



July 31, 2020

VIA ELECTRONIC FILING

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

In re: *Petition by Duke Energy Florida, LLC for Approval of Actual Storm Restoration Costs and Associated Recovery Process Related to Hurricane Michael and Tropical Storm Alberto*; Docket No. 20190110-EI

Dear Mr. Teitzman:

On behalf of Duke Energy Florida, LLC (“DEF”), please find enclosed for electronic filing in the above-referenced docket, the following:

1. Rebuttal Testimony of Jason Cutliffe with Exhibit No.__(JC-1) and Exhibit No.__(JC-2);
2. Rebuttal Testimony of Tom Morris with Composite Exhibit No.__(TM-1); and
3. Rebuttal Testimony of Thomas G. Foster with Exhibit No. __(TGF-1).

Thank you for your assistance in this matter. Please feel free to call me at (813) 227-8114 should you have any questions concerning this filing.

Respectfully,

Shutts & Bowen LLP

/s/ Daniel Hernandez

Daniel Hernandez

Enclosure (as noted)

CERTIFICATE OF SERVICE (DOCKET. NO. 20190110-EI)

I HEREBY CERTIFY that a true and correct copy of the foregoing (with enclosures) has been furnished via electronic mail on July 31, 2020, to all parties of record as indicated below.

/s/ Daniel Hernandez
Attorney

<p>Ashley Weisenfeld / Rachael Dziechciarz Office of General Counsel Florida Public Service Commission 2540 Shumard Oak Blvd. Tallahassee, FL 32399-0850 awaisenf@psc.state.fl.us rdziehc@psc.state.fl.us</p>	<p>J.R. Kelly / Charles J. Rehwinkel Office of Public Counsel c/o The Florida Legislature 111 West Madison St., Room 812 Tallahassee, FL 32399-1400 kelly.jr@leg.state.fl.us rehwinkel.charles@leg.state.fl.us</p>
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**IN RE: PETITION FOR LIMITED PROCEEDING FOR RECOVERY OF
INCREMENTAL STORM RESTORATION COSTS RELATED TO HURRICANE
MICHAEL AND TROPICAL STORM ALBERTO BY DUKE ENERGY
FLORIDA, LLC.**

FPSC DOCKET NO. 20190110-EI

REBUTTAL TESTIMONY OF JASON CUTLIFFE

JULY 31, 2020

1 **I. INTRODUCTION AND QUALIFICATIONS.**

2 **Q. Please state your name and business address.**

3 **A.** My name is Jason Cutliffe. I am employed by Duke Energy Florida, LLC ("DEF" or
4 the "Company"). My business address is 2166 Palmetto St, Clearwater, Florida.

5

6 **Q. Have you previously filed testimony in this docket?**

7 **A.** Yes, I provided direct testimony on November 22, 2019.

8

9 **Q. Has your job description, education, background or professional experience**
10 **changed since that time?**

11 **A.** No.

12

13 **II. PURPOSE AND SUMMARY OF TESTIMONY**

14 **Q. What is the purpose of your testimony?**

1

2 **A.** I am testifying on behalf of the Company in support of recovery of the Company's
3 incremental storm-related costs incurred due to Hurricane Michael and Tropical
4 Storm (“TS”) Alberto. The purpose of my testimony is to provide the Company’s
5 rebuttal of inaccurate assertions and incorrect conclusions in the direct testimony of
6 OPC Witness Schultz, as well as to provide clarifications to certain observations
7 contained in FPSC staff’s process and procedures audit, attached to Witness Vinson’s
8 testimony. Tom Morris will discuss the errors Witness Schultz has made from an
9 accounting and financial aspect. Finally, Geoff Foster will identify and discuss
10 Witness Schultz’s inaccurate assertions regarding the 2017 Settlement Agreement and
11 the Irma Settlement Agreement entered into with intervening parties as a result of
12 DEF’s Hurricane Irma, et al., cost recovery docket, Docket. No. 20170272-EI.

