

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 20180061-EI
ORDER NO. PSC-2019-0114-FOF-EI
ISSUED: March 26, 2019

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
JULIE I. BROWN
DONALD J. POLMANN
GARY F. CLARK
ANDREW GILES FAY

FINAL ORDER ON FLORIDA PUBLIC UTILITIES COMPANY'S
PETITION TO RECOVER INCREMENTAL STORM RESTORATION COSTS

Pursuant to Notice and in accordance with Rule 28-106.208, Florida Administrative Code (F.A.C.), a Hearing was held on December 11, 2018, in Tallahassee, Florida.

APPEARANCES:

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On behalf of Florida Public Utilities Company.

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On behalf of the Citizens of the State of Florida (OPC).

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On behalf of the Florida Public Service Commission (Staff).

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BY THE COMMISSION:

Background

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

The Office of Public Counsel intervened in this docket on March 22, 2018.

On August 14, 2018, Order No. PSC-2018-0404-PCO-EI was issued establishing hearing dates and procedures to be followed in this docket. On November 26, 2018, a prehearing conference was held. On December 4, 2018, Prehearing Order No. PSC-2018-0567-PHO-EI was issued to outline the procedures to be used at the December 11, 2018 hearing. On December 7, 2018, OPC filed a Motion to Reconsider the Decision in Pre-Hearing Order No. PSC-2018-0567-PHO-EI to Strike All or Part of Issues 7 and 10 (Motion to Reconsider).

A formal hearing was held on December 11, 2018, in which FPUC witnesses Michael Cassel and P. Mark Cutshaw, as well as OPC witness Helmuth Shultz, testified. Our staff witness Debra M. Dobiak's testimony was stipulated. At the hearing, we voted to deny OPC's Motion to Reconsider, and to accept and approve the parties' proposed stipulations on Issue Nos. 1, 2, 5, and 6, as set forth in Attachment A of this Order.

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

Decision

Stipulated Issues

As discussed above, we accepted and approved the proposed stipulations as set forth in Attachment A as being in the public interest, because we find that they are just and reasonable, and are supported by competent, substantial evidence of record.

Contested Issues

I. Inclement Weather Exempt Employee Compensation Policy

This Section addresses FPUC's "extra compensation" included as part of the Inclement Weather Exempt Employee Compensation Policy, and whether this compensation is permissible under Rule 25-6.0143, F.A.C.

PARTIES' ARGUMENTS

FPUC

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

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

OPC

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

FPUC is trying to circumvent the prohibition found in Rule 25-6.0143, F.A.C., by paying bonuses.

ANALYSIS

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

FPUC asserted that during the 2016-2017 hurricane seasons, they had many salaried employees perform beyond their regular duties and work in excess of 16 hour days for an extended period of time. The duties far exceeded their normal hours and normal job functions. According to FPUC’s Inclement Weather Exempt Employee Compensation Policy, every eligible employee, without discretion, is compensated after every storm. The “extra compensation” is part of FPUC’s standard pay and benefit package. Because the “extra compensation” is paid to every eligible employee regardless of the nature of the storm, number of hours worked, or duties, it is not discretionary. We interpret the prohibition on recovery for bonuses or any other special compensation under Rule 25-6.0143, F.A.C., as prohibition on giving bonuses or other incentives on a discretionary basis, with no guidelines regarding the distribution or amount of the additional compensation received. In contrast, FPUC has a clear, non-discretionary policy for providing supplemental compensation to account for the additional hours its employees are required to work during an emergency. We find that the “extra compensation” is not a “special” compensation or a bonus, but rather an additional supplemental compensation for eligible employees, who have performed beyond their regular duties. Thus, we find that the “extra compensation” in this case is not a prohibited cost, but an incremental cost. Rule 25-6.0143(1)(d), F.A.C., allows utilities to charge for “costs that are incremental to costs normally charged to non-cost recovery clause operating expenses in the absence of a storm.”

