY**
10 **THE FAIR, JUST, AND REASONABLE COSTS OF RESTORING SERVICE,**
11 **WHAT IS THE ISSUE WITH MOBILIZATION/DEMOBILIZATION AND**
12 **STANDBY TIME?**

13 A. Most contractors were paid a higher hourly rate for traveling than for performing actual
14 restoration work, which is facially nonsensical, and in many cases the contractors billed
15 a minimum of 16 hours per day, no matter the distance traveled. As a result of the 16
16 hours per day travel minimum, along with other daily billing, the charged travel time
17 is significantly more bloated than what the actual travel time should have cost. This
18 problem of "bloated" mobilization/demobilization travel time becomes an even bigger
19 issue because FPL claims that it had rigid guidelines in place that purportedly limited
20 compensated travel to actual travel time, but; however, that guidance was not followed
21 or enforced by FPL in many cases nor was there proper documentation of adherence to
22 the guidelines. Moreover, after traveling multiple days at the elevated mobilization rate,
23 some contractors were compensated for standby time on September 9 and September
24 10, several days before the storm actually hit. The same issue exists with standby

1 where, despite FPL having rigid guidelines in place that purportedly would limit the
2 hours to be compensated, FPL failed to follow or enforce its own guidance and contract
3 provisions.

4
5 **Q. CAN YOU PROVIDE SOME EXAMPLES OF WHERE VENDORS BILLED**
6 **HOURS OF TRAVEL TIME THAT SUBSTANTIALLY EXCEEDED THE**
7 **ACTUAL TIME REQUIRED TO COVER THE DISTANCE SUPPOSEDLY**
8 **TRAVELED?**

9 A. Yes. One example is contractor F, which had a crew of 10 men that started in **
10 Confidential Mount Pocono, Pennsylvania Confidential** on September 13 and
11 traveled to Rock Hill, South Carolina - a distance of 626 miles with an estimated
12 reasonable travel time of 9.5 hours. The crew billed for 17 hours. On September 14,
13 the crew traveled from Rock Hill, South Carolina to Daytona Beach - a distance of 448
14 miles with an estimated drive time of 7 hours. The crew billed for 17 hours. Then on
15 September 15, the crew traveled from Daytona Beach to Hallandale - a distance of 250
16 miles with an estimated travel time of 4 hours. The crew billed for 8 hours of
17 mobilization travel even though they were "in-territory" and had access to fuel
18 provided by FPL. In that example, the vendor crew billed 42 hours for traveling a
19 distance of 1,324 miles, where a reasonable estimated travel time would be 20.5 hours.
20 Interestingly, another crew for contractor F traveled from **Confidential Oconomowoc
21 Wisconsin Confidential**, to Orlando - a distance of 1,319 miles with an estimated
22 travel time of 20 hours - and billed 33 hours. Even though the latter crew time is still
23 somewhat questionable, it charged 9 hours less than the first crew for essentially the
24 same distance.

1 Another example is contractor NN, whose crews took 4 days to mobilize from
2 Michigan to Florida. The crews started in ****Confidential Onaway Confidential****,
3 Michigan on September 6 and traveled a distance of 290 miles with an estimated travel
4 time of 4.5 hours per Map Quest[or other source]. They billed 14 hours to travel those
5 few miles that day. The next day the crews traveled from to Atlanta, Georgia - a
6 distance of 684 miles with an estimated travel time of 11.5 hours. The billing on
7 September 7 was for 17 hours. On September 8, the crews traveled from Atlanta,
8 Georgia to Orlando - a distance of 437 miles with an estimated travel time of 5.5 hours.
9 They billed 20 hours for the travel on September 8. Then, on September 9 the crews
10 traveled from Orlando to Sunrise - a distance of 215 miles with an estimated travel time
11 of 3 hours. They billed 11 hours for travel on September 9. A total of 62 hours per man
12 was charged for 1,626 miles, where the estimated reasonable time to travel those miles
13 is 25 hours. Even applying FPL's rule of thumb of 500-550 miles per 16 hour day
14 would result in a total travel time of 47 hours, not the 62 hours charged by the vendor.
15 Ironically, this very same crew returned to ****ConfidentialOnawayConfidential****,
16 Michigan from Bonita Springs, Florida - a distance of 1,573 miles - in only 39 hours.
17 FPL made no adjustments for any of these overbillings. Clearly, this is an example of
18 FPL failing to adhere to its alleged rigid guidelines for travel time for mobilization and
19 demobilization or to properly monitor its vendors, as FPL has claimed.

20 Another contractor NN crew billed demobilization time to FPL for restocking their
21 trucks on September 28, a day after returning to ****ConfidentialOnawayConfidential****,
22 Michigan on September 27. This crew also traveled from Collier County Fairgrounds
23 in Florida to ****ConfidentialOnawayConfidential****, Michigan - a distance of 1,585
24 miles - in 39 hours.

1 Another example was discussed in the deposition of FPL's corporate representative
2 panel on November 15, 2018 (Exhibit HWS-3). On several occasions during the
3 deposition, FPL's corporate representatives stated that they had to do some follow-up
4 after the deposition in order to research questions for which they did not know the
5 answers. In response to follow-up discovery, FPL stated:

6 On September 28, 2017, the vendor's team travelled from GS1
7 (Gulfstream Park) to Roanoke Rapids, NC for 16 hours of
8 demobilization. On September 29, 2017, they travelled from Roanoke
9 Rapids, NC to their home work locations in VA. FPL's records do not
10 identify whether anything extraordinary occurred to explain the nature
11 of any delay in the vendor's final day of demobilization.
12

13 FPL's Response to Citizens' Interrogatory No. 135

14 This demonstrates that FPL failed to sufficiently monitor travel time to assure that
15 ratepayers would pay only reasonable and prudent amounts for the vendors' travel
16 times.
17

18 **Q. ARE THE OVERBILLING INSTANCES DISCUSSED ABOVE UNCOMMON**
19 **OR ARE THEY MORE OF THE NORM IN FPL'S VENDOR TRAVEL**
20 **CHARGES?**

21 A. Based on my review to date, these examples are not uncommon. The travel times for a
22 number of contractors shows the same problems.
23

24 **Q. EARLIER YOU REFERRED TO "GUIDELINES" THAT FPL HAD IN PLACE**
25 **RELATED TO VENDOR TRAVEL. WHAT ARE THESE GUIDELINES FPL**
26 **ALLEGEDLY HAD THAT LIMITS TRAVEL TIME TO ACTUAL DRIVE**
27 **TIME?**

1 A. In response to OPC’s Production of Documents Request No. 19, FPL provided
2 numerous contracts with its various contractors. The contracts are very similar, as they
3 are in a standard format with slight modifications. Included in the contracts is a
4 reference to Exhibit A1 which is the “Statement of Work Distribution Storm and
5 Emergency Restoration” (“Statement”). This Statement contains a number of
6 requirements and guidance as to what is expected, and the circumstances under which
7 certain costs are eligible for reimbursement or rejection.

8

9 **Q. WHAT DOES THE STATEMENT SPECIFICALLY STATE ABOUT DRIVE**
10 **TIME?**

11 A. The Statement includes the following regarding mobilization/demobilization pricing:

12

CONFIDENTIAL

13
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26



(Emphasis Added)

27 FPL’s Statement also contains the following provision regarding how this
28 requirement will be monitored:

29
30
31
32



1
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3
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5
6
7



END CONFIDENTIAL

8

This wording is critical as it appears FPL has ignored its own guidelines.

9

Additionally, in response to Citizens' Interrogatory No. 58, FPL stated:

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Mutual assistance procedures/guidelines and other non-mutual assistance restoration contracts/agreements do not specifically provide for minimum, maximum or expected travel time/ hours per day. However, with the knowledge of the contractor resources starting location, estimated travel distance/time and other information (e.g., expected departure times, potential weather or traffic delays, expected hours of travel per day and actual in-progress travel status updates/revised estimated arrival times), FPL is able to determine when resources should arrive as well as the reasonableness of actual arrival times. Generally, compensation for travel time is limited to actual travel time. (Emphasis Added)


22
23
24
25
26
27

The reference to FPL having knowledge of contractor resources to scrutinize its vendors' travel raises a significant concern since the Company states in its response to Citizens' Interrogatory No. 127 that the cities of origin and destination were not documented. Thus, how can ratepayers be assured of FPL's reliability to effectively manage and monitor the travel times of its vendors?

28

Q. WHAT DID FPL IGNORE FROM THE STATEMENT?

29
30
31
32
33

A. The actual drive time requirement was not enforced by FPL, as many contractors billed for hours that greatly exceeded their actual drive time, and in many cases the contractors billed 16 hours or more a day for travel, despite the fact that there was the contractual provisions  particularly in instances when a contractor did not actually drive for 16 hours.

1 Q. DID YOU ASK FPL WHY THEY PAID FOR TRAVEL TIME THAT
2 EXCEEDED ACTUAL DRIVE TIME?

3 A. FPL was asked this question during the depositions on November 15 and December
4 13. The response was that – [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]¹³

10

11 Q. [REDACTED]

12 [REDACTED]

13 A. [REDACTED]

14 [REDACTED] This is unreasonable, particularly when some

15 contractors traveled significantly longer distances per hour – this was especially so

16 when the contractors were traveling back home. Common sense and common

17 knowledge alone suggest that averaging 34.4 miles per hour is not realistic. For

18 example, assume that a crew travels at 60 miles per hour and requires an hour for meals

19 and fueling. In a 16 hour day, two stops would allow for 14 hours of actual drive time,

20 meaning they could travel 840 miles. This is approximately 50% more distance per day

21 than FPL's allowance, and a more reasonable distance per day for traveling. Applying

¹³ Exhibit HWS-3 at pages 70-71.

1 840 miles for a 16 hour travel day as a guideline would reduce the travel time paid to
2 FPL's vendors by approximately 33%.

3

4 **Q. IS IT POSSIBLE THAT TRAFFIC SITUATIONS COULD OCCUR THAT**
5 **WOULD LIMIT THE TRAVEL TO 550 MILES PER 16 HOURS?**

6 A. Yes, it is possible; however, in the extensive amount of detail I reviewed, the
7 documentation did not show this to be a major issue during the
8 mobilization/demobilization process. In addition, there was little, if any,
9 documentation to support any assertion that contractors had traffic problems navigating
10 travel to FPL's service territory. In fact, most delays referenced by vendors on their
11 daily time sheets were due to FPL. Based upon my review of the daily time sheets that
12 I was able to review, the contractors generally included comments when they
13 encountered extraordinary circumstances or events that would affect their travel
14 schedules. Such comments were generally uncommon in the documentation that I was
15 able to review.

16

17 **Q. IS THE USE OF AN HOUR FOR MEALS AND FUELING REASONABLE IN**
18 **YOUR ESTIMATION OF MILES TO BE TRAVELED?**

19 A. I believe it is. However, FPL's deponents were asked about meals, and the response
20 was that [REDACTED]

21 [REDACTED]¹⁴.

¹⁴ Exhibit HWS-3 at pages 71-72.

1 **Q. PLEASE IDENTIFY SOME OF THE DUPLICATE PAYMENTS YOU FOUND**
2 **AND EXPLAIN THE EVIDENCE YOU RELIED ON TO DETERMINE THE**
3 **COST WAS DUPLICATED?**

4 A. The duplication of invoices is based on FPL's response to Citizen's Interrogatory No.
5 20, which is a listing of all contractor costs for Hurricane Irma. The duplication was
6 identified as part of the detailed analysis of the supporting documentation supplied in
7 response to Citizen's Production of Documents No. 6. My analysis included a review
8 of the invoices, the time summaries, time sheets, the mobilization logs and receipts
9 (albeit not all invoices, time sheets, mobilization logs and receipts, as time has not yet
10 permitted that extensive of a review even through based on my initial analysis such a
11 in depth review is warranted). As shown on Exhibit HWS-2, Schedule C, Page 3 of 6,
12 there were approximately 7,700 lines of invoices reported by FPL, and over 56,000
13 pages of supporting documents produced by FPL to be analyzed.

14
15 Here are several examples that I discovered so far with respect to duplicate invoices:
16 Contractor J submitted an invoice for \$253,985 for [REDACTED] for September 7 through
17 September 10.¹⁵ The invoice listing also included two other invoices totaling
18 \$253,985¹⁶ with the same personnel, the same hours, the same dates and the same
19 mobilization and standby dollar amounts. The only difference between the three
20 invoices was that the same \$253,985 was billed through two invoices, one for
21 September 7 through September 8 and the other for September 9 through September

¹⁵ FPL's response to Citizens' Production of Documents No. 6, Documents; Document 5202632083; Bates FPL 048160.

¹⁶ FPL's response to Citizens' Production of Documents No. 6, Documents; Document 5202633179; Bates FPL 050545 and Document 5202632192; Bates FPL 050557.

1 10, while in the other instance the entire amount was billed in one invoice. This type
2 of double billing is especially insidious and difficult to ferret out, and illustrates why
3 more than just a sampling or cursory review advocated by FPL and apparently favored
4 by the Commission is wholly inadequate.

5
6 Contractor P included an invoice for \$1,230,638¹⁷ regarding [REDACTED] of work from
7 September 18 through September 24. The invoice list included a second invoice for
8 \$1,223,187¹⁸ with the same personnel and the same hours. The difference was that one
9 bill did not include expenses while the second bill included \$7,451 of expenses. After
10 OPC confronted FPL with this evidence at the November 15 deposition, FPL conducted
11 research on the apparent double billing. Subsequently, during the deposition on
12 December 13, 2018, FPL acknowledged this was a case of double billing. FPL's
13 response to Citizens' Production of Documents No. 35 confirmed that Contractor P was
14 paid twice for the same work and duplicate billing, and that FPL's O&M expense was
15 credited in December 2018. Therefore, an adjustment is definitely required for this
16 duplicate payment.

17
18 In another instance of double billing, the summary of costs for Contractor OO included
19 two invoices for \$446,859; each invoice was for [REDACTED] for September 11 through

¹⁷ FPL's response to Citizens' Production of Documents No. 6, Documents; Document 5202656856; Bates FPL 020775.

¹⁸ FPL's response to Citizens' Production of Documents No. 6, Documents; Document 5202661125; Bates FPL 023893.

1 September 17.¹⁹ Similarly, the listing for Contractor OO included two invoices for
2 \$303,367 each for ██████████ for September 18 through September 22²⁰. The detail
3 showed the invoices listed the same personnel, the same dates supposedly worked and
4 the same hours. No differences were noted in the respective invoices, thus FPL should
5 have identified both of these as duplicates during its review and processing of invoices.

6
7 Yet another duplicate bill amount was submitted by Contractor Y, where one invoice
8 charged \$655,557²¹ and the second invoice charged \$671,670²². Both invoices were
9 supported by the same personnel and the same time period September 18 through
10 September 24. Ironically, both had the same invoice number - 156225. The reason
11 there was a difference in the amounts billed was because FPL had adjusted the hours
12 on the Storm Crew Weekly Time Report for the dates September 19 and September 24
13 for some of the employees.

14
15 **Q. BASED ON THE EXPLANATION CONTAINED IN THE DECEMBER 15**
16 **DEPOSITION TRANSCRIPT AT PAGES 238-244, 501-502 AND 505-506, AND**
17 **DEPOSITION EXHIBITS 22 AND 23, IS THERE AN ACCOUNTING**
18 **DESCRIPTION FOR CHARACTERIZING THE DUPLICATE \$1.2 MILLION**
19 **THAT FPL PAID?**

¹⁹ FPL's response to Citizens' Production of Documents No. 6, Documents; Document 5202667866; Bates FPL 025622 and Document 5202626883; Bates FPL 048053.

²⁰ FPL's response to Citizens' Production of Documents No. 6, Documents; Document 5202667862; Bates FPL 025567 and Document 5202663914; Bates FPL 024992.

²¹ FPL's response to Citizens' Production of Documents No. 6, Documents; Document 5202737250; Bates FPL 038120.

²² FPL's response to Citizens' Production of Documents No. 6, Documents; Document 5202648719; Bates FPL 018284.