13

14 **Q. Are you sponsoring any exhibits to your testimony?**

15 **A.** Yes. I am sponsoring the following exhibits to my testimony:

- 16 • Exhibit No. __ (JC-1) – Case studies of utility storm responses involving the pre-
17 positioning of restoration personnel.
- 18 • Exhibit No. __ (JC-2) – Excerpts from OPC’s Responses to DEF’s First Set of
19 Interrogatories to OPC.

20

21 **Q. Please summarize your testimony.**

22 **A.** My testimony addresses inaccuracies and mischaracterizations in OPC Witness
23 Schultz direct testimony. Specifically, I will focus my rebuttal testimony on Witness

1 Schultz’s misunderstanding of the storm restoration efforts from an operational
2 standpoint. Based on my three decades of experience in emergency response, I do not
3 agree with Witness Schultz’s positions regarding resource acquisition and pre-
4 staging. I believe that setting a precedent that discourages Florida utilities from
5 proactively engaging resources and pre-staging them as close as safety allows to the
6 forecasted impacts of an approaching storm would have serious negative
7 repercussions for future restoration efforts, to the detriment of all Floridians. I
8 strongly urge this Commission to reject such an invitation, as the harm would
9 inevitably outweigh whatever benefits OPC believes would be gained by such a
10 policy.

11

12 **III. REBUTTAL OF OPC WITNESS SCHULTZ**

13 **Q. On page 11, lines 17 through 19, OPC Witness Schultz recommends a**
14 **mobilization and demobilization disallowance of \$6.1 million due to excessive**
15 **travel time. Were hours charged in line with travel conditions and consistent**
16 **with 2018 contracts?**

17 **A.** Yes, hours charged for mobilization and demobilization were in line with travel
18 conditions and consistent with 2018 payment practice. Vendors in general were paid
19 16 hours per day from the point of origin to the point of destination. The six
20 examples cited by Witness Schultz were all operating under this convention.

- 21 • Page 41, line 14 through 27 (Company AA)
- 22 • Page 43, line 28 through Page 44, line 10 (Company AA)
- 23 • Page 44, line 21 through Page 45, line 8 (Company AA)

- 1 • Page 44, line 9 through 22 (Company BB)
- 2 • Page 44, line 23 through Page 45, line 8 (Company A)
- 3 • Page 56, line 15 through Page 57, line 3¹

4

5 In addition to drive time, mobilization time would also include other activities that
6 take place prior to travel and post-arrival on-boarding activities necessary to prepare
7 crews for work on the DEF grid and to work safely in a hazardous environment.

8 These activities include:

9

10 • Preparing trucks for interstate travel and stocking with material before
11 departure. This is consistent with long-standing industry practice and noted in
12 the Irma Settlement Agreement. Such necessary preparatory work will
13 typically require 2-4 hours.

14

15 • Drive time to assigned muster destination. Travel is difficult to accurately
16 estimate with “blue sky” route planning apps, thus such tools are not a useful
17 reference. Safety dictates that trucks loaded with material and fuel travel
18 slower than light duty vehicles. Road detours are also common and evacuee
19 traffic makes fuel and lodging less available in preferred stopover locations.

20

21 • Upon arrival at mustering location, the arriving crews are on-boarded, which
22 includes validation of rosters, crew compliments (i.e. skill make-up), and

¹ Vendor name is confidential, and thus omitted but can be referenced in Witness Schultz’s confidential testimony at the referenced page and line.

1 specialized equipment. Crews then receive briefings on Safety and DEF
2 Distribution Grid Standards (operating voltage, phase spacing, switching
3 practice). These activities, which are necessary for the Company to accurately
4 account for resources on its system and ensure proper safety practices are
5 followed, typically require 2-3 hours.

- 6
7 • Crews receive their lodging assignment for the evening, eat a meal, check-in,
8 and clock out upon arrival at their place of lodging. These functions typically
9 require 2-3 hours.

10
11 While DEF staff is trained to efficiently administer the on-boarding process for
12 thousands of mutual assistance crews over a very short window of time, non-driving
13 mobilization activities typically require 6-10 hours. A reasonable assessment of
14 mobilization must account for these vital non-driving activities.