CONCLUSION

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

II. Contractors’ Rates

This Section addresses the contractors’ rates, Section III will address the contractors’ time, and the final amount of the contractor costs are discussed in Section IV. The principle dispute in this section revolves around the mobilization and standby rates one contractor from Iowa, PAR Electrical Contractors (PAR), charged during Hurricane Irma.

PARTIES' ARGUMENTS

FPUC

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

FPUC asserted:

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

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

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

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

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

- The SEE is essentially a moderator to help utilities appropriately allocate contractor resources.
- The SEE does not set rates.

- The members of the SEE agree to abide by the guidelines, including those governing payment for resources utilized by a utility.

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

FPUC further argued that OPC's comparison of PAR's rates, in this situation when compared to others, is not an accurate apples-to-apples comparison. Specifically, OPC compared PAR's rates to: 1) other contractors used during Hurricane Irma, 2) contractors used during previous storms, and 3) contractors used in other states. The Company stated that PAR was its only option, and that rejecting PAR's assistance would have led to longer restoration times for its customers. FPUC further noted that OPC conceded that cost is not the sole basis upon which a contractor should be retained.

In addition, even if under a contract with FPUC, a contractor would not be expected to leave an active response situation, such as Hurricane Harvey, which made landfall about two weeks prior to Hurricane Irma. Nor would a contractor be expected to ignore calls from other Florida utilities needing help with Hurricane Irma simply because the possibility exists that FPUC might be impacted by the storm. A utility can only "lock down" a contractor if they are already working on that utility's system at the time a storm approaches. FPUC argued that OPC's proposal of "locking down" contractors would destroy the SEE process and a small utility, like FPUC, would be left out in the cold because it would not be able to afford retaining several contractors just in case a hurricane comes.

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

OPC

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

- PAR charged \$905,074, which is over 54 percent of PAR's total amount, for mobilization and standby charges.
- PAR's hourly rates for mobilization and standby periods were significantly higher than the hourly rate it charged for actually performing restoration work.
- PAR charged over \$2,000 per hour for a four-man crew to travel.
- FPUC's statement that PAR's higher rates for mobilization/demobilization when compared to its standard rates were "due to some extreme costs... incurred while responding to other storm areas and that all the utilities they [PAR] assisted after

Hurricane Irma were charged these same rates” does not meet any test for reasonableness or prudence.

- Through the SEE process, the contractor may begin charging when it is assigned to a utility.
- The rates were all agreed to in anticipation of emergency circumstances.
- PAR’s rates were substantially higher than the average \$141 per hour, including equipment, charged to FPUC by another contractor during Hurricane Matthew.

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

OPC argued that PAR’s rates are clearly egregious, and that it is unjust and unfair to expect FPUC’s customers to reimburse the Company for such excessive rates. OPC urged us to consider whether FPUC has carried its burden to demonstrate that such costs were reasonable and prudent in the way they were incurred and in amount. OPC is recommending a reduction of the contractor costs by at least \$185,093 for the grossly excessive rate.

ANALYSIS

FPUC’s request for recovery of storm-related restoration costs included \$1,978,291 associated with contractor costs. OPC witness Schultz expressed concern with the amount of contractor costs incurred as a result of Hurricane Irma. Neither OPC witness Schultz nor our staff witness Dobiac recommended an adjustment to contractor rates incurred as a result of Hurricane Matthew.

Witness Schultz’s testimony specifically addressed hourly rates, mobilization/standby time, and capitalization of restoration costs. The subject of this Section is the hourly rate.

Accordingly, OPC witness Schultz expressed multiple concerns with the contractor costs incurred by FPUC during Hurricane Irma, all of which were charged by PAR. Witness Schultz specifically argued that the rates were not reasonable and FPUC’s practice of consenting to SEE rates was not appropriate. Our analysis of PAR rates and the associated SEE process is discussed below.

PAR’s Hourly Rates

OPC witness Schultz testified that the hourly rates charged by PAR are grossly excessive even under the circumstances of storm restoration. For context, the hourly rates charged by PAR in response to Hurricane Irma were: \$509 for mobilization time, \$377 for standby time, and \$216

to \$291 for work and standby time. PAR was reassigned to FPUC utilizing the same rates that were negotiated by FPL. Witness Schultz asserted that these rates are especially concerning when compared to rates charged by another contractor in response to Hurricane Matthew. Witness Schultz specifically cited to the average hourly rate (\$141 including equipment charges) charged by Davis H Elliot Construction during Hurricane Matthew for responding in a storm situation.