1 A. Yes. The way this was described in the deposition some may view this as an attempt to
2 misappropriate funds. Assume, a person went to a store and handed the cashier \$10 for
3 a \$5 charge. The cashier then hands that person \$15 in change and the person
4 knowingly walks away with it. That is a misappropriation of funds. This scenario is
5 similar to how I understand this transaction occurred.

6

7 **Q. DID YOU SEE ANY EVIDENCE THAT FPL'S "CONTROLS" OR TIME**
8 **SHEET APPROVAL PROCESS WAS ADEQUATE TO DETECT THIS**
9 **DUPLICATE BILLING?**

10 A. No. More of a concern to me is that the timesheet approval process (relied upon by the
11 accounts payable department in processing the invoices) contains signatures indicating
12 field approval of this vendor's submission of duplicate invoices.

13

14 **Q. CAN THE COMMISSION AND CUSTOMERS BE ASSURED THAT THIS**
15 **WAS AN ISOLATED INCIDENT?**

16 A No. Moreover, it appears to me that FPL's controls are inadequate to discern this type
17 of activity, and the fact that FPL appears not only unconcerned but, astonishingly
18 appears to continue to tolerate the actions described on pages 505-506 of the deposition,
19 is reason to doubt the efficacy of FPL's control process. This is a special concern in the
20 case of a vendor who does year-round work for FPL and has an ongoing relationship
21 with the very personnel purporting to sign off on the time sheets. Further, it creates a
22 looming concern to customers and the Commission, since the vendor does work and
23 bills FPL for **both** storm restoration work and normal, year-round line work.

1 **Q. ARE THERE MORE DUPLICATE INVOICES INCLUDED IN THE LISTING**
 2 **OF COSTS PROVIDED BY FPL IN RESPONSE TO CITIZENS**
 3 **INTERROGATORY NO. 20?**

4 A. Yes. Contractor PP also submitted duplicate invoices. There are two invoices with
 5 the same total hours and the same personnel for the same time period September 11
 6 through September 17, 2017. One invoice charged \$316,924.80²³ and indicates it is a
 7 revision of the other invoice which charged \$293,524.80.²⁴ The difference is that the
 8 revised billing shifted hours from straight time to overtime. During the deposition of
 9 December 13, 2018, [REDACTED]
 10 [REDACTED]²⁵ In performing a follow-up search for Contractor
 11 PP's entries on the cost listing provided by FPL in response to Interrogatory No. 20, I
 12 could not locate a credit for either amount. If FPL made a reversal, it was not reflected
 13 as part of the costs reported by the Company.

14
 15 In another duplication, Contractor RR submitted two invoices with the same personnel
 16 for the same time period September 18 through September 24, 2017. One invoice
 17 charged \$217,124.92²⁶ and the other invoice charged \$227,519.00.²⁷ The difference is
 18 that the second billing added [REDACTED] hours to six individuals on September 18 who were

²³ FPL's response to Citizens' Production of Documents No. 6, Documents; Document 5202656335; Bates FPL 020076.

²⁴ FPL's response to Citizens' Production of Documents No. 6, Documents; Document 5202655953; Bates FPL 019800.

²⁵ Deposition of FPL December 13, 2018 at pages 500-501.

²⁶ FPL's response to Citizens' Production of Documents No. 6, Documents; Document 5202692840; Bates FPL 033312.

²⁷ FPL's response to Citizens' Production of Documents No. 6, Documents; Document 5202747215; Bates FPL 039237.

1 shown on the previous invoice to have no time and deducted █ hours from two
 2 individuals time on September 18, reducing their overtime from █ hours to █ hours.

3
 4 Contractor FF also had a duplicate billing. This duplicate was for a five man crew that
 5 was included on two invoices for the same dates and hours. The invoice in Document
 6 5202737137 (FPL 037968) reflected █ hours for the five man crew on the weekly
 7 crew report (FPL 037974) for the period September 18 through September 24. The
 8 invoice in Document 5202736987 (FPL 037906) reflected the same █ hours for the
 9 five man crew on the weekly crew report (FPL 037907) for the period September 18
 10 through September 24. This resulted in a duplicate billing of \$73,920 based on █
 11 hours at an average rate of █ an hour.

12
 13 Contractor SS submitted two invoices for the same crew for the same week. The first
 14 invoice was for six days, September 12, 2017 through September 17, 2017.²⁸ The
 15 second invoice was for two days September 11, 2017 through September 12, 2017.²⁹
 16 This resulted in September 12 being paid for twice. The duplicate billing is \$54,400
 17 based on █ hours at a rate of █ an hour and █ hours at a rate of █ an hour.

18
 19 **Q. DID YOU IDENTIFY ANY OTHER BILLING ISSUES?**

20 A. Yes. The other billing issue is with invoices reflecting the hours as reported on the
 21 Storm Crew Weekly Time Report (“WEEKLY”), yet the supporting detail from the

²⁸ FPL’s response to Citizens’ Production of Documents No. 6, Documents; Document 5202622041; Bates FPL 058897.

²⁹ FPL’s response to Citizens’ Production of Documents No. 6, Documents; Document 5202632030; Bates FPL 059599.

1 Storm Crew Daily Time Report (“DAILY”) for the WEEKLY invoices either did not
2 show a crew member had performed work or the Storm Crew Daily Time Report
3 indicated that the crew member had a classification that was not billable according to
4 the vendor’s contract.

5
6 **Q. WOULD YOU PROVIDE SOME EXAMPLES OF BILLING ISSUES?**

7 A. Yes. In my review, I identified at least three occasions on which Contractor P was paid
8 for individuals listed on the WEEKLY that were not listed on the DAILYs for the week.
9 The first invoice was included on Document No. 5202656376. On this particular
10 billing, two individuals were on the WEEKLY that were not listed on the DAILY.
11 Here, an adjustment of \$37,947 is required for payment of [REDACTED] hours at an average rate
12 of [REDACTED] an hour. This adjustment is reflected on Line 388 of Exhibit HWS-2, Schedule
13 C, Page 3 of 6. The second overpayment for Contractor P was on Document No.
14 5202656872. Here, four crew personnel were listed on the WEEKLY that were not
15 listed on the DAILY for September 12. That resulted in an overpayment of \$11,465,
16 based on [REDACTED] hours of unsupported time at an average rate of [REDACTED] an hour. This
17 adjustment is reflected on Line 389 of Exhibit HWS-2, Schedule C, Page 3 of 6. The
18 third overpayment for Contractor P was on Document No. 5202656856. Here, the same
19 two crew personnel, in the first invoice discussed, were again listed on the WEEKLY
20 but were not listed on the DAILYs for the week. That resulted in an overpayment of
21 \$40,104 based on [REDACTED] hours of unsupported time at an average rate of [REDACTED] an hour.
22 This adjustment is reflected on Line 390 of Exhibit HWS-2, Schedule C, Page 3 of 6.

1 **Q. IS ONE DOCUMENT CONSIDERED MORE RELIABLE THAN THE OTHER**
2 **WHEN DESCREPANCIES OCCUR?**

3 A. That is an interesting question. In my opinion, they both are important. The WEEKLY
4 is the source for the hours on the invoice itself. The DAILY is purportedly the source
5 for the WEEKLY. However, FPL representatives stated in the November 15, 2017
6 deposition that the WEEKLY is optional and the DAILY is not optional,³⁰ thus that is
7 why I find the question interesting.

8

9 **Q. ARE THERE MORE INVOICES THAT INCLUDED TIME FOR CREWS**
10 **THAT WERE NOT SUPPORTED BY THE STORM CREW DAILY TIME**
11 **REPORT?**

12 A. Yes. There are at least three more invoices that I was able to identify where the
13 WEEKLY was not supported by the DAILY. The three are as follows:
14 Contractor E's invoice in Document 5202661266 (FPL Bates No. 024567) included
15 three crew members on the weekly summary time reports (FPL Bates Nos. 024568 and
16 024569) that could not be found on the daily time report (FPL Bates Nos. 024570
17 through 024585). This overstatement requires an adjustment of \$86,112 based on [REDACTED]
18 hours at a rate of [REDACTED] an hour. In addition, Contractor E had another invoice in
19 Document 5202661262 (FPL Bates No. 024529) that included two crew members on
20 the weekly summary time reports (FPL Bates Nos. 024530 and 024531) that were not
21 located on the daily time reports (FPL Bates Nos. 024532 through 024543). This

³⁰ Exhibit HWS-3 at page 41, lines 19-21.

1 overstatement requires an adjustment of \$64,584 based on [REDACTED] hours at a rate of [REDACTED]
2 an hour.

3
4 Document 5202651611 (FPL 019003) was an invoice for Contractor FF that included
5 hours on the WEEKLY based on the incorrect DAILY. The DAILY showed the crew
6 worked from 6 AM to 10 PM which is 16 hours. The Daily showed 18 hours for each
7 crew member. This error occurred on 5 days and resulted in an overpayment of \$18,724
8 based on [REDACTED] hours of incorrectly reported time at an average rate of [REDACTED] an hour.

9
10 **Q. PLEASE DESCRIBE THE ISSUE WITH BILLING FOR CREW POSITIONS**
11 **THAT ARE NOT BILLABLE UNDER THE CONTRACT?**

12 A. FPL has specific contracts with most of the outside contractors they do business with.
13 The specific contracts all reference Exhibit A1. CONFIDENTIAL Exhibit A1
14 specifically states that, [REDACTED]
15 [REDACTED] During my
16 analysis, when the daily time reports were reviewed it was noted on some that some
17 contractors did bill for those crew classifications. Contractor E billed for each of the
18 three classifications on Document 5202661272. That billing inappropriately included
19 \$84,318 for [REDACTED] hours at an average rate of [REDACTED] an hour.

20
21 **Q. IS IT POSSIBLE THAT THE CONTRACTOR WAS ALLOWED TO BILL FOR**
22 **THOSE CLASSIFICATIONS BASED ON THE SPECIFIC CONTRACT FOR**
23 **THAT VENDOR?**

1 A. My review of FPL's contracts leads me to conclude that the answer to this question is
2 that the contracts do **not** allow such billing. The response to Citizens' Production of
3 Documents No. 19 provided various contracts. The contract for Contractor E did not
4 make a special provision for those classifications. In fact, the contract specifically
5 reiterated that those classifications were included in the all-inclusive rate. Contractor
6 E had two other invoices that included billing for those classifications. The invoices
7 were included with Documents 5202656432 (FPL 061495) and 5202664515 (FPL
8 025181), and the amounts of \$63,687 and \$100,464 should be disallowed, respectively,
9 for this over billing.

10

11 **Q. WHY IS THE STANDBY TIME AN ISSUE?**

12 A. Numerous contractors mobilized for 2 or 3 days, arrived in Florida on September 8,
13 and then billed September 9 and 10 as standby time. There were also a number of
14 contractors who traveled on the 9th and 10 and arrived in Florida, or just north of Florida,
15 so they could be on the job after the storm passed on September 11.

16

17 **Q. ISN'T IT PRUDENT TO HAVE CREWS IN PLACE AND READY TO GO TO**
18 **WORK AFTER THE STORM PASSES?**

19 A. Being proactive is obviously a good thing and can be reasonable, when the proactive
20 actions are conducted prudently. However, as with everything else, FPL needs to make
21 sure that they proceed prudently when contracting with restoration crews. In fact, FPL
22 had contracts in place with numerous contractor crews before Hurricane Irma became
23 a storm. With those contracts in place, one would expect effective coordination (with
24 embedded and non-embedded crews) such that FPL should not have to mobilize

1 contractor crews too early for travel, and then have those crews sitting around in Florida
2 waiting (and billing customers) for excessive periods of time for the storm to make
3 impact. This is a concern because it can result in excessive wait and standby times.
4 Another concern is that, if the contractors are instructed to mobilize from their home
5 bases to Florida too soon, they may be inclined to take their time or drag out the drive
6 time to Florida for more hours and days because they get paid a higher rate for
7 mobilization than for actual restoration work; this is clearly a money maker for them.
8 What makes this even more of a concern is that FPL's Exhibit A-1, which is referenced
9 in most contracts, contains guidelines that could potentially minimize the excessive
10 mobilization time issue, but more often than not, FPL did not enforce the requirements
11 mandated in the contracts.

12
13 **Q. COULD YOU PROVIDE SOME EXAMPLES WHERE FPL DID NOT**
14 **FOLLOW THE REQUIREMENTS OF EXHBIT A1?**

15 **CONFIDENTIAL**

16 **A. Yes. In reviewing Exhibit A1, it states the following under the heading "The Work**
17 **(Scope):"**

18 A large black rectangular redaction box covering approximately five lines of text.

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21
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23
24
25
26 My review of documents produced by FPL revealed instances where vendors charged
27 for equipment, fuel purchased, and repairs to equipment during

1 mobilization/demobilization and repairs to equipment. These costs are obviously
2 excluded under the work scope in Exhibit A1.

3

4 Also in Exhibit A1, the “General Resource Requirements” subsection under the
5 “Resource Requirements” states the following:

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(Emphasis added).

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This is reiterated in the “Rate Structure” section where it states:

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1 As part of my review, I looked at numerous daily time sheets to confirm the hours
2 summarized on the weekly time summaries that served as the source for the hours on
3 the FPL invoice template. These daily time sheets identified the crew member's
4 classification, and there were several billings for employees listed as administrative,
5 safety personnel and mechanics. FPL paid for these personnel even though Exhibit A1
6 states that they [REDACTED] As was discussed earlier under the
7 capitalization section, the contractor crews included four, five or six personnel. The
8 review of daily time sheets confirmed that this was routine, and the predominant size
9 was five.

10 Under the subsection "Specific Resource Requirements" in Exhibit A1, it states the
11 following:

12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]

17 (Emphasis added).

18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED]

26 This language indicates the use of five man crews, which as I explained earlier is
27 ignored by FPL when calculating the capitalization of certain restoration work. I would
28 also note that there were crews with more than one apprentice.

1 Under the caption "Vehicles and Equipment Maintenance," Exhibit A1 states:

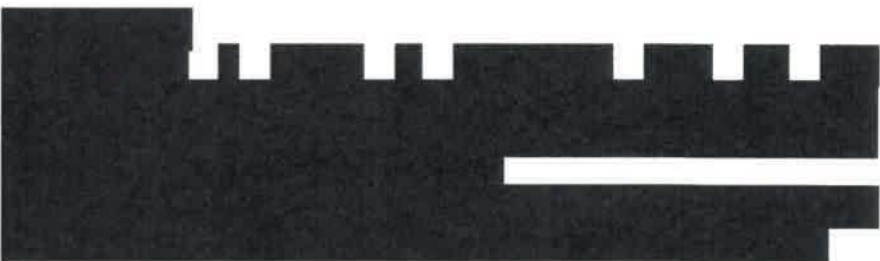
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(Emphasis Added)

16 As stated earlier, there was some maintenance of equipment which was billed to FPL
17 and included in the requested restoration costs, in obvious violation of this provision.
18 Under the "Working/Standby Price Structure," Exhibit A1 states the following
19 regarding standby hours:

20
21
22
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27



28 A number of crews billed for 16 hours during standby time, despite the 10 hour
29 maximum of standby time allowed under Exhibit A1, and these costs were included in
30 the requested restoration costs.

31
32
33
34

Under the "Overtime Hours" subsection, Exhibit A1 states in bold print [redacted]
[redacted] However, contractor QQ billed for double time,
which was paid by FPL and submitted as storm restoration costs. Although the

1 Company explained that this was due to union contract requirements, with all the
2 advance preparation and negotiated contracts, FPL should have been aware of this issue
3 and negotiated a better deal for its customers.

4
5 Under the "Lodging" section, Exhibit A1 states [REDACTED]
6 [REDACTED] Notwithstanding this
7 language, certain time sheets include notes that contractors slept in their trucks and
8 billed for their sleep time resulting in hours billed as if the workers had worked more
9 than 24 hours straight.