15
16 Under 16-hour shift agreements in place in 2018 with contractors, any hours
17 remaining after mobilization was complete were standby hours. I note that this is no
18 longer the case, as DEF's 2020 Scope and Method of Payment agreements limit
19 mobilization pay to hours worked, as required by the Irma Settlement Agreement that
20 was entered into after DEF incurred the Hurricane Michael costs.

21

1 When the full scope of mobilization is considered, including hazards and
2 impediments to travel, mobilization and demobilization times are in line with
3 expectations and were invoiced appropriately.
4

5 **Q. On page 40, lines 2-7, Witness Schultz discusses “wasteful standby time” and his**
6 **opinion that it is “not reasonable to expect ratepayers to have to pay for**
7 **contractors to just sit around or to have those costs dumped into an upfront cost**
8 **recovery process that does not impose any burden on the utility to protect**
9 **customers from overpayments.” How do you respond to his criticism?**

10 A. I agree that “wasteful standby time” should be, and is avoided, but I disagree with the
11 characterizations of contractors “just sitting around” and that DEF did not protect
12 customers from overpayments. Based on my three decades experience in storm
13 response planning, coordinating, managing, resourcing, or contracting,² Witness
14 Schultz’s assertions regarding what is required to “restore service within the shortest
15 time practicable consistent with safety”³ after a major storm event are fundamentally
16 flawed. Consistent with lessons learned from Hurricane Irma, crews were mobilized
17 to be safely in position east of the hurricane track just prior to expected landfall and
18 payment was authorized to begin when they started preparation for travel.⁴ Contrary
19 to Witness Schultz’s belief, it would be imprudent and severely hamper the
20 Company’s storm response if contractors were not asked to begin traveling until

² To contrast my experience in these activities, according to Witness Schultz’s discovery responses, he does not have similar experience. See OPC’s response to DEF’s First Set of Interrogatories, nos. 18-22.

³ See Rule 25-6.044(3), F.A.C.

⁴ Payment does not begin when contractors begin actually traveling, as Witness Schultz believes should occur, because these resources have to prepare to travel, as discussed above, and DEF is rightfully obligated to pay for their time to do so. See OPC’s response to DEF’s First Set of Interrogatories, no. 26 (“contractors will require payment when they begin their response by traveling to the Company.”).

1 “either the day prior to the anticipated impact or the day of the storm.”⁵ I will discuss
2 this point in further detail later in my testimony.

3

4 When the repercussions of failing to preposition resources prior to impact are
5 considered, it becomes readily apparent that some time will be spent safely sheltering
6 in place and waiting for the storm to pass so damage assessment and restoration can
7 begin as soon as safe to do so – this is not “wasteful” – it is necessary. That said,
8 DEF minimized down time following mobilization by authorizing mobilization as late
9 as practical while still meeting the arrival and safety objectives stated above. Since
10 the timing of landfall was uncertain when the mobilization decision had to be made,
11 some crews arrived “just in time” and others arrived with a limited number of
12 “standby” hours left in the day. Compared to the cost and delay of being caught in
13 the hurricane’s path, these “standby” hours were minimal and prudent.

14

15 **Q. Witness Schultz’s testimony suggests DEF “selectively used the Settlement**
16 **Agreement”⁶ by, among other things, “not bas[ing payment for]**
17 **mobilization/demobilization using actual travel time”⁷ Did DEF consider**
18 **the Settlement Agreement in Hurricane Michael contracts?**

19 **A.** No, it did not and could not do so. The Irma Settlement Agreement was negotiated
20 and executed after Hurricane Michael. While some provisions of the Irma Settlement
21 Agreement can be applied retroactively, and it makes sense to do so, others like
22 vendor contracts could not be unilaterally amended, and certainly not after the

⁵ See OPC’s response to DEF’s First Set of Interrogatories, no. 25(b).

⁶ Schultz, p. 16, ll. 11-12.

⁷ See OPC’s response to DEF’s First Set of Interrogatories, no. 29.

1 vendors had performed pursuant to those contracts. If Witness Schultz is implying
2 the contracts themselves were imprudent, I would respond that they were in line with
3 the industry standard and, thus, prudent. DEF only affirmatively agreed to break
4 from that industry standard when it entered into the Irma Settlement Agreement.