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

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

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

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

As previously discussed, OPC witness Schultz argued that PAR's rates were particularly concerning when compared to rates charged during previous storms. With respect to this

argument, we have concerns with comparing costs incurred during different storms. As testified by witness Cutshaw, the market for resources during Hurricane Irma was constrained because of the extensiveness of the storm, and storm restoration efforts in other states as a result of Hurricane Harvey. Additionally, witness Cutshaw testified that storm-related rates can change from year to year. Therefore, we do not find witness Schultz's recommended adjustment appropriate.

SEE Process

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

FPUC witness Cutshaw argued that witness Schultz misunderstands what the SEE is and its purpose. He explained that the SEE provides a collaborative mechanism to share utility and contractor resources where needed following a storm. Witness Cutshaw testified that the SEE mutual assistance process is strictly focused on obtaining and allocating available resources in a fair and equitable manner, and does not consider or dictate rates of participating resources. Further, witness Cutshaw stated that the utility to which the resources are allocated is the entity responsible for accepting or rejecting the resources, and reimbursing their associated costs.

Under the SEE process, when an actual event occurs, resource assignments are made based on the initial projections for the storm. If the storm projections change, resources can be reassigned to another utility based on the new projection. The utility that receives assistance from the released contractor must pay for services based on the contract that resource had with the utility that originally engaged the contractor.

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

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

CONCLUSION

Based on the evidence in the record and the discussion above, we find that the contractor rates are reasonable and were prudently incurred. Therefore, no adjustment shall be made for the contractor rates.

III. Contractors' Time

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

PARTIES' ARGUMENTS

FPUC

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

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

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

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

OPC

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

OPC further argued that:

- Payment of standby time can be used to determine how prepared a utility is for storm restoration activities, and whether it is monitoring this significant cost element in an efficient manner.
- Ratepayers suffer if contractor crews are standing by for an excessive amount of time, because they not only are experiencing the power outages, but also they will ultimately have to pay the storm restoration expenses.
- A prudent utility should require contractors to note on their time sheets as to whether standby time has occurred, and use this information to evaluate its own performance to help develop a process to minimize standby time.

ANALYSIS

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

The record indicates that PAR began charging mobilization time when it was first reassigned to FPUC on September 7, 2017, which is four days before Hurricane Irma hit FPUC's service area on September 11. Witness Cassel testified that PAR crews were traveling from Des Moines, Iowa to Florida on September 7 and 8, and were on standby September 9 and 10. Witness Cutshaw explained that safety training, system configurations, reporting requirements, and logistics information were presented to contractor crews while waiting for the storm to clear.

OPC witness Schultz testified that the trip from Des Moines, Iowa to Florida is approximately 20 hours, and that PAR was in Jacksonville, Florida on September 8. He argued that this raises a major concern as to proper planning by FPUC. Witness Schultz asserted that standby time can be used to determine how prepared a utility is for storm restoration activities and whether it is monitoring this cost element of restoration in an efficient manner. He stated if contractor crews are standing by and waiting for assignments for an excessive amount of time,

then this indicates that the Company is not properly monitoring crew activities and resources efficiently. Witness Schultz also argued that it is not reasonable to expect ratepayers to have to pay for contractors to just “sit around.”

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

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

FPUC witness Cutshaw testified that witness Schultz’s recommended adjustment reflects an inadequate understanding of necessary hurricane preparation. He explained that a critical factor in hurricane restoration and response is having sufficient restoration resources appropriately staged in order to respond promptly without being impacted by travel restrictions. He further explained that mobilization and staging of resources must occur in conjunction with the path and impact of the impending storm. Witness Cutshaw elaborated that it is necessary that contractors arrive in advance of the storm so that overall restoration time is reduced. Similarly, FPUC witness Cassel stated that a delay in obtaining restoration resources directly impacts the Company’s ability to restore power to its customers in a timely manner. He further explained that if a contractor were to delay travel to the area until after the storm has hit, it is quite possible that the contractor’s arrival to assist the Company may be significantly delayed or prevented entirely.

