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November 14, 2018

E-PORTAL FILING

Ms. Carlotta Stauffer, Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 20180061-EI – In Re: Petition for Limited Proceeding to Recovery Incremental Storm Restoration Costs by Florida Public Utilities Company.

Dear Ms. Stauffer:

Attached for filing in the above-referenced docket, please find the Prehearing Statement of Florida Public Utilities Company.

Thank you for your assistance with this filing. As always, please don't hesitate to let me know if you have any questions whatsoever.

Kind regards,



Beth Keating
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Cc://Service List

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Limited Proceeding to)
Recover Incremental Storm Restoration Costs)
by FPUC)
_____)

Docket No. 20180061-EI

Filed: November 14, 2018

**FLORIDA PUBLIC UTILITIES COMPANY'S
PREHEARING STATEMENT**

Pursuant to the requirements of the Order on Procedure, Order No. PSC-2018-0404-PCO-EI, Florida Public Utilities Company ("FPUC") hereby submits its Prehearing Statement.

Appearances:

Beth Keating
Gregory M. Munson
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On Behalf of Florida Public Utilities Company

1. Known Witnesses

FPUC intends to offer the testimony of:

Witness	Subject Matter	Issues Numbers
Michael Cassel	Testimony filed on August 20, 2018; Rebuttal testimony filed on November 7, 2018.	1-19
P. Mark Cutshaw	Rebuttal testimony filed on November 7, 2018.	7 - 9

2. Known Exhibits

FPUC intends to sponsor the following exhibits:

Witness	Proffered By	Exhibit No.	Description
<u>Direct</u>			
Michael Cassel	FPUC	MC-1	Storm Cost Recovery

3. Basic Position

FPUC's calculation of its incremental storm costs is correct, and FPUC is entitled to recover the full amount requested. Two major hurricanes, Matthew and Irma, as well as significant, named and unnamed tropical systems, produced significant damage to FPUC's system. FPUC took proactive measures to prepare for these storms in an effort to minimize the impact to its customers, and thereafter, undertook reasonable, prudent, and safe measures to ensure that the impacts of these storms were addressed in an expedited and safe manner. The storm preparations and subsequent recovery efforts required complex logistical efforts, particularly given the unique geography of FPUC's two service territories. Pre-storm activities included not only locating appropriate mutual aid and contract resources, but staging and logistics necessary to ensure that appropriate resources were staged in a safe location but within proximity necessary to ensure a quick, post-storm response. The Company's Northeast Division took a near-direct hit from Hurricane Matthew, resulting in an outage for 100% of the Company's service territory on Amelia Island. Hurricane Irma arrived just a few weeks following Hurricane Harvey and, as a result, recovery resources available to the Company following that event were uniquely constrained. In each instance, FPUC nonetheless took all reasonable and prudent actions

necessary to ensure that it was able to respond appropriately and safely and expeditiously restore service. Other significant weather events, while not rising to the level of hurricanes, nonetheless required coordination and response of the Company in order to ensure the safe restoration of service to its customers in a timely manner. FPUC was, in fact, able to achieve 100% restoration of service to its Amelia Island customers within 48 hours following Hurricane Matthew, and restoration of service to customers following Hurricane Irma within 101 hours. As such, the costs that the Company incurred in pursuit of these efforts were reasonable and prudent and should be allowed for recovery by the Company without adjustment. The adjustments proposed by OPC's witness have no basis in the Rule and should be rejected outright.

Upon determination by the Commission of the appropriate amount of storm costs to be recovered by the Company, the Commission should determine that the Company's storm reserve should be replenished to a level of \$1.5 million, which is the approximate level of the Company's reserve prior to Hurricane Irma.

4. Issues

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

FPUC: FPUC's calculations of costs for this proceeding are based upon the appropriate baseline and calculated in accordance with Rule 25-6.0143, F.A.C. The methodology utilized is the Incremental Cost and Capitalization Methodology, whereby costs charged to cover storm-related damages exclude those costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm, while capital expenditures for the removal, retirement and replacement of damaged facilities charged to cover storm-related damages exclude the normal cost for the removal, retirement and replacement of those facilities in the absence of a storm. In terms of payroll, the Company assigned all overtime incurred during the storm restoration efforts to the storm account. While the Company does not agree that its Minimum Filing Requirements (MFRs) from the 2014 rate

case are the appropriate baseline for any category of cost at issue, the Company cross-checked the regular and overtime pay included in those MFRs, excluding the additional pay increases and positions requested, to ensure that the payroll costs recorded to the storm account exceeded the payroll costs contemplated in the projected 2015 MFRs. (Cassel)

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 that should be approved?

