

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Re: Petition for limited proceeding for recovery of incremental storm restoration costs related to Hurricane Matthew by Florida Power & Light Company.

DOCKET NO. 20160251-EI

FILED: May 2, 2018

PREHEARING STATEMENT OF THE OFFICE OF PUBLIC COUNSEL

The Citizens of the State of Florida, through the Office of Public Counsel (“OPC”), pursuant to the Order Establishing Procedure in this docket, Order No. PSC-2017-0471-PCO-EI, issued January 18, 2017, and Order No. PSC-2018-0189-PCO-EI issued April 19, 2018, hereby submit this Prehearing Statement.

APPEARANCES:

PATRICIA A. CHRISTENSEN
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c/o The Florida Legislature
111 West Madison Street, Room 812
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On behalf of the Citizens of the State of Florida

1. **WITNESSES:**

Witness	Subject Matter	Issue #
Direct Helmuth W. Schultz, III	Storm Restoration Costs and Storm Reserve Replenishment	1, 2, 3, 4, 5, 6, 7, 8, Issue A

2. EXHIBITS:

Witness	Proffered by	Exhibit #	Description
Helmuth W. Schultz, III	OPC	Exhibit HWS-1	Qualifications of Helmuth W. Schultz, III
Helmuth W. Schultz, III	OPC	Exhibit HWS-2	FPL Storm Restoration Costs: Schedule A – Summary Schedule B - Regular Payroll Schedule C – Contractors Schedule D – Line Clearing Schedule E – Vehicle & Fuel Cost Schedule F – Materials & Supplies Schedule G – Logistics Schedule H – Other Schedule I – Capitalizable Costs

3. STATEMENT OF BASIC POSITION:

FPL requested recovery of its Hurricane Matthew storm costs through the interim cost recovery methodology approved in its 2012 Settlement¹ in its December 29, 2016 petition. On October 16, 2018, FPL filed a two page schedule purporting to its finalized Hurricane Matthew cost. FPL subsequently filed its testimony and schedules on February 20, 2018 in which it has requested recovery of \$291.799 million (jurisdictional) of Hurricane Mathew restoration costs, including the following: (1) \$599,000 of interest on the unamortized reserve balance; (2) \$24.026 million for replenishment of storm reserve for pre-Hurricane Matthew costs; (3) \$228,000 for a regulatory assessment fee; (4) less \$4.829 million of non-incremental costs; (5) less \$295,000 of third party reimbursements; (6) and less \$12.982 million of capitalized costs. On March 15, 2018, FPL updated its request to reduce by \$152,000 its total Hurricane Matthew restoration costs to \$291.647 million (jurisdictional).

¹ See, Order No. PSC-2013-0023-S-EI, issued January 14, 2013, in Docket No. 20120015-EI.

OPC has reviewed the pre-filed testimony and supporting documentation filed by FPL to support its direct case. Based on this comprehensive review, OPC, through its expert consultant, has determined that FPL's overall storm restoration and reserve replenishment request should be reduced by \$84.123 million.² Since the regular payroll expense included in FPL's Hurricane Matthew request is being recovered through base rates established by the last rate case, these regular payroll costs are not incremental to base rates (i.e. above what is normally recovered in base rates), and thus are not eligible for storm cost recovery or capitalization of storm costs. Therefore, OPC recommends reclassification of these capitalized regular payroll costs to capitalized overtime payroll costs, resulting in a reduction to FPL's request of \$1.027 million for these regular payroll costs. To properly reflect expenses which should have been capitalized rather than expensed as storm costs for current recovery, OPC recommends reductions of \$5.677 million to overtime expenses and \$21.710 million for contractor costs. Also, due to a math error in FPL's updated filing, OPC recommends a \$14,000 reduction. Finally, due to FPL's failure to provide evidentiary support to justify charging certain costs to the storm reserve, OPC recommends reductions of \$17.971 million to logistical costs, \$13.704 million for mobilization/demobilization and standby time, and \$24.026 million for pre-Hurricane Matthew replenishment of the storm reserve. Based on all of OPC's adjustments, OPC recommends a total reduction of \$84.123 million to FPL's Hurricane Matthew cost recovery request.

4. **STATEMENT OF FACTUAL ISSUES AND POSITIONS:**

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

² The individual adjustments do not precisely add to the total recommended adjustment due to rounding.

OPC: While the 2012 Settlement was a black box settlement (i.e., settled to a revenue requirement without specifically addressing all revenue inputs), the payroll levels included in the 2012 rate case MFRs were part of the sworn testimonies of FPL witnesses Kim Ousdahl and Kathleen Slattery, and are the best available information regarding the amount of payroll included in base rates by FPL at the time Hurricane Matthew occurred. Additionally, when asked for the amount of payroll FPL included in its 2016 base rates, FPL identified in its response to Citizens' Interrogatory No. 82, that the payroll included in its base rates in effect during 2016 (the period during which the storm occurred) included \$610,638,151 of regular payroll charged to O&M expense. (Schultz)

ISSUE 2: What is the appropriate amount of FPL regular payroll expense to be included in storm recovery?