5
6 **Q. OPC Witness Schultz’ testimony on page 38, lines 5 through 8 suggests that**
7 **Florida ratepayers are subsidizing the ratepayers in other states. Did DEF**
8 **customers subsidize ratepayers in North Carolina?**

9 **A.** No. Our resource plan is scalable and continuously checked and adjusted. Based on
10 Hurricane Michael’s track, states to the north of Florida⁸ were impacted later and had
11 a need for the crews DEF released. All releases were coordinated through the
12 established SEE mutual assistance process. The requesting utility ultimately paid for
13 demobilization. Over the course of Hurricane Michael restoration, DEF released
14 1,602 personnel who were claimed by other utilities thereby saving \$3.5M in
15 demobilization costs. Duke Energy Carolinas acquired 42% of DEF releases, the
16 remaining 58% were acquired by other SEE utilities in Florida, Georgia, and South
17 Carolina. These releases also included Companies V, G, and N referenced in OPC
18 Witness Schultz’ testimony on page 38, lines 9-18.

19
20 **Q. On page 10, lines 16-20, Witness Schultz compares DEF’s resource acquisition**
21 **timing to FPUC and suggests that proactive mobilization should be minimized.**

⁸ This reinforces a point made above – DEF and Florida utilities were not the only utilities attempting to secure resources prior to Michael’s impact. Thus, delaying resource acquisition until the day prior to or day of impact could have materially impacted DEF’s ability to acquire needed resources.

1 **OPC’s responses to discovery make a similar assertion.⁹ Is it beneficial to**
2 **acquire resources prior to landfall?**

3 A. While I am unfamiliar with FPUC’s experience post-Michael, and am not offering an
4 opinion on it, yes, experience shows that pre-landfall resource acquisition is
5 beneficial provided the utility has mature logistics support and operational processes
6 to quickly engage mutual assistance resources in restoration work. Proactive
7 acquisition of resources is an integral part of DEF’s hurricane plan, a well-established
8 industry best practice, and a hedge against uncertain hurricane forecasts (timing and
9 location); when combined with strong logistics and operational procedures, acquiring
10 resources prior to landfall will minimize restoration time.

11
12 During a hurricane state of emergency, communities suffer economic loss and deal
13 with threats to public health and safety. For these reasons, DEF’s primary objective
14 in storm response is the safest, fastest, most transparent restoration that is also
15 managed responsibly from a cost perspective as required by Commission Rule 25-
16 6.044(3). DEF does not believe the desire to minimize costs should hamper
17 restoration efforts and unnecessarily extend outage durations.

18
19 DEF believes this point was made clear in the Order approving the Irma Settlement
20 Agreement, where the Commission highlighted that “DEF advised that all parties are
21 in agreement regarding DEF’s primary objective following a storm, which is power

⁹ See OPC responses to DEF’s First Set of Interrogatories, nos. 23-25.

1 restoration to its customers, and that ‘the company will not allow the policies and
2 procedures to impede speedy power restoration for its customers.’ ”¹⁰

3

4 **Q. Is pre-staging restoration crews part of DEF’s hurricane plan, and is the
5 practice supported by industry experience and regulator guidance?**

6 A. Yes, as summarized by case studies in Exhibit No. __ (JC-1) and provided the utility
7 can make efficient use of the resources, as DEF did, through mature logistics support
8 and operational processes to immediately engage the crews in restoration work.

9

10 DEF’s mature logistics support enabled housing of the crews east of the hurricane’s
11 forecasted track. Partnership with county and state road clearing crews contributed to
12 opening travel as soon as possible for utility restoration workers and other first
13 responders. The Assess, Isolate, and Restore (“AIR”) process enabled mutual
14 assistance crews to begin productive restoration work almost immediately. AIR
15 provides a means to restore circuit backbones in the first 24-48 hours. Energizing
16 backbones yields many restoration benefits including the rapid identification of
17 second stage fuse work locations where mutual assistance crews are most effective
18 and can be immediately engaged. Failure to pre-stage contractor resources would
19 unnecessarily delay this process.

