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Duke Energy Florida, LLC.

May 3, 2019

VIA ELECTRONIC FILING

Adam J. Teitzman, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: *Application for limited proceeding for recovery of incremental storm restoration costs related to Hurricanes Irma and Nate by Duke Energy Florida, LLC;*
Docket No. 20170272-EI

Dear Mr. Teitzman:

Please find enclosed for electronic filing in the above-referenced docket, Duke Energy Florida, LLC, Response to Staff's First Data Request (Nos. 1-36).

Thank you for your assistance in this matter. Please feel free to call me at (850) 521-1428 should you have any questions concerning this filing.

Respectfully,

/s/ Matthew R. Bernier

Matthew R. Bernier

MRB/cm
Enclosures

Docket No. 20170272-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished to the following by electronic mail this 3rd day of May, 2019, to all parties of record as indicated below.

/s/ Matthew R. Bernier

Attorney

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**Duke Energy Florida, LLC's (DEF) Response to Staff's First Data Request (Nos. 1-36)
re. Application for limited proceeding for recovery of incremental
storm restoration costs related to Hurricanes Irma and Nate by DEF**

Docket No. 20170272-EI

1. Please refer to page 8 of the Settlement Agreement. In paragraph 4, it states that the time period for recovery of storm costs will be adjusted to reflect the earlier recovery due to greater tax savings (Docket No. 20180047-EI) and a reduction in the recoverable storm costs (Docket No. 20170272-EI). When does DEF anticipate storm costs will be fully recovered and the base rate reduction will become effective?

Response:

As proposed in the Settlement Agreement, DEF anticipates recovery would be complete, and the storm reserve replenished in Feb. 2021; therefore, a base rate reduction would take place with the first billing cycle March 2021. However, on April 30, 2019, DEF filed a Petition for Limited Proceeding for Recovery of Incremental Storm Restoration Costs Related to Hurricane Michael and Approval of Second Implementation Stipulation (Docket No. 20190110-EI). If approved by the Commission, that Petition would save customers \$6.95/1,000 kWh residential by continuing to use the tax savings to offset the storm surcharge DEF would otherwise be authorized to implement to recover its Hurricane Michael restoration costs, followed by replenishment of the storm reserve. The base rate reduction would then occur after the storm reserve is replenished.

2. Please explain in detail how this Settlement Agreement is intended to balance and prioritize restoration time against cost control and vendor oversight.

Response:

It is the parties' intent that restoration time will not be impacted by the process changes incorporated into this settlement. To the extent that DEF encounters a situation where strict adherence to these policies would negatively impact restoration efforts, DEF would exercise operational discretion to avoid any negative impact on restoration activities and would document those circumstances constituting an exception under the Agreement; DEF would then take all reasonable steps to restore service to customers as soon as reasonably possible. Where adherence to the policies outlined in the Agreement would not impact restoration times, the parties to the Agreement believe that the processes will increase cost control and contractor oversight while improving record keeping and organization to allow for greater ease of review and overall transparency.

3. Does the Settlement Agreement reflect a top priority of expedient restoration time?

Response:

Yes. Safe, expedient restoration is DEF's primary goal after a natural disaster.

4. If, after a future storm event, the Process Improvements outlined in the Settlement Agreement are found to hinder the overall storm restoration process, please explain the process the parties to the Settlement Agreement (the Parties) would undertake to rectify those issues and potentially revise those processes found to be a hindrance.

Response:

As discussed in response to DR1.2, DEF would document the circumstances that might have caused the delay/hindrance in restoration and then would take all reasonable steps to avoid the delay. Consistent with DEF's current practice of evaluating and incorporating post-storm lessons learned, if after the storm restoration process DEF believes a process or policy needs to be improved or amended, it would discuss with the signatories the issues discovered and, if agreement on an amendment is reached, the amended policy would be brought to the Commission as discussed in response to DR 1.5.