FPUC: Yes. FPUC’s incremental payroll expense in the amount of \$192,490 was reasonably and prudently incurred in storm recovery activities and should be approved for recovery. (Cassel)

ISSUE 3: Is the “extra compensation” included as part of the Inclement Weather Exempt Employee Compensation submitted for recovery by FPUC an allowable cost under Rule 25-6.0143, Florida Administrative Code?

FPUC: Yes. The “extra compensation” in the amount of \$69,632 is compensation that is anticipated, regular pay for salaried employees engaged in storm restoration work as contemplated by the Company’s payroll policy. Such pay does not constitute a bonus or special compensation, which are prohibited under Rule 25-6.0143, F.A.C., as these amounts are specifically contemplated by the Company’s payroll policy and are not otherwise subject to discretion or being withheld based upon performance. (Cassel)

ISSUE 4: What is the proper capitalization rate for labor, benefits and overhead?
[FPUC objects to the inclusion of this issue]

FPUC: FPUC has capitalized costs consistent with Rule 25-6.0143, F.A.C. and applied the appropriate capitalization rate for purposes of determining the amount of capitalized storm costs. There is no basis in the Rule or otherwise for establishing a unique capitalization rate for storm recovery, nor justification for the capitalization utilized in OPC’s calculations. (Cassel)

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?

FPUC: Yes, the benefit costs in the amount of \$38,424 were reasonably and prudently incurred by FPUC in storm-recovery activities and should be approved for recovery. (Cassel)

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?

FPUC: Yes, the overhead costs in the amount of \$22,856 were reasonably and prudently incurred by FPUC in storm-recovery activities and should be approved for recovery. (Cassel)

ISSUE 7: In connection with the restoration of service associated with electric power outages affecting customers as a result of Hurricanes Matthew and Irma, were the contractor rates *of up to \$509 per hour* FPUC paid for storm-recovery activities reasonable and prudent, in incurrence and amount? If not, what amount should be approved? **[FPUC objects to the italicized wording added to this issue]**

FPUC: Yes, the contractor rates paid by FPUC for storm-recovery activities were reasonably and prudently incurred by FPUC for storm-recovery activities. Rates and total costs should be considered on a case-by-case basis and considered within the context of the utility and the storm-recovery efforts encountered. Given the contextual circumstances of FPUC's storm recovery efforts, the rates FPUC paid were appropriate and should be allowed for recovery in full. (Cassel, Cutshaw)

ISSUE 8: In connection with the restoration of service associated with electric power outages affecting customers as a result of Hurricanes Matthew and Irma, were the contractor costs associated with standby time, mobilization time, and demobilization time paid by FPUC for storm-recovery activities reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

FPUC: Yes, the contractor costs associated with standby time, mobilization time, and demobilization time were reasonably and prudently incurred, and paid, by FPUC for service restoration efforts resulting from

Hurricanes Matthew and Irma. There is no basis for any adjustment to these costs. (Cassel, Cutshaw)

ISSUE 9: In undertaking storm-recovery activities associated with Hurricanes Matthew and Irma, were the contractor costs FPUC has included for storm recovery reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

FPUC: Yes, the total amount of contractor costs associated with Hurricanes Matthew and Irma for which FPUC seeks recovery were reasonably and prudently incurred and should be approved. There is no basis for adjustments to these costs for recapitalization and reclassification. (Cassel, Cutshaw)

ISSUE 10: As a result of the evidence in this case, what action should the Florida Public Service Commission take to ensure contractor rates charged to utilities are [*reasonable and prudent/appropriate*]? **[FPUC objects to this issue]**

FPUC: FPUC objects to this issue in that it would contemplate action that extends beyond this docket based solely upon circumstances that may be unique to FPUC and the storm recovery efforts at issue in this case. Recovery of storm costs should be reviewed in context based upon the individual circumstances of the utility in question, the service area, and the storm damage. Moreover, as worded, this issue may present jurisdictional issues that are not appropriately resolved in this proceeding.

ISSUE 11: In connection with the restoration of service associated with storm-related electric power outages affecting customers, were the line clearing costs FPUC included for storm recovery reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

FPUC: FPUC agrees that its initial request for recovery of line clearing costs in the amount of line clearing costs in the amount of \$261,431 should be adjusted downward by \$163,700. 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, and should therefore be approved. (Cassel)

ISSUE 12: In connection with the restoration of service associated with storm-related electric power outages affecting customers, were the vehicle and fuel costs FPUC included for storm recovery reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

FPUC: Yes, the vehicle and fuel costs in the amount of \$34,231 were reasonably and prudently incurred, and paid, by FPUC for service restoration efforts associated with storm-related electric power outages affecting FPUC's customers, and should therefore be approved for recovery without adjustment. (Cassel)

ISSUE 13: Were the material and supply costs FPUC included for storm recovery reasonable and prudently incurred in connection with the restoration of service associated with storm-related electric power outages affecting customers? If not, what adjustments, if any, should be made?

