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July 9, 2020

VIA ELECTRONIC FILING

Mr. Adam Teitzman
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 20190038-EI – Petition by Gulf Power Company for Limited Proceeding for Recovery of Incremental Storm Restoration Costs Related to Hurricane Michael

Dear Mr. Teitzman:

I enclose for filing in the above-referenced docket the Rebuttal Testimony of Paul A. Talley, together with Exhibit PAT-7 and Exhibit PAT-8, and the Rebuttal Testimony of Mitchell Goldstein, together with Exhibit MG-2 and Exhibit MG-3, on behalf of Gulf Power Company. Copies of this filing will be provided as indicated on the enclosed Certificate of Service.

Please contact me if you or your Staff has any questions regarding this filing at (561) 691-7108 or jason.higginbotham@fpl.com.

Sincerely,

/s/ Jason A. Higginbotham
Jason A. Higginbotham
Attorney for Gulf Power Company
Fla. Authorized Counsel No. 1017875

Enclosure

cc: Counsel for Parties of Record

CERTIFICATE OF SERVICE
DOCKET NO. 20190038-EI

I HEREBY CERTIFY that true and correct copies of the Rebuttal Testimony of Paul A. Talley, together with Exhibit PAT-7 and Exhibit PAT-8, and the Rebuttal Testimony of Mitchell Goldstein, together with Exhibit MG-2 and Exhibit MG-3, on behalf of Gulf Power Company, have been furnished by electronic service on this 9th day of July, 2020 to the following:

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

GULF POWER COMPANY

REBUTTAL TESTIMONY OF PAUL A. TALLEY

DOCKET NO. 20190038-EI

JULY 9, 2020

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Paul A. Talley. My business address is Gulf Power Company ("Gulf" or the "Company"), One Energy Place, Pensacola, FL 32520.

Q. Did you previously submit direct testimony?

A. Yes. I submitted written direct testimony on November 15, 2019, together with Exhibits PAT-1 through PAT- 6.

Q. Are you sponsoring any rebuttal exhibits in this case?

A. Yes. I am sponsoring the following exhibits:

Exhibit PAT-7 – Gulf's Response to OPC's INT. No. 46 - Amended

Exhibit PAT-8 – Gulf's Response to OPC's INT. No. 59 - Amended

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to those portions of the direct testimony of Office of Public Counsel ("OPC") witness Lane Kollen critical of Gulf's preparation for and management of its Hurricane Michael storm restoration. Witness Kollen separates his testimony into three categories: (1) Process Findings; (2) Methodologies Findings; and (3) Disallowance Findings. I explain that his "Process Recommendations" go well beyond the relief requested by Gulf in this docket, purport to dictate the terms and conditions of Gulf's contracts with vendors, and suggest an approach to storm cost recovery proceedings inconsistent with Rule 25-6.0143, F.A.C. (the "Rule"). My rebuttal testimony will directly respond to and rebut each of the three categories of unsupported assertions identified above as they relate to the operational aspects of Gulf's preparations for and response to Hurricane Michael, and will explain why his "Process Recommendations" have no place in this proceeding.

Q. Please summarize your rebuttal testimony.

A. Witness Kollen's "Process Findings" related to Gulf's contracting, oversight, and management of third-party contractors for Hurricane Michael storm restoration work reflect a complete misunderstanding of both Gulf's process and its efficient and effective execution of that process in the wake of the most destructive hurricane in Gulf's history and the third strongest to make landfall in the continental United States. He makes unsupported assumptions about Gulf's processes and discusses "likely" impacts, but he fails to provide factual support for his opinions. His hindsight approach ignores the situation faced by Gulf as Hurricane Michael approached, and fails to recognize the efficiency of Gulf's response to the devastation caused by Hurricane Michael.

Witness Kollen's "Methodologies" criticisms, as they relate to the restoration process and the follow-up work, are also misplaced. He ignores the plain language in the Commission's Rule providing for recovery for "storm-related damages," and instead suggests that 2019 costs should be disallowed based upon his own belief that recovery should be limited to costs that are "necessary to restore service." In essence, he has unsuccessfully tried to build an argument for disallowances based upon "Process Findings" and "Methodologies Findings" that are inconsistent with, and contrary to, the controlling Commission Rule. For these reasons, and those described by Gulf witness Goldstein in his rebuttal testimony, witness Kollen's proposed disallowances should be rejected.

II. RESPONSE TO OPC WITNESS KOLLEN'S "PROCESS ISSUES"

Q. Before addressing the specific issues in OPC witness Kollen's direct testimony, do you have any general observations about his Process Findings and Recommendations?

A. Yes. In order to properly evaluate Gulf's storm preparedness plan and restoration process, it is necessary to consider the projected and actual path of a storm, its potential impact on other areas resulting in competition for resources, the scope of the damage caused by a storm, as well as other key factors, such as the availability of and competition for resources, the number of resources required to repair infrastructure and restore power, the number of customers impacted, and the duration of outage times. In my direct testimony, I explained that Gulf's primary goal when faced with a major restoration activity is to safely restore critical infrastructure and the greatest number of customers in the least amount of time. I also explained that while a rapid and safe restoration of electrical service is the primary objective in the aftermath of a major weather event, achieving that objective may not allow for the least overall cost of restoration. With that being said, Gulf is mindful of cost when acquiring resources, and acted prudently in acquiring the needed resources for Hurricane Michael restoration.

In considering witness Kollen's testimony, it is essential that we keep in mind that Hurricane Michael was the third strongest storm to ever make landfall in the continental United States and resulted in outages for 125,452 customers, including 96% of Gulf's customers in Bay County. Gulf's storm restoration efforts required coordination with approximately 8,000 individuals, approximately 7,000 of whom were external resources, which was the largest restoration workforce that Gulf has ever assembled.

Q. Has witness Kollen supported his "Process Findings" with facts?

A. No. Witness Kollen's "process issues" are, in large part, generalizations - without supporting facts - about Gulf's response to Hurricane Michael. He fails to consider the rapidly changing environment and the many variables that impacted the Company's ability to respond to the storm. Witness Kollen has not taken into account the unprecedented nature of the hurricane, the scope of the storm's destruction and the scarcity of external resources to assist in the restoration effort, or the number of Gulf's customers who were without power. He apparently assumes that Gulf had perfect knowledge of the size, scope and strength of the storm, and that there was an overabundance of resources ready and willing to rush in to help, and to do so at any price dictated by Gulf. And it should be noted that while Mr. Kollen clearly has a long resume testifying on regulatory accounting issues, his resume does not appear to identify any operational or storm restoration experience or expertise. This deficiency undermines his series of unsupported and speculative operational and storm preparation and restoration opinions sprinkled throughout his testimony. His detached academic approach simply ignores the reality of a utility's response to a storm event and the efforts that follow.

Q. You say that the "Process Issues" are in large part generalizations. Can you provide some examples?

A. At page 6, lines 6 through 9, without acknowledging that Gulf's processes are those commonly used by utilities facing a storm like Hurricane Michael, witness Kollen criticizes Gulf's management of the third party contracting process. But he is not even able to take the next step, which would be showing a direct impact on costs. Instead, he can only go so far as to say that based upon his unsupported assumption, this alleged failure "likely" led to excessive costs. He cannot state with any degree of certainty, nor does he point to even a single actual instance, where Gulf's contracting process resulted in excessive costs.

At page 13, lines 9 through 15, witness Kollen asks whether Gulf "***could***…have achieved better and lower cost terms" if they had pre-negotiated contracts. (emphasis added). Without recognizing that the Company did in fact have pre-negotiated contracts in place, or that there was a scarcity of resources in the run-up and in the aftermath of the storm, the best he can say in answer to his own question is "***Quite possibly. Although that cannot be known with certainty,*** it is clear the Company failed in the ordinary course of business to enter into contracts to provide sufficient contingent capacity."

These are just two examples of the type of generalizations and speculation upon which OPC's testimony is based.

An analysis of a storm restoration effort should not be conducted in a vacuum nor should it be based on speculation or suppositions. Rather, it is essential to give context to the response and decision-making process. Witness Kollen's testimony ignores the specific nature of Hurricane Michael or its impact on Gulf's service areas.

Q. How did Gulf prepare to respond to Hurricane Michael?

A. Gulf embodies a culture of preparedness, which extends beyond our preparations for "storm season." Gulf reviews and updates its emergency preparedness plan annually, increases its inventory of critical restoration items, and conducts several storm drills. Gulf also pre-negotiates contracts with vendors it anticipates might be called upon to render assistance, and actively participates in mutual assistance organizations such as the Southeast Electric Exchange ("SEE") and the Edison Electric Institute ("EEI"). While Gulf focuses on tailoring its emergency preparedness plan to meet expected demands and projections, it is neither prudent nor practical to prepare for every scenario that may arise with a storm. As a result, the goal of our storm procedures, training, and drills is to prepare our team to respond to any situation, based on the information that is available at the time the event occurs, and to make decisions that are in the best interests of our customers.

If witness Kollen was aware of the year-round work and preparations Gulf undertakes to prepare for major storm events and for other events potentially impacting the utility, I don't believe he would have claimed that Gulf was not adequately prepared to respond to Hurricane Michael.

Q. Did the Company have sufficient resources available in the normal course of business from affiliates, through regional mutual assistance agreements, and/or otherwise under contract with independent contractors prior to the storm?

A. Yes. The Company has a well-established Storm Supplier List ("SSL") through which the Company has established pre-negotiated contracts with third-party contractors for storm restoration response. This list was reviewed, updated annually, and completed long before the beginning of the 2018 storm season. Historically, the number of external resources under contract with Gulf through the SSL had created an appropriate balance of adequate resource reserves to assist in the response to the representative types of storms Gulf had experienced in the past. However, because Hurricane Michael caused damage across multiple states, other utilities across the southeastern and northeastern regions of the United States were either directly impacted by the storm, or preparing for and anticipating such impact. Therefore, these utilities were unable to commit their resources to the SEE including Gulf in anticipation that Hurricane Michael would soon impact these utilities' own systems. As a result, resources from other utilities became scarce prior to and immediately after Hurricane Michael made landfall in Gulf's service territory, and it became very difficult to obtain those resources regardless of pre-negotiated contracts.

Q. How did Gulf manage its arrangements with affiliates for Hurricane Michael storm restoration support?

A. At the time Hurricane Michael made landfall, Gulf was a subsidiary of the Southern Company. Two of Southern Company's largest affiliates, Alabama Power Company ("Alabama Power") and Georgia Power Company ("Georgia Power"), had historically provided resources to assist Gulf in responding to extreme weather events. However, both Alabama Power and Georgia Power were heavily impacted by Hurricane Michael, which was still a Category 3 hurricane when it crossed into their respective states. As a result, Southern Company was unable to release any significant resources to Gulf until a week into the restoration effort because the larger utilities were engaged in their own restoration activities.

Q. Were mutual assistance resources readily available to assist Gulf with its Hurricane Michael storm restoration efforts?