The following series of questions relate to the Storm Restoration Cost Process Improvements included in the Settlement Agreement. In its petition, this list is described as a detailed set of policies and process changes that will apply to DEF during future storm restorations.

5. Please refer to page 9, the continuation of paragraph 6. If changes to the policies and procedures are agreed upon by the Parties, will the Parties seek Commission approval of those changes?

Response:

Yes. If approved by the Commission, the policies included in the Agreement become a part of the Commission's Order. Therefore, alterations/amendments to those policies will be brought to the Commission for its review and approval.

6. Please identify which provision(s) of Rule 25-6.0143, F.A.C., would allow the Cost Recovery for Initial Process Implementation, including the Initial Audit, to be charged to Account 228.1.

Response:

The provision in II.D. does not specifically state that the "start-up costs" would be necessarily charged to Account 228.1. It simply provides for recovery of those costs for the first qualifying storm. The costs could be recorded in a deferred debit account and

included in a petition for recovery of storm costs. It is separate and apart from the general provisions of Rule 25-6.0143, F.A.C. and is not inconsistent with the concept of incremental cost recovery contained in the rule.

7. What is the Parties' estimate of additional time, if any, the application of this set of policies and procedures will add to restoration times following a storm event?

Response:

As discussed in response to Staff's DR 1.2 and 1.4, the parties' intent and belief is that application of these policies is not expected to impact restoration time; if DEF discovers that is not the case in application, exceptions will be documented and restoration will occur as safely and expeditiously as possible.

8. What is the Parties' estimate of how much it will cost to implement this set of policies and procedures?

Response:

DEF does not have a current estimate of the costs of implementation, but recognizes that the costs will vary depending on the size, path, and damage caused by an individual storm.

9. When and specifically how will the costs incurred to implement this set of policies and procedures be recovered by DEF?

Response:

Pursuant to the section II.D. (page 13) of the Storm Restoration Cost Process Improvements, the one time, start-up costs to implement the new procedures required under these processes will be recovered as part of the first qualifying storm. Ongoing costs to implement these policies and procedures consistent with the Rule and ICCA methodology will be recovered on an ongoing basis as part of each subsequent storm.

10. Even though the Parties have agreed to this set of policies and procedures, is it understood by DEF and verified by the signatories that the Commission will make future decisions on allowable storm recovery costs on a case-by-case basis, based on the evidence in the record?

Response:

Yes, the Parties recognize that the Commission has the sole authority to approve cost recovery and that compliance with the requirements of the policies and procedures in addition to other applicable standards must be based on evidence in the record.

11. What is DEF's expectation on how the compliance or lack of compliance would reflect upon the Commission's decision on a reasonable and prudent determination of storm costs?

Response:

DEF believes that compliance with the policies and procedures outlined in the Agreement should give rise to something akin to a "rebuttable presumption" of recovery of the costs entailed with compliance, subject to review for reasonableness of the costs (e.g., notwithstanding compliance with the procedures, the parties may challenge and the Commission may agree that some element of the costs related to a contractor was unreasonable and reduce recovery accordingly). Where the policies are not complied with, DEF believes that recovery would still be allowed if exceptions to the policies were reasonable and prudent and supported by evidence in the record.

12. If there is a dispute about the sufficiency of the documentation, what is the process for resolving such a dispute?

Response:

The Parties anticipate that any dispute regarding the sufficiency of documentation would be handled through the normal course of discovery, and ultimately if the parties cannot agree, the Commission or designated PHO would resolve the dispute.

13. Could any of these process changes be detrimental to obtaining contractors to help with storm restoration efforts? Please explain your response.

Response:

DEF does not believe so, however we recognize that the potential does exist. As outlined in the Agreement, DEF will attempt to contract in advance with vendors and will at that time begin to assess reaction from potential vendors in advance of storm season. Contracts negotiated in advance define terms and conditions and do not require action from either party. Moreover, to the extent DEF discovers that the policies and procedures have the potential to cause issues with securing necessary resources, DEF would prioritize timely restoration and document those circumstances and apply the exceptions policy as described in response to DR 1.2.