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

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

CONCLUSION

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

IV. Final Amount of Contractor Costs

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

PARTIES’ ARGUMENTS

FPUC

In its Post-Hearing Brief, FPUC argued:

- That its capitalization of costs is consistent with Rule 25-6.0143(1)(d), F.A.C., which requires capital expenditures for the removal, retirement, and replacement of damaged facilities charged to cover storm-related damages shall exclude the normal cost for the removal, retirement, and replacement of those facilities. FPUC stated that its methodology did precisely what the Rule requires.
- That it calculated the normal costs by using in-house rates for each type of asset being installed or removed and then subtracted the total costs which resulted from the hourly rate of \$37.34 from the costs incurred for the same work during the storm.
- That the \$37.34 rate is FPUC’s average time for installation and removal in non-storm conditions.

FPUC argued that OPC witness Schultz’s objections are not entirely clear. Witness Shultz asserted:

The method used by FPUC ignores the fact that, if the capital work was performed by FPUC employees incurring incremental time, then that work

would be at an overtime rate and not at the \$37.34 an hour applied by FPUC. Moreover, the capitalized costs are further understated once you factor in the contractor's hourly rate, which is even higher than FPUC's overtime rates.

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

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

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

OPC

OPC argued:

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

OPC stated that the capitalization rate FPUC proposed to use for storm restoration is the same it uses in the normal course of its business operations under normal conditions. OPC asserted that after a storm, circumstances dictate a different response and level of cost incurred; a difference that cannot and should not be ignored. Because contractors perform a large portion of capital restoration work and at a much higher cost, it is unreasonable to apply a capitalization rate that is based on FPUC's normal business operations. As stated earlier, FPUC used both

internal and external crews; as such, FPUC's request for contractor costs related to recapitalization should be reduced by at least \$300,891 for the difference between the Company's capitalization rate and the adjusted average hourly capitalization rate of \$221 for its contractors. OPC asserted that this adjustment does not preclude the Company from recovering these costs, but rather spreads the cost over the life of the assets that were replaced. OPC also asserted that as a result of the revision of payroll as discussed earlier, the reclassification of \$170,019 of capitalized payroll, benefits, and overhead costs to reduce the recoverable amount of contractor costs is no longer required.

ANALYSIS

As discussed in Section II, FPUC's request for recovery of storm-related restoration costs included a total of \$1,978,291 associated with contractor costs. In his testimony, OPC witness Schultz expressed concern with the amount of contractor costs incurred as a result of Hurricane Irma. Witness Schultz's testimony specifically addressed hourly rates (Section II), mobilization/standby time (Section III), and capitalization of restoration costs, which are addressed in this Section.

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

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

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

Witness Schultz further testified that because FPUC used \$37.34 an hour for capital work performed by FPUC employees instead of an overtime rate, the capital costs are further understated. Witness Schultz argued if FPUC is allowed to understate the capital amount, current ratepayers would pay for capital costs that will benefit future ratepayers. He does not believe that

FPUC is complying with GAAP requirements for capitalization of plant assets based on actual costs.

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

In total, witness Schultz recommended FPUC's contractor costs charged against the storm reserve be reduced by \$839,780 – from \$1,978,291 to \$1,138,511. He explained the adjustment includes \$185,093 of excessive rates charged for Hurricane Irma (Section II), \$353,795 of excessive standby time charges for Hurricane Irma (Section III), and \$300,891 understatement of capitalization costs for contractor labor rates for Hurricane Irma.

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

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

CONCLUSION

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

V. Line Clearing Costs

This Section addresses the line clearing costs connected with the restoration of service associated with storm-related electric power outages affecting customers.

PARTIES' ARGUMENTS

FPUC

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

OPC

OPC noted that FPUC has agreed to OPC's recommendation of a reduction of \$163,707 to FPUC's request for line clearing costs.