A. No. As I noted earlier, Hurricane Michael impacted multiple states in the southeastern region of the United States. Gulf is a member of the SEE, which provides mutual assistance resources for member utilities during restoration efforts. However, in addition to Gulf, many of the SEE member utilities had either been directly impacted at the time Gulf requested mutual assistance, had decided to hold their resources in anticipation of potentially being impacted by the storm, or their resources had already been committed to other impacted utilities as part of the SEE allocation process. As a result, available SEE mutual assistance resources were allocated to Gulf during the initial stages of the storm restoration effort, but not at the required level or the level that would have been seen in the past due to the far reaching impact of Hurricane Michael. Given the limitations of its affiliates and the SEE, Gulf was required to look outside of these networks to obtain resources to assist in the storm restoration effort. Gulf's decisions in this regard were prudent inasmuch as they balanced the needs of timely and efficiently restoring power to our customers with the costs of bringing in available external resources.

Q. How did Gulf respond to the shortage of available mutual assistance resources?

A. As I have previously discussed, affiliate and mutual assistance resources were not readily available during the early stages of the Hurricane Michael storm restoration effort because many of the utilities that employed those individual had either been directly impacted by Hurricane Michael, anticipated the need to deploy resources in the near future to repair their own systems, or were already committed to other impacted utilities. As the affiliate and mutual assistance requests were being made, Gulf was also reviewing its existing contracts against its estimates of the resources that would be required to safely and efficiently restore power to its customers in a timely manner, and determined that there was a significant gap in its workforce. Based on this analysis, Gulf relied upon its seasoned personnel, who have years of experience negotiating contracts with independent contractors, to search for and obtain available contractor resources. Gulf's employees who acquired these external resources utilized their background and understanding of the electric industry and the current market conditions to select resources at reasonable rates. In some cases, Gulf's personnel were required to negotiate terms with these contractors that reflected the scarcity of available resources due to demands by other utilities. However, in every discussion and negotiation, Gulf's employees applied their knowledge and experience to the acquisition of resources.

Q. During Gulf's efforts to obtain additional resources to help restore power to Gulf's customers, did the Company simply offer contracts to all potential vendors, as suggested by witness Kollen?

A. No. Contrary to witness Kollen's assertion, Gulf remained selective in its contractor acquisition process and declined to enter into agreements with certain contractors, even though those contractors had offered their services, because Gulf determined that it would not be in the best interests of its customers to acquire those specific resources.

Q. Why did Gulf decline to enter into contracts with certain contractors?

A. Prior to and throughout the Hurricane Michael storm restoration effort, Gulf remained committed to balancing its objectives of safely and efficiently restoring power to customers in a timely manner with its goal of mitigating costs. As a result, Gulf reviewed all contactor proposals to determine whether they were reasonable in light of Gulf's needs and the then-current market conditions. In the event that Gulf was unable to negotiate what it considered appropriate rates or terms with a prospective contractor, Gulf declined to enter into an agreement with that individual or company. Gulf's personnel relied upon their previous experience and industry knowledge to determine whether proposed contractor rates and terms were reasonable and also considered factors such as contractor location, travel time, and timing of resource availability in determining whether to acquire a particular resource.

Q. Did Gulf, in fact, agree to contracts that guaranteed 16 hours per day, seven days a week?

A. In some cases, yes. However, it is important to note that witness Kollen's comments about these contracts perfectly illustrates the importance of providing context to an analysis of Gulf's Hurricane Michael storm restoration process. Although Gulf's agreements with certain independent contractors did guarantee 16 hours of work per day, seven days a week, it is standard industry practice for utilities to enter into these types of contracts with storm restoration crews. Agreements guaranteeing 16-hour work days are not exclusive to Gulf and were not exclusive to Gulf's Hurricane Michael storm restoration effort. To the contrary, many utilities enter into agreements for 16-hour workdays with restoration crews, and in many cases, 16-hour workdays are mandated under labor contracts between utilities and the International Brotherhood of Electrical Workers. In fact, Gulf's storm preparation plans, including its plans for managing crews and obtaining fuel, materials, and logistics, are based on crews working 16-hour days until crews are released from duty and return home. Guaranteed or not, Gulf's restoration plans and those of most utilities are built around a 16-hour workday and that is what is expected of crews that respond for assistance.

Q. How did Gulf determine that crews guaranteed a 16-hour work day in fact worked 16 hours?

A. During the storm related activities, including the immediate restoration efforts and the work that extended into 2019, the Gulf leadership team remained fully engaged in restoration activities, including making sure daily work plans were in place for crews at the pre-established starting time and conducting evening recaps of the day's work to review progress and prepare for the next day. Based on this, it is the customary industry standard and Gulf's expectation that crews assisting with storm restoration work in fact followed Gulf's system for 16 hours each day. I am confident that our daily oversight of crews efficiently guaranteed that line and vegetation crews were paid for the times they actually worked.

III. RESPONSE TO OPC WITNESS KOLLEN'S "METHODOLOGIES ISSUES"

Q. OPC witness Kollen takes issue with Gulf's requests for recovery for work related to the storm that was performed in 2019. Please explain Gulf's position.

A. In my direct testimony and through multiple responses to OPC's written discovery, including Gulf's Response to OPC's INT. No. 46 – Amended, Exhibit PAT-7, Gulf provided a detailed explanation of the nature and scope of the destruction caused by Hurricane Michael as well as Gulf's need to continue rebuilding its system into 2019. To reiterate, the work performed in the Eastern District of Gulf's system in the Panama City area during 2019 was undertaken to repair storm-related damage, and was solely focused on rebuilding and restoring the system to its pre-storm condition. While the Gulf team and the responding resources did an outstanding job of quickly restoring power to our customers during the initial 13 days of the event, those efforts did not return the grid to its original condition. In order to ensure that our system would continue to reliably deliver electricity following the devastation caused by Hurricane Michael, Gulf was required to continue its restoration activities into 2019.

Q. Does the Rule support this approach?

A. Yes. While witness Kollen admits that the standard for cost recovery of incremental costs is set forth in the Rule, he nonetheless recommends a disallowance of nearly $20 million for 2019 costs based upon an argument he makes at page 18, lines 4 through 14, that these costs did not qualify as costs "necessary to restore service." In taking this approach, he ignores the plain language in the Rule. On no less than six occasions the Rule describes the process for the accounting and recovery of costs for "storm-related damages," and describes the types of "storm-related costs" subject to recovery. The Rule in no way suggests a limitation for recovery for costs "necessary to restore service," as suggested by witness Kollen. Notwithstanding that fact, there is no doubt that Gulf's 2019 work that is included in its request for recovery was both storm related and necessary to restore service to our customers as they were repairing, rebuilding, and putting their lives back together.

Q. Will you please describe the system restoration work that Gulf and its resources performed in 2019 and explain why that work is properly considered storm-related?

A. Yes. The continued restoration work that Gulf performed in 2019 can be broken down into 4 categories: (1) repairing services and reconnecting customers that were able to receive service following repairs to their property, (2) evaluating the condition of the system and making repairs and corrections to meet applicable standards, (3) providing service to new temporary facilities that were required to facilitate customers' ongoing rebuilding and repair activities, and (4) restoring outdoor and street lighting systems for municipalities, commercial customers, and individual residential customers.

Q. Did the devastation caused by Hurricane Michael impact work demands for Gulf personnel and its external contractor resources?

A. Yes. As a result of Hurricane Michael, Gulf's customer driven tickets for reconnects, new connects for temporary service, and repair tickets in November increased five-fold, as compared to the previous three-month average. From December 2018 to March 2019, the number of tickets for this work was double the historical average, and from April to June 2019, Gulf continued to receive 1.5 times the average number of tickets. These tickets were primarily driven by customers who were repairing their own premises for reconnection or requesting temporary services in order to begin their rebuilding processes. A portion of the tickets were also the result of residual damage from Hurricane Michael that had weakened portions of the grid and began to fail over time. As Gulf began to receive less customer-driven tickets, it started to ramp down its usage of external resources.

Q. What process did Gulf utilize to assess the damage to its system and identify work that needed to be completed as a result of Hurricane Michael?

A. Because of the extensive damage to the system, Gulf conducted several audits by engineering to assess and evaluate our system to ensure that it had been restored to its pre-storm condition and would provide reliable service for our customers. The repair and construction associated with the electric grid during 2019 was solely driven by these reviews and focused on ensuring the system met the same safety and engineering standards it had met prior to the storm. This work was managed by Gulf employees as part of the ongoing restoration process.

Q. Was Gulf able to restore power to its customers and maintain the reliability of its system by rebuilding existing equipment and infrastructure that had been damaged by Hurricane Michael?

A. In some cases, Gulf was able to rebuild existing equipment and infrastructure on its system and verify that the rebuilt equipment complied with all applicable safety and engineering standards. Many times, areas of the system were inaccessible due to damage to trees and buildings as a result of the storm. As customers and other responsible parties cleared these areas for access, Gulf was able to re-install and repair poles, primary conductors, and transformers that were in place prior to the storm to serve the customers coming back in the area to rebuild their homes, businesses, and lives. However, in other cases, Gulf was required to construct new lines and install new equipment to provide service to customers and maintain a safe and reliable grid. This is because many of our customers were in the process of rebuilding their homes and businesses using alternate plans, which required Gulf to install new equipment to meet the specific needs of those structures. Often businesses brought in temporary buildings to house their employees while repairs and construction took place around their facilities. These temporary facilities, in many cases, had to be engineered and constructed for reliable service.

Q. What other Hurricane Michael storm-related work did Gulf personnel and Gulf's contractor resources perform in 2019?

A. The largest portion of Gulf's Hurricane Michael storm restoration work in 2019 was related to restoring service to Gulf's outdoor lighting customers whose facilities had sustained extensive damage during the storm. During the first six months of 2019 Gulf restored, rebuilt, and repaired over 11,500 outdoor lighting fixtures, over 350 lighting poles, and over 200,000 feet of wire to restore the lighting system in Gulf's Eastern District following Hurricane Michael. In order to complete this effort, Gulf performed an extensive evaluation of the lighting infrastructure within the Eastern District of its service area to understand the nature and scope of the damaged and missing lighting fixtures, poles, and wire. Once the evaluation was completed, the data was compiled and material was ordered. Some specialty poles and fixtures required up to a four-month lead time to procure.

Q. What was Gulf's methodology for releasing external resources as the Hurricane Michael storm restoration process concluded?

A. As I noted, Gulf's initial focus was to restore power, which we successfully completed for the majority of our customers in less than two weeks following Hurricane Michael. Afterwards, Gulf conducted a series of comprehensive audits and studies to assess the damage to our system and identify facilities that required repair or replacement, and then began the restoration objectives I have previously discussed. Part of that process was a constant review of external resources and a methodical approach to allocate and balance our personnel and contractor resources with the customer driven work at the time, continually ramping down the work force as demands changed. At the end of June 2019, Gulf released the remaining few storm restoration resources that were on the system and closed the final chapter of its Hurricane Michael restoration efforts.

IV. RESPONSE TO OPC WITNESS KOLLEN'S "DISALLOWANCE ISSUES"

Q. Aside from what you have already discussed, are there other proposed disallowances you would like to address?

A. Yes. Witness Kollen recommends a disallowance of $0.503 million for work performed by Smith Industrial. He bases this opinion on a belief that the vendor did not actually provide "services" for the 112 hours per week (16 hours per day x 7 days) for which they were paid. His proposal reflects a misunderstanding of the nature of the work performed by this contractor.