14. Is DEF permitted, under the terms of the Settlement Agreement, to contract with vendors who, because of union or other regulations, are unable to abide by the proposed process improvements?

Response:

Yes, if DEF determines it is necessary to respond to a given storm; DEF would document the exception as described in response to DR 1.2.

15. Is DEF permitted, under the terms of the Settlement Agreement, to contract with vendors who refuse on their own accord to abide by the proposed process improvements?

Response:

Yes, if DEF determines it is necessary to respond to a given storm; DEF would document the exception as described in response to DR 1.2.

Section E of the Storm Restoration Cost Process Improvements, outlined on page 10 of the Settlement Agreement, states that DEF will require GPS tracking of vendors “where reasonably practicable.”

16. Please explain the benefits of the GPS tracking of vendor crews with regard to restoration efforts and cost control.

Response:

GPS tracking, which is becoming standard in the industry, will increase efficiency by allowing DEF to remotely track contractor movement towards the state remotely increasing efficiency (e.g., by reducing the volume of “touchpoint” phone calls during travel) and will allow DEF to better coordinate resource arrival, on-boarding, and contract compliance.

17. Please give an example of where GPS tracking of a given vendor may NOT be “reasonably practicable.”

Response:

Without listing all possible instances where tracking may not be reasonably practicable, a vendor theoretically may object to tracking for privacy reasons, may have union or other contractual prohibitions against GPS tracking, or there may be technological issues with tracking during a storm event (e.g., tracking being done via cell phone app may be unavailable in a situation where all cell service is down).

18. Does this policy include crews working on restoration of critical infrastructure or emergency services (e.g. Hospitals)? Please explain.

Response:

Yes. However, DEF and the Parties recognize that efficient restoration is the primary and overarching goal and therefore would take priority over strict adherence to any policy contained in the Agreement. If a crew was working to restore a critical facility and needed to work beyond 16 hours, DEF would require the vendor to document that exception and would allow/require restoration to continue.

19. Is DEF permitted to contract with vendors who refuse to abide by the 16 hours on, 8 hours off policy laid out in Section H? Please explain.

Response:

Yes, if DEF determines it is necessary to respond to a given storm; DEF would document the exception as described in response to DR 1.2.

Please refer to page 12, paragraph II. B. Initial Audit Required.

20. Will the independent outside audit be performed each time named storm damages exceed 50 percent of the full authorized storm reserve or \$40 million?

Response:

No. The parties contemplate that the audit will be necessary after the first named storm that reaches the cost thresholds contained in the Agreement.

21. Will an independent outside audit be performed when the storm reserve is depleted?

Response:

Please see the response to DR 1.20; this audit may or may not coincide with depletion of the reserve, depending on the size, path, and damage caused by a given storm.

22. Will said audit examine 100 percent or nearly 100 percent of all storm restoration invoices as recommended by OPC witness Schultz's testimony filed in Docket No. 20180049-EI? If not, please explain.

Response:

The scope of the audit should be sufficient to enable the auditor to evaluate the adequacy and effectiveness of the Company's internal controls (or processes) governing the vendor procurement process, including (1) complete rate agreement, (2) invoice/billing payment review process, and (3) the approval/denial/resolution process, including but not limited to, the Company's payment approval logic for reasonableness, allowability and compliance with contract terms.

As outlined in the Agreement, the audit is intended to focus on DEF's internal policies for implementing the process changes outlined in the Agreement; it is not intended to replicate the detailed invoice review work of a witness like Mr. Schultz. Instead, professional audit standards and guidelines would be applied by the outside auditor in its independent professional judgment, which may involve a statistical or non-statistical sampling of the invoices in question to the extent the independent auditor felt necessary to effectively fulfill the audit scope identified above.

23. In lieu of auditing 100 percent or nearly 100 percent of all storm restoration invoices, can the independent outside audit firm use professional judgement in utilizing statistical or random sampling to conduct their audit?