ANALYSIS

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

Table 1
Line Clearing Costs

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

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

Table 2
Costs First Incurred for Storms

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

FPUC provided a summary of its line clearing invoices for Hurricanes Matthew and Irma. It appears that no invoices listed for Hurricanes Matthew and Irma had dates before the first costs were incurred. In our staff's audit report, no exceptions were noted for FPUC's line clearing category.

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

FPUC witness Cassel agreed with witness Schultz's recommendation to reduce line clearing costs by \$21,720 for Hurricane Matthew and \$141,987 for Hurricane Irma. Based on the criteria set forth in Rule 25-6.0143(1)(f)8., F.A.C., we find that an adjustment of \$163,707 should be made to the line clearing costs.

CONCLUSION

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

VI. Vehicle and Fuel Costs

This Section addresses the vehicle and fuel costs connected with the restoration of service associated with storm-related electric power outages affecting customers.

PARTIES' ARGUMENTS**FPUC**

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

OPC

OPC acknowledged that the amount of vehicle and fuel costs being charged by FPUC to the reserve to be \$34,231. OPC's witness Schultz testified that, following his review of the costs and the supporting detail provided, he did not identify any issues that would require an adjustment to FPUC's requested vehicle and fuel costs. OPC maintained that we must conclude that FPUC has carried its burden to demonstrate that such costs were reasonable and prudent in the way in which they were incurred and in the amount.

ANALYSIS

FPUC has requested recovery for vehicle and fuel costs related to the storms listed in its petition. Table 3 reflects the requested amounts for vehicle and fuel costs per storm.

Table 3
Storm-related Vehicle and Fuel Costs

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

The record indicates that FPUC's vehicle costs are allocated based on the employee's payroll. FPUC initially listed the vehicle and fuel costs as part of the department expenses for payroll and overhead. FPUC later broke out the vehicle and fuel costs out of the department expenses for payroll and overhead. The objectives of our staff's audit report were to determine whether vehicle and fuel costs were properly stated, storm-related, and recoverable in this Docket. Our audit staff selected a judgmental sample of the costs, and traced the amounts to the payroll allocation schedules. In our staff's audit report, no exceptions were noted for FPUC's vehicle and fuel category. OPC's witness Schultz did not recommend any adjustments to the vehicle and fuel costs. He testified that he did not have any concerns with this level being

requested by FPUC. Based on our staff's audit and our review of the record, we find no adjustment is necessary.

CONCLUSION

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

VI. Material and Supply Costs

This Section addresses the material and supply costs connected with the restoration of service associated with storm-related electric power outages affecting customers.

PARTIES' ARGUMENTS

FPUC

FPUC argued that material and supply costs in the amount of \$89,295 were reasonably and prudently incurred, and that the costs are neither associated with replenishment of FPUC's supplies or inventories, nor related to capital additions. FPUC explained that it included \$32,800 to rectify an accounting error that began when FPUC removed this amount from its recovery request. FPUC believed that it had originally included this amount in error in its recovery request. However, this amount had not in fact been included in the recovery request and therefore, was made for costs that were never categorized as recoverable costs. FPUC asserted that it now is seeking to add the \$32,800 back into its recovery request to rectify this accounting error.

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

OPC

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

ANALYSIS

FPUC has requested recovery for material and supply costs related to Tropical Storm Julia, Hurricanes Hermine, Matthew and Irma, and other minor storms. FPUC originally requested recovery for the following amounts as shown in Table 4:

Table 4
Material and Supply Costs

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

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

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

Witness Cassel disagreed with witness Schultz's analysis of the material and supplies costs. He testified that FPUC removed \$32,800 for transformers from recoverable costs and capitalized them. It was later determined that the \$32,800 for the transformers erroneously had never been included in the storm costs. Witness Cassel testified the transformers were capitalized

at the time of purchase, which was before the storm; therefore, this reduction was made for costs that were never in the recoverable costs to begin with.