Q. Please explain the work performed by Smith Industrial.

A. Smith's hydro-excavation trucks are used to safely excavate the ground for setting poles when traditional locates for underground utilities (water, gas, communications, etc.) are not available. After Hurricane Michael, because the locate service was unavailable, the only other option was to hand dig holes which would have been extremely labor intensive and costly for the over 7,000 poles which needed to be set. Gulf brought Smith Industries in for this specialized work because it allowed us to restore power more efficiently, more quickly, and more safely, with much-reduced risk of damaging critical underground utilities in the hardest hit areas in Panama City, damage that would have unnecessarily prolonged other restoration work.

Gulf's Response to OPC's INT. No. 59 – Amended, Exhibit PAT- 8, explained the reasons that Gulf engaged Smith Industrial under the specific terms challenged by OPC.

With the amount of restoration work being performed in Bay County after Hurricane Michael, Extraordinary Circumstances directives, as that term is described in the Sunshine 811 Excavation Guide, were issued by all municipalities and utilities owning and operating underground facilities. In light of this directive, Gulf determined that the safest and most prudent and appropriate method of performing the necessary locates was through the use of a contractor capable of performing hydro-excavation. The hydro-excavation process required Gulf to have its contractor on standby for facility owners to locate their underground infrastructure, so that Gulf could then make repairs to its facilities without adversely impacting the governmental and other underground facilities. Smith Industrial was the contractor engaged to perform the required hydro-excavation, and they performed their work, or were required to remain in place on a daily basis to perform their work, for storm follow-up work for Distribution and Lighting following Hurricane Michael. The use of Smith Industrial helped to ensure that Gulf would not damage critical communication, sewer, water, and gas facilities during repair and rebuild of Gulf's electric facilities.

Q. Why was it appropriate to pay this vendor for 112 hours per week during the time they were engaged to assist with storm related work, including during the times when they were not actively performing hydro-excavation services?

A. The nature of this work required Gulf to have its contractor on standby for facility owners that were not able to identify their underground infrastructure, so that Gulf could then make repairs to its facilities without adversely impacting governmental and other underground facilities without further delay. As such, Smith's contract required them to remain in place on a daily basis to provide their services for Hurricane Michael related follow-up work for Distribution and Lighting. The use of Smith Industries under these terms helped to ensure that Gulf would not damage critical communications, sewer, water, and gas facilities during repair and rebuild of Gulf's electric facilities, and that the work could be timely completed. As with other external resources, these resources were monitored and balanced to match the work level and restoration needs.

V. RESPONSE TO OPC WITNESS KOLLEN'S "PROCESS RECOMMENDATIONS"

Q. Please comment on witness Kollen's three process recommendations described on page 10 of his testimony.

A. First, let me say that witness Kollen's "process recommendations" have no place in this docket, are in no way related to the relief sought by Gulf, or the standard to be applied by the Commission in this proceeding. These recommendations essentially place the Commission in the position of managing the day to day responsibilities of the utility.

I also note that while he relies on language included in the recent 2019 settlement agreements in Duke, Tampa Electric, and FPL storm cost recovery cases to support his theories, witness Kollen at the same time admits that "their terms do not strictly apply to the 2018 storm season and by their terms cannot be imposed on Gulf."[1] Those settlement agreements, signed in the year *after* Hurricane Michael struck, have no

[1] OPC witness Kollen relies upon provisions in the Duke and Tampa Electric Settlement Agreements approved in Commission Order No. PSC-2019-0232-AS-EI dated June 13, 2019 (Duke) and Order No. PSC-2019-0234-AS-EI (TECO) dated June 14, 2019, and in the FPL Settlement Agreement approved in Commission Order No. PSC-2019-0319-S-EI dated August 1, 2019, as precedent for his "process recommendations". This, notwithstanding the fact that in the Tampa Electric agreement, OPC agreed as follows: "The way the dollar amounts for the Initial Reduction, Additional Reduction and the Reduced Recoverable Amounts were developed ***will not have any precedential value***." (emphasis added). In the FPL agreement, OPC agreed that "***Nothing in this Agreement will have precedential value.***" (emphasis added)

precedential value, and in any case do not apply to Gulf. Witness Kollen seems to want to create a new standard based on 2019 settlements, and then apply it retroactively to a storm that occurred in 2018.

Q. Please explain why the first and second "process recommendations" should be disregarded by the Commission.

A. While the first and second "process recommendations" proposed by witness Kollen might be appropriately considered in a rulemaking, they do not control consideration of the relief requested by Gulf, nor are they appropriate in a storm cost recovery proceeding. Witness Kollen would have the Commission dictate how and when the utility should contract with vendors, including the details of the contracting process and the types of terms and conditions to include, who to call upon for assistance, and in what order, and on and on. Even if these recommendations were properly part of this case – which they are not – if implemented they would seriously hamper Gulf's ability to safely restore power to the greatest number of customers in the shortest amount of time.

Q. How would Gulf's response to a hurricane or other weather event be impacted if witness Kollen's first and second "process recommendations" were adopted?

A. As the Commission knows, response to and recovery following a major storm event is a fluid process, where constantly changing circumstances require the utility to make real time decisions on the appropriate approach to restoration. 16-hour work days are customary, but this can be exceeded with proper justification and approval. For example, additional work beyond the standard 16-hour day is justifiable during restoration to provide service to a critical community infrastructure facility such as a hospital. There are times when the utility manager must use his or her judgment to bring in additional assistance, whether in the form of vendors already under contract, or additional resources whose contracts may even be negotiated as the foreign crews begin to travel. There are times when specialized equipment may be required, and those contracts would be handled individually utilizing the best option available.

Witness Kollen proposes an approach where the Commission would dictate to the utility specific parameters for how and when all of these agreements should be put in place, the order in which different categories of resources should be brought in (i.e., first affiliates, then regional mutual assistance, then other mutual assistance, followed by regional third party contractors, and finally non-regional third party contractors), and other details that rest squarely within the judgment of prudent utility managers. And while the utility remains mindful of costs as it executes its recovery plan, safe and rapid restoration of power, based upon the knowledge and experience of the utility, is the top priority.

The proposed ordering in which external resources could be obtained would negatively impact the restoration process because it would impede the flexibility that is required to work towards an efficient and timely restoration of power and repair of facilities. It would be inefficient, ineffective, and unproductive to follow a rigid protocol as outlined in witness Kollen's second "process recommendation." His proposal completely ignores the scarcity of resources, and the way in which assistance is provided when there are many utilities competing for resources. Simply put, witness Kollen's "process recommendations" fail to take into account the real world situation that exists when a hurricane approaches and impacts a utility's service territory.

Q. In the aftermath of Hurricane Michael, has Gulf in fact agreed to modify some of its procedures as they relate to resource acquisition?

A. Yes. On January 1, 2019, NextEra Energy, Inc. ("NEE") acquired Gulf, and as a result, Gulf is now a sister company of Florida Power & Light Company ("FPL"). Since joining NEE, Gulf has adopted and has already begun to implement the contracting processes outlined in FPL's Stipulation and Settlement of Storm Restoration Costs Related to Hurricane Irma ("FPL Irma Settlement Agreement"), which include requirements related to contracting with and acquiring storm response contractors.[2]

By adopting FPL processes as part of the NEE family of companies, Gulf may now call upon third-party storm restoration contractors engaged by FPL through existing and future contracts.

Q. Notwithstanding the fact that Gulf is not bound by the settlement agreements identified by witness Kollen, and that these "process recommendations" are not part of the relief requested in this docket, has Gulf voluntarily made process improvements including some of those contained in the referenced settlement agreements?

A. Yes. Gulf has a culture of constant improvement and strives to take advantage of the lessons learned, not only when the Company has been faced with severe weather events, but also when responding to other utilities across the country and providing

[2] *See* Order No. PSC-2019-0319-S-EI, issued on August 1, 2019, in Docket No. 20180049-EI, In re: Evaluation of storm restoration costs for Florida Power & Light Company related to Hurricane Irma.

mutual assistance. In addition, Gulf has been proactive in implementing best practices from other utilities and ensuring that processes meet customary industry standards and those required by the SEE. Thus, Gulf has already reviewed and incorporated practices and lessons learned from the proceedings involving Duke and Tampa Electric. Furthermore, as I previously stated, since joining NEE, Gulf has incorporated and implemented all of the process improvements outlined in FPL's Hurricane Irma Settlement Agreement. Accordingly, there is no need for the Commission to impose additional requirements on Gulf's future storm activities at this time.

Q. Do you have any final observations in response to the testimony submitted by OPC and Federal Executive Agencies?

My rebuttal testimony demonstrates that intervenors' recommendations fail to consider, and in fact ignore, important variables that impacted Gulf's response to Hurricane Michael and the subsequent storm related work. On the heels of the most destructive hurricane in Gulf's history and the third strongest to make landfall in the continental United States, the Gulf team worked diligently to safely and efficiently restore electric service to our customers in the Panama City area and elsewhere in our service area. Gulf's management of a restoration workforce of almost 8,000 resources and restoration of service to over 130,000 customers in just 13 days demonstrates that the Company was well prepared, and employed an effective storm response and restoration processes.

Q. Does this conclude your rebuttal testimony?

A. Yes.

QUESTION:
Refer to Gulf's response to POD 10 in OPC's First Request for Production of Documents, specifically to the invoice binder 105 (Bates numbers 32859-33289).

a. Describe the specific services provided by this contractor and explain why there were no storm related costs for this contractor during the first quarter of 2019 and why there were multiple invoices for storm related costs during the months of May through July 2019.

b. Were the costs defined as storm related during the months of May through July 2019 included in the total costs shown in Exhibit MG-1?

c. Describe in detail the method and all criteria used by the Company to determine that a portion of the May through July 2019 binder 105 invoice costs were storm related.

d. Provide examples from actual invoices that demonstrate how the Company determined that a portion of the costs were storm related and how it applied specific criteria for this determination.

RESPONSE:

a. The vendor whose invoices are the subject of this interrogatory provided vegetation management cleanup work following Hurricane Michael. Because the storm related costs incurred in May through July 2019 did not exceed the 3-year average for vegetation management spending, these costs were not included in Gulf's request for storm cost recovery. This specific contract crew assisted with cleanup initially, and they also performed some scheduled maintenance work while on the system. The follow-up storm work performed by the crews in May through July of 2019 was associated with either vegetation damage that remained on the system, or trimming or removal of damaged trees that were dead or dying and created reliability risk. The work was managed by Gulf employees who identified specific work as storm related or normal maintenance.

b. No, the vegetation management costs defined as storm related during 2019 were excluded from the request for storm cost recovery through the VM ICCA Clearing, and therefore none of these costs are included in the total costs shown in Exhibit MG-1.

c. As described in part (a) of this question, this work was identified through inspections of the distribution system conducted to address remaining storm damage to electrical equipment or storm-related vegetation issues likely to impact the system. As indicated in parts (a) and (b) of this response, the costs that are the subject of this interrogatory have been removed from the request for storm cost recovery through the ICCA adjustments.

d. The invoices have been provided as part of POD 10. As described in part (a) of this question, this contract crew assisted with Hurricane Michael cleanup and also performed scheduled maintenance work. Their work was managed by Gulf employees who determined whether the associated costs should be attributed to normal maintenance or to storm restoration. As stated in response to subsections (a), (b), and (c) of this interrogatory, the storm related costs for May through June 2019 did not exceed the 3-year average for vegetation management spending, and as a result these costs were not included in Gulf's requested storm cost recovery.