20

21 **Q. Did pre-positioning resources reduce DEF’s overall restoration time in
22 Hurricane Michael?**

¹⁰ PSC Order No. 2019-0232-AS-EI, p. 4.

1 A. Yes. Rebuilding and repairing the electric grid after a hurricane requires resources an
2 order of magnitude beyond native staffing. Not only must the area and extent of
3 direct damage be considered, but also the hurricane's subsequent path and its effect
4 on travel to the state, access to the area of damage, and availability of remaining
5 resources. Securing, mobilizing, on-boarding, and strategically locating mutual
6 assistance crews takes several days and must be initiated before weather impact is
7 certain. Detailed forecast data and advanced modeling tools are used, tools developed
8 and continuously improved through years of experience. While decisions must be
9 made without the luxury of hindsight, the consequences of inaction are enormous and
10 well documented.

11
12 Analysis in Exhibit No. __ (JC-1) shows that failure to pre-position resources would
13 have extended Hurricane Michael restoration time, resulting in 23% more customer
14 outage hours if DEF waited until landfall and 47% more customer outage hours if
15 DEF waited for first damage reports. Restoration of the last customers would also be
16 extended by at least 1-2 days. Failure to pre-position would also degrade the
17 accuracy of Estimated Times of Restoration ("ETRs") which are vital to community
18 first responders who are managing threats to public health and safety, and to
19 customers who evacuated and are seeking to return home. ETRs are the product of a
20 combination of estimated repair man-hours and resources available to do the work.
21 When available resources are in place and engaged in work, the resulting ETRs are
22 far more accurate than when acquisition and mobilization uncertainties must be
23 included.

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Q. How is DEF’s resource plan developed?

A. Resource plan commitments must be made far enough in advance to allow mobilization to strategically place mustering sites, sometimes 48-72 hours before expected landfall. The timing of crew mobilization is based on getting resources into position before driving conditions deteriorate and crew safety is endangered. The resource plan is continuously checked and adjusted as information becomes more certain. Adjustments can include both additions and releases of resources.

Predictive damage modeling provides a target number of resources and is the basis for mutual assistance requests. Some committed crews were moved into position and strategically staged east of the hurricane’s path, while others were instructed to prepare for travel and await further instructions. The resource plan covers many risks including early hurricane arrival, strengthening (as Michael quickly did, attaining category 5 status at landfall), track shifts, widening of wind field, tornados, and flooding. These risks are mitigated by the number of resources secured, skill type (e.g., line, tree, damage assessment), pre-position location, and if not pre-positioned, the influence of the hurricane on post-landfall highway travel. These decisions are made, by necessity, with imperfect forecast information. Planning accounts for many risks, some that happened (strengthening to category 5) and some that did not (landfall 12 hours sooner than forecast). Precise knowledge of landfall timing, location, and strength are luxuries of hindsight that DEF did not enjoy. Witness Schultz’s assumptions about resource availability at reasonable cost at or just before

1 landfall are not accurate, especially when the storm is forecasted to impact multiple
2 utilities across multiple states. The scalable resource plan was continually adjusted as
3 knowledge of Hurricane Michael improved, up to and including initial damage
4 reports the day after landfall. Adjustments (releases and additions) are purposeful.
5 Crews retained are those known to be closest, lower cost, most efficient, and match
6 the quantities and skills for damage. Release of the contractor crews referenced by
7 Witness Schultz on page 57, lines 4-13, is a good example, as discussed below.
8 Knowledge of which vendors are likely to be picked up by other utilities is also a
9 factor in releases, as DEF avoids paying demobilization costs when vendors are
10 picked up by other utilities.

11

12 Total resource commitments for Hurricane Michael were 3,948. Through continuous
13 and timely adjustments to DEF's resource plan, 1,602 were picked up by other
14 utilities, including 784 released prior to travel that did not invoice DEF for any part of
15 mobilization. In total \$3.5M in demobilization cost was avoided. By acting early and
16 adjusting its resource plan, DEF is in position to mitigate many weather and logistics
17 risks while minimizing demobilization costs. Waiting longer to secure resources
18 means crews available will be fewer, a greater distance away, and not ready to begin
19 restoration immediately. DEF must also consider the risk of another major storm
20 arriving while restoration for the first is underway. Every day restoration is extended
21 increases the risk, and Hurricane Michael is an example of how fast a category 5
22 hurricane can go from formation to landfall.