Response:

See response to DR 1.22. DEF would accept sampling methods that comply with applicable auditing standards in light of the scope of the independent audit.

24. What does DEF believe to be a reasonable time for said audit to be completed?

Response:

The time for completion of the audit will depend on the size and the scope of the storm and resulting documentation and a majority of actual costs have been recognized as discussed in DRs 1.22 and 1.23.

25. Please refer to page 13, paragraph II.D. Cost Recovery for Initial Process Implementation. Will the Audit from paragraph II.B. be part of the supporting documentation referenced under II.A?

Response:

Yes, for the first storm that reaches the cost threshold identified in the Agreement, the audit would be available for the Commission to consider as a part of the evidence in the record.

Please refer to the Incremental Cost Methodology Addendum.

26. Please explain in detail how the 3-year historical averages used to determine incremental expenses will be determined. Specifically, whether or not historical years which had storm-related activity during the pertinent month(s) would be supplanted in the 3-year average.

Response:

The 3-year historical average calculations are generally derived from the methodology for determining incremental tree trimming expenses in Rule 25-6.0143 (1)(f)8., F.A.C. As an example, assume a storm occurs on September 5, 2019, and all storm activities occur in September. Also, assume overtime pay (OT) is the type of expense being considered. All OT associated with storm duties will be charged to the storm reserve. All else being equal, this will cause OT in O&M to be lower in September than it would have been absent the storm. DEF would then calculate the average of total DEF OT expensed to O&M in September of 2016, 2017 and 2018. If that average is higher than the OT expensed to O&M in September 2019, DEF will move the difference from the storm reserve to O&M. Now assume that a storm had also occurred in September 2016. When DEF evaluates September 2016 OT costs in its calculation of the 3-year historical average for the 2019 storm, any adjustments to increase OT in O&M that were made for the September 2016 storm would need to be included to prevent understating OT for September 2016. Further, assume a rate case occurred with a test period of 2017. For the month of September 2017, DEF would not use actual OT costs in its calculation of the 3-year historical average. Rather, DEF would use the OT that was approved by the Commission in its rate case or settlement for 2017 only. DEF will need to delineate OT by month somewhere in its rate case or settlement filing in order to determine how much was approved by the Commission for the month of a storm. To summarize the calculation of the 3-year historical average of OT in O&M for the September 2019 storm; for 2016 DEF will use the adjusted OT after adding back any storm impacts, for 2017 DEF will use the amount approved in its rate case or settlement order, and for 2018 DEF will use the actual OT.

27. Please specify how the amount to be capitalized would be calculated, and provide an example of a distribution pole replacement for illustrative purposes which includes: 1) A reasonable estimated average cost to replace the pole in the absence of a storm (assuming company personnel or embedded vendors during normal hours and/or both); 2) a reasonable estimated average cost to replace the pole during a storm restoration event (assuming the use of 3rd Party contractors using rented equipment outside of normal hours); 3) an explanation of how the Capitalized Costs provision in the proposed Settlement Agreement would be applied; 4) a description of how DEF would reflect this pole replacement on its books (including all entries pertaining to the establishment of a regulatory asset).

Response:

1) & 2): The following is an illustration based on high level estimates in response to this data request, but it does not represent the methodology that is contemplated in the settlement agreement:

| | Non-Storm | Storm |
|--|------------------|----------------|
| Material Components: | | |
| Unit of Property - Pole - average | \$207 | \$207 |
| Warehouse Burdens - 15% | \$31 | \$31 |
| Working Stock materials - 20% | \$41 | \$41 |
| Total Material Cost | \$279 | \$279 |
| Labor Components: | | |
| Average of Internal / Native rates Non-Storm (Estimated) | \$110 | |
| Average of Native / Non-Native rates Storm (Estimated) | | \$185 |
| Number of Resources (Estimated) | 4 | 4 |
| Number of Hours (Estimated) | 8 | 8 |
| Total Hours | 32 | 32 |
| Labor Cost | \$3,520 | \$5,920 |
| Total Capital Cost | \$3,799 | \$6,199 |