QUESTION:
Refer to Gulf's response to POD 10 of OPC's First Request for Production of Documents, specifically to invoice binder 6.0. Refer also to the applicable contract pages provided in the confidential response to Gulf's response to POD 6 of OPC's First Request for Production of Documents.

a. Were the costs identified in these documents as storm related to 2019 included in the total costs shown in Exhibit MG-1?

b. Describe the method and all criteria the Company used to determine that binder 6.0 invoices for 2019 were storm related.

c. Why were the contract labor and equipment rates charged for 16 hours per day 7 days per week (112 hours per week) starting in mid-December 2018 and during the 2019 months for two hydro vacuum excavation trucks, one pickup truck, and the related labor, understanding the basic work week assumed in Section V of the contract rates was 40 hours per week?

d. Describe the approval process for these invoices in order to verify the hours per week invoiced. If there was pre-approval of the 112 hours per week billing for the equipment and labor, please provide copies of such authorization.

e. The referenced invoices and associated contract pages provided in Gulf's response to POD 10 refer to the hourly billing rate for a pickup. Please describe the make, model, and features of the referenced pickup.

f. The referenced invoices and the associated contract pages provided in Gulf's response to POD 10 refer to the hourly billing rate for two hydro vacuum trucks. Please describe the make and model of these two trucks.

g. Confirm that the equipment rates being charged on these invoices include the labor associated with the operators.

RESPONSE:

a. Yes, the costs defined as storm related during 2019 are included in the total costs shown in Exhibit MG-1.

b. Please see Gulf's response to OPC's Amended Second Set of Interrogatories No. 46.

c. With the amount of restoration work being performed in Bay County after Hurricane Michael, Extraordinary Circumstances directives, as that term is described in the Sunshine 811 Excavation Guide, were issued by all municipalities and utilities owning and operating underground facilities. In light of this directive, Gulf determined that the safest and most prudent and appropriate method of performing the necessary locates was through the use of contractor capable of performing hydro-excavation. The hydro-excavation process required

Gulf to have its contractor on standby for facility owners to locate their underground infrastructure, so that Gulf could then make repairs to its facilities without adversely impacting the governmental and other underground facilities. Smith Industrial was the contractor engaged to perform the required hydro-excavation, and they performed their work, or were required to remain in place on a daily basis to perform their work, for storm follow-up work for Distribution and Lighting following Hurricane Michael. The use of Smith Industrial helped to ensure that Gulf would not damage critical communication, sewer, water, and gas facilities during repair and rebuild of Gulf's electric facilities.

d. Please see Gulf's response to OPC's Amended Second Set of Interrogatories No. 59, Attachment Nos. 1 and 2, attached hereto, which are confidential.

e. Gulf does not require this type of detail be provided in their contracts and does not have any information describing the make, model, and features of the referenced pickup.

f. Gulf does not require this type of detail be provided in their contracts and does not have any information describing the make and model of the referenced hydro vacuum trucks.

g. Please see the documents provided with Gulf's response to OPC's First Request for Production of Documents No. 6, which are confidential. Refer to Bates number 001383. The description of the unit indicated it is fully operated, meaning operator labor is associated with the equipment.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

GULF POWER COMPANY

REBUTTAL TESTIMONY OF MITCHELL GOLDSTEIN

DOCKET NO. 20190038-EI

JULY 9, 2020

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Mitchell Goldstein. My business address is Gulf Power Company ("Gulf" or the "Company"), One Energy Place, Pensacola, Florida, 32520.

Q. Did you previously submit direct testimony in this proceeding?

A. Yes. I submitted written direct testimony on November 15, 2019, together with Exhibit MG-1 – Hurricane Michael Incremental Cost and Capitalization Approach Adjustments.

Q. Are you sponsoring any rebuttal exhibits in this case?

A. Yes. I am sponsoring the following exhibits:

- Exhibit MG-2 – Hurricane Michael Incremental Cost and Capitalization Approach Adjustments (Revised July 9, 2020), which is an update to the storm costs provided in Exhibit MG-1 included with my direct testimony. This update includes corrections or adjustments that have been identified during the course of this proceeding.
- Exhibit MG-3 – Gulf's Response to OPC's Interrogatory No. 59 – Amended.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the proposed adjustments to Gulf's recoverable Hurricane Michael storm costs that have been recommended by Office of Public Counsel ("OPC") witness Lane Kollen, and by Federal Executive Agencies ("FEA") witness Michael P. Gorman. I also explain the appropriate accounting used by Gulf to support recovery of its prudently incurred costs. Finally, I will address the adjustments that Gulf agreed to make in its discovery responses, and explain why the Florida Public Service Commission ("Commission") should reject the proposed disallowances suggested by witnesses Kollen and Gorman, and approve the relief requested by Gulf.

Q. Please summarize your rebuttal testimony.

A. My rebuttal testimony demonstrates that Gulf properly applied the Incremental Cost and Capitalization Approach ("ICCA") methodology under Rule 25-6.0143, F.A.C. (the "Rule") to calculate incremental costs related to Hurricane Michael storm restoration work. While witness Kollen offers his opinion on what he considers a "reasonable" approach to determine a baseline for incremental costs, his opinion of what constitutes a "reasonable standard" is not the rule Gulf is obligated to follow, nor is it the standard by which Gulf's analysis and request should be judged.

Application of the Commission Rule and the ICCA methodology to the Hurricane Michael facts captured all storm related costs, a total of $427.7 million, as shown on Line 12 of Exhibit MG-1. All non-incremental costs, capitalizable costs, and third-party reimbursements were removed, after which jurisdictional factors were applied to determine the total of $312.8 million of Retail Recoverable Costs, as shown on Line 49 of Exhibit MG-1.

Notwithstanding witness Kollen's and witness Gorman's unsupported opinions to the contrary, Gulf has fully supported its requested recovery for Hurricane Michael storm related costs and interest, including each of the specific line item costs shown on

Exhibit MG-1, as revised on Exhibit MG-2. This support is apparent not only in Gulf's initial testimony and exhibits, but also in Gulf's responses to hundreds of discovery requests and the production of thousands of pages of documents.

In short, my testimony shows that Gulf followed the Rule and Commission precedent in its request for Hurricane Michael storm cost recovery, and respectfully submits that OPC's and FEA's proposed disallowances should be rejected.

II. ACCOUNTING TREATMENT AND THE ICCA METHODOLOGY

Q. Has Gulf appropriately applied the ICCA methodology under the Rule to calculate incremental costs related to Hurricane Michael?

A**.** Yes, Gulf has appropriately followed the Commission rule and applied the ICCA methodology to arrive at the total storm related costs for which it seeks recovery in this proceeding. Witness Kollen, on the other hand, bases his opinions in large part on faulty assumptions about the appropriate baseline for measuring and identifying costs that are incremental and therefore recoverable under the Rule. He initially quotes the Commission Rule as the appropriate standard to determine recoverable storm costs, then admits that he also "relied on the Commission's decisions adopting settlement agreements in other proceedings involving DEF, Tampa Electric Company, and FPL." And while further acknowledging that the terms of those settlement agreements "do not strictly apply to the 2018 storm season and by their terms cannot be imposed on Gulf Power," he nonetheless does precisely that. As such, witness Kollen has candidly acknowledged that his analysis is not based upon the Commission Rule, but is instead premised on settlements in unrelated cases that he admits are not binding on Gulf. Gulf on the other hand has followed the Commission's Rule, and appropriately accounted for storm related costs for Hurricane Michael consistent with the ICCA methodology.

Q. Witness Kollen states that the use of a 3-year average is the "reasonable standard" to use to identify a baseline to determine costs that are incremental and therefore recoverable. Please comment on this approach.

A. Witness Kollen is relying upon a provision in two of the settlement agreements[1] entered into in 2019 where the electric utilities voluntarily agreed to the use of a 3-year average for a handful of categories of costs, based upon the specific facts and circumstances of their respective cases. Witness Kollen's "reasonable standard," at a minimum, would appear to require a rulemaking if it were to be considered for universal application by the Commission. And while the use of the 3-year historical average may have made sense for those two utilities at the time and under those circumstances, and while there may even be situations where a utility determines that the use of the 3-year average makes sense to establish a baseline to determine incremental costs where that decision does not adversely impact customers, the fact remains that the current Rule only requires that methodology to determine the level of "tree trimming expenses" that are

[1] The provisions witness Kollen relies upon are found in the Duke and TECO Settlement Agreements approved in Commission Order Nos. PSC-2019-0232-AS-EI dated June 13, 2019 (Duke) and PSC-2019-0234-AS-EI (TECO) dated June 14, 2019. In those settlement agreements, Duke and TECO agreed that for purposes of the specific recovery sought in Docket Nos. 20170272 and 20170271-EI, respectively, a 3-year historical average would be used to determine incremental base payroll, overtime, T&D non-vegetation management contractor costs, and T&D vegetation management costs. Additionally, it should be noted that OPC, a signatory to the TECO agreement, specifically agreed as follows: "The way the dollar amounts for the Initial Reduction, Additional Reduction and the Reduced Recoverable Amounts were developed ***will not have any precedential value***." TECO, page 6, paragraph 6 (emphasis added).

incremental.[2]

Q. Did Gulf use the 3-year historical average to determine the level of incremental tree-trimming, or vegetation management costs, it seeks to recover in this proceeding?

A. Yes. Gulf used the 3-year historical average to identify incremental vegetation management expenses, as required by section (1)(f)8 of the Rule.

Q. Gulf used current period budgeted base rate payroll data to establish the baseline for calculating incremental regular payroll costs. Is Gulf's approach consistent with the guidance for calculating incremental regular payroll costs under the Rule?

A. Yes. While the Rule does not specify the method of calculating incremental regular payroll storm costs, it does provide guidance that supports Gulf's approach in this proceeding. Section (1)(d) of the Rule states in pertinent part as follows: "In determining the costs to be charged to cover storm-related damages, the utility shall use an Incremental Cost and Capitalization Approach methodology (ICCA). Under the ICCA methodology, the costs charged to cover storm-related damages shall exclude those costs that *normally would be charged* to non-cost recovery clause operating expenses in the absence of a storm." (Emphasis added). Additionally, section (1)(f)(1) of the Rule, describing the types of storm related costs prohibited from being charged to the storm reserve under the ICCA methodology includes "*base rate recoverable*

[2] The use of the 3-year historical average to determine a baseline for the identification of incremental recoverable costs for tree trimming expenses is found at Rule 25-6.0143(1)(f)8, F.A.C. This is the only section of the Rule requiring the use of the 3-year historical average to determine a baseline for the identification of incremental recoverable costs.

regular payroll and regular payroll-related costs for utility managerial and non-managerial personnel." (Emphasis added)

Q. What additional guidance did the Company rely on to support its use of current period budgeted data for calculating non-incremental costs?

A. The Company relied upon the Rule and multiple Commission Orders which support the appropriateness of the calculations of non-incremental costs, including:

- Order No. PSC-2005-0937-FOF-EI, Docket No. 20041291-EI, which required Florida Power & Light to use the budgeted amount of regular payroll for the year in which the storm occurred as the baseline to determine the incremental amount of regular payroll for the 2004 storm season;
- Paragraphs 21 and 22 of Order No. PSC-2006-0464-FOF-EI, Docket No. 20060038-EI, which allowed recovery of regular payroll which would otherwise normally be recovered through capital or cost recovery clauses; and
- Part (1)(f)7 of the Rule which specifically refers to the use of non-budgeted overtime or other non-budgeted incremental call center and customer service costs when calculating incremental costs for those functions.