10
11 The section identified as "Gasoline/Diesel Fuel" states in bold that [REDACTED]
12 [REDACTED] This is particularly intriguing since part of the
13 argument for allowing 16 hours for mobilization/demobilization for 550 miles of travel
14 is that the crews stop for meals and fuel. Adding to that concern is that under the
15 "Meals" section, it clearly states [REDACTED]
16 [REDACTED] Thus, FPL failed to comply with its own statement of
17 requirements in allowing these to be included in its requested restoration costs.

18
19 **Q. DO YOU HAVE ANY CONCERNS WITH HOW THE CONTRACTOR COSTS**
20 **WERE TRACKED AND/OR REVIEWED?**

21 A. Yes, I do. I am concerned about the lack of documentation regarding the mobilization,
22 demobilization and standby time for the contractors. FPL was requested to provide a
23 summary listing, by contractor and line clearing crews, of the costs for mobilization
24 and demobilization. FPL's response to Citizens' Interrogatory No. 3 only provided an

1 estimate that 25% of contractor costs were for mobilization/demobilization and that
2 line clearing and mutual aid utility information was not available. It is unacceptable for
3 a company of FPL's size and resources to fail to maintain sufficient documentation to
4 support its requested restoration costs.

5
6 Based upon the Company's response, 25% of contractor costs is for
7 mobilization/demobilization. Therefore, this is a major cost component of the storm
8 costs for which FPL is seeking approval. The fact that FPL is unable to identify the
9 amount of costs for line clearing and mutual aid should be a major concern for the
10 Commission in determining the prudent and reasonable storm costs in this docket.

11
12 What is more concerning is that FPL should be reviewing these costs for reasonableness
13 and support, and the Company's current billing system has the documents to do this.
14 In the limited time provided by the Commission for review of the voluminous materials
15 produced by FPL, I noted a document identified as the "Daily Contractor Mobilization
16 Log." This document is designed to identify (1) who is traveling, (2) the origin of the
17 trip, (3) the destination, (4) when departing, (5) each stop along the way, (6) when the
18 crew arrived, and (7) other important information such as when the crew was released.
19 This information is relevant and clearly could be used to verify whether a crew's time
20 and costs are reasonable. However, FPL apparently only considers this document as
21 something that *may* be used to facilitate payment processing as indicated in its response
22 to Citizens' Interrogatory No. 124:

1 QUESTION:

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9 RESPONSE:

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Refer to the response to Production of Documents No. 6. Please explain why some vendors include the "Daily Contractor Mobilization Log" sheets with their billing as support for mobilization/demobilization pay and others are not required to submit the mobilization form with their bills.

The "Daily Contractor Mobilization Log" is included in the invoicing templates FPL provides to the storm vendors to help facilitate the payment process. Vendors may use it to support their travel to and from their assigned location but it is not mandatory, similar to the other invoicing templates, so long as the vendor provides sufficient back up documentation in a format satisfactory to FPL.

This is very troubling because FPL obviously has a document that could be utilized to verify charges and serve as supporting documentation that costs are appropriate. Instead, FPL relies on an insufficient benchmark for travel time and occasional verbal employee verification via telephone, etc., that is not documented. The assumption that the FPL representative who is assigned to oversee the execution of a contractor's work assignments is sufficient simply because the representative signs a time report is itself insufficient. As indicated earlier, numerous contractors billed for 16 hours a day or more for travel without any justifiable support that the travel time was accurate or reasonable.

In discovery following the November 15 deposition, FPL responded to OPC's Interrogatory No. 130 as follows:

QUESTION:

Please refer to Dep. p. 62-63, lines 2-12, 1-11. Please explain the results of your research related to the forms titled Daily Contractor Mobilization Log Storm Travel, including but not limited to, how that

1 log is used in the invoice review and approval process, which FPL
2 organization or entity created the form for the Daily Contractor
3 Mobilization Log Storm Travel, at what stage in the storm response
4 process the log is generated and sent to a vendor, and to which FPL
5 organization the vendor submits the completed form (FPL department,
6 employee title and name).
7

8 RESPONSE:
9

10 This form is included in the packet of templates provided by FPL in
11 order to assist the vendor with preparing their invoices for payment. The
12 blank template (see sample as Attachment No. 1 to this response) is sent
13 to the vendor at the time of resource commitment along with all of the
14 other invoicing templates. At the time of submitting an invoice for
15 payment, a vendor would include this form in their invoice support and
16 send it to the Accounts Payable department. The use of any of the FPL
17 templates is recommended but not required to process and approve a
18 vendor invoice for payment. If and when a vendor provides the travel
19 log, it is used as part of the overall invoice review process to confirm
20 appropriate billing. The main focus for the invoice review is on the daily
21 timesheet and this log is provided as supplemental information. Vendor
22 invoices are processed and approved as long as FPL Accounts Payable
23 has the information needed to perform their review and the information
24 has been approved by Power Delivery.
25

26 This response included an attachment with instructions that read: "Enter all
27 Mob/Demob information on the Travel log tab. Include the city, state and time for any
28 stops made during travel. (Employee names must be listed on the travel log)."
29 However, this response is inconsistent with the requirements included in Exhibit A1
30 that is referenced in the specific contractor contracts. Under the "Invoicing" section of
31 Exhibit A1, it states:



1 This should be a significant concern to the Commission in that the contractual
2 requirements are being ignored. Even more concerning is that, when asked about the
3 deficiency, FPL stated: “Vendors may use it to support their travel to and from their
4 assigned location but it is not mandatory.”³¹ In my accounting experience, when some
5 direction or rule uses the terminology “shall,” that means it is mandatory and does not
6 mean “may” or “can.” In FPL’s situation here, the number of invoices without
7 mobilization logs is significant.

8
9 In addition, in response to Citizens’ Interrogatory No. 127, FPL stated it does not
10 document the origin and destination city for mobilization/demobilization. Absent the
11 documentation for this information, there is no supporting evidence that FPL evaluated
12 the reasonableness of the contractors’ travel times.

13
14 **Q. DON’T INVOICES IDENTIFY THE ORIGIN OF THE CREWS?**

15 A. Not necessarily. The address listed on the invoices is normally the contractor’s billing
16 address; however, that is not always where the crews originated. As part of my review,
17 I attempted to identify the origin and destination from the Daily Contractor
18 Mobilization Log, when available, and the contractor addresses on hotel bills, time
19 sheets and other documents provided. The challenge is that this is very time
20 consuming, considering the abbreviated time provided in the docket schedule, as
21 compared to the magnitude of documents.

³¹ Response to Citizens’ Interrogatory No. 124.

1 I will note that during the review of Hurricane Matthew costs, the Company stated it
2 had no documents or any analysis that summarized the costs incurred for standby time
3 of contractors or mutual assistance aid. Given what I have observed as part of my
4 review of the costs in this filing, I would be surprised if FPL made any changes to
5 improve its oversight of storm costs. In that case and again here, I note that I am
6 concerned with the lack of accountability of the standby time.

7

8 **Q. WHY IS THERE A CONCERN WITH THE ACCOUNTABILITY OF**
9 **CONTRACTORS' TIME?**

10 A. As I discussed earlier, the Company incurred an excessive amount of standby and
11 mobilization/demobilization costs, and for some vendors this problem was
12 compounded by excessive mobilization rates. It is important to respond in a timely and
13 efficient manner when a storm impacts the system, yet that is not justification to assume
14 any cost incurred was justified.

15

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

18 A. Yes, I am. I am recommending FPL be required to separately identify the amount of
19 hours and costs that are associated with mobilization/demobilization and with standby
20 time. This is important information that is beneficial not only to the Company, but also
21 to the Commission. This information provides critical insight into how FPL is planning
22 and controlling costs before, during, and after the storm restoration. It is simply not
23 acceptable for FPL to state that it needs to fix the problem, but then ignore the cost.
24 This is especially true from the ratepayers' perspective.

1 **Q. ARE YOU RECOMMENDING A DISALLOWANCE OF COSTS FOR**
2 **EXCESSIVE STANDBY AND/OR MOBILIZATION/DEMOBILIZATION?**

3 A. I am not making a specific recommendation as to each contractor at this time because
4 of time limitations and the sheer volume of documentation that needs to be reviewed.
5 Based upon what I have reviewed and the deficiencies I have identified, I am estimating
6 the amount of excess time and dollars rather than recommending specific contractor
7 adjustments. My recommendation is considered conservative and I believe that the
8 Commission has the authority and a basis upon which to make an adjustment on its
9 own and to disallow a greater portion of these costs because the Company has failed to
10 meet its burden to properly justify the time and cost for standby and
11 mobilization/demobilization time. It is my opinion that this case should provide an
12 extended opportunity to fully evaluate the invoices given the significant discrepancies
13 in the subset of invoices that were reviewed in the time allotted. This should occur even
14 if the hearing needs to be delayed as there is no urgent deadline to issue a final order in
15 this case. In the alternative, OPC may need to delve more deeply into this issue via
16 extensive cross-examination at the hearing.

17

18 **Q. WHAT ADJUSTMENTS ARE YOU RECOMMENDING FOR THE**
19 **EXCESSIVE STANDBY AND/OR MOBILIZATION/DEMOBILIZATION?**

20 A. Earlier I had indicated that FPL's lack of monitoring travel could have resulted in
21 mobilization/demobilization being overstated by 33%. However, to be conservative, I
22 am recommending that 25% or \$30.016 million of the mobilization/demobilization cost
23 be considered as excessive and not allowable for recovery by either the amortization
24 reserve or the TCJA as proposed by FPL.

1 The standby time of \$20.825 million that I have identified is primarily attributable to
2 non-embedded contractors arriving early and charging FPL's ratepayers for two days
3 (i.e. September 9th and 10th), in many cases 16 hours a day, and this is considered
4 excessive and not justified. However, again to be conservative, I am recommending
5 that 20% or \$4.165 million of this cost be considered as excessive and not allowable
6 for recovery by either the amortization reserve or the TCJA as proposed by FPL. The
7 calculations of the respective adjustments are reflected on Exhibit HWS-2, Schedule
8 C, p. 3 of 6.

9
10 **Q. WHY DID YOU STATE THAT THE CONTRACTOR CAPITALIZATION OF**
11 **COSTS IS UNDERSTATED?**

12 A. FPL used a formula for capitalization of costs which, based on the Company's
13 predetermined overtime rates or contractor rates, understates the amount that should be
14 capitalized because it is based on normal weather conditions, not on what is normal
15 during storm restoration. Applying the same formula for capitalization of contractor
16 costs will also understate the amount capitalized for these costs, which results in more
17 costs being charged to storm restoration rather than being capitalized as part of the
18 restoration costs.

19
20 **Q. DOES IT MATTER WHETHER THE CAPITALIZATION COSTS ARE**
21 **ACCURATE?**

22 A. Yes, it does. If FPL is allowed to understate the capital amount, current ratepayers will
23 pay for capital costs that will benefit future ratepayers. This is referred to as
24 intergenerational inequity. Current ratepayers should not bear the total costs of plant

1 that will be used over thirty to forty years by future customers who are not receiving
2 service from FPL today. Because FPL is understating its capitalized plant, it is
3 accelerating recovery of that plant expense which should be capitalized as part of the
4 restoration costs via the re-establishment of the amortization reserve instead of over
5 the life of the plant. The cost of that plant should be spread over the life of that capital
6 asset being installed and not as part of the Reserve re-establishment as FPL is
7 proposing. Under Generally Accepted Accounting Principles (“GAAP”), the cost of
8 plant to be capitalized is the actual cost. Under the circumstances of this docket (i.e.
9 storm restoration), it is difficult to capture the actual cost; however, that does not justify
10 making an improper estimate of the replacement plant using an understated cost per
11 hour. FPL’s capitalization formula does not comply with GAAP requirements for
12 capitalization of plant based on actual costs, and an adjustment must be made to reflect
13 this error. Therefore, I am recommending a jurisdictional adjustment of \$278.754
14 million for the capitalization of contractor costs. This adjustment is calculated on
15 Exhibit HWS-2, Schedule C, p. 2 of 6.

16
17 **Q. IS THERE ANY DISPUTE REGARDING WHETHER CONTRACTORS**
18 **PERFORMED CAPITAL-RELATED WORK?**

19 A. No, there is not. FPL’s responses to Citizens’ Interrogatories No. 14 and 15 clearly
20 state that capital work was performed by contractors and mutual aid utilities.

21
22 **Q. ARE THERE ANY OTHER CONCERNS WITH HOW FPL TRACKED**
23 **CONTRACTOR TIME TO BE CAPITALIZED?**

1 A. Yes, there is. Capital work performed by both FPL employees and contractors is a
2 significant cost element in both the immediate restoration activities and subsequent
3 “follow-up” activities for which FPL is seeking approval as storm costs. In its response
4 to Citizens’ Interrogatory Nos. 15, FPL states it is unable to provide the specific number
5 of poles set by contractors because that information is not specifically
6 identified/tracked during emergency response events. As this response indicates, FPL
7 does not track this “capitalizable” pole setting activity for contractors during the
8 immediate restoration time period. Thus, FPL has failed to properly track and,
9 subsequently, account for this important capital activity during the restoration time
10 period.

11

12 **Q. HOW DID FPL DETERMINE THE AMOUNT OF CAPITALIZED**
13 **CONTRACTOR COSTS IN THIS CASE?**

14 A. FPL’s response to Citizens’ Interrogatory No. 16 states:

15 The amount of capital costs for each storm event is determined by
16 applying part (1)(d) of Rule 25-6.0143, Use of Accumulated Provision
17 Accounts 228.1, 228.2 and 228.4, Florida Administrative Code
18 (“F.A.C”), which states that “...the normal cost for the removal,
19 retirement and replacement of those facilities in the absence of a storm”
20 should be the basis for calculating storm restoration capital.

21

22 FPL’s utilizes its Work Management Systems, WMS for Distribution
23 and Project Update and Reporting (PUR) for Transmission to calculate
24 capitalized contractor work. Labor cost is applied to capital materials
25 installed during storm restoration by creating work requests through
26 WMS and PUR. For work incurred during restoration, the capital labor
27 cost is allocated between contractor and regular payroll based on WMS
28 predetermined construction man hours (CMH) and capital labor split
29 between FPL employees and contractors required to perform the
30 installation of the material. The 2017 normal condition labor rate is then
31 applied to the CMH and capital labor split to obtain capital contractor
32 cost. The follow-up work capital labor split between FPL
33 employees and contractors is known because this work is planned.

1 There remained some follow-up work to be completed as of May 31,
 2 2018 at which time FPL finalized the cost estimate, but this work has
 3 been fully scoped and has been subject to fixed price bids such that the
 4 capital labor cost can be estimated using similar work. The estimate for
 5 the follow-up work to be completed is included in the cost summary in
 6 Attachment No. 1 to FPL's response to OPC's First Set of
 7 Interrogatories No. 5.

8
 9 In its response to Citizens' Interrogatory No. 40, FPL further states:

10 The predetermined construction man hours (CMH) referenced in FPL's
 11 response to OPC's First Set of Interrogatories No. 16 are based on
 12 historical labor studies for the type of work being performed during
 13 normal conditions. Also, as provided in FPL's response to OPC's First
 14 Set of Interrogatory No. 16, FPL did not modify its normal condition
 15 labor rate to account for the storm restoration work being capitalized.
 16 Instead, the labor rate applied by FPL was the 2017 normal condition
 17 labor rate and capital labor split (employee/contractor), as required by
 18 Rule 25-6.0143.

19
 20 **Q. IS THE USE OF A CMH RATE IN DETERMINING THE CONTRACTOR**
 21 **CAPITALIZED COST APPROPRIATE?**

22 A. Yes, it is appropriate to use a CMH rate since FPL stated that it does not specifically
 23 identify and/or track contractor capital work during emergency response events.³² The
 24 use of a calculated rate is common because contractors do not specifically identify the
 25 amount of time required to perform capital work and companies do not track the time
 26 required to perform the capital work. The key determinant is whether the rate used is
 27 reasonable given the circumstances and the crews utilized for restoration.