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

CONCLUSION

Based on the evidence in the record and the discussion above, we find that the original material and supply costs of \$56,495 shall be increased by \$32,800. We further find that the total amount of \$89,295 for material and supply costs is reasonable and was prudently incurred by FPUC, and that these costs shall be approved for recovery.

VII. Logistics Costs

This Section addresses the logistics costs connected with the restoration of service associated with storm-related electric power outages affecting customers.

PARTIES' ARGUMENTS

FPUC

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

OPC

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

ANALYSIS

FPUC has requested recovery for logistic costs related to Hurricane Matthew and Hurricane Irma. For Hurricane Matthew, FPUC is requesting recovery of \$73,455, and for Hurricane Irma, FPUC is requesting recovery of \$172,250. FPUC indicated that it first incurred costs for Hurricane Matthew on October 6, 2016. For Hurricane Irma, FPUC indicated its first costs were incurred on September 19, 2017. FPUC also provided a summary of its logistic invoices for both Hurricanes Matthew and Irma. It appears that the invoices primarily involve meals and lodging. In addition, there were no invoices listed for both hurricanes before the first costs were incurred. In our staff's audit report, no exceptions were noted for FPUC's logistic category.

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

Witness Schultz testified that the full bill for this caterer was included in the request for recovery for Hurricane Irma, and he questioned if this service was provided by this contractor. The amount paid to this contractor during Hurricane Irma was \$59,786.

The invoice that OPC had concerns with was identified as a P-Card purchase. Listed on the invoice was a note saying that \$40,000 was paid as a down payment with a transaction number. However, after reviewing the invoice, it appears to list breakfast, lunch and dinners for October 7 through 10, 2016. This is during the time when FPUC mobilized and demobilized for Hurricane Matthew. The invoice showed the following as demonstrated in Table 5:

Table 5
Logistic Costs

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

FPUC did not offer any rebuttal testimony to witness Schultz's concerns about this invoice. As discussed in FPUC's brief, FPUC believed that the decision to ask for only part of an invoice, rather than the full amount, does not indicate that the amount was not prudently incurred. However, we have determined that there is not enough evidence in the record to justify the full \$40,000 payment. We consider that the meals (\$21,750), refrigeration truck (\$750), mobilization and demobilization (\$11,000), and 7 percent tax for that amount (\$2,345) were

prudently paid. The total paid should have been \$35,845 (\$21,750 + \$750 + \$11,000 + \$2,345). Based on our review of the record, we find that an adjustment of \$4,155 (\$40,000 - \$35,845) shall be made to the requested logistic costs.

CONCLUSION

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

VIII. Normal Expenses Not Recovered in Base Rates

This Section addresses the costs identified by FPUC as “Normal Expenses Not Recovered in Base Rates” connected with the restoration of service associated with storm-related electric power outages affecting customers.

PARTIES’ ARGUMENTS

FPUC

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

OPC

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

¹ See Order No. PSC-2005-0937-FOF-EI, issued September 21, 2005, in Docket No. 20041291-EI.

ANALYSIS

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

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

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

CONCLUSION

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

IX. Amount Included in Storm Recovery to Replenish Storm Reserve

This Section addresses the correct amount to be included in storm recovery to replenish the level of FPUC's storm reserve.

PARTIES' ARGUMENTS

FPUC

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

OPC

OPC has not taken issue with the level of FPUC's storm reserve to replenish. However, OPC disputes the recovery of the costs associated with replenishing the reserve, and acknowledges that the resolution of this dispute depends on the resolutions reached in previous Sections. Based on the previous adjustments, OPC contended no more than \$1,022,561 should be included in storm recovery to replenish the level of FPUC's storm reserve to \$1.5 million.

ANALYSIS

Pursuant to the provisions of the 2017 Settlement, approved by us in Order No. PSC-2017-0488-PAA-EI, issued on December 26, 2017, the level of storm reserve is \$1.5 million. The appropriate amount of storm recovery to replenish the reserve to this level is \$1,927,648.

CONCLUSION

Pursuant to the provisions of the 2017 Settlement, approved by us in Order No. PSC-2017-0488-PAA-EI, issued on December 26, 2017, the level of storm reserve is \$1.5 million. We find that the appropriate amount of storm recovery to replenish the reserve to this level is \$1,927,648.