A review of this guidance supports Gulf Power's use of its current period operating budget as the baseline of its calculation of non-incremental regular payroll costs.

Q. Please describe how Gulf determined incremental regular payroll costs to support its request for recovery.

A. The ICCA methodology requires the utility to adjust out any regular payroll costs that it is already recovering through base rates. Because Gulf's current base rates were established through a settlement approved by the Commission in 2017, Gulf used its

2018 budget to establish a baseline for the regular payroll costs in base rates and any additional costs to be recovered through the storm reserve. For its 2018 budget, the cost of Transmission and Distribution employee time was allocated between capital and O&M based on the expected work mix. The cost of most other employees was budgeted to O&M only.

Therefore, to determine incremental regular payroll costs, Gulf first compiled all regular payroll charges to the storm cost center, in total, $6.964 million, which is also shown on Column (6) of Line 4 of Exhibit MG-1 Page 1. Gulf then quantified the amount of those regular payroll charges that were included in the 2018 budget, as follows:

- For Transmission employees, we subtracted 20% of costs (since 80% of their time is charged to capital for the 2018 budget, based on the mix of Transmission work);
- For Distribution employees, we subtracted 30% of costs (since 70% of their time is charged to capital for the 2018 budget, based on the mix of Distribution work);
- For all other employees, we subtracted all costs (since all of their time was charged to O&M in the 2018 budget).

This process determined that $4.544 million (65%) was the amount of regular payroll charges in budget, and which therefore was not incremental. Those charges were removed from the amount to be recovered through the storm reserve. The remaining

$2.420 million represents the regular payroll charges for Transmission and Distribution employees which were not budgeted and therefore are incremental and recoverable through the storm reserve.

Q. Witness Kollen recommends a disallowance of $2.402 million in regular payroll and related costs in Gulf's claimed incremental regular payroll costs after reduction for "non-incremental" costs. What is your response to this recommendation?

A. At page 20 of his testimony, witness Kollen makes this statement, but provides no analysis or support to explain how he arrived at that number. His purported "explanation" for this recommendation is included in his footnote 14 which simply restates the math included on my Exhibit MG-1, but does not state or even suggest that the math is incorrect, or that there were any supposed errors in the way Gulf calculated the incremental amount of payroll and related costs. There is frankly nothing in his testimony that supports this recommendation.

As explained in this rebuttal testimony, and in my direct testimony filed earlier in the case, Gulf followed the Commission Rule and precedent and the ICCA methodology in calculating the amount of incremental costs, including regular payroll and related costs, that qualify as recoverable storm related costs. Witness Kollen's unsupported recommendation to disallow $2.402 million in payroll and related costs should be rejected.

Q. Do you agree with witness Gorman's assertion that the regular payroll costs Gulf is seeking in this proceeding are already being paid by customers in their electric bills, and these costs are not incremental or caused by the hurricane damage?

A. No, as noted above, through the ICCA methodology, Gulf calculated and removed all regular payroll costs which were in base rates, so that the remaining storm recoverable costs are, in fact, incremental.

Q. Witness Gorman purports to challenge Gulf's calculation of incremental payroll and related costs, relying on an example of "an employee who works in Legal but is supporting Distribution during storm restoration (who) would allocate their time to Distribution." Please comment.

A. The example of the Legal employee supporting Distribution is taken from note (C) on my Exhibit MG-1. Note (C) was offered to provide an explanation of how Gulf arrived at the totals for Regular Payroll and Related Costs, and Overtime Payroll and Related Costs. The note, tied to lines 4 and 5 of Exhibit MG-1 Page 1, reads in its entirety as follows: "(C) Represents total payroll charged to the business unit (function) being supported. For example, an employee that works in Legal but is supporting Distribution during storm restoration would allocate their time to Distribution."

Q. Does this note mean that the Legal employee's time during storm restoration was considered by Gulf to be incremental and therefore recoverable in this proceeding?

A. No, quite to the contrary. The note simply explains that in this situation, the Legal employee's time would be allocated to the Distribution function rather than the Legal function. And as I described above, application of the ICCA methodology recognized that the Legal employee's time was already in Gulf's O&M budget, and as such, the cost of that employee's time was included as a Non-Incremental Cost on Lines 15 and 16 of Exhibit MG-1 Page 1.

Q. Is witness Gorman correct in his belief that Gulf is seeking to collect regular payroll costs twice?

A. No. I agree with witness Gorman that in the example discussed above, the Legal employee's payroll costs are being recovered in base rates. But, as I have explained, Gulf recognizes those costs as non-incremental, and they are not included in any request for recovery in this proceeding.

III. <u>CAPITALIZATION OF COSTS</u>

Q. Did Gulf appropriately capitalize costs in accordance with the Rule and the ICCA methodology?

A. Yes. On the sheet labeled "Final Capital ICCA" produced with Gulf's response to OPC's 1st Request for Production of Documents Request No. 1, the Company provided backup data and summarized the amounts which were charged to capital in 2018 and 2019, in total $101.861 million which is also shown on Column (6) of Line 43 of Exhibit MG-1 Page 1.

Q. OPC takes the position that Gulf failed to limit its request to costs caused by the storm, arguing that "it does not appear that the costs incurred in 2019 were necessary to restore service." Please comment on this assertion.

A. As witness Talley has noted in his testimony, the storm-related destruction caused by Hurricane Michael was catastrophic and required work well into 2019 to rebuild and restore the system to its pre-storm condition. The Rule plainly sets out a process for recovery of costs for such "storm-related damages," with no limitation for costs "necessary to restore service." As such, witness Kollen's proposed disallowance of nearly $20 million discussed on pages 32-33 of his testimony is based upon an unsupported and unsupportable interpretation of the Rule governing storm cost recovery under the ICCA methodology. This proposed disallowance should be rejected in its entirety because virtually all of these costs have already been capitalized and the remainder were incremental and therefore properly included in Gulf's request. Because Gulf witness Talley and Gulf's responses to discovery in this proceeding describe the nature of the Hurricane Michael storm related work performed in 2019, I will limit my comments to the Rule itself and the accounting treatment of those costs.

Witness Kollen suggests that the 2019 costs should be disallowed based upon a failure to show that the work was "necessary to restore service." In so doing, he again completely ignores the plain meaning and clear language of the controlling Rule, and instead chooses to rely upon a self-described "standard" that is nowhere to be found in the Rule. Sections 1(c) and 1(d) of the Rule use the phrase "storm-related damages" – not costs "necessary to restore service" - six times in describing the types of costs recoverable under the ICCA methodology. And in section 1(e) of the Rule, recoverable costs are described as "storm related costs." There is no doubt that Gulf has satisfied the requirements of the Rule through the testimony of Gulf witness Talley and the voluminous discovery produced in this case, and that the costs were properly accounted for in Gulf's books and records, first as costs to address storm related damages, and then capitalized in accordance with the Rule.

Q. On pages 32 and 33, witness Kollen states that $19.941 million should be excluded from the Company's requested recovery and therefore not recovered through the storm reserve. Do you agree with his assessment?

A. No. As I have explained, the 2019 costs included in Gulf's request for cost recovery are clearly related to Hurricane Michael. Field inspections conducted in late 2018 and early 2019 across the area impacted by Hurricane Michael confirmed the storm related damage which needed to be repaired or replaced to put the Gulf Power system in its pre-storm condition. This work primarily consisted of lighting and distribution work which was capitalized and is therefore already excluded from the Company's storm recovery request through the removal of Capitalizable Costs on line 43 of Exhibit MG-1, Page 1. Therefore, witness Kollen's proposed disallowance of $19.941 million should be rejected.

IV. <u>INVOICES</u>

Q. Please explain the purpose of the Master Log.

A. The Master Log is a non-accounting work tool that Gulf developed during its review and analysis of all Hurricane Michael costs submitted by vendors. The Gulf team used this tool to track invoices received from vendors and to note exceptions identified during the review process. The Master Log (which was provided in response to OPC's Request for Production of Documents No. 10) demonstrates that Gulf's review included approximately 4,500 invoices or other charged amounts totaling

$389,485,901, and that reductions of $6,808,610 were realized. The net amount, $382,677,291, is a subset of the total costs included on Line 12 of Exhibit MG-1. As such, while the Master Log contains nearly 90% of the total Storm Related Restoration Costs of $427,619,775. shown on Line 12 of Exhibit MG-2, Page 2, it was not intended to cover all costs and it does not cover all costs.

Q. Do you agree with witness Kollen's statement that a reconciliation of Gulf's Master Log and Exhibit MG-1 is necessary for the Company to support its claimed costs?

A. As described above, the Master Log is a non-accounting tool Gulf developed to assist with its invoice review process. My Exhibit MG-1, together with the totality of Gulf's materials filed and produced in this case, provide overwhelming evidence to support the Company's Hurricane Michael storm related costs.

Witness Kollen also asserts on page 33 of his testimony that he cannot discern whether the "Exceptions" noted by the Company were, in fact, subtracted from the amount of claimed costs. To avoid all doubt, as noted above, the net amount of $382,677,291 is the amount included in Storm Related Restoration Costs, and the full $6,808,610 million of Exceptions were subtracted.

Q. When Gulf developed the Master Log, was it intended to track Exhibit MG-1?

A. No. As described above, the Master Log was developed as a non-accounting tool to facilitate an efficient and thorough process to review vendor invoices. The information on Exhibit MG-1, on the other hand, was directly pulled from the Company's official accounting records maintained in Oracle (in 2018) and SAP (in 2019).

Providing a more precise reconciliation between the Master Log and Exhibit MG-1 would require a detailed line-by-line review and recompilation of each of the approximately 4,500 invoices in the Master Log, an exercise that would take many man-hours and serve no practical purpose, since each invoice has already been reviewed in detail and appropriate reductions have been made.

V. ADDITIONAL PROPOSED ADJUSTMENTS

Q. On pages 22 through 26, witness Kollen discusses work done by Smith Industrial Services, and summarizes his conclusion in the table on Page 9, indicating that $666 thousand in costs for that work should be disallowed. Do you agree with his assessment?

A. No. This proposed disallowance is apparently based on a lack of knowledge or misunderstanding of the work performed by Smith Industrial. As the Company previously demonstrated in its narrative response to OPC's Interrogatory No. 59 – Amended, Exhibit MG–3, Smith Industrial was engaged because of its capabilities of performing hydro-excavation, a process for removing or moving soil with pressurized water. Gulf witness Talley explains in more detail the nature and necessity of the work performed by Smith Industries. Witness Talley's description provides clear support for the prudence of this activity and the reasonableness of the associated costs.

Q. Earlier in your testimony you addressed the proposed adjustments suggested by witnesses Kollen and Gorman related to 2019 storm related costs, payroll, and capitalization. Are there other areas you would like to address where intervenors have recommended disallowances?

A. Yes. While acknowledging that the Rule is the standard by which incremental costs are measured, witness Kollen nonetheless applied his 3-year historical average approach in support of disallowing two categories of costs: $70,000 of line contractor costs and $4.02 million of materials and supplies costs. Had witness Kollen applied the Rule to these categories of costs, rather than his selectively applied self-proclaimed "reasonable" standard, he would have recognized the accuracy of Gulf's analyses and calculations. These proposed disallowances should be rejected.