FPUC: Yes, the material and supply costs in the amount of \$89,295 were reasonably and prudently incurred, and paid, by FPUC for service restoration efforts associated with storm-related electric power outages affecting FPUC's customers. These costs are not associated with replenishment of the Company's supplies or inventories or related to capital additions, and should therefore be approved for recovery without adjustment. (Cassel)

ISSUE 14: In connection with the restoration of service associated with storm-related electric power outages affecting customers, were the logistic costs FPUC included for storm recovery reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

FPUC: Yes, the logistics costs in the amount of \$245,705 were reasonably and prudently incurred in accordance with Rule 25-6.0143 (1)(e), and paid, by FPUC for service restoration efforts associated with storm-related electric power outages affecting FPUC's customers, and should therefore be approved for recovery without adjustment. (Cassel)

ISSUE 15: In connection with the restoration of service associated with storm-related electric power outages affecting customers, were the costs identified by FPUC as "Normal Expenses Not Recovered in Base Rates" and included as "other operating expenses" reasonable and prudent, in incurrence and amount? If not, what amount should be approved?

FPUC: Yes, the category of costs identified as "Normal Expenses Not Recovered in Base Rates" in the amount of \$67,548 were reasonably and prudently incurred in accordance with Rule 25-6.0143 (1)(e), and paid, by FPUC for service restoration efforts associated with storm-related electric power outages affecting FPUC's customers. These amounts reflect expenses that were anticipated in base rates, but not recovered as result of the storm outages. As such, these amounts should be approved for recovery without adjustment. (Cassel)

ISSUE 16: What amount should be included in storm recovery to replenish the level of FPUC's storm reserve?

FPUC: The Company's storm reserve should be replenished to its pre-storm level of \$1.5 million from its deficit as of December 31, 2017 of \$661,674. (Cassel)

ISSUE 17: What is the [appropriate/reasonable and prudent] amount of storm-related costs and storm reserve replenishment FPUC is entitled to recover?

FPUC: The Company has revised its request for recovery to exclude certain line clearing costs for a revised total request of \$1,999,523, which is the appropriate amount to recover costs incurred during the 2016-2017 storms and to replenish the Company's storm reserve.

ISSUE 18: Should the Commission approve Florida Public Utility Company's proposed tariff and associated charge?

FPUC: Yes. FPUC's tariff represents the appropriate calculation of the amount necessary to recover the storm-related costs that were appropriately incurred by FPUC and to replenish the Company's storm reserve to the appropriate level. (Cassel)

ISSUE 19: If applicable, how should any under-recovery or over-recovery be handled?

FPUC: 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. (Cassel)

ISSUE 20: Should the docket be closed?

FPUC: This docket should remain open until FPUC's costs are finalized and any over or under-recovery has been determined. Thereafter, the docket should be closed after the appropriate appellate period has concluded.

5. Stipulated Issues

FPUC is not a party to any stipulations at this time, although FPUC is amenable to discussing opportunities to reach stipulations.

6. Pending Motions

FPUC has no pending motions or other matters requiring attention at this time.

7. Pending Confidentiality Requests

None.

8. Objections to Witness Qualifications

FPUC has no objection to the qualifications of any expert witness.

9. Sequestration

FPUC is not requesting sequestration of witnesses.

10. Compliance With Order on Procedure

FPUC believes that this Prehearing Statement fully complies with the requirements of the Order on Procedure.

Docket No. 20180061-EI
November 14, 2018

RESPECTFULLY SUBMITTED this 14th day of November, 2018.



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Attorneys for FPUC

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing Prehearing Statement of Florida Public Utilities Company in the referenced docket has been served by Electronic Mail this 14th day of November, 2018, upon the following:

Rachael Dziechciarz Florida Public Service Commission 2540 Shumard Oak Boulevard Tallahassee, FL 32399-0850 rdziehc@psc.state.fl.us	J.R. Kelly / Virginia Ponder Office of Public Counsel c/o The Florida Legislature 111 W. Madison Street, Room 812 Tallahassee, FL 32399-1400 Ponder.Virginia@leg.state.fl.us
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By: _____



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