28
 29 **Q. IS THERE A CONCERN AS TO THE AMOUNT OF CONTRACTOR COSTS**
 30 **THAT WERE CAPITALIZED?**

³²FPL's response Citizens' Interrogatory No.16.

1 A. Yes, there is. My concern is that the average hourly rate utilized by FPL for
2 capitalization does not represent the cost for contractor personnel performing capital
3 work during normal restoration. As discussed earlier, the rate used for FPL's personnel
4 to perform storm restoration work is not representative of the conditions and
5 requirements after a storm has occurred. Similarly, since contractor rates and hours are
6 greater than the rates and hours for FPL's personnel, the average hourly rate FPL
7 utilized for contractors does not represent the total cost of outside contractors who
8 perform capital restoration work. Based upon my analysis, the cost for capitalization
9 work performed by contractors is significantly understated. Use of an understated FPL
10 rate for contractors, which even understates the capitalized work that FPL itself
11 performed, presents an even larger problem because when costs are capitalized, the
12 actual costs recorded are understated even more.

13

14 **Q. DID YOU PERFORM ANY ANALYSIS TO EVALUATE THE COMPANY'S**
15 **CONTRACTOR COSTS IN THIS CASE?**

16 A. I analyzed the respective hourly rates for FPL's employees versus the average hourly
17 contractor rate and compared that to the actual hourly billing rates by contractors for
18 storm restoration work. The Company's response to Citizens' Interrogatory No. 76
19 indicates the average blended hourly capitalization rate for FPL employees is \$140.46
20 and for contractors it is [REDACTED]. This rate includes labor, vehicle costs and
21 miscellaneous costs. Ignoring the vehicle costs and miscellaneous costs, the \$140.46
22 hourly rate applies for approximately three FPL employees performing the capital
23 work. The average regular FPL payroll rate in Docket No. 20160251-EI was \$38 an
24 hour. I am confident that rate has not declined and multiplying that rate times 3

1 employees and an approximate overhead rate of 14% equates to an average cost of
2 \$129.26 per hour ($\$38 \times 3 \times 1.14$). This is at the regular pay rate. As discussed earlier,
3 during restoration this would be even higher because it would be an overtime rate. The
4 capitalization rate of \$140.45 barely covers regular labor costs using regular rates let
5 alone the purported vehicle costs and miscellaneous costs. The fact that contractor
6 crews perform this work and their crews typically range from [REDACTED] personnel means
7 the hourly rate of \$140.46, or even the [REDACTED], is not representative of what the cost
8 per hour would be when the number of personnel involved is factored in. As shown on
9 Exhibit No. HWS-2, Schedule C, Page 3 of 6, I have estimated the average hourly
10 contractor rate at approximately [REDACTED] an hour. If just [REDACTED] contractor employees were
11 doing the capital work, the hourly rate would be [REDACTED]. This [REDACTED] an hour
12 rate is over five times [REDACTED] ($\text{[REDACTED]} / \$140 = \text{[REDACTED]}$) the hourly rate utilized by FPL for
13 capitalization.

14
15 **Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO WHAT THE**
16 **COMPANY REFLECTED AS CAPITALIZED?**

17 A. Yes, I am. The capitalized amount for distribution costs for contractor labor should be
18 increased from \$72.404 million to \$351.158 million, an increase in capital costs of
19 \$278.754 million. A corresponding reduction to total restoration costs of \$278.754
20 million is then required. This adjustment does not deprive FPL from recovering the
21 costs, it simply spreads the recovery over an appropriate time frame as required under
22 GAAP.

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

2 A. On Exhibit No. HWS-2, Schedule C, Page 2 of 6, I first determined the actual hours
3 utilized by FPL to calculate its adjustment on capitalization by dividing the
4 capitalization cost by [REDACTED] which is the FPL CMH rate for contractors. I note that
5 this is what FPL identified as the contractor rate; however, I have not seen that they
6 used this rate since the only calculation provided used the \$140.46 hourly rate provided
7 in the response to Citizens' Interrogatory No. 76. Next, I multiplied the average hourly
8 rate of [REDACTED] by [REDACTED] which is a conservative contractor personnel level. This resulted
9 in an hourly rate of [REDACTED] for a contractor crew. I multiplied that by the hours capitalized
10 by FPL, which resulted in a cost of \$351.158 million as shown on Exhibit No. HWS-
11 2, Schedule C, Page 2 of 6, line 11. I deducted the capitalization of \$72.404 million
12 that was proposed by FPL which results in my adjustment of \$278.754 million.

13

14 **Q. PLEASE EXPLAIN YOUR CONCERN WITH THE COST CLASSIFIED AS**
15 **"NOT ASSIGNED".**

16 A. As part of the Company's costs for its contractors, FPL includes \$177.364 million of
17 costs labeled as "Not Assigned." OPC asked FPL via an interrogatory to explain why
18 some vendor descriptions were listed as "Not Assigned" and why there is no vendor
19 number included for all vendors. The Company responded as follows:

20 Items listed as vendor descriptions "Not Assigned" and vendor numbers
21 of # indicate a non-purchase order invoice or accrual related to vendors
22 whose contracts had not been pre-negotiated but whose services were
23 needed and therefore were retained shortly before or during the
24 restoration effort. Note, the purpose of the schedule included in FPL's
25 response to OPC's First Set of Interrogatories No. 20 was to
26 provide a summary of contractor costs by function, and its contents
27 should be reviewed independently of FPL's response to OPC's First
28 Request for Production of Documents No. 6. The purpose of the

1 schedule provided in FPL's response to OPC's First Request for
2 Production of Documents No. 6 was to provide a roadmap and a more
3 convenient way to locate specific invoices provided at and above the
4 agreed upon threshold.
5

6 FPL's Response to OPC's Interrogatory No. 43.
7

8 Citizens' Production of Documents No. 6 was a request for FPL to provide invoices for
9 various contractor costs listed in the Company's response to Citizens' Interrogatory
10 No. 20. FPL's response to Production of Documents No. 6, while voluminous, did not
11 provide the information in an organized manner. Instead, FPL's response included
12 three main folders: Folder 6a, Folder 6a part 2 and Folder 6b. Folder 6a consisted of
13 twelve different sub-folder descriptions for approximately 640 different files/individual
14 documents. The different sub-folder descriptions presented the first challenge because
15 some were listed by name, some referred to a document purchase order number, some
16 referred to a document reference number, while a significant number of descriptions
17 referenced a combination of the document reference number and an SAP document
18 number. In addition, there were two unique sub-folders included. One unique file was
19 labeled "crystal clear;" however, the contents were not crystal clear or understandable,
20 and the second unique file was labeled "POD6a Invoices pdf." The latter file consisted
21 of 421 pages of various invoices and documents. Folder 6a2 consisted of
22 approximately four different types of sub-folders. The approximate 780 subfolders
23 were primarily labeled with the combination of document numbers. Moreover, folder
24 6b consisted of five sub-folders, which included another unique sub-folder labeled
25 "POD 6b Invoices pdf." That unique sub-folder consisted of 128 pages of various
26 documents and invoices. Having \$177.364 million of costs, which represents

1 approximately 21.5% of FPL's contractor costs, described as "Not Assigned" only
2 added to the challenge of trying to identify each document with its appropriate
3 classification and vendor.

4
5 The largest contributor to the category of "Not Assigned" was the distribution function
6 that totaled \$156.901 million. I was able to identify a large component of "Not
7 Assigned" as mutual assistance companies. These costs in some cases were supported
8 by multiple pages of documentation, yet in other cases the mutual aid payment lacked
9 significant detail. If FPL actually provided in its discovery responses all the
10 documentation in its possession that it received in conjunction with these vendors and
11 their alleged restoration work, then there does not appear to be any way that FPL could
12 have attempted to evaluate these costs to determine whether the amounts billed were
13 justified.

14
15 **Q. WHY DO YOU BELIEVE THAT THESE COSTS WERE NOT FULLY**
16 **EVALUATED BY FPL?**

17 A. I have summarized all the contractor costs on Exhibit HWS-2, Schedule C, Page 3 of
18 6. If you refer to the distribution function and look at the "Not Assigned" grouping,
19 you will see I have labeled 14 amounts with the caption "NO SUPPORTING
20 DETAIL." The sum total of those 14 amounts is \$35,618,796. FPL provided a total
21 of 36 pages of purported supporting documentation for these 14 listed amounts. That
22 documentation ranged from 1 page to 10 pages per amount. Based upon a review of
23 the supporting information, it only shows that an invoice was provided without any
24 other supporting documentation. The information is so limited it is not possible to

1 evaluate whether the billing is justified. As a counter-example, one mutual assistance
2 provider billed FPL \$524,117 and included 539 pages of documentation as support for
3 that invoice. Clearly, 36 pages is inadequate and does not provide sufficient detail for
4 FPL to evaluate what work was allegedly performed for \$35,618,796.

5
6 **Q. IS THE MUTUAL ASSISTANCE THE ONLY CONCERN WITH THE “NOT
7 ASSIGNED” COSTS?**

8 A. No. There still remain some costs that I have no clue as to what work was performed
9 or what the costs pertained to. The most troubling costs are the accruals. FPL included
10 Distribution costs of \$20.166 million that I was able to identify as accruals. FPL was
11 requested to provide all supporting documentation for this \$20.166 million in Citizens’
12 Production of Documents No. 26. The Company’s response appears to be two journal
13 entries with back up being simply a listing of costs and estimates. This information
14 provided by FPL, which is allegedly all the supporting documentation in its possession,
15 is simply insufficient as support for \$20.166 million of costs that FPL is expecting to
16 charge to base O&M at ratepayers’ expense. The detail provided by the Company
17 represents a mere listing of costs and/or estimates with no backup. At this juncture,
18 FPL should have detailed invoices to support the amounts accrued. Absent that
19 documentation, the costs are unsubstantiated and not appropriate for recovery by means
20 of applying either the amortization reserve or the TCJA to cover the costs charged to
21 base O&M.

22
23 **Q. DID THE OTHER COST FUNCTIONS LACK SUPPORTING DETAILS FOR
24 ACCRUALS?**

1 A. Yes. The support for \$192,731 provided in response to Citizens' Production of
2 Documents No. 25 consisted of 2 pages. Page 1 appears to be only a journal entry and
3 page 2 is a list of costs with three of the costs included in the list totaling to the \$192,731
4 amount. The numbers are nothing more than estimated amounts without any
5 supporting documentation as requested. Supporting documentation was also requested
6 for the Nuclear accruals in Citizens' Production of Documents No. 14. The two
7 accruals were for \$221,287 and \$12,966,523. FPL provided over 100 pages of
8 documents in its response; however, I was unable to figure out which of these
9 documents were purportedly support for the \$12,966,523. The only document I found
10 referencing the \$12,996,523 amount was a page called "Storm Phase II Estimate
11 Template" and the accrual was described as "FAS 5 Contingency Accrual." This
12 reference is very confusing since FAS 5 is the former Financial Accounting Standard
13 No. 5 pronouncement for the accrual of contingencies; thus, it is not clear how this
14 accrual would be appropriate as a storm cost recovery item. It absolutely lacks
15 supporting detail and is just a number on a single page of many provided. A
16 contingency is an estimate for cost that may occur and this recovery is supposedly for
17 actual costs incurred. FPL could, and should, have provided a summary of the costs
18 included in this contingency along with sufficient detailed support for those costs in a
19 more organized manner in order to obtain Commission approval for recovery.

20

21 **Q. SHOULD THE CONTRACTOR COSTS BE ADJUSTED FOR THE "NOT**
22 **ASSIGNED" COSTS THAT ARE QUESTIONABLE AND/OR**
23 **UNSUPPORTED?**

1 A. Yes. I recommend that the distribution accrual of \$20.166 million and the Nuclear
2 contingency accrual of \$12.967 million be excluded from the storm restoration costs
3 that are chargeable to base O&M expense due to lack of supporting documentation. In
4 addition, I recommend that \$17.809 million, or 50% of the \$35.619 million for mutual
5 aid, be excluded from the base O&M expense for failure to provide sufficient evidence
6 that the costs were justified on the basis that there is insufficient information to show
7 that FPL had any a level of documentation to evaluate the reasonableness of these
8 charges. The total recommended "Not Assigned" Adjustment is \$50.942 million.

9
10 **Q. WOULD YOU EXPLAIN WHY YOU ALLOWED 50% OF THE**
11 **UNSUPPORTED COST FOR MUTUAL AID?**

12 A. Yes. There is no question that FPL incurred costs for mutual aid and that there was
13 some benefit from these services that were provided. Nevertheless, FPL has the burden
14 of proof to show the costs incurred were justified and reasonable. Due to the lack of
15 documentation, there is simply no way for FPL to meet its burden of proof and all the
16 costs could legitimately be disallowed for lack of supporting evidence and
17 documentation. However, since there was some benefit, I recommend a 50/50 split
18 between shareholders and ratepayers be considered as a reasonable allocation.

19

20 **VI. LINE CLEARING COSTS**

21 **Q. WHAT IS THE AMOUNT IDENTIFIED AS RESTORATION COSTS FOR**
22 **LINE CLEARING?**

23 A. Reported restoration costs for Hurricane Irma are \$139.908 million for line clearing.
24 The Company has identified \$5.080 million as non-incremental pursuant to the

1 guidelines set forth in the Rule. Excluding the \$5.080 million as being non-incremental
2 leaves \$134.828 million as restoration costs that would be allowed for recovery.

3

4 **Q. WERE THERE ISSUES IN REVIEWING THE INFORMATION SUPPLIED**
5 **BY FPL?**

6 A. Yes. Citizens' Interrogatory No. 21 requested FPL to provide a summary of costs
7 listing each invoice by function by line clearing contractor. The Company's response
8 stated that a summary was provided but that a summary by invoice is not readily
9 available. FPL has what utilities refer to as a robust SAP system, thus it is troublesome
10 that this system is purportedly unable to produce a summary of costs by invoice. The
11 summary FPL provided is by vendor and Purchase Order number. In an attempt to
12 verify the costs, FPL was requested to provide all invoices over \$50,000. The response
13 to Citizens' Production of Documents No. 7 instead provided invoices over \$75,000.
14 This response also included a summary of the purported invoices provided, which is
15 interesting since a similar document with amounts under the threshold could not be
16 produced in response to Citizens' Interrogatory No. 21. The objective was to match the
17 invoices listed in the response to Citizens' Interrogatory No. 21 to the invoices listed
18 in the response to Citizens' Production of Documents No. 7; however, because the
19 information was provided in different formats, I could only make a comparison of
20 invoices to the purchase order amounts leaving unknown differences. These
21 differences may or may not be storm restoration costs.

22

23 **Q. DID YOU ENCOUNTER ANY ADDITIONAL ISSUES AS PART OF YOUR**
24 **REVIEW?**

1 A. Yes. As I indicated above, the response to Citizens' Production of Documents No. 7
2 included an Excel spread sheet listing the various invoices over the \$75,000 threshold.
3 This listing totaled \$86.397 million. In reviewing the supplied documentation, we were
4 only able to identify invoices for \$58.415 million. That means either FPL did not
5 provide \$27.983 million of invoices that were supposed to be provided or, because of
6 the way the information was provided it, it could not be easily located. This is very
7 concerning, and because of the time limitation imposed on the review, FPL should be
8 required to research this problem and provide an explanation as to why the information
9 was not easily identified.

10

11 **Q. ARE YOU MAKING ANY RECOMMENDATION WITH RESPECT TO LINE**
12 **CLEARING COSTS?**

13 A. Consistent with the determination of contractor costs, I am recommending the
14 Commission require FPL to identify the amount of hours and costs that are associated
15 with mobilization/demobilization and standby time. This is important information that
16 is beneficial to not only to the Company, but also to the Commission. This information
17 provides critical insight into how FPL is planning and controlling costs before, during,
18 and after the restoration process. It is simply not sufficient for FPL to state that it needs
19 to fix the problem, but then ignore the cost. This is especially true from the ratepayers'
20 perspective.