3): Please see the clarification in DEF’s response to DR 1.29. DEF would calculate the average hourly cost of internal employees (including overheads), native contractors and foreign contractors (if any) in the absence of a storm and take the simple average of those hourly costs, i.e., the “normal cost for the removal, retirement and replacement of those facilities in the absence of a storm” (see Rule 25-6.0143(1)(d), F.A.C. For example, if the average hourly cost of employees is \$100, the average hourly cost of native contractors is \$120 and the average hourly cost of foreign contractors is \$170, DEF would calculate a simple average hourly cost of \$130 $[(\$100 + \$120 + \$170) / 3]$. Then DEF would multiply \$130 by the number of people and by the number of hours needed to replace a pole. Assuming it takes four people eight hours to replace a pole, that cost would be $\$130 \times 4 \text{ people} \times 8 \text{ hours} = \$4,160$ per pole plus the cost of the pole and any other materials.

4): The cost calculated in part 3 would be recorded in property, plant and equipment. That amount would be depreciated at the approved depreciation rate by debiting depreciation expense and crediting accumulated depreciation. Then each month a journal entry would be made to debit a specified regulatory asset and credit depreciation expense for 40% of the total depreciation expense associated with that pole. The regulatory asset would be amortized over four years beginning with the next rate case or settlement. To record the retirement of the poles that have been replaced, DEF generally tracks poles by location, and the oldest poles in a particular location are retired first by debiting accumulated depreciation and crediting electric plant in service for the original cost of the oldest poles in that location.

28. How is the methodology used to determine the incremental payroll, under the Incremental Cost Methodology Addendum, consistent with Rule 25-6.0143, F.A.C.?

Response:

The methodology is consistent with the ICCA methodology in Rule 25-6.0143 (1)(d), F.A.C., in that it provides a straightforward way to calculate the amount that is “incremental to costs normally charged to non-cost recovery clause operating expenses in the absence of a storm” by comparing costs during the month of storm activities to that same month in the prior three years. This is also consistent with the 3-year historical average calculations used in determining incremental tree trimming expenses in Rule 25-6.0143 (1)(f)8., F.A.C.

29. How is the methodology used to determine the Capitalized Costs, under the Incremental Cost Methodology Addendum, consistent with Rule 25-6.0143, F.A.C.?

Response:

The methodology is consistent with the rule in that it excludes storm-related staging and logistics costs (travel costs, meals, lodging, etc.), which comprise a large portion of the total storm related costs. Further, after giving serious consideration to the dialogue at the meeting with staff on April 23, 2019 and after further consultation with all parties, DEF provides the clarification that the calculation of capitalized costs would include an average of hourly employee and contractor costs to be capitalized.

30. On page 16 of the Settlement Agreement under the heading Capitalized Costs, please identify the amount of capitalized costs agreed to in the instant docket, and what the amount of capitalized costs would be if this provision were currently in effect.

Response:

The provision on page 15 of the Settlement Agreement regarding capitalized costs is a prospective implementation of the capitalization methodology and has no correlation to the amount agreed to on page 7 of the Settlement Agreement. DEF has not calculated the amount that would have been capitalized if this provision were currently in effect. It would require separate tracking than what has been historically tracked which would require considerable efforts at this point. An illustrative example for a single pole has been provided in response to DR 1.27.

31. Please describe the current policy DEF follows for tracking the costs of poles replaced following storm damage. For purposes of this response, also please explain what impact, if any, this new capitalization provision for capitalization will have on this tracking process.

Response:

The current process is as follows: All storm restoration costs are charged to the storm charge codes. Then in the month(s) after the storm, a calculation is completed to determine the “normal” cost per pole. An average of employee payroll costs and native contractor costs is determined, and an overhead loader for management personnel is added to arrive at the total labor cost of a pole. The cost of materials is then added to arrive at the total cost of each pole. The new capitalization provision will include employee costs and management loaders, and native and non-native contractor hourly costs, if any in the absence of a storm, in a simple average calculation.