Q. How did Gulf determine the amount of incremental materials and supplies included in its request for cost recovery?

A. The Company included only those materials and supplies costs which were directly associated with work orders for Hurricane Michael storm related work. Additionally, in accordance with section (1)(f)10 of the Rule, Gulf did not include any amount for the replenishment of the utility's materials and supplies inventories. Application of the Rule, rather than witness Kollen's desired approach, fully supports Gulf's request for recovery of these costs.

Q. On pages 27 through 29, witness Kollen identifies $52,000 in costs that should be disallowed. Do you agree with his assessment?

A. Gulf recognized these costs as billing errors totaling $52,000 and acknowledged in the Company's discovery responses the need to remove these charges from its request. In addition, Staff's Audit identified billing errors totaling an additional $3,000. As a result, the Company is submitting a revised cost recovery figure, which reflects the removal of $55,000 in costs (see Exhibit MG-2, page 1 of 4, line 6). This reduction is included in Gulf's revised request reflected on Exhibit MG-2.

Q. Please explain any other revisions to Exhibit MG-2 resulting in the revised request of $295.049 million.

A. In addition to the $55,000 reduction noted above, Gulf has updated the table showing amortization and interest accretion during the recovery period (shown on Page 3 of Exhibit MG-2), reflecting actual amortization and interest rates through June 2020. As a result, Gulf anticipates Interest on the Unamortized Reserve Balance will be $645,000 lower than originally anticipated. This amount is shown on Line 55 of Exhibit MG-2, Page 1.

Q. Do you have any observations about the fact that through the extensive discovery conducted in this case, OPC identified approximately $55,000 of billing errors out of total costs of more than $300 million?

A. Yes, this confirms and reinforces my belief that the Gulf invoice review team undertook an extremely thorough process, and with painstaking attention to detail eliminated virtually all inappropriate charges. I am incredibly proud of the team for the work they did on this project. I would also add that my review of the two Staff audits submitted as exhibits to the testimony of Staff witnesses Dobiac and Vinson only reinforce my belief in this regard.

VI. <u>INTEREST</u>

Q. On pages 3 and 4 of witness Gorman's testimony, he recommends that interest should be applied to the after-tax amount of incremental storm costs instead of the unrecovered total incremental costs. Do you agree with his recommendation?

A. No, I do not.

Q. Please explain why you disagree with witness Gorman's recommendation.

A. In order to understand why interest should be applied to unrecovered incremental storm costs and not the after-tax amount, it is important to recognize that storm damage costs are treated differently for book purposes than they are for income tax purposes. For book purposes, storm costs are recognized and recorded when Gulf (1) records accruals to the storm reserve or (2) when it amortizes deficits in the storm reserve over a period of time. However, for income tax purposes, Gulf recognizes storm damage costs when they are actually incurred.

Witness Gorman does not dispute Gulf's proposal to earn interest on unrecovered incremental storm costs. However, his recommendation to modify the calculation of interest to reduce the amount of unrecovered incremental storm costs for income tax deductions taken by Gulf for Hurricane Michael storm costs is inappropriate. The timing of when storm costs are deductible for income tax purposes is irrelevant to the fact that Gulf funded the full amount of incremental storm costs for Hurricane Michael above the amount available in its storm reserve. Gulf should be allowed to earn interest on the amount of total unrecovered incremental storm costs until they are fully recovered from customers. Therefore, the recommendation proposed by witness

Gorman to reduce the unrecovered incremental storm costs by the amount of the associated current income tax liability in order to calculate interest on the after-tax amount of incremental storm costs should be rejected.

Q. Do you agree with witness Kollen's recommendation to disallow $8.3 million of interest on the Unamortized Reserve Balance?

A. No. On page 35 of witness Kollen's testimony, he states that Gulf should not be able to include interest on Gulf's unrecovered incremental storm costs because "Rule 25-6.0143, F.A.C., does not address or authorize interest." This recommendation should be dismissed as Gulf Power properly included and calculated interest on the total amount of incremental recoverable storm costs at the commercial paper rate. Exhibit MG-1 applied an estimated commercial paper rate based on the information available at that time to calculate the numbers shown on page 2. Exhibit MG-2 updates these calculations, with the actual commercial paper rate used each month, shown on Pages 3 and 4.

In addition, similar to witness Gorman's recommendation, witness Kollen states on page 36 of his testimony that if the Commission approves recovery of interest, the amount of unrecovered incremental costs "should reflect an offset for the avoided financing costs, even if the net result is negative." As stated previously, the recommended offset is inappropriate as it focuses on the timing of when storm costs are deductible for income tax purposes which is irrelevant to the fact Gulf funded the full amount of incremental storm costs for Hurricane Michael above the amount available in its storm reserve. Based on these reasons, witness Kollen's recommendation to not allow the recovery of interest on unrecovered incremental storm costs should be rejected.

Q. Does this conclude your rebuttal testimony?

A. Yes.

Gulf Power Company
Hurricane Michael Incremental Cost and Capitalization Approach Adjustments--Changes from Exhibit MG-1 through October 31, 2019 (Updated July 9, 2020)
($000s)

LINE NO.			Storm Costs By Function(A) Steam & Other (1)	Transmission (2)	Distribution (3)	General (B) (4)	Customer Service (5)	Total (6)	Calculation of Recoverable Storm Amount (7)
1	Storm Reserve Balance (Pre-Storm)								$ -
2									
3	Storm Restoration Costs								
4	Regular Payroll and Related Costs (C)		$0	$0	$0	$0	$0	$0	
5	Overtime Payroll and Related Costs (C)		$0	$0	$0	$0	$0	0	
6	Contractors		$0	$0	-$55	$0	$0	-55	
7	Line Clearing		$0	$0	$0	$0	$0	0	
8	Vehicle & Fuel		$0	$0	$0	$0	$0	0	
9	Materials & Supplies		$0	$0	$0	$0	$0	0	
10	Logistics		$0	$0	$0	$0	$0	0	
11	Other (D)		$0	$0	$0	$0	$0	0	
12	Total Storm Related Restoration Costs	Sum of Lines 4 - 11	$0	$0	-$55	$0	$0	-$55	
13									
14	Less: Non-Incremental Costs								
15	Regular Payroll and Related Costs (E)		$0	$0	$0	$0	$0	$0	
16	Overtime Payroll and Related Costs		0	0	0	0	0	0	
17	Contractors		0	0	0	0	0	0	
18	Line Clearing:								
19	Vegetation Management		0	0	0	0	0	0	
20	Vehicle & Fuel		0	0	0	0	0	0	
21	Materials & Supplies		0	0	0	0	0	0	
22	Logistics		0	0	0	0	0	0	
23	Other					$0			
24	Thank you Ads		0	0	0	0	0	0	
25	Legal Claims		0	0	0	0	0	0	
26	Total Non-Incremental Costs	Sum of Lines 15 - 25	$0	$0	$0	$0	$0	$0	
27									
28	Incremental Storm Losses								
29	Regular Payroll and Related Costs	Lines 4 - 15	$0	$0	$0	$0	$0	0	
30	Overtime Payroll and Related Costs	Line 5 - 16	0	0	0	0	0	0	
31	Contractors	Lines 6 - 17	0	0	-55	0	0	-55	
32	Line Clearing	Lines 7 - 19	0	0	0	0	0	0	
33	Vehicle & Fuel	Lines 8 - 20	0	0	0	0	0	0	
34	Materials & Supplies	Lines 9 - 21	0	0	0	0	0	0	
35	Logistics	Line 10 - 22	0	0	0	0	0	0	
36	Other	Line 11 - 20 - 24 - 25	0	0	0	0	0	0	
37	Subtotal	Sum of Lines 29 - 36	$0	$0	-$55	$0	$0	-$55	
38									
39	Less: Third-Party Reimbursements (F)		0	0	0	0	0	0	
40									
41	Net Incremental Restoration Costs Incurred	Lines 37 - 39	$0	$0	-$55	$0	$0	-$55	
42									
43	Less: Capitalizable Costs, excluding Third-Party Reimbursements		0	0	0	0	0	0	
44									
45	Total Incremental Storm Losses	Lines 41 - 43	$0	$0	-$55	$0	$0	-$55	
46									
47	Jurisdictional Factor (G)		0.9720	0.9741	0.9963	0.9841	1.0000		
48									
49	Retail Recoverable Costs	Line 45 * 47	$ -	$ -	$ (55)	$ -	$ -	$ (55)	$ (55)
50									
51	Balance of Storm Reserve after Funding Estimated Storm Costs ("Eligible Restoration Costs") (Lines 1 + 49)								$ (55)
52									
53	Less: Additional 2018 Accruals to Storm Reserve (Post-Storm)								-
54									
55	Plus: Interest on Unamortized Reserve Balance								(645)
56									
57	Plus: Amount to Replenish Reserve to Level at Settlement Agreement Implementation Date, December 31, 2016 ("Implementation Storm Reserve Balance")								-
58									
59	Subtotal - System Storm Losses to be Recovered from Customers (Lines 51 + 53 + 55 + 57)								(699)
60									
61	Regulatory Assessment Fee Multiplier								1.00072
62									
63	Total System Storm Losses to be Recovered from Customers ("Recoverable Storm Amount") (Lines 59 * 61)								$ (700)

Notes:
(A) Storm costs are as of October 31, 2019. Totals may not add due to rounding.
(B) General plant function reflects restoration costs associated with employee assistance.
(C) Represents total payroll charged to the business unit (function) being supported. For example, an employee that works in Legal but is supporting Distribution during storm restoration would allocate their time to Distribution.
(D) Includes other miscellaneous costs, including reserve equipment in FERC Account 368, Line Transformers and removed as Captial Costs in Line 43 above.
(E) Represents regular payroll normally recovered through base rate O&M and not charged to the Storm Reserve.
(F) Reimbursement from AT&T for net poles and a PowerSouth tap replaced by Gulf during restoration as a result of the storm.
(G) Jurisdictional Factors are based on factors approved in Docket No. 160186-EI.