21

22 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO LINE CLEARING**
23 **COSTS?**

1 A. An adjustment should be made because the documentation supplied in response to
2 discovery does not appear to have been provided for all invoices over FPL's chosen
3 threshold. However, I am not recommending an adjustment at this time but reserve the
4 right to file supplemental testimony if it turns out the cost are not supported and/or
5 determined to be excessive.

6

7 **VII. VEHICLE & FUEL COSTS**

8 **Q. WHAT IS FPL REPORTING FOR VEHICLE AND FUEL COSTS?**

9 A. FPL's Exhibits KF-1 and KF-2 identify vehicle and fuel costs of \$23.876 million. On
10 Exhibit KF-2, the Company has excluded \$4.325 million because that amount is
11 considered non-incremental. There is no amount listed as being capitalized.

12 **Q. DID FPL FACTOR IN VEHICLE COSTS TO ITS CAPITALIZATION RATE?**

13 A. Yes, it did. Based on FPL's response to Citizens' Interrogatory No. 33, the average
14 hourly capitalization rate is \$141.85, which includes labor, vehicle costs and
15 miscellaneous costs. When the capitalization was booked, it was booked against
16 payroll and contractor costs, so presumably that is why there is no capitalization
17 adjustment for vehicles.

18

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

21 A. After a review of the costs and the supporting detail provided, I have not identified any
22 major cost issues that would require an adjustment. However, during the deposition on
23 November 15, the Company was asked to explain why fuel costs were allowed during
24 mobilization/demobilization. In response, FPL explained that the charges should not

1 have been paid and that it would adjust Exhibits KF-1 and KF-2. This is reflected in
2 FPL's response to Citizen's Interrogatory No. 145:

3 On September 9, 2017, the crew travelled 16 hours from Victoria, TX
4 to Hammond, LA. On September 10, 2017, the crew travelled 16 hours
5 from Hammond, LA to Lake City, and from Lake City back to Panama
6 City, Florida as the storm was passing through the state. There is no
7 written contract provision authorizing reimbursement for fuel purchased
8 during mobilization. Absent approval by FPL, which did not occur in
9 this instance, the vendor should not have been reimbursed for fuel
10 purchased during mobilization. FPL will seek reimbursement from the
11 vendor for payments made for reimbursement of fuel expenses incurred
12 during mobilization without authorization from FPL and will reflect
13 adjustments for these costs on Exhibits KF-1 and KF-2.
14

15 It should be noted that this is not a single occurrence. FPL was asked to provide
16 documentation supporting any exception to the requirement that fuel for
17 mobilization/demobilization not be included with any billing. The response to
18 Citizens' Production of Documents No. 34 states "FPL was unable to locate any
19 responsive documents for approving fuel during mobilization."
20

21 It should also be noted that FPL cannot identify how much of the \$141.85 hourly rate
22 is considered vehicle costs that are part of the CMH rate it used for capitalization. This
23 raises a concern as to the reliability of FPL's numbers.
24

25 **Q. HOW DO YOU KNOW THE COMPANY CANNOT IDENTIFY WHAT**
26 **AMOUNT OF THE HOURLY CAPITALIZATION RATE IS FOR VEHICLE**
27 **COSTS?**

28 A. In Docket No. 20160251-EI, FPL, in response to discovery, stated that the costs for
29 Labor, Vehicle, and Miscellaneous ("LVM") used for distribution capital estimates

1 *cannot be separated*, as it is a system-generated amount calculated by FPL's Work
2 Management System ("WMS"). In response to Citizens' Interrogatory No. 33 in this
3 docket, FPL provided a calculation that was the same as it provided in Docket No.
4 20160251-EI, thus it is obvious the process has not changed based on that response
5 alone. As of the date of filing this testimony, there is outstanding discovery pending to
6 verify that the Company cannot separate the costs for labor, vehicles and
7 miscellaneous.

8
9 The fact that FPL purportedly cannot identify the specific vehicle rate presents a
10 problem because the vehicle rate amount could impact whether my adjustment for the
11 LVM of \$141.85 per hour is too conservative; in other words, the proper cost for labor
12 (the highest component of the hourly rate) could actually be higher than what I have
13 estimated it to be.

14
15 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENT TO VEHICLE AND**
16 **FUEL COSTS?**

17 A. No, I am not.

18
19 **VIII. MATERIALS & SUPPLIES**

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

23 A. FPL's Exhibits KF-1 and KF-2 include \$45.305 million of materials and supplies, of
24 which the Company has capitalized \$28.397 million, for a net reported restoration

1 charged to base O&M expense of \$16.908 million. The amounts capitalized and
2 reported as storm restoration expense appear to be reasonable, and subject to additional
3 information being received and reviewed, I am not recommending any adjustment at
4 this time.

5
6 **IX. LOGISTICS**

7 **Q. WHAT ARE LOGISTICS COSTS THAT ARE INCLUDED IN FPL'S**
8 **REPORTED STORM COSTS?**

9 A. FPL's Exhibits KF-1 and KF-2 include \$272.996 million of costs charged to base O&M
10 expense for Hurricane Irma storm restoration. In its response to Citizens' Interrogatory
11 No. 26, the Company identifies logistic costs as costs related to the establishment and
12 operation of storm restoration sites, and to support employees who are working on
13 storm restoration (i.e., lodging, meals, transportation and buses). The majority of
14 expenses are based on pre-established contracts that were competitively bid. The
15 reported amount expensed to base O&M is \$272.996 million. FPL did not consider
16 any of these costs to be non-incremental or costs which should be capitalized.

17
18 **Q. DO YOU HAVE ANY CONCERNS WITH THE LOGISTIC COST**
19 **REPORTED?**

20 A. Yes, I do. There are many concerns with the reported costs and the supporting
21 documentation, and I will identify some of the concerns. First, Citizens' Interrogatory
22 No. 27 requested FPL to provide a summary of cost by type listing each invoice. This
23 request was similar to the request in Citizens' Interrogatory No. 20, yet the response
24 was not the same. Instead, FPL provided a summary of cost by vendor which means

1 there is no way that we could verify that all requested invoices were provided. Citizens'
2 Production of Documents No. 9 asked for all invoices over \$50,000 and all P Card
3 Charges over \$10,000. FPL's response states that it was providing invoices over
4 \$75,000 and that it did not include documents supporting accruals. The total for the
5 invoices on the listing provided was \$246.619 million. Assuming that invoices were
6 provided for all amounts on the invoice listing in response to the POD request, that
7 leaves \$26.377 million of costs that could not be reviewed or even evaluated because
8 FPL did not produce the listing of "all" invoices as requested. The review of invoices
9 was further hindered by the fact that the listing of invoices over \$75,000 provided in
10 response to Citizens' Production of Documents No. 9 and the amounts on the invoices
11 provided did not match in most instances. Purchase Orders were also provided;
12 however, purchase orders are not invoices and are not adequate support for costs
13 incurred. The logistic costs are significant and include various billings, primarily for
14 staging, lodging, and catering. In addition, because logistics costs serve as added costs
15 for FPL's employees and contractors, a strong argument could be made that some
16 portion of these costs should be included in the capitalization formula when
17 determining what amount should be capitalized.

18

19 **Q. WHAT ARE SOME EXAMPLES OF ISSUES YOU FOUND IN YOUR**
20 **REVIEW?**

21 A. The rates for various types of meals are questionable. The sum paid for the three meals
22 listed on the various purchase orders exceeds the daily per diem paid to contractors by
23 \$27. Since the contractor is paid for meal time, requiring them to use the per diem
24 would be cheaper instead of providing meals. Since almost every contractor at some

1 point was paid per diem, a question also rises as to whether the contractor was paid the
2 per diem rate even if the contractor was fed as part of the logistic process. Meal costs
3 could potentially be duplicated because of this.

4
5 Another issue is that there were no invoices provided for many vendors, only emails of
6 meal counts or a sheet showing meal counts. Thus, those counts had to be used to
7 calculate a cost based on the purchase orders attached in order to verify whether the
8 amount paid was reasonable. **CONFIDENTIAL** For example, with [REDACTED]
9 meal counts were used to estimate the costs and that resulted in a total cost of \$216,025.
10 FPL reported \$211,229 of costs reported in response to Citizens' Interrogatory No. 27
11 and the listing of costs provided in response to Production of Documents No. 9 was
12 \$211,353. All three amounts exceed the amount identified in the purchase order that
13 was provided. **END CONFIDENTIAL** It is not clear that FPL followed the
14 contract/purchase order with this vendor. Another issue with this vendor was the fact
15 that FPL only provided two actual invoices which totaled \$2,400. The reported costs
16 over \$75,000 for this vendor was \$211,353 so there is no real verification of the
17 reported cost. This documentation is questionable as actual invoices should be
18 provided.

19
20 Another notable concern was with a vendor who was paid for meals that were not
21 delivered. The documentation in one case indicated that, since there was a minimum
22 meal requirement and FPL made arrangements for another vendor to provide the meals,
23 the minimum should be paid. In another instance, the higher of meals requested or
24 meals served was paid.

1 Absent actual invoices, this is an area where misappropriation could occur. This should
2 be a major concern for the Commission when over \$250 million of costs have very
3 sketchy and/or limited supporting detail. As such, FPL has failed to meet its burden to
4 demonstrate these costs were reasonable.

5
6 **Q. WOULD IT BE CORRECT TO INFER THAT BECAUSE THE MINIMUM**
7 **WAS PAID DUE TO ANOTHER VENDOR SUPPLYING MEALS THAT**
8 **THERE WAS A DUPLICATION OF COST?**

9 A. That is a reasonable inference. In addition, it was noted that the vendor
10 [REDACTED] have been overpaid. The listing of
11 invoices provided by FPL shows two invoices for [REDACTED]
12 [REDACTED] one for \$319,568 and another for \$632,049, totaling \$951,167. For
13 the first invoice of \$319,568, the documentation showed only an indication of an
14 invoice of \$17,691 and the detail provided meal counts for September 8 through
15 September 14. The documentation provided for the \$632,049 included the same sheets
16 provided with the \$319,568. That detail also included an Excel sheet for the entire
17 period and the total costs listed were either \$579,500 based on requested meals or
18 \$743,421 based on actual meals. As I indicated, the total of invoices over \$75,000
19 listed for the [REDACTED] is
20 \$951,167, thus it would appear this vendor was overpaid by at least \$207,746.

21
22 **Q. ARE YOU PROPOSING AN ADJUSTMENT TO THE COMPANY'S**
23 **LOGISTICS EXPENSE?**

1 A. Yes, I am. Due to FPL's failure to provide information as requested, the fact that there
2 appears to be some duplication of costs and due to FPL's failure to provide supporting
3 detail in the form of invoices for a number of vendors, I am recommending a reduction
4 to Logistics of \$26,041,487. The adjustments are reflected on Exhibit HWS-2,
5 Schedule G, Page 2 of 2. This adjustment could have been higher had I not calculated
6 an estimated cost where only the number of meals was provided and had I not limited
7 my adjustment to variances of \$1 million or more between the cost and the supporting
8 detail supplied.

9

10 **X. OTHER COSTS**

11 **Q. WHAT IS INCLUDED IN THE "OTHER COST" CATEGORY**
12 **CLASSIFICATION?**

13 A. The majority of other costs represents contractors, affiliate payroll, freight, meals,
14 telecommunications and security.³³ The Company's Exhibits KF-1 and KF-2 indicate
15 the cost for other was \$15.817 million. Exhibit KF-1 deducts \$921,000 for capitalized
16 cost. Exhibit KF-2 deducts \$1.178 million for non-incremental and \$921,000 for
17 capitalization, leaving a net of \$12.896 million included in FPL's reported restoration
18 costs under ICCA.

19

20 **Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO THE OTHER COST**
21 **CATEGORY?**

22 A. Not at this time.

³³ FPL's response to Citizens Interrogatory No. 28.

1 **XI. NON-INCREMENTAL COSTS**

2 **Q. ARE YOU MAKING ANY RECOMMENDATIONS REGARDING THE**
3 **MANNER IN WHICH NON-INCREMENTAL COSTS SHOULD BE**
4 **DETERMINED IN FUTURE REQUESTS?**

5 A. Yes, I am. As I have stated in other storm proceedings and in my professional opinion,
6 Rule 25-6.0143 is clear that regular payroll is payroll that is included in a utility's base
7 rate. That figure must be based on what is included in rates and not budgeted amounts.
8 If budgeted amounts are allowed as a benchmark, then the Rule as stated has no real
9 meaning. The Rule does not make any reference to budgeted dollars. Applying what
10 was allowed in base rates in the last rate case establishes for the Commission a real
11 benchmark for determining whether a utility's request for storm cost recovery includes
12 incremental regular payroll. Therefore, the Commission should require FPL to follow
13 the requirements of the Rule in this proceeding and in any future docket for storm
14 recovery.

15

16 **XII. CAPITALIZABLE COSTS**

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

19 A. Yes, I am. FPL currently uses the same formula for capitalizing costs, whether the
20 work is performed by its personnel or outside contractors. This is not appropriate
21 because the pay rates are significantly different between the two, and the crew size is
22 generally different. Thus, this results in a significant overall hourly rate differential.
23 FPL should develop different capitalization rates for its Company personnel and

1 another for its contractors based on actual employee requirements and costs during
2 storms and actual contractor rates and crew deployment during storms, respectively.

3 FPL definitely did not determine its capitalization in this proceeding based on what is
4 normal storm restoration requirements which resulted in a less than reasonable or
5 understated rate for capitalization for FPL. As I discussed in detail earlier in my
6 testimony, understating capitalization creates intergenerational inequities wherein
7 current ratepayers are paying the total costs for certain assets (i.e., poles) that will
8 benefit future ratepayers over the next 30 to 40 years.

9
10 **Q. WOULD YOU EXPLAIN WHY THE RATE PER HOUR IS SIGNIFICANTLY**
11 **DIFFERENT BETWEEN CONTRACTORS AND FPL'S PERSONNEL?**

12 A. The cost for contractors will be higher because they utilize larger crews (generally four
13 to five) and the contractors' hourly billing rates are higher on average. For example,
14 FPL may use a three man crew with overtime hourly rates of approximately \$63 per
15 hour. Escalating that cost for overhead expenses at 6.29% results in an hourly rate of
16 \$201 for the crew ($(\$63 \times 3 = \$189) \times 1.0629$). On the other hand, if the contractor's
17 *average hourly rate per person* for its crew members is hypothetically \$150 and four
18 crew members are performing the restoration work, the contractor cost rate would be
19 \$600 per hour. There is no overhead added to the contractor rate because it is built into
20 the hourly rate. This difference in rates is significant and should not be ignored because
21 the actual cost is for capital work that is performed predominately by contractors.

1 **XIII. RECOMMENDATIONS**

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

4 A. Yes, I am. In addition to my previous recommendation regarding record keeping
5 associated with mobilization/demobilization and with standby time, I am
6 recommending the Commission require additional filing requirements when a utility
7 seeks to recover storm costs. FPL incurred a significant amount of costs during the
8 process of restoring service to customers after Hurricane Irma. Currently, the Company
9 assembles a preliminary filing which summarizes the costs, along with testimony. The
10 cost for Hurricane Irma is a prime example why changes should be implemented. The
11 amount of documentation is monumental and requires significant time for review.
12 While the staff of Larkin & Associates reviewed a significant portion of the material
13 provided under my direct supervision and control, there was not enough time to allow
14 an in-depth evaluation of all materials that is necessary to provide a complete analysis.
15 The same burden would lie with Commission Staff if they were reviewing this
16 information. There is an obligation to ratepayers and to the Company to provide some
17 assurance that costs billed were not duplicated and that costs are properly accounted
18 for. I recommend that when the Company submits its request for cost recovery, the
19 supporting cost documentation and testimony should be provided simultaneously with
20 the petition seeking cost recovery. This would significantly reduce the need for
21 additional discovery and provide support for the recovery that is being requested from
22 ratepayers. For example, in Massachusetts, when a company seeks recovery for storm
23 costs, it is required to include all supporting documentation at the time the petition for
24 cost recovery is filed. I believe this is a good model for Florida to implement.