23

1 **Q. On page 57, lines 4 through 13, Witness Schultz recommends a disallowance of**
2 **\$430,524 for contractor crews released before restoration work began. Does a**
3 **prudent resource plan include crew releases as confidence in hurricane track**
4 **and damage improve?**

5 A. Yes, it does. As confidence in Hurricane Michael’s track improved and initial
6 damage reports were received, the resource plan discussed above was checked and
7 adjusted. The referenced crews were secured for damage that could have happened
8 but did not. Once DEF adjusted its tree crew needs to match damage, retaining the
9 referenced crews would have added unnecessary cost. Witness Schultz also questions
10 the sequence of releases. Of the seven crews acquired, the five most expensive “off-
11 system” crews were released to Georgia Power on October 9th. The two less
12 expensive “on-system” crews were retained and ultimately released to Duke Energy
13 Carolinas on October 11th. Consequently, \$430,524 should not be disallowed as
14 Witness Schultz contends.

15

16 **IV. CLARIFICATIONS REGARDING PSC FINANCIAL PROCESS AUDIT**

17 **Q. PSC Staff completed a financial process audit for Hurricane Michael, are there**
18 **any observations that require clarification?**

19 A. Yes, of the nine observations three merit clarification.

20

21 **Q. Please list what observations require clarification and explain the clarifications.**

1 A. “Observation #4: Commission audit staff notes that DEF’s efforts to limit standby
2 time may reduce costs, but the efforts could also be advanced by executing contracts
3 on more favorable terms prior to the storm season.”

4
5 DEF believes contracts executed prior to storm season assure the most favorable
6 terms. In 2018, over 90 vendor agreements were in place prior to hurricane season,
7 and in 2020, DEF is executing over 100 annual agreements for over 20,000 skilled
8 personnel. These Scope and Method of Payment (“SMP”) agreements include all
9 cost saving measures we believe the market will bear, including provisions
10 documented in the Irma Settlement Agreement. It should be noted that these
11 contracts do not compel either party to act when requested. Vendors can execute
12 SMP agreements with multiple electric utilities, compare terms, and choose which
13 hurricane restoration requests to accept.

14
15 “Observation #5: In response to DEF’s 2019 Settlement Agreement, the Company
16 has clarified supplier agreements to remove minimum hours and implemented
17 procedures to minimize double-time pay. Commission audit staff notes that DEF still
18 has no written procedure for distribution operations to prohibit minimum hours and
19 should address this remaining issue.”

20
21 As noted, minimum hours were removed by negotiation from supplier agreements
22 executed prior to storm season and DEF has implemented procedures to minimize
23 double-time pay. Presuming the second sentence of observation #5 refers to suppliers

1 not under prior agreement, every hurricane event is unique and best handled case-by-
2 case. Minimum hours are one of many compensation terms. It would be short-
3 sighted for DEF to unilaterally “prohibit” minimum hours prior to negotiation as it
4 could raise overall cost or limit availability of resources. Whether defined in supplier
5 agreements or not, DEF diligently monitors the number of resources engaged.
6 Scalable resource plans are checked and adjusted based on each day’s forecast and
7 progress; this process is also a check on incurring costs for unproductive time.

8
9 “Observation #7: In response to DEF’s 2019 Settlement Agreement for the 2020
10 storm season, DEF will direct its vendors to use centralized Company-provided
11 lodging, meal, and fueling services, where practicable. Also, DEF will not reimburse
12 vendors for expenses that do not comply with this policy. Commission audit staff
13 believes DEF should also require documentation of approval for non-company
14 provided services in efforts to reduce logistics costs.”

15
16 Response: Exceptions to Company-provided services will be approved and logged,
17 thus, there will be documentation of approved exceptions. This is covered fully by
18 the Irma Settlement Agreement and DEF included the requirements in 2020 Scope
19 and Method of Payment contracts.