Gulf Power Company
Hurricane Michael Incremental Cost and Capitalization Approach Adjustments
through October 31, 2019 (Updated July 9, 2020)
($000s)

LINE NO.			Storm Costs By Function(A) Steam & Other (1)	Transmission (2)	Distribution (3)	General (B) (4)	Customer Service (5)	Total (6)	Calculation of Recoverable Storm Amount (7)
1	Storm Reserve Balance (Pre-Storm)								$ (48,008)
2									
3	Storm Restoration Costs								
4	Regular Payroll and Related Costs (C)		$193	$894	$4,572	$50	$1,255	$6,964	
5	Overtime Payroll and Related Costs (C)		$160	$800	$4,342	$23	$976	6,302	
6	Contractors		$762	$22,555	$213,639	$331	$0	237,288	
7	Line Clearing		$0	$1,376	$18,298	$0	$0	19,673	
8	Vehicle & Fuel		$0	$71	$657	$0	$0	727	
9	Materials & Supplies		$1,789	$1,651	$26,509	$9	$0	29,957	
10	Logistics		$95	$14,558	$107,111	$32	$0	121,796	
11	Other (D)		$17	$60	$4,836	$0	$0	4,913	
12	Total Storm Related Restoration Costs	Sum of Lines 4 - 11	$3,015	$41,965	$379,963	$445	$2,232	$427,620	
13									
14	Less: Non-Incremental Costs								
15	Regular Payroll and Related Costs (E)		$193	$401	$2,646	$50	$1,255	$4,544	
16	Overtime Payroll and Related Costs		0	5	70	23	0	98	
17	Contractors		0	0	0	331	0	331	
18	Line Clearing:		0	0	0	0	0	0	
19	Vegetation Management		0	498	290	0	0	788	
20	Vehicle & Fuel		0	15	171	0	0	186	
21	Materials & Supplies		0	0	0	9	0	9	
22	Logistics		0	0	0	32	0	32	
23	Other		0	$0	$0	$0	0	0	
24	Thank you Ads		0	1	6	0	0	7	
25	Legal Claims		0	30	221	0	0	251	
26	Total Non-Incremental Costs	Sum of Lines 15 - 25	$193	$951	$3,403	$445	$1,255	$6,247	
27									
28	Incremental Storm Losses								
29	Regular Payroll and Related Costs	Lines 4 - 15	$0	$493	$1,927	$0	$0	2,420	
30	Overtime Payroll and Related Costs	Line 5 - 16	160	795	4,272	0	976	6,204	
31	Contractors	Lines 6 - 17	762	22,555	213,639	0	0	236,956	
32	Line Clearing	Lines 7 - 19	0	877	18,008	0	0	18,885	
33	Vehicle & Fuel	Lines 8 - 20	0	55	486	0	0	541	
34	Materials & Supplies	Lines 9 - 21	1,789	1,651	26,509	0	0	29,948	
35	Logistics	Line 10 - 22	95	14,558	107,111	0	0	121,764	
36	Other	Line 11 - 20 - 24 - 25	17	29	4,608	0	0	4,654	
37	Subtotal	Sum of Lines 29 - 36	$2,822	$41,014	$376,560	$0	$976	$421,373	
38									
39	Less: Third-Party Reimbursements (F)		0	117	4,837	0	0	4,954	
40									
41	Net Incremental Restoration Costs Incurred	Lines 37 - 39	$2,822	$40,897	$371,722	$0	$976	$416,418	
42									
43	Less: Capitalizable Costs, excluding Third-Party Reimbursements		1,492	11,758	88,611	0	0	101,861	
44									
45	Total Incremental Storm Losses	Lines 41 - 43	$1,330	$29,140	$283,111	$0	$976	$314,557	
46									
47	Jurisdictional Factor (G)		0.9720	0.9741	0.9963	0.9841	1.0000		
48									
49	Retail Recoverable Costs	Line 45 * 47	$ 1,293	$ 28,384	$ 282,069	$ -	$ 976	$ 312,723	$ 312,723
50									
51	Balance of Storm Reserve after Funding Estimated Storm Costs ("Eligible Restoration Costs") (Lines 1 + 49)								$ 264,714
52									
53	Less: Additional 2018 Accruals to Storm Reserve (Post-Storm)								(18,344)
54									
55	Plus: Interest on Unamortized Reserve Balance--updated based on actuals through June 2020								7,659
56									
57	Plus: Amount to Replenish Reserve to Level at Settlement Agreement Implementation Date, December 31, 2016 ("Implementation Storm Reserve Balance")								40,808
58									
59	Subtotal - System Storm Losses to be Recovered from Customers (Lines 51 + 53 + 55 + 57)								294,836
60									
61	Regulatory Assessment Fee Multiplier								1.00072
62									
63	Total System Storm Losses to be Recovered from Customers ("Recoverable Storm Amount") (Lines 59 * 61)								$ 295,049

Notes:
(A) Storm costs are as of October 31, 2019. Totals may not add due to rounding.
(B) General plant function reflects restoration costs associated with employee assistance.
(C) Represents total payroll charged to the business unit (function) being supported. For example, an employee that works in Legal but is supporting Distribution during storm restoration would allocate their time to Distribution.
(D) Includes other miscellaneous costs, including reserve equipment in FERC Account 368, Line Transformers and removed as Captial Costs in Line 43 above.
(E) Represents regular payroll normally recovered through base rate O&M and not charged to the Storm Reserve.
(F) Reimbursement from AT&T for net poles and a PowerSouth tap replaced by Gulf during restoration as a result of the storm.
(G) Jurisdictional Factors are based on factors approved in Docket No. 160186-EI.

Docket No. 20190038-EI
Hurricane Michael Incremental Cost and
Capitalization Approach Adjustments
Exhibit MG-2, Page 3 of 4

Gulf Power
Incremental Storm Restoration Costs Related to Hurricane Michael
Unrecovered Eligible Restoration Costs Balance (Updated July 9, 2020)
(In dollars)

1	2	3	4	5	6	7	8	9	10	11	12		
Month	Year	Unrecovered Eligible Restoration Costs - Beginning Balance	Less: Current Month Amortization (A)	Unrecovered Eligible Restoration Costs - Before Current Month Interest (Col. 3 + 4)	Average Unrecovered Eligible Restoration Costs ((Col. 3 + 5) / 2)	Interest Rate - First day of Business Reporting Month (B)	Interest Rate - First day of Subsequent Reporting Month (B)	Average Interest Rate (50% of Col. 7 + 8)	Monthly Average Interest Rate (1/12 of Col. 9)	Monthly Interest (Col. 6 x 10)	Unrecovered Eligible Restoration Costs - Ending Balance (Col. 5 + 11)	Month Count	Cumulative Interest
June	2019	246,369,579	(3,580,650)	242,788,929	244,579,254	2.39000%	2.32000%	2.35500%	0.19625%	479,987	243,268,916	0	479,987
July	2019	243,268,916	(7,515,865)	235,753,051	239,510,984	2.32000%	2.10000%	2.21000%	0.18417%	441,107	236,194,158	1	921,094
August	2019	236,194,158	(7,645,174)	228,548,984	232,371,571	2.10000%	2.05000%	2.07500%	0.17292%	401,817	228,950,801	2	1,322,911
September	2019	228,950,801	(7,053,413)	221,897,388	225,424,095	2.05000%	1.97000%	2.01000%	0.16750%	377,585	222,274,974	3	1,700,496
October	2019	222,274,974	(5,696,055)	216,578,919	219,426,946	1.97000%	1.66000%	1.81500%	0.15125%	331,883	216,910,802	4	2,032,380
November	2019	216,910,802	(4,459,220)	212,451,582	214,681,192	1.66000%	1.67000%	1.66500%	0.13875%	297,870	212,749,452	5	2,330,250
December	2019	212,749,452	(4,889,918)	207,859,534	210,304,493	1.67000%	1.59000%	1.63000%	0.13583%	285,657	208,145,191	6	2,615,906
January	2020	208,145,191	(5,031,284)	203,113,907	205,629,549	1.59000%	1.64000%	1.61500%	0.13458%	276,736	203,390,644	7	2,892,643
February	2020	203,390,644	(4,478,315)	198,912,328	201,151,486	1.64000%	1.56000%	1.60000%	0.13333%	268,195	199,180,524	8	3,160,838
March	2020	199,180,524	(4,853,988)	194,326,535	196,753,529	1.56000%	2.21000%	1.88500%	0.15708%	309,060	194,635,596	9	3,469,898
April	2020	194,635,596	(4,562,628)	190,072,968	192,354,282	2.21000%	0.06000%	1.13500%	0.09458%	181,929	190,254,897	10	3,651,827
May	2020	190,254,897	(5,471,490)	184,783,406	187,519,151	0.06000%	0.08000%	0.07000%	0.00583%	10,932	184,794,339	11	3,662,759
June	2020	184,794,339	(6,738,161)	178,056,178	181,425,258	0.08000%	0.13000%	0.10500%	0.00875%	15,875	178,072,053	12	3,678,634
July	2020	178,072,053	(7,205,973)	170,866,079	174,469,066	0.13000%	1.66000%	0.89500%	0.07458%	130,119	170,996,198	13	3,808,753
August	2020	170,996,198	(6,905,354)	164,090,844	167,543,521	1.66000%	1.66000%	1.66000%	0.13833%	231,763	164,322,607	14	4,040,516
September	2020	164,322,607	(6,002,831)	158,319,776	161,321,192	1.66000%	1.66000%	1.66000%	0.13833%	223,156	158,542,932	15	4,263,672
October	2020	158,542,932	(5,059,447)	153,483,485	156,013,208	1.66000%	1.66000%	1.66000%	0.13833%	215,813	153,699,298	16	4,479,485
November	2020	153,699,298	(4,409,613)	149,289,685	151,494,491	1.66000%	1.66000%	1.66000%	0.13833%	209,562	149,499,247	17	4,689,047
December	2020	149,499,247	(4,928,722)	144,570,525	147,034,886	1.66000%	1.66000%	1.66000%	0.13833%	203,393	144,773,918	18	4,892,441
January	2021	144,773,918	(5,263,925)	139,509,993	142,141,955	1.66000%	1.66000%	1.66000%	0.13833%	196,625	139,706,618	19	5,089,065
February	2021	139,706,618	(4,491,468)	135,215,150	137,460,884	1.66000%	1.66000%	1.66000%	0.13833%	190,150	135,405,299	20	5,279,215
March	2021	135,405,299	(4,420,034)	130,985,265	133,195,282	1.66000%	1.66000%	1.66000%	0.13833%	184,249	131,169,514	21	5,463,464
April	2021	131,169,514	(4,454,900)	126,714,614	128,942,064	1.66000%	1.66000%	1.66000%	0.13833%	178,366	126,892,979	22	5,641,830
May	2021	126,892,979	(5,479,740)	121,413,239	124,153,109	1.66000%	1.66000%	1.66000%	0.13833%	171,741	121,584,980	23	5,813,571
June	2021	121,584,980	(6,371,305)	115,213,675	118,399,327	1.66000%	1.66000%	1.66000%	0.13833%	163,782	115,377,456	24	5,977,353
July	2021	115,377,456	(6,978,816)	108,398,641	111,888,049	1.66000%	1.66000%	1.66000%	0.13833%	154,775	108,553,415	25	6,132,127
August	2021	108,553,415	(6,897,157)	101,656,258	105,104,837	1.66000%	1.66000%	1.66000%	0.13833%	145,392	101,801,650	26	6,277,519
September	2021	101,801,650	(5,986,637)	95,815,012	98,808,331	1.66000%	1.66000%	1.66000%	0.13833%	136,682	95,951,694	27	6,414,200
October	2021	95,951,694	(5,040,363)	90,911,331	93,431,513	1.66000%	1.66000%	1.66000%	0.13833%	129,244	91,040,575	28	6,543,444
November	2021	91,040,575	(4,398,255)	86,642,320	88,841,447	1.66000%	1.66000%	1.66000%	0.13833%	122,894	86,765,214	29	6,666,339
December	2021	86,765,214	(4,919,703)	81,845,512	84,305,363	1.66000%	1.66000%	1.66000%	0.13833%	116,620	81,962,131	30	6,782,958
January	2022	81,962,131	(5,366,611)	76,595,520	79,278,825	1.66000%	1.66000%	1.66000%	0.13833%	109,666	76,705,186	31	6,892,625
February	2022	76,705,186	(4,528,790)	72,176,397	74,440,792	1.66000%	1.66000%	1.66000%	0.13833%	102,974	72,279,371	32	6,995,598
March	2022	72,279,371	(4,453,538)	67,825,833	70,052,602	1.66000%	1.66000%	1.66000%	0.13833%	96,904	67,922,737	33	7,092,502
April	2022	67,922,737	(4,490,437)	63,432,299	65,677,518	1.66000%	1.66000%	1.66000%	0.13833%	90,852	63,523,151	34	7,183,354
May	2022	63,523,151	(5,523,806)	57,999,346	60,761,248	1.66000%	1.66000%	1.66000%	0.13833%	84,051	58,083,397	35	7,267,405
June	2022	58,083,397	(6,425,983)	51,657,413	54,870,405	1.66000%	1.66000%	1.66000%	0.13833%	75,902	51,733,315	36	7,343,307
July	2022	51,733,315	(7,039,727)	44,693,589	48,213,452	1.66000%	1.66000%	1.66000%	0.13833%	66,694	44,760,282	37	7,410,001
August	2022	44,760,282	(6,959,919)	37,800,363	41,280,323	1.66000%	1.66000%	1.66000%	0.13833%	57,103	37,857,467	38	7,467,104
September	2022	37,857,467	(6,046,406)	31,811,061	34,834,264	1.66000%	1.66000%	1.66000%	0.13833%	48,186	31,859,247	39	7,515,290
October	2022	31,859,247	(5,099,266)	26,759,981	29,309,614	1.66000%	1.66000%	1.66000%	0.13833%	40,544	26,800,525	40	7,555,834
November	2022	26,800,525	(4,462,683)	22,337,842	24,569,184	1.66000%	1.66000%	1.66000%	0.13833%	33,987	22,371,829	41	7,589,821
December	2022	22,371,829	(4,995,107)	17,376,722	19,874,275	1.66000%	1.66000%	1.66000%	0.13833%	27,492	17,404,214	42	7,617,313
January	2023	17,404,214	(5,453,089)	11,951,125	14,677,669	1.66000%	1.66000%	1.66000%	0.13833%	20,304	11,971,429	43	7,637,616
February	2023	11,971,429	(4,600,249)	7,371,180	9,671,304	1.66000%	1.66000%	1.66000%	0.13833%	13,378	7,384,558	44	7,650,995
March	2023	7,384,558	(4,522,687)	2,861,872	5,123,215	1.66000%	1.66000%	1.66000%	0.13833%	7,087	2,868,959	45	7,658,082
April	2023	2,868,959	(4,559,373)	(1,690,414)	589,272	1.66000%	1.66000%	1.66000%	0.13833%	815	(1,689,599)	46	7,658,897
May	2023	(1,689,599)	(5,599,894)	(7,289,493)	(4,489,546)	1.66000%	1.66000%	1.66000%	0.13833%	-	(7,289,493)	47	7,658,897
June	2023	(7,289,493)	(6,503,576)	(13,793,069)	(10,541,281)	1.66000%	1.66000%	1.66000%	0.13833%	-	(13,793,069)	48	7,658,897
July	2023	(13,793,069)	(7,117,439)	(20,910,508)	(17,351,788)	1.66000%	1.66000%	1.66000%	0.13833%	-	(20,910,508)	49	7,658,897
August	2023	(20,910,508)	(7,033,765)	(27,944,273)	(24,427,391)	1.66000%	1.66000%	1.66000%	0.13833%	-	(27,944,273)	50	7,658,897
September	2023	(27,944,273)	(6,111,189)	(34,055,462)	(30,999,868)	1.66000%	1.66000%	1.66000%	0.13833%	-	(34,055,462)	51	7,658,897
October	2023	(34,055,462)	(5,158,696)	(39,214,158)	(36,634,810)	1.66000%	1.66000%	1.66000%	0.13833%	-	(39,214,158)	52	7,658,897