1 **Q. ARE YOU AWARE OF WHETHER STAFF ENCOUNTERED ANY ISSUES**
2 **WITH THE FILING OR WHETHER THEY IDENTIFIED DUPLICATED**
3 **PAYMENTS?**

4 A. I do not know at this time whether Staff audited the costs or whether any level of review
5 was performed.

6

7 **Q. WHAT DO YOU RECOMMEND WITH RESPECT TO OUTSTANDING**
8 **DISCOVERY AND ANY ADDITIONAL REVIEW THAT IS REQUIRED?**

9 A. With approximately 80,000 pages of documentation already in hand and more
10 document requests outstanding which must still be received and reviewed, I am
11 recommending that where added inquiry is required, OPC counsel should develop
12 issues through cross examination of FPL witnesses during the hearing. Getting all the
13 facts before the Commission is necessary when you are considering the appropriateness
14 of \$1.3 billion that is being paid for by ratepayers through either the application of the
15 amortization reserve or the re-establishment of the Reserve with TCJA funds that
16 should be refunded to ratepayers. The Commission, the Commission Staff, OPC and
17 FPL all have a fiduciary duty here because ratepayers have previously supplied the
18 funds included in the amortization reserve and the ratepayers are entitled to the TCJA
19 funds. The amount of storm restoration costs applied to either the amortization reserve
20 or the TCJA funds must be reasonable and must be prudently incurred.

21

22 **Q. ARE YOU SATISFIED THAT YOU HAVE HAD A REASONABLE**
23 **OPPORTUNITY TO ADEQUATELY AND FULLY GIVE YOUR OPINION ON**
24 **THE REASONABLENESS AND PRUDENCE OF THE COSTS FPL HAS**

1 **SUBMITTED FOR RECOVERY AND/OR THE APPROPRIATE**
2 **ACCOUNTING TREATMENT OF THE COSTS?**

3 A. No. Given the magnitude of the costs and the volume of documentation and in some
4 cases the lack of documentation and the needlessly hurried nature of the discovery and
5 testimony schedule, my lack of an adjustment for any invoiced cost does not mean it is
6 reasonable or prudent in amount or incurrence. I reserve the right to file supplemental
7 testimony in light of additional evidence that may be uncovered.

8

9 **Q. BASED ON YOUR TESTIMONY, PLEASE SUMMARIZE YOUR**
10 **RECOMMENDED ADJUSTMENTS?**

11 A. My recommended adjustments, on a jurisdictional basis, are as follows:

- 12 • A reduction of \$4.104 million to FPL's request for regular payroll expense to
13 exclude non-incremental payroll;
- 14 • A reduction of \$17.158 million to FPL's request for overtime payroll expense to
15 exclude non-incremental payroll;
- 16 • A reduction of \$12.471 million to FPL's request for overtime payroll expense to
17 properly reflect the capitalization of restoration work;
- 18 • A reduction of \$278.726 million to FPL's request related to recapitalization of
19 contractor costs;
- 20 • A reduction of \$4.068 to account for the duplicated payments;
- 21 • A reduction of \$60.049 million to FPL's request for contractor cost to exclude
22 excessive hourly rates;
- 23 • A reduction of \$30.013 million to FPL's request for contractor cost to exclude
24 excessive mobilization/demobilization;

- 1 • A reduction of \$4.165 million to FPL's request for contractor cost to exclude
2 excessive standby time;
- 3 • A reduction of \$26.039 million to logistics costs for lack of support;
- 4 • A reduction of \$50.076 million for unsupported contractor accruals and mutual
5 assistance; and

6 Based on the quantified adjustments described in my testimony and listed above, I
7 recommend a total reduction of \$486.769 million to FPL's overall storm restoration cost
8 and/or reserve re-establishment request.

9

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

11 **A. Yes it does.**

1 MS. BROWNLESS: The parties have also agreed
2 to stipulate the testimony and exhibits of FPL's
3 witnesses Manny Miranda, Keith Ferguson and Kristin
4 Manz into the record. These three witnesses will
5 be sworn and sit as a panel to answer any questions
6 the parties and Commissioners may have regarding
7 their prefiled testimony and the settlement
8 agreement.

9 In lieu of summaries, Ms. Manz will give a
10 PowerPoint presentation about the smart phone
11 application developed by FPL for its storm
12 restoration vendors.

13 The settlement agreement has three parts. The
14 first, financial terms at paragraphs one through
15 four. The second, process provisions at paragraphs
16 five through 20. And the third, other provisions
17 at paragraphs 21 through 26.

18 While some of these sections deal with issues
19 that have been identified in this docket, the
20 financial terms, some are not, and those are
21 virtually all of the process provisions.

22 CHAIRMAN GRAHAM: Okay. Let's start marking
23 exhibits.

24 MS. BROWNLESS: Thank you.

25 Staff has prepared a comprehensive exhibit

1 list, which includes the stipulation and settlement
2 dated June 6th, 2019, and staff data requests
3 concerning the settlement agreement. This list has
4 been provided to the parties, the Commissioners and
5 the court reporter.

6 Staff requests that the list itself be marked
7 as Exhibit No. 1.

8 CHAIRMAN GRAHAM: Okay. We will mark that as
9 Exhibit 1.

10 (Whereupon, Exhibit No. 1 was marked for
11 identification.)

12 MS. BROWNLESS: At this time, staff would
13 request that Exhibits Nos. 1 and Exhibits Nos. 6,
14 7, 60 and 11 through 16 be entered into the record,
15 and all other exhibits be marked for identification
16 as stated on the CEL.

17 CHAIRMAN GRAHAM: If there is no objections to
18 any of these exhibits being entered into the
19 record, we will enter Exhibit 1, 6, 7, 60 and 11
20 through 16 into the record.

21 (Whereupon, Exhibit No. 1 was received into
22 evidence.)

23 (Whereupon, Exhibit Nos. 6, 7, 60 & 11-16 were
24 received into evidence.)

25 MS. BROWNLESS: Thank you.

1 There are no other preliminary matters at this
2 time, sir.

3 CHAIRMAN GRAHAM: Okay. So it looks like next
4 we are moving into opening statements. Everybody
5 gets five minutes. Who agrees to this stuff?
6 Okay.

7 MR. RUBIN: Good afternoon, Commissioners.
8 We are here today on the joint motion of OPC
9 and FPL seeking Commission approval of the
10 stipulation and settlement in the Irma docket.
11 FIPUG joins in this request while FRF takes no
12 position. We believe the settlement is in the
13 public interest and we respectfully request
14 Commission approval.

15 I first want to make sure that safe, rapid
16 restoration has been and remains FPL's top priority
17 when restoring power after a hurricane. That will
18 not change through this settlement.

19 I would like to spend just a minute on some of
20 the facts and circumstances that led us to the
21 settlement agreement before you today.

22 In September of 2017, FPL faced the prospect
23 of a massive, extremely dangerous hurricane
24 striking the most populated area we serve. Based
25 on forecasts regarding the size and strength of the

1 storm and the projected need for resources, FPL
2 assembled the largest storm restoration workforce
3 in U.S. history, with more than 28,000 workers
4 spread across 29 staging sites.

5 Irma impacted nearly four-and-a-half million
6 of our customers in every county we serve.

7 FPL was able to restore service to 50 percent
8 of affected customers within one day, 95 percent
9 within one week and 99 percent within 10 days.
10 This represents the fastest post hurricane
11 restoration of electric service to the largest
12 number of people by any one utility in U.S.
13 history. And it accomplished precisely what our
14 customers expect, rapid restoration of power.

15 FPL's storm costs exceeded \$1.3 billion.
16 After removing capital and below the line expenses,
17 FPL opted to expense. And by that, I mean, treat
18 as rate base -- at base rate expense, excuse me --
19 the remaining restoration costs. The company did
20 not seek incremental recovery from customers
21 through depletion of the storm reserve and a storm
22 surcharge that would have been added to customer
23 bills.

24 This case generated a tremendous amount of
25 discovery, but once complete, we were able to reach

1 the settlement that is before the Commission today.

2 The settlement can be separated into two
3 primary sections; the financial piece, which was
4 part of the litigated case, and the process
5 provisions which were not part of the filed case.

6 The financial settlement is simple and
7 straightforward. FPL will capitalize an additional
8 \$25 million. \$20 million will be reclassified from
9 incremental to non-incremental base O&M expense,
10 and there will be a \$5 million reduction in the
11 amount available to amortize under the depreciation
12 reserve.

13 The process provisions in the settlement
14 agreement largely represent codification and
15 enhancement of processes already in place at FPL.
16 But to be clear, nothing in the settlement will
17 deter FPL from its mission to safely and rapidly
18 restore power.

19 I do want to point out one unique aspect of
20 this agreement that will change the way records are
21 generated, compiled and produced by FPL for review
22 in future storm events.

23 Following Hurricane Matthew in 2016, FPL asked
24 itself whether there was a way to streamline the
25 processes associated with storm restoration records

1 and invoice reviews. An internal team was
2 assembled to consider how technology could be used
3 to increase efficiencies associated with this
4 largely manual process.

5 Through these efforts, FPL developed a new
6 smart phone application for the entry, recording
7 and approval of time and expenses. Data from the
8 use of the app will be download into Excel files so
9 that parties in future proceedings will be able to
10 create tables to sort and analyze the data, whether
11 by vendor, by crew, by type of cost, by date or
12 otherwise. We firmly believe that this will
13 facilitate a more efficient process in future storm
14 cost proceedings. The Commission, Commission
15 staff, all parties and customers will benefit.

16 We are very excited about the use of this new
17 tool, which we see as representative of our quest
18 for continuous improvement. We've taken your staff
19 and the parties to this case through a short
20 demonstration of how the app will work, and we have
21 Kristin Manz here, one of the members of the team
22 that developed the app, who will shortly present to
23 you. We also have FPL witnesses Manny Miranda and
24 Keith Ferguson here to answer any operational or
25 accounting questions you may have.

1 Commissioners, I will close by thanking your
2 staff and the parties for working with us through
3 this process and respectfully request your approval
4 of the settlement agreement.

5 Thank you.

6 CHAIRMAN GRAHAM: Thank you.

7 OPC.

8 MR. REHWINKEL: Thank you, Commissioners.

9 This is the third post Irma storm case
10 settlement that Public Counsel has entered into.
11 The other two with Duke and Tampa Electric. This
12 one emphasizes the future.

13 As you are aware, there are many similarities
14 among the three agreements. However, there are
15 also some differences, as you have just heard. We
16 believe that substantially similar issues are
17 satisfactorily addressed in all three of these
18 agreements.

19 Commissioners, we firmly appreciate FPL's
20 willingness to sit down to the table and work this
21 out in the interest of its customers and the state
22 of Florida. We believe that FPL's customer will be
23 better off once this agreement initially and fully
24 is implemented, and we look forward to working with
25 the Commission and FPL to make that happen, and we

1 will continue to look for improvements along the
2 way.

3 The Public Counsel believes this agreement is
4 definitely in the public interest, and we urge you
5 to approve the agreement as being in the public
6 interest.

7 Thank you. It was under 12 minutes this time.

8 CHAIRMAN GRAHAM: I was going to say you more
9 than made up for what you did the last time.

10 Schef Wright.

11 MR. WRIGHT: Thank you, Mr. Chairman. The
12 Florida Retail Federation has no position on the
13 settlement.

14 CHAIRMAN GRAHAM: Okay. Mr. Moyle.

15 MR. MOYLE: Thank you, Mr. Chairman.

16 FIPUG supports the settlement and has signed
17 on to the settlement, along with FPL and the Office
18 of Public Counsel.

19 We have also agreed with TECO and with Duke to
20 find ways to improve how to deal with the storms,
21 and I think that the process issues are well
22 thought out. You know, I was thinking this --
23 hopefully, the presentation you may see with
24 respect to the iPhone and using technology, you can
25 always improve. I think in the earlier proceeding,

1 the phrase "continuous improvement" was used, and I
2 think this is an example of that.

3 We are hopeful that this new iPhone app is
4 going to be analogous to bringing an umbrella to
5 work, because usually when you bring an umbrella to
6 work it doesn't rain. And so we are hopeful that
7 while this new tool will be in place, it won't
8 be -- it won't be needed. We've had a lot of
9 storms recently, and we hope that the state will be
10 spared in the upcoming hurricane season.

11 Finally, I just would like to publicly thank
12 the company for the efforts to restore power. I
13 mean, by nature of our relationships, we don't
14 always agree with the utilities, but FPL and the
15 others have done a good job of responding to
16 customer needs.

17 FIPUG customers are large entities. They
18 employ a lot of people. And the communication and
19 the responsiveness is appreciated, and so I wanted
20 to not let this occasion pass without publicly
21 thanking FPL and Mr. Miranda for the role that they
22 play in restoring service.

23 Those are my comments. Thank you.

24 CHAIRMAN GRAHAM: Thank you, sir.

25 Okay. It looks like I am swearing in

1 witnesses. If you are one of the witnesses, if I
2 can get you to stand and raise your right hand,
3 please.

4 Whereupon,

5 MANUEL B. MIRANDA

6 KEITH FERGUSON

7 KRISTIN MANZ

8 were called as a panel of witnesses, having been first
9 duly sworn to speak the truth, the whole truth, and
10 nothing but the truth, was examined and testified as
11 follows:

12 CHAIRMAN GRAHAM: Thank you. All right. You
13 guys can make your way on down front -- or, I am
14 sorry, over there.

15 Staff. Mic. Mic. Mic.

16 MS. BROWNLESS: I am sorry, sir.

17 At this time, once the witnesses find their
18 seats, we will turn it over to FPL.

19 CHAIRMAN GRAHAM: Are we going to enter
20 their --

21 MS. BROWNLESS: We are going to do that after
22 they talk, sir.

23 CHAIRMAN GRAHAM: Okay.

24 MR. RUBIN: May I proceed?

25 CHAIRMAN GRAHAM: Yes, sir.

1 EXAMINATION

2 MR. RUBIN: Good afternoon, I am going to ask
3 each of our three witnesses to briefly introduce
4 themselves and describe their position with the
5 company.

6 So, Mr. Miranda, perhaps you could go first.?

7 WITNESS MIRANDA: Thank you. My name is Manny
8 Miranda. I am the Senior Vice-President of Florida
9 Power & Light's power delivery business unit
10 responsible for hurricane restoration.

11 MR. RUBIN: Mr. Ferguson.

12 WITNESS FERGUSON: Keith Ferguson. I am the
13 Vice-President of accounting and comptroller for
14 Florida Power & Light.

15 MR. RUBIN: And, Ms. Manz.

16 WITNESS MANZ: Hi. I am Kristin Manz.
17 Currently Director of the Information Technology
18 department. During the event of Hurricane Irma, I
19 was Director of Finance Operations.

20 MR. RUBIN: Ms. Manz, have you prepared a
21 presentation for the Commission on the app that I
22 mentioned during my opening statement?

23 WITNESS MANZ: Yes, I have.

24 CHAIRMAN GRAHAM: Ms. Manz, can I get you to
25 turn your mic on?

1 WITNESS MANZ: Let me move it closer. Is that
2 better?

3 CHAIRMAN GRAHAM: Yes.

4 WITNESS MANZ: Okay.

5 MR. RUBIN: With the Commission's permission,
6 and with your staff's assistance, I would ask that
7 Ms. Manz be permitted to provide the presentation
8 at this time.

9 CHAIRMAN GRAHAM: Yes, thank you.

10 WITNESS MANZ: Okay. Thank you.

11 Good afternoon. Today we would like to take
12 you through a brief demonstration of an application
13 that we have been developing to automate and
14 streamline a number of processes related to time
15 capture and payment processing in support of
16 hurricane restoration.

17 As a result of our experience with Hurricane
18 Matthew, we assembled a team to looked at ways of
19 streamlining the process by which our contractors
20 record time during hurricane restoration and the
21 way we approve or reject and ultimately pay
22 invoices submitted for the work.

23 The concept for this app has been under
24 development since 2017, post Hurricane Matthew, and
25 it has been built by our internal IT team.