OPC: The amount of regular payroll included in FPL's base rates in effect during 2016 (the period during which the storm occurred) was \$610,638,151 of regular payroll charged to O&M expense. The actual payroll expense incurred in 2016 was \$493,011,189. Since the \$610,638,151 of regular payroll included in base rates far exceeds the 2016 actual O&M payroll expense of \$493,011,189, it would be unrealistic to assume that any regular payroll is incremental and eligible for storm restoration costs. Thus, any allowance of regular payroll as part of storm restoration costs would result in double recovery for FPL – first as part of base rates and then recovered a second time as part of the storm restoration costs. Since no regular payroll costs are actually non-incremental, the previously identified capitalized regular payroll costs must be reclassified as capitalized overtime costs. With this

reclassification, OPC recommends a reduction of \$1.027 million to regular payroll expense. (Schultz)

ISSUE 3: What is the appropriate amount of FPL overtime payroll expense to be included in storm recovery?

OPC: OPC recommends the distribution overtime payroll be reduced by \$3.006 million (\$3.005 million jurisdictional) and reduced in total by \$3.099 million (\$3.089 million jurisdictional). This, again, is FPL's calculated payroll adjustment for capitalization. Additionally, OPC recommends that the Company's overtime payroll be adjusted to reflect an appropriate capitalization rate. Based on OPC's recommend capitalization rate, the estimated cost for FPL's overtime plus overheads is \$4,699,801 and the estimated vehicle cost is \$995,127 which results in a total overtime cost for capitalization in the amount of \$5,694,928. Since OPC has already recommended the reclassification of the \$3.099 million of capitalization which FPL classified as regular payroll, OPC recommends an additional adjustment of \$2,595,928 to account for the appropriate capitalization rate. (Schultz)

ISSUE 4: What is the appropriate amount of contractor costs to be included in storm recovery?

OPC: The contractor costs have been undercapitalized due to understated crew sizes and related labor costs. Therefore, OPC recommends the capitalized amount for distribution costs for contractor labor be increased from \$6.072 million (\$6.071 million jurisdictional) to \$25.456 million (\$25.451 million jurisdictional). This

adjustment reduces FPL's request for distribution function recovery for contractors from \$153.895 million to \$134.511 million, which is a reduction to total restoration costs of \$21.756 million (\$21.710 million jurisdictional). (Schultz)

ISSUE 5: What is the appropriate amount of logistic costs that should be included in storm recovery?

OPC: The logistic costs of \$17.975 million for one vendor included single line invoices with no details regarding what was included, where the lodging was located, or for whom the lodging was billed. Due to the absence of supporting detail that this vendor's lodging costs are reasonable and justified, OPC recommends disallowance of the entire \$17.975 million (\$17.971 million jurisdictional). (Schultz)

ISSUE 6: Are the standby and mobilization/demobilization costs that are included in FPL's storm recovery appropriate? If not, what adjustments, if any, should be made?

OPC: No, because FPL has not separately tracked the amount of hours and costs that are associated with mobilization/demobilization and standby time, the Commission and the parties have no way to verify these costs. This information would provide critical insight into how FPL is planning and controlling costs before, during, and after the storm restoration. The Commission should make an adjustment to disallow 10% of the OPC's recommended retail costs of \$137.039 million, or reduction of \$13.704 million. (Schultz)

ISSUE 7: What is the appropriate amount to include in storm recovery to replenish the level of FPL's storm reserve?

OPC: OPC recommends a reduction of \$24.026 million to FPL's requested \$117.131 million to exclude the non-Hurricane Matthew replenishment of the storm reserve. FPL failed to provide any supporting detail that these pre-Hurricane Matthew costs charged to the storm reserve were reasonable and justified. The storm reserve should be replenished to the pre-Hurricane Matthew level of \$93.105 million. (Schultz)

ISSUE 8: What is the appropriate amount of storm-related costs and storm reserve replenishment FPL is entitled to recover for Hurricane Matthew?

OPC: OPC recommends a total reduction of \$84.123 million jurisdictional to FPL's Hurricane Matthew cost recovery request of \$291.647 million jurisdictional including the storm reserve replenishment to the pre-Hurricane Matthew level of \$93.105 million. (Schultz)

ISSUE 9: What is the total amount of storm-related revenues that FPL collected for Hurricane Matthew through their approved interim storm restoration recovery charge?

OPC: No position at this time.

ISSUE 10: If applicable, how should any under-recovery or over-recovery be handled?

OPC: The over recovery should be handled as a one-time adjustment to customer bills or in the alternative a one-time adjustment to the fuel clause for the remainder of 2018.

ISSUE 11: Should this docket be closed?

OPC: No position.

CONTESTED ISSUES

OPC

ISSUE A: Should FPL be required to separately track and account for costs associated with standby time, mobilization and demobilization work?

OPC: Yes, FPL should be required to track and account for mobilization/demobilization and standby time that is available via contractor invoices. This information would provide critical insight into how FPL is planning and controlling costs before, during, and after storm restoration. FPL should utilize its standard billing template to summarize its mobilization/demobilization and standby time. (Schultz)

5. **STIPULATED ISSUES:**

None at this time.

6. **PENDING MOTIONS:**

None.

7. **STATEMENT OF PARTY'S PENDING REQUESTS OR CLAIMS FOR CONFIDENTIALITY:**

None.

8. **OBJECTIONS TO QUALIFICATION OF WITNESSES AS AN EXPERT:**

None at this time.

9. **STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE:**

There are no requirements of the Order Establishing Procedure with which the Office of Public Counsel cannot comply.

Dated this 2nd day of May, 2018

Respectfully Submitted

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CERTIFICATE OF SERVICE
20160251-EI

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by electronic mail on this 2nd day of May, 2018, to the following:

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