X. Total Amount of Storm-Related Costs and Storm Reserve Replenishment

This Section addresses the appropriate amount FPUC may recover for prudently incurred storm restoration costs.

PARTIES' ARGUMENTS

FPUC

The appropriate amount to recover costs incurred from the storms and replenish the storm reserve is \$1,999,405.

OPC

None provided.

ANALYSIS

Table 6 below reflects the Major Cost Categories from the previous issues, FPUC's associated amounts, and our authorized amounts for recovery.

Table 6
FPUC’S Storm Restoration Costs

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

*FPUC cost categories are rounded.

Table 7 reflects the reserve balance and the amount to be recovered by customers to replenish the storm reserve.

Table 7
Amount of Storm Recovery to Replenish Reserve to \$1.5M Level

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

CONCLUSION

Based on our findings in Sections I-IX, we find that the appropriate amount to recover prudently incurred storm restoration costs is \$427,648, and the appropriate amount to replenish the level of FPUC’s storm reserve to \$1.5 million is \$1,927,648.

XI. Approval of Proposed Tariff and Associated Charge

This Section addresses the approval of FPUC's proposed tariff and associated charge.

PARTIES' ARGUMENTS

FPUC

FPUC asserted that since the Company has agreed to additional adjustments since the tariff and charge were submitted, and since other adjustments may be required by us, that the Company should be directed to file a revised tariff that is consistent with our decision within seven days of our decision in this proceeding. FPUC also noted that we should direct our staff to verify that said tariffs are consistent with our decision.

OPC

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

ANALYSIS

In revised Exhibit MC-1 of the direct testimony of FPUC witness Cassel, FPUC provided the calculation of its proposed storm recovery surcharge. Based on FPUC's requested amount (\$1,999,405), the calculated surcharge is 0.003183 per kilowatt-hour (kWh). Recovering the amount over a one-year period would result in a \$3.18 impact on a 1,000 kWh residential bill. Witness Cassel testified that in order to help lessen the impact to its customers, FPUC proposed that the surcharge be collected over a two-year period. A two-year recovery period would lessen the residential 1,000 kWh bill impact from \$3.18 to \$1.59. During the hearing, witness Cassel explained that FPUC considered different recovery periods, and that FPUC has been significantly impacted by Hurricane Michael. Witness Cassel asserted that the two-year recovery period seemed like the most reasonable and prudent way to proceed to lessen the bill impact. OPC took no position on whether the two-year recovery period is appropriate. While we have the option to approve a one-year surcharge, we find that witness Cassel presented a reasonable argument that a two-year surcharge in this instance is appropriate and would lessen customer impact.

Customer Notification

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

CONCLUSION

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

XII. Treatment of Under-recovery or Over-recovery

This Section addresses how any under-recovery or over-recovery shall be handled, if applicable.

PARTIES' ARGUMENTS

FPUC

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

OPC

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

ANALYSIS

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

CONCLUSION

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

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the stipulations as set forth in Attachment A of this Order are hereby approved. It is further

ORDERED that the Office of Public Counsel's Motion to Reconsider the Decision in Pre-Hearing Order No. PSC-2018-0567-PHO-EI to Strike All or Part of Issues 7 and 10 is denied. It is further

ORDERED that all other findings set forth in the body of this Order are hereby approved.

ORDERED that Florida Public Utilities Company shall abide by the stipulations, findings, and ruling herein. It is further

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

By ORDER of the Florida Public Service Commission this 26th day of March, 2019.



ADAM J. TEITZMAN
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request:

- 1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or
- 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Office of Commission Clerk, and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

COMMISSION-APPROVED STIPULATIONS

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

STIPULATION: This issue has been rendered moot for this particular case by the stipulation of Issue Nos. 2, 5, and 6.

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

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

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

STIPULATION: OPC does not object to FPUC’s request to recover benefit costs in the amount of \$38,424.

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

STIPULATION: OPC does not object to FPUC’s request to recover overhead costs in the amount of \$22,856.