1 At this time, the application will apply to
2 non-mutual aid line contractors and vegetation
3 contractors.

4 The main objective for Phase I of this
5 application is to eliminate paper timesheet
6 processing in order to improve manual controls and
7 automate payment processing on the back end.

8 Most of the steps you will see today are
9 already performed by vendor field workers during
10 their time working restoration, as well as FPL
11 representatives for approvals. By capturing this
12 information electronically, we will be able to
13 further enhancement many back-end processes.

14 Future enhancements are currently being scoped
15 for a Phase II release of this application, which
16 are expected to be completed by the start of the
17 2020 storm season.

18 Next slide, please.

19 We've split this demonstration into two
20 sections. First, we will walk you through what a
21 vendor crew foreman sees as he or she enters time
22 and expenses for their crew on a daily basis. The
23 second section will walk you through the approval
24 screens for the FPL representative.

25 I would like to add that these screens are

1 currently under development, so while the final
2 product may look different, the intent of each
3 screen and field will remain the same.

4 Next slide, please.

5 As our resource acquisition teams secure a
6 vendor commitment to provide resources for
7 restoration, the crew leads will be instructed to
8 download this application. Vendors have the
9 ability to, and are encouraged to download the
10 application in advance of arriving to the FPL
11 territory. The use of this application for time
12 and expense entry is now required for reimbursement
13 per our statement of work with the vendors.

14 After landing on the welcome page on the left,
15 the user will be prompted to enter log-in
16 credentials, including their email address, which
17 is validated against our Ready System. Ready is
18 our internal system used for managing resources
19 working on storm restoration. In the process the
20 Ready System is used to identify vendor crews and
21 individual crew members.

22 Next slide.

23 After logging in, the crew will see a screen
24 that helps them manage the daily timesheets for
25 their crews. Our current process requires daily

1 timesheets; however, the crew lead has to keep
2 track of what timesheets have been approved.

3 At a glance, for this example, you can see
4 that this crew has a timesheet created for May 7th
5 that has not yet been submitted, and that is
6 denoted by the blue circle. You can also see that
7 this crew has a timesheet approved for May 8th and
8 some summary information of that submittal is
9 available.

10 The report status can be created, submitted,
11 approved or rejected, the number of individual
12 contractors in the crew and the summary of total
13 hours and expenses submitted with the timesheet.

14 The screen on the right will step the crew
15 lead through the submittal requirements. The time
16 report summarizes the time that's entered on the
17 next screen. Expenses is a summary of expenses.
18 The staging site is where the crew will perform the
19 work. There is a flag that denotes whether or not
20 the team was traveling during that time, and then
21 who their FPL representative or supervisor is.

22 PL stands for production lead, and TC is
23 travel coordinator, as these are the typical storm
24 roles that oversee the crews while they are on our
25 system.

1 Because we haven't entered any information,
2 the time is still showing zero, and expenses are
3 also zero.

4 Next slide, please.

5 Next, the crew lead will enter the time for
6 that day. As you can see, the individual crew
7 members associated with that lead will be
8 automatically fed from our internal Ready System.
9 To ease their entry, we have provided the option
10 for the lead to enter bulk hours for the entire
11 crew, and those hours would cascade down to each
12 individual. However, even if bulk hours are
13 entered, the crew lead can adjust an individual's
14 time if they have worked something different from
15 the rest of the team.

16 For example, if an individual crew member left
17 the work site early because he or she was ill and
18 had to return to the hotel, the crew lead would be
19 able to make an adjustment to accurately reflect
20 the hours worked by that individual.

21 On the right-hand side, in this example, you
22 can see an adjustment to Matthew Second to account
23 for four hours of overtime instead of seven for the
24 rest of the crew.

25 Next slide, please.

1 These screens represent examples of how the
2 crew lead will select from a pre-populated
3 drop-down what staging area -- what staging site
4 they worked at and what FPL representative or
5 supervisor was overseeing their work. This
6 information is initially provided to the crew lead
7 as they check in at the processing center and then
8 proceed to the staging site to perform work.

9 Next slide, please.

10 If the crew had any expenses while working on
11 system, these would also be submitted with the
12 associated time for that day, along with the reason
13 for the exception.

14 We expect these expenses to continue to be
15 exceptions to our vendor contracts as fuel, meals
16 and hotel are typically provided by FPL at the
17 staging sites or in the field. But there are
18 extenuating circumstances where crews are approved
19 to obtain these things on their own.

20 As an example, a crew may be working on the
21 coast and they may need fuel, and it may take them
22 an hour to get to the closest FPL fueling site
23 because of traffic, damage or other issues. At the
24 same time there may be an open gas station on the
25 black where they are working, and to maximize their

1 work time, the FPL supervisor could authorize the
2 crew to purchase fuel at the corner gas station.
3 In that instance, that expense would be submitted
4 with the time for that day.

5 Once the crew lead performs the final review
6 and selects submit, the timesheet and associated
7 expenses will automatically route to the FPL
8 representative selected in the prior drop-down.

9 Next slide.

10 Upon submittal, the status of the timesheet
11 for that day will be updated on the main timesheet
12 tracking page. As you can see for May 9th, the
13 summary report for four contractor crew members, 39
14 hours and zero expenses in this case shows it
15 sitting in submitted status.

16 Next slide.

17 And now we will transition to the screens that
18 our FPL approvers will see as the timesheets are
19 routed to them.

20 Next slide.

21 As you can see, the screens are largely the
22 same, and the approver can manage the timesheets
23 that are awaiting his or her action. In this case,
24 he or she only has one submitted -- one in
25 submitted status on May 8th.

1 As the approver selects that date, the summary
2 information for the timesheet appears on the right,
3 and they can select into each of these areas to see
4 the detail behind.

5 In this example, the FPL representative is
6 reviewing the timesheet for May 8th, which includes
7 eight contractors, 128 hours and \$55 of expenses.
8 And we can see that they performed their work at a
9 staging site in Punta Gorda, and they were also
10 traveling during that time.

11 Next slide.

12 As the approver drills into the hours, they
13 will see the individual names of all crew members
14 and the hours associated with each person for that
15 day. In addition to the names, they can also see
16 the crew type, such as overhead or vegetation.

17 The approver can also drill in to submitted
18 expenses. And on the next slide, we will show what
19 you that drill down looks like.

20 As they drill into the expenses, they will see
21 the type of expense, the reason for expense and the
22 dollar amount. And although the current state of
23 the application requires the vendor to submit a
24 hard copy of the receipts for these expenses, the
25 ability to upload associated receipts is currently

1 under development and is expected in Phase II.

2 The reasons for the expense is a required
3 field, and will be selected from a pre-populated
4 drop-down as we know the few exception
5 circumstances that would cause the expense to
6 occur. And the FPL representative overseeing the
7 crew's work for that day would also be the person
8 approving the exception in the field.

9 Next slide.

10 Once they complete the review of the
11 individual crew member hours and team expenses, the
12 FPL approver will either reject or approve the
13 timesheet. If rejecting the timesheet, the
14 approver would select from a list of reasons for
15 rejection, such as removing unapproved expenses,
16 updating expenses that were submitted, updating
17 working time or changing the traveling flag to
18 appropriately categorize the time submitted.

19 Upon rejection, the timesheet would workflow
20 back to the crew lead to make the requested edit
21 and resubmit for approval.

22 Next slide.

23 As you can see, the status page for the
24 May 8th timesheet is now updated to show the crew
25 lead that he has a timesheet that requires action.

1 And that concludes the demonstration for Phase
2 I of our timesheet application.

3 As I stated in the intro, the capture of this
4 information electronically will enable us to
5 improve controls that are today performed manually,
6 and to help automate the largely paper based manual
7 invoice review and payment process. This will then
8 allow us to download the data to sortable Excel
9 files that can be distributed to the parties and
10 your staff.

11 This application has been a cross-functional
12 effort and was designed with the ultimate goal of
13 enabling our crews to continue to perform timely
14 and safe restoration of power to our customers
15 while also streamlining the process for collecting
16 data and processing invoices.

17 Thank you for the opportunity to present to
18 you today.

19 MR. RUBIN: Thank you, Ms. Manz.

20 The panel is available for questions.

21 CHAIRMAN GRAHAM: I guess we will do like
22 regular hearings and we will start there and work
23 our way around.

24 Mr. Moyle.

25 MR. MOYLE: No questions.

1 CHAIRMAN GRAHAM: Mr. Wright.

2 MR. WRIGHT: No questions. Thank you.

3 CHAIRMAN GRAHAM: OPC.

4 MR. REHWINKEL: No questions. Thank you.

5 CHAIRMAN GRAHAM: Staff.

6 MS. BROWNLESS: No, sir. Thank you.

7 CHAIRMAN GRAHAM: Commissioners. Commissioner
8 Brown.

9 COMMISSIONER BROWN: Thank you for the
10 presentation. I enjoyed it. And I was curious
11 about the app when I read the agreement too.

12 So for the -- prior to Phase II being
13 implemented, does the vendor get funds if a hard
14 copy receipt is not submitted?

15 WITNESS MANZ: No. If they don't submit the
16 hard copy receipt, ultimately when they submit the
17 invoice for reimbursement, we wouldn't pay for that
18 reimbursement. Similar as we wouldn't today.

19 COMMISSIONER BROWN: So how long does it take
20 by -- do you anticipate it taking from when they
21 submit this to when they actually submit a hard
22 copy receipt during a restoration process?

23 WITNESS MANZ: Typically, as in our process
24 today, the hard copy receipts would come a few
25 weeks after the crews get back to their homesite.

1 So it should just be a matter of weeks after
2 they've been released from restoration.

3 COMMISSIONER BROWN: You said that there are
4 certain expenses that you anticipate in that menu.
5 You had gas as one of them. What other types of
6 expenses are prelisted in that drop-down category?

7 WITNESS MANZ: The only other ones would be
8 fuel, for the example that I gave, meals and then
9 potentially hotels.

10 COMMISSIONER BROWN: Can -- and these are --
11 this app only applies to third-party vendors, not
12 Florida Power & Light contractors or mutual aid
13 folks, correct?

14 WITNESS MANZ: That's correct.

15 COMMISSIONER BROWN: What does -- like what
16 does the employee use to track their time or,
17 pardon me, mutual aid folks, what do they -- what
18 type of process do they use?

19 WITNESS MIRANDA: The mutual aid, they track
20 their own timesheets as part of the mutual
21 assistance agreement between us and the other
22 utilities we have with the SEE and the EEI. So
23 they track it individually and then they submit a
24 final bill to us. So it's a different process.

25 The majority of our costs, as you know, are

1 with these contractors and vegetation. And the
2 mutual assistant crews are not-for-profit, so they
3 don't have an incentive for -- to try to, you know,
4 gain some financials.

5 COMMISSIONER BROWN: I think the app is
6 fantastic. Is it going to be trademarked or
7 copyrighted by FPL or NextEra Energy Resources?

8 WITNESS MANZ: Yes. We do have a patent
9 pending on the application currently.

10 COMMISSIONER BROWN: Thank you.

11 CHAIRMAN GRAHAM: Commissioner Fay.

12 COMMISSIONER FAY: Thank you, Mr. Chairman.

13 I was also, when I read the testimony, very
14 excited about the app. I was also excited that
15 some commissioners were learning what a smart phone
16 and app are here today, so that will be an exciting
17 event for us.

18 With that said, Commissioner Brown, she was
19 kind of touching on one of my questions, in that I
20 think of the usage -- I think of the entry points
21 into a utility are always important from a security
22 standpoint. And so as you widen kind of the access
23 and the ability for information to be submitted to
24 FPL, you sometimes increase the chances of
25 vulnerabilities.

1 Can you just talk a little bit about -- I know
2 the development of this, you are able to ensure
3 that certain content can come in and certain
4 content is kept out.

5 WITNESS MANZ: That's right. So from an
6 access perspective, from a user base, the users
7 have to be, first, logged in through our Ready
8 System as a contract resource coming for
9 restoration. That is --

10 COMMISSIONER FAY: Which is a preapproved
11 system?

12 WITNESS MANZ: That's correct.

13 COMMISSIONER FAY: Okay.

14 WITNESS MANZ: That's one that we currently
15 use.

16 COMMISSIONER FAY: Okay.

17 WITNESS MANZ: And then once the data is
18 entered in the application, we are following our
19 normal information technology protocols around
20 cybersecurity and data storage. And we haven't
21 done anything outside of our standards for that for
22 this application.

23 COMMISSIONER FAY: Okay. Great.

24 And then the only other thing I noticed early
25 on in, not this slide we have in front of us, but

1 some of the other ones, there was 5G connection on
2 whatever device you were using. Where is that
3 device? Just out of curiosity.

4 WITNESS MANZ: I think it was in Juno Beach
5 somewhere.

6 COMMISSIONER FAY: Okay. All right. That's
7 all I have. Thank you.

8 CHAIRMAN GRAHAM: Commissioner Clark.

9 COMMISSIONER CLARK: Thank you, Mr. Chairman.
10 I noticed that, too, Commissioner Fay. I was
11 kind of going to lead with that same question,
12 where you got 5G. But just a couple of questions.

13 First of all, I, too, think the app is
14 phenomenal. You guys have done a great with the
15 development. I did kind of have an integration --
16 a couple integration questions in terms of leading
17 off of Commissioner Brown's comments about what you
18 do with your current mutual aid contractors and
19 your employees. I assume you have a current mobile
20 work order system that tracks your existing
21 employees' times, and you carry that through to a
22 storm.

23 Is there any contemplation given to just
24 mirroring that work order system for your
25 contractors so that you didn't have, like, a double

1 entry of data that you would just be able to
2 capture contractor data within the mobile work
3 order system?

4 WITNESS MIRANDA: The way we track our
5 employees, they have individual timesheets and
6 there is many other business rules around it. So
7 these mutual assistance contracts have very
8 specific business rules. So we are trying to model
9 some of those, you know, when they -- they have
10 certain rates and certain features. So what we are
11 trying to do is build things that can mirror the
12 mutual agreements that we have with the vendors.

13 Phase II will start to integrate more the
14 business rules that will help the production leads
15 better manage those resources on a daily basis. So
16 what we do with our internal FPL guys is different
17 than the contracts we sometimes have with the
18 vendors that come down. But they are not far away,
19 Commissioner, I mean, as far as -- the big thing is
20 getting the man hours and these expenses correctly.

21 COMMISSIONER CLARK: So my second question is,
22 in terms of operability of the system. During
23 Hurricane Michael specifically, had it not been for
24 the built-in infrastructure it that the utility
25 already owned and were able to repair, manage and

1 keep up themselves, utility companies would have
2 been at a loss for communications.

3 Depending on the coverage that the cell phone
4 company has after a storm and the amount of time
5 that it takes to get systems back in place, are
6 there contingencies within this system to be able
7 to hold, store data and the system operate
8 basically as a stand-alone platform until it is
9 able to get back in touch with a network, integrate
10 and communicate back with the system?

11 WITNESS MANZ: It's not currently designed
12 that way. Our disaster recovery plan could really
13 accommodate a multitude of things. One, really, I
14 would say in a worst case scenario, defaulting back
15 to the process that we have today, but then
16 ultimately entering that information in the app
17 when it does become available.

18 And then we also have different connectivity
19 available at our staging sites. We have storm kits
20 that exist today that allow that site to be up and
21 connected via WiFi. So we could rely on something
22 like that as well.

23 COMMISSIONER CLARK: So what would the process
24 be if I were in the field and needed fuel, a
25 receipt and my normal tracking method is -- now the

1 default method is now the app. I don't have
2 signal. I can't enter that. You have a backup
3 system of manual operation whereby they would keep
4 the receipt, mail it in six weeks later?

5 WITNESS MIRANDA: Your example is a great
6 example, Commissioner, with Hurricane Michael,
7 right. Something catastrophic like that, where
8 maybe the -- as you know, with some of the
9 communications issues that occurred here, you
10 wouldn't have the availability.