Notes:

All information is actual through June 2020 and forecast beyond June 2020

(A) Based on actual billed kWh storm charge sales. Storm charge revenues will be allocated first to the amortization of the unrecovered eligible restoration costs (expected to conclude in April 2023) and then to the replenishment of the reserve balance of $40.8M.

(B) Represents the average commercial paper rate.

Incremental Storm Restoration Costs Related to Hurricane Michael
Interest Calculation: June 2019 through June 2020 (Updated July 9, 2020)
($000's)

LINE NO.		(1) JUN 2019	(2) JUL 2019	(3) AUG 2019	(4) SEP 2019	(5) OCT 2019	(6) NOV 2019	(7) DEC 2019	(8) JAN 2020	(9) FEB 2020	(10) MAR 2020	(11) APR 2021	(12) MAY 2020	(13) JUNE 2020
1	Unrecovered Eligible Restoration Costs - Beg Bal	$ 246,369.58	$ 243,268.92	$ 236,194.16	$ 228,950.80	$ 222,274.97	$ 216,910.80	$ 212,749.45	$ 208,145.19	$ 203,390.64	$ 199,180.52	$ 194,635.60	$ 190,254.90	$ 184,794.34
2	Additional Adjustments to Storm Reserve													
3	Less: Current Month Amortization (A)	$ (3,580.65)	$ (7,515.86)	$ (7,645.17)	$ (7,053.41)	$ (5,696.06)	$ (4,459.22)	$ (4,889.92)	$ (5,031.28)	$ (4,478.32)	$ (4,853.99)	$ (4,562.63)	$ (5,471.49)	$ (6,738.16)
4	Unrecovered Eligible Restoration Costs - Before Cur Mo Int (Line 1 + 2 + 3)	$ 242,788.93	$ 235,753.05	$ 228,548.98	$ 221,897.39	$ 216,578.92	$ 212,451.58	$ 207,859.53	$ 203,113.91	$ 198,912.33	$ 194,326.54	$ 190,072.97	$ 184,783.41	$ 178,056.18
5	Average Unrecovered Eligible Restoration Costs	$ 244,579.25	$ 239,510.98	$ 232,371.57	$ 225,424.09	$ 219,426.95	$ 214,681.19	$ 210,304.49	$ 205,629.55	$ 201,151.49	$ 196,753.53	$ 192,354.28	$ 187,519.15	$ 181,425.26
6	Interest Rate - First day of Business Reporting Month (B)	2.39%	2.32%	2.10%	2.05%	1.97%	1.66%	1.67%	1.59%	1.64%	1.56%	2.21%	0.06%	0.08%
7	Interest Rate - First day of Subsequent Reporting Month (B)	2.32%	2.10%	2.05%	1.97%	1.66%	1.67%	1.59%	1.64%	1.56%	2.21%	0.06%	0.08%	0.13%
8	Total Interest Rate (Lines 6 + 7)	4.71%	4.42%	4.15%	4.02%	3.63%	3.33%	3.26%	3.23%	3.20%	3.77%	2.27%	0.14%	0.21%
9	Average Interest Rate (50% of Line 8)	2.36%	2.21%	2.08%	2.01%	1.82%	1.67%	1.63%	1.62%	1.60%	1.89%	1.14%	0.07%	0.11%
10	Monthly Average Interest Rate (1/12 of line 9)	0.20%	0.18%	0.17%	0.17%	0.15%	0.14%	0.14%	0.13%	0.13%	0.16%	0.09%	0.01%	0.01%
11	Monthly Interest (Line 10 x 5)	**$ 479.99**	**$ 441.11**	**$ 401.82**	**$ 377.59**	**$ 331.88**	**$ 297.87**	**$ 285.66**	**$ 276.74**	**$ 268.20**	**$ 309.06**	**$ 181.93**	**$ 10.93**	**$ 15.87**
12	Unrecovered Eligible Restoration Costs - End Bal (Line 4 + 11)	$ 243,268.92	$ 236,194.16	$ 228,950.80	$ 222,274.97	$ 216,910.80	$ 212,749.45	$ 208,145.19	$ 203,390.64	$ 199,180.52	$ 194,635.60	$ 190,254.90	$ 184,794.339	$ 178,072.05

Notes:

(A) Based on actual billed kWh storm charge sales. Storm charge revenues will be allocated first to the amortization of the unrecovered eligible restoration costs (expected to conclude in August 2019) and then to the replenishment of the reserve balance of $40.8M.

(B) Represents the average commercial paper rate included in fuel clause calculation.

Docket No. 20190038-EI
Hurricane Michael Incremental Cost and Capitalization Approach Adjustments
Exhibit MG-2, Page 4 of 4

QUESTION:
Refer to Gulf's response to POD 10 of OPC's First Request for Production of Documents, specifically to invoice binder 6.0. Refer also to the applicable contract pages provided in the confidential response to Gulf's response to POD 6 of OPC's First Request for Production of Documents.

a. Were the costs identified in these documents as storm related to 2019 included in the total costs shown in Exhibit MG-1?

b. Describe the method and all criteria the Company used to determine that binder 6.0 invoices for 2019 were storm related.

c. Why were the contract labor and equipment rates charged for 16 hours per day 7 days per week (112 hours per week) starting in mid-December 2018 and during the 2019 months for two hydro vacuum excavation trucks, one pickup truck, and the related labor, understanding the basic work week assumed in Section V of the contract rates was 40 hours per week?

d. Describe the approval process for these invoices in order to verify the hours per week invoiced. If there was pre-approval of the 112 hours per week billing for the equipment and labor, please provide copies of such authorization.

e. The referenced invoices and associated contract pages provided in Gulf's response to POD 10 refer to the hourly billing rate for a pickup. Please describe the make, model, and features of the referenced pickup.

f. The referenced invoices and the associated contract pages provided in Gulf's response to POD 10 refer to the hourly billing rate for two hydro vacuum trucks. Please describe the make and model of these two trucks.

g. Confirm that the equipment rates being charged on these invoices include the labor associated with the operators.

RESPONSE:

a. Yes, the costs defined as storm related during 2019 are included in the total costs shown in Exhibit MG-1.

b. Please see Gulf's response to OPC's Amended Second Set of Interrogatories No. 46.

c. With the amount of restoration work being performed in Bay County after Hurricane Michael, Extraordinary Circumstances directives, as that term is described in the Sunshine 811 Excavation Guide, were issued by all municipalities and utilities owning and operating underground facilities. In light of this directive, Gulf determined that the safest and most prudent and appropriate method of performing the necessary locates was through the use of contractor capable of performing hydro-excavation. The hydro-excavation process required

Gulf to have its contractor on standby for facility owners to locate their underground infrastructure, so that Gulf could then make repairs to its facilities without adversely impacting the governmental and other underground facilities. Smith Industrial was the contractor engaged to perform the required hydro-excavation, and they performed their work, or were required to remain in place on a daily basis to perform their work, for storm follow-up work for Distribution and Lighting following Hurricane Michael. The use of Smith Industrial helped to ensure that Gulf would not damage critical communication, sewer, water, and gas facilities during repair and rebuild of Gulf's electric facilities.

d. Please see Gulf's response to OPC's Amended Second Set of Interrogatories No. 59, Attachment Nos. 1 and 2, attached hereto, which are confidential.

e. Gulf does not require this type of detail be provided in their contracts and does not have any information describing the make, model, and features of the referenced pickup.

f. Gulf does not require this type of detail be provided in their contracts and does not have any information describing the make and model of the referenced hydro vacuum trucks.

g. Please see the documents provided with Gulf's response to OPC's First Request for Production of Documents No. 6, which are confidential. Refer to Bates number 001383. The description of the unit indicated it is fully operated, meaning operator labor is associated with the equipment.