Please refer to the provision regarding deferral of certain costs to a regulatory asset

32. Please identify the amount of the regulatory asset that DEF could create if this provision were currently in effect.

Response:

For illustration purposes, assuming the capitalized cost is \$49 million (\$31 million per Exhibit BB-2 plus \$18 million on page 7 of the Settlement Agreement), DEF would defer the depreciation impact on 40% of the capitalized amount. DEF’s approved depreciation rate on distribution poles is 4.2%. Assuming the \$49 million represents only poles, the annual depreciation expense would be approximately \$2 million annually, and 40% of this amount is \$.8 million. In this scenario, the regulatory asset would grow by \$.8 million each year until the next rate case or settlement, at which time it would be amortized over four years.

33. Will the regulatory asset accrue a carrying cost until the next rate case? If not, please explain. If yes, please identify and explain the rate of return.

Response:

Yes. A carrying costs would accrue at DEF’s approved AFUDC rate.

34. For earnings surveillance purposes, will the 60 percent of the total capitalized storm restoration related amounts of plant, accumulated depreciation, and depreciation expense be reflected in the Company’s ESRs?

Response:

Any amounts in gross plant, accumulated depreciation and depreciation expense (after reclassifying 40% of depreciation expense to the regulatory asset) will be reflected in

DEF's ESRs. The deferred depreciation expense in the regulatory asset will not be included in ESRs since it will earn an AFUDC rate.

35. Will the associated tangible property taxes for the 40 percent of the total capitalized storm restoration related plant be included in the regulatory asset? If not, please explain.

Response:

No. The only thing that will be included in the regulatory asset is 40% of the depreciation expense. The entire capitalized amount will remain in property, plant, and equipment.

36. For earnings surveillance purposes, will the accumulated deferred income taxes associated with the 40 percent of the total capitalized storm restoration related plant amount be excluded from the overall cost of capital in the Company's ESRs?

Response:

No. Any accumulated deferred income taxes associated with the deferral of depreciation expense will be included in accumulated deferred income taxes in DEF's capital structure in its ESRs.

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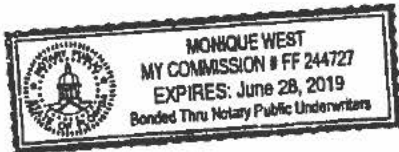
STATE OF FLORIDA

COUNTY OF PINELLAS

I hereby certify that on this 29th day of April, 2019, before me, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared MARCIA OLIVIER, who is personally known to me, and has acknowledged before me that she provided the answers to numbers 1, 6 and 20 through 36, of STAFF'S FIRST DATA REQUEST TO DUKE ENERGY FLORIDA, LLC (NOS. 1-36) in Docket No. 20170272-EI, and that the responses are true and correct based on her personal knowledge.

In Witness Whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 29th day of April, 2019.

Marcia Olivier
Marcia Olivier



Monique West
Notary Public
State of Florida, at Large

My Commission Expires June 28, 2019

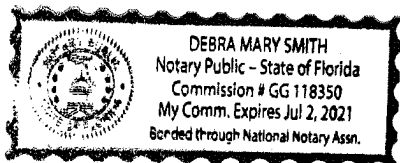
AFFIDAVIT

STATE OF FLORIDA

COUNTY OF PINELLAS

I hereby certify that on this 30th day of April, 2019, before me, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared JASON CUTLIFFE, who is personally known to me, and has acknowledged before me that he provided the answers to numbers 2 through 5 and 7 through 19 of STAFF'S FIRST DATA REQUEST TO DUKE ENERGY FLORIDA, LLC (NOS. 1-36) in Docket No. 20170272-EI, and that the responses are true and correct based on his personal knowledge.

In Witness Whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 30th day of April, 2019.



Jason Cutliffe
Jason Cutliffe

Debra Mary Smith
Notary Public
State of Florida, at Large

My Commission Expires: July 2, 2021