11 So, you know, our last default would be the
12 manual processes we have today. The timesheets.
13 So we will always have those. And in between that,
14 as Kristin was saying, when they come back to our
15 staging sites, a lot of the utilities have these
16 staging sites that have a lot of communications.
17 So when we get back there, we can download that
18 information at the staging site.

19 COMMISSIONER CLARK: So the app itself is
20 built and would actually keep and store the data as
21 it is now? It will not operate if there is no
22 cellular signal?

23 WITNESS MANZ: Right. That's something that
24 we are looking at as part of Phase II, because we
25 know the capability exists, it just requires some

1 back-end reconfiguration in the application.

2 WITNESS MIRANDA: So they would keep it
3 manually, as soon as they get --

4 COMMISSIONER CLARK: When they get to a land
5 network, okay.

6 WITNESS MIRANDA: Yeah, that's the plan at
7 this point.

8 COMMISSIONER CLARK: Okay. Thank you.

9 CHAIRMAN GRAHAM: I guess, Commissioner Clark
10 asked the same question I was going to ask about
11 what happens when you have no cell service, no
12 internet, what's to stop things from being, like,
13 double counted? If they thought they hit the
14 button and it went through but didn't have cell
15 service and then did manual way and it went in, one
16 said Bubba Smith and the other one said John Smith
17 because he goes by both, what catches is that?

18 WITNESS MANZ: So one of the biggest benefits
19 that will come out of having this data
20 electronically is the ability to realtime screen
21 that information as it's being processed through
22 the app way upstream of the payment process.

23 So we are currently designing our review and
24 control processes that will rely on this electronic
25 information to do those checks and be able to

1 reject a timesheet before a vendor even leaves our
2 site.

3 CHAIRMAN GRAHAM: I mean, are these
4 individuals given, let's just say account numbers,
5 or is this just their name? I mean, because if
6 it's an account number, then you don't have to
7 worry about how he designates himself as John or
8 Bubba?

9 WITNESS MANZ: Right. So there are -- there
10 is personnel IDs that are stored in our Ready
11 System tied to the individual crew members in the
12 rosters. And when those come through the
13 application, that will also help prevent the
14 duplicate entry. The crew lead cannot manually
15 enter a name. It has to come from the roster from
16 our Ready System.

17 CHAIRMAN GRAHAM: Okay. And so the crew lead
18 has got to enter that name that gets -- it gets
19 sent to the crew lead, and then he enters all those
20 things through to the approver?

21 WITNESS MANZ: It first comes through the
22 roster, which is verified by someone visually to
23 confirm that the roster is accurate.

24 CHAIRMAN GRAHAM: Okay.

25 WITNESS MIRANDA: So just backing up,

1 Commissioner.

2 So what we do is we get -- when we agree with
3 the vendor to come down, they give us a roster that
4 goes into our Ready System. That's how we track
5 the individuals that will feed this tool so they
6 can approve the expenses.

7 And that -- and what this tool is trying to do
8 is exactly what you are referring to, because we
9 did have many vendors during Irma provide double
10 invoices, you know, it came from their corporate
11 office and from a different office, and it was a
12 lot of significant amount of work to try to wean
13 those out. So this tool will actually help with
14 that issue.

15 CHAIRMAN GRAHAM: Now, because I knew one of
16 the other hurricanes we had, your computers got
17 overloaded. This is not going to tax your computer
18 system and run it through that same problem that we
19 ran it through before?

20 WITNESS MANZ: That's right. We've taken
21 lessons learned from that incident, and we have
22 already done numerous stress tests on the
23 application and our storage capability, and we feel
24 comfortable that it can handle a large volume.

25 CHAIRMAN GRAHAM: What could go wrong, right?

1 You can never get that many people calling in.

2 Commissioner Polmann.

3 COMMISSIONER POLMANN: Thank you, Mr.
4 Chairman.

5 I appreciate the demonstration. It's very
6 helpful. And I am intrigued by the advancing
7 technology here. I want to thank the company for
8 providing this additional information here today.
9 It's a great way to help us understand. It
10 certainly has helped me. So I am encouraged by the
11 development of this tool, and I believe it will
12 improve the process going forward and the
13 communication that hopefully is going to reduce the
14 costs.

15 With any customer funded tool or technology, I
16 believe it's incumbent upon this commission to make
17 sure that the customers are, in fact, benefiting.
18 So I would like to hear from you, what is it that
19 you see as the direct customer benefit from
20 deploying this type of technology?

21 WITNESS MIRANDA: I think there is multiple
22 fronts. One, it will help our production leads be
23 more efficient in the way that they approve. Today
24 it's a very manual process, where they have to
25 track the invoices, and then they have to document

1 many things manually. So I think just an
2 efficiency from the production leads.

3 I think also it will help them on their
4 decision-making, Commissioner, because as we build
5 more and more business rules into it, it will just
6 challenge and question them on some of the things
7 that they are -- on decisions they are going to be
8 making in realtime in a very difficult environment.
9 So I think it will help provide some guidance to
10 them as well.

11 And then, of course, the processing on the
12 backside, right, it will be much more efficient on
13 the payment processing and the approval processes
14 that we go through.

15 COMMISSIONER POLMANN: Thank you.

16 Do you anticipate an additional step or
17 anything particular to this application where the
18 company would evaluate progress, or efficiencies
19 or, in your planned update process, reporting back
20 to the Commission on some evaluation of money
21 saved, or time saved, or improvements in the field
22 restoration process? How would you report back to
23 us so that we would learn from it, and then maybe
24 be able to communicate with other utilities?

25 WITNESS MIRANDA: Well, this tool, along with

1 some of the process changes that we've agreed to, I
2 think, will help the Commission, and us as well,
3 better understand some of the decision-makings that
4 we are doing. It will help us better track
5 resources as they travel. It will help us track
6 resources, the hours that they are working.

7 So we will be able to see some efficiencies in
8 some of the tools we are putting in place. For
9 example, one of the process changes is a goal of
10 traveling certain miles per day, and if we are not
11 achieving that, making sure that we are following
12 up directly with the travel modules.

13 So we will be able to see the efficiency
14 gains, you know, on the process changes that we've
15 put forward, and start to capture those and learn
16 from those from each storm.

17 As you know, every storm is a little
18 different, and I think we get better and continuous
19 improvement, but I think some of the process
20 changes that we've agreed to will help us better
21 understand some of the decisions.

22 We were well under way with many of those
23 things already. We did a lot of those during Irma
24 and during, you know, the one before that, and the
25 one before that, and --

1 COMMISSIONER POLMANN: Sure.

2 WITNESS MIRANDA: But I think these things
3 will continue to make us better. And without ever
4 losing sight of our goal of safe and rapid
5 restoration.

6 You know, our supervisors have to make very
7 difficult decisions in very difficult
8 circumstances, right? Do I work more than 16
9 hours? I got a hospital, I got a critical
10 customer, right? And so they are forced to make
11 very difficult decisions in realtime, and I think
12 sometimes when we look back, it's hard to see the
13 data, and this will help quantify why they made
14 that decision in some of these times.

15 COMMISSIONER POLMANN: Well, I look forward to
16 how this is going to help in that process. And in
17 the normal course of deploying this, we will see
18 how you work with staff on getting that information
19 back to us so we can better understand this type of
20 technology, how it's improving the efficiency of
21 that work actually in the field, and how that
22 benefits the customers to your restoration process.

23 You have done such a great job with Irma that
24 improvements beyond that would be remarkable, but
25 this type of technology is very encouraging. Thank

1 you so much.

2 Thank you, Mr. Chairman.

3 CHAIRMAN GRAHAM: Mr. Rubin, this panel will
4 also answer any questions outside of the app that
5 the Commissioners have as well, correct?

6 MR. RUBIN: That's correct.

7 CHAIRMAN GRAHAM: Okay. Commissioner Brown.

8 COMMISSIONER BROWN: Thank you.

9 And I was just going to say, I know we said
10 this before, Mr. Miranda, but you run a tight ship
11 over there at the -- at your EOC, and impressive
12 restoration efforts all across the board, always
13 continuing to improve, so thank you for your work
14 on behalf of 4.9 million customers there.

15 I have a question probably for Mr. Ferguson
16 regarding the audit provision in the agreement
17 section, paragraph 17. It says that prefiled
18 direct testimony will be filed after any required
19 independent audit is concluded. Is that referring
20 to a staff audit or the independent audit
21 referenced in paragraph 18?

22 WITNESS FERGUSON: That's in reference to the
23 independent audit.

24 COMMISSIONER BROWN: Okay. So -- well, can
25 you clarify that us, please? It says that an

1 independent outside audit firm will be engaged for
2 any amount exceeding 250 million prior to any
3 prefiled direct testimony; is that right?

4 WITNESS FERGUSON: That's correct. The idea
5 of that provision is that we would conduct an
6 audit, kind of, you know, make sure all the costs
7 are subject to that review, then file prefiled
8 direct testimony supporting those final costs that
9 we are providing to the Commission. It would not
10 necessarily preclude us from seeking a surcharge in
11 advance of the filing of the prefiled direct
12 testimony.

13 COMMISSIONER BROWN: So I -- personally, I
14 loved to have an expeditious process, hearing
15 process that doesn't extend longer than a year or
16 so, and that's kind of the point of our statutes,
17 too, and our rules that govern this. But in terms
18 the process here, how would that be incorporated
19 into our cost recovery process? So that
20 independent, would it delay the filing of any
21 prefiled testimony by months upon months?

22 WITNESS FERGUSON: I don't -- that's not at
23 all our objective. Our objective is to try to get
24 to that -- through that audit as quickly as
25 possible. I do think it will take a little bit of

1 time to get through an audit of that magnitude.

2 It is for the -- it is only applicable to that
3 first storm that is over \$250 million. And really,
4 it was an agreement by the parties to kind of
5 ensure that the policies and processes that we put
6 in place, especially as it relates to the app and
7 whatever else, are working as intended.

8 So the idea is that, you know, we would go
9 through the audit. It would kind of, you know,
10 give the parties and ourselves a lot more comfort
11 on that process as we are working appropriately.

12 It should help also in the discovery process.
13 So if you kind of think about it as, in some
14 respects, of supplanting some of the time that you
15 are, you know, going back and forth for months. I
16 think with Irma we had, you know, several months of
17 discovery back and forth. And I think the intent
18 of this is to help reduce some of that time.

19 So I think, on a net net basis, hopefully it
20 actually speeds up the process.

21 COMMISSIONER BROWN: Well, that sounds good.

22 WITNESS FERGUSON: You know, we haven't done
23 it yet, right? But all I would say is that that's
24 the hope of the parties.

25 COMMISSIONER BROWN: And it just applies to

1 the first named storm, so thereafter --

2 WITNESS FERGUSON: That's correct.

3 COMMISSIONER BROWN: -- over 250 --

4 WITNESS FERGUSON: That's correct.

5 COMMISSIONER BROWN: -- so thereafter, no
6 independent outside auditor is required?

7 WITNESS FERGUSON: That's correct. Per the
8 provisions of this agreement, that's correct.
9 Obviously, you know, hopefully we will learn from
10 this audit, too, if there is anything that we need
11 to correct more, and we would obviously implement
12 any of that -- any of those learnings, but with
13 respect to the specific audit requirement that's --

14 COMMISSIONER BROWN: I appreciate that, thank
15 you.

16 Mr. Chairman, just one more question to be
17 clear.

18 CHAIRMAN GRAHAM: Sure.

19 COMMISSIONER BROWN: On page 10 of the
20 settlement agreement, under paragraph 19, it says
21 that the -- second sentence -- the parties will
22 meet within three months following the issuance of
23 a final order on FPL's next storm cost recovery
24 proceeding. It discussed limitations on written
25 discovery and future storm cost recovery

1 proceedings.

2 It's probably a question for your lawyer, but
3 since you are a panel of the witness, I will ask
4 any of you that are aware of this. Just to be
5 clear, are the parties saying that discovery
6 parameters will be set by them and not the
7 Commission? What is that -- the intent of this?

8 MR. RUBIN: Would you like me answer that?

9 COMMISSIONER BROWN: I would. Can he?

10 MR. RUBIN: The intent there is that we would
11 then get together with your staff. We would make
12 recommendations for inclusion into the order
13 establishing procedure what the parties would think
14 would be the appropriate amount of discovery. It
15 would not be to impose upon the Commission anything
16 that we agreed to outside the Commission's
17 approval. It's simply to make sure that your staff
18 is in the loop, and then the OEP could potentially
19 reflect that.

20 COMMISSIONER BROWN: That's wanted to hear.

21 Thank you. That's all.

22 CHAIRMAN GRAHAM: Commissioner Polmann.

23 COMMISSIONER POLMANN: Thank you, Mr.

24 Chairman.

25 Just one follow-up to Commissioner Brown's

1 query on the initial independent audit. I wasn't
2 quite following the discussion on the sequencing
3 with regard to the prefiled testimony, if I
4 understood that. Could you just run that by me
5 again? The audit and filing of testimony, could
6 you maybe just explain that again?

7 WITNESS FERGUSON: Sure.

8 So I will kind of back up from the storm
9 passes. We start gathering all the costs, right.
10 So the costs come in. Invoices come in almost
11 immediately after the storm, and then they continue
12 over a few months period. And over that time, we
13 continue to refine our costs, right.

14 And so, you know, after a period of, let's
15 just say five to six months, we have, I would say,
16 a very final view of our costs. The audit can kind
17 of start, you know, almost right after the storm.
18 It doesn't have to have all of the final costs
19 done. But obviously, you know, as they are going
20 along, they are wanting to ensure that all of our
21 costs are appropriate, as well as all of our
22 policies and practices that we engage in in the
23 storm occur.

24 Then the thought process is we would be able
25 to have a finalization of the audit and our final

1 costs. It's in not dissimilar to what we go
2 through with what we are going -- what we went
3 through with Matthew and Irma. It's just these
4 costs. Again, depending on the size of the storm,
5 they take a while to come in and get finalized.

6 You know, we try to expedite it as quickly as
7 we possibly can. I think this app will
8 tremendously help in that respect, because you
9 don't have all this -- we had something like 60,000
10 pieces of invoice support and everything to go
11 through. This should tremendously streamline that
12 process, such that we can get invoicing done a lot
13 quickly.

14 But the thought process is then we would be
15 able to go through the audit. You know, again
16 starting concurrently with us finalizing costs, and
17 then ultimately wrap up the audit in time to then
18 file our prefiled direct testimony right
19 thereafter.

20 Again, part of the thought process there is
21 that hopefully then with, assuming a clean audit
22 that we have, is that that will help the parties,
23 you know, to use that data that's gathered from the
24 audit to either better refine their discovery
25 process or, you know, ultimately, you know, there

1 might be some opportunity to reduce discovery as a
2 result.

3 So hopefully the calendar overall is shorter
4 if we can get to that point, yes. That's our
5 objective.

6 COMMISSIONER POLMANN: Well, thank you.

7 I just want to be clear that the audit is
8 providing -- and I think this was Commissioner
9 Brown's point, if I understood it -- was providing
10 a benefit, and trying to help the process move
11 along, and doesn't end up inadvertently causing a
12 delay. Even though it's providing additional
13 information, it's not burdening the process. And
14 the way it's written here in this paragraph 18, I
15 don't see that it's a prerequisite, and it's a
16 necessary step first before you are moving forward.

17 And I think that's what you have said. You
18 are starting the audit immediately as soon as some
19 of the costs are documented. So it's not a
20 sequence of events. It becomes a parallel process.

21 WITNESS FERGUSON: It is, with except for the
22 provision that Chairman Brown pointed out, is that
23 in paragraph 17, it does talk about the audit would
24 be completed and then prefiled testimony would
25 be -- would be filed.

1 But to your point, Commissioner Polmann, that
2 doesn't mean that we can't start the audit earlier.

3 COMMISSIONER POLMANN: Yes. All right. Very
4 good. Thank you for the clarification.

5 That's all, Mr. Chairman.

6 (Transcript continues in sequence in Volume

7 2.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, DEBRA KRICK, Court Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 17th day of July, 2019.



DEBRA R. KRICK
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