20

21 **V. CONCLUSION**


22 **Q. Are there any additional points you would like to discuss?**

1 **A.** No, but while I have discussed what I believe to be the points within my field of
2 expertise that most warrant discussion, the fact that I did not address any particular
3 point raised by Witness Schultz should not be understood as agreement.

4

5 **Q.** **Does this conclude your testimony?**

6 **A.** Yes.



Proactive Engagement of Mutual Assistance Crews to Restore Power After Major Weather Events

Case Studies

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Introduction

The US is experiencing a greater number of extreme weather events requiring electric transmission and distribution companies to be prepared to respond safely, quickly, and prudently against ever-rising expectations from customers and regulators. One continually improving practice used to expedite restoration is mutual assistance; bringing foreign crews onto the system to increase the number of person-hours of work possible each day. The following document illustrates instances of successful implementation of mutual assistance as well as restorations that have received criticism for delayed requests for support resulting in longer outage times for customers and less accurate estimated times of restoration. Please note throughout this document “mutual assistance” is used, however, some sources referenced use the term “mutual aid” interchangeably. Similarly, the term “crew” can mean a vehicle staffed with several people but is used herein to mean an individual person.

The relative cost of acting early to bring in mutual assistance is small compared to the financial and other costs to customers. Mutual assistance is an investment against the societal cost of an extended outage. There is an expense of bringing assisting crews even if they go unused, but if the utility company is without assistance when needed, the risks quickly outweigh the expense. What is risked in such an investment if the hazard dissipates is outweighed significantly by the payoff of what is gained when mutual assistance is needed. Delay or hesitation in requesting mutual assistance prior to major events causes utilities to:

- Bring resources from further away since other utilities have secured those that may be in closer proximity,
- Remain without adequate number of crews for restoration,
- Extend overall outage duration to the customers (or portion of the customers),
- Not meet customer and regulatory commitments,
- Incur safety risks, and
- Create a negative economic impact for the communities they serve.

While some sudden events like earthquakes and derechos occur without warning, tropical storms typically develop offshore, providing utilities a several days’ notice to prepare for a likely need for additional staffing. Recognizing the advantages of a timely restoration, public sentiment and regulatory guidance has moved in the direction of utilizing mutual assistance resources and positioning them ahead of time to get the restoration started quickly.

Mutual Assistance in Florida

Following Hurricane Irma in 2017, the FPSC conducted a review resulting in the report *Review of Florida’s Electric Utility Hurricane Preparedness and Restoration Actions* published in the summer of 2018. The document includes discussions regarding the consideration of requesting mutual aid, pre-staging, and halting work until conditions are safe:

“In an actual hurricane, utilities may initiate pre-staging meetings and activities as early as 240 hours before landfall which may include requests for mutual aid [assistance]. IOUs communicate with county EOCs to identify critical facilities (i.e., hospitals, water and wastewater treatment plants, and fire stations) and coordinate on other restoration activities.

Before a storm makes landfall, an assessment of potential damage is completed by utilities based on the forecasted path of the storm. This information can be used to determine if mutual aid [assistance] and additional material resources should be requested.

As the storm approaches, repair activities will continue until winds reach 35-40 miles per hour, at which time crews will be called back for a stand-down period. Once winds drop below 35-40 miles per hour and weather conditions are considered to be safe following a storm, utility crews are re-deployed to continue the restoration process.”

Utilizing mutual assistance to bring staffing up to match extraordinary needs, and pre-staging them to be able to begin recovering quickly and safely from the emergency has been established and documented as the standard not only within the state of Florida but across the United States.

The Evolution of Mutual Assistance

Rapid restoration is more crucial and more challenging than ever before. In addition to a meteorological trend of major storms occurring more frequently, customer and regulator expectations are rising with increased dependence on electricity to support safe society, communications, business, and day-to-day life. Over the past decade, electric companies have adopted “lean management” strategies. These minimize the number of full-time employees within the company to minimize spend. Dependence on outside assistance has become the standard for facing major outage events.

With each successive major outage, the industry is exercising processes and procedures to enable quick and efficient restorations, drawing lessons from each event to share and refine the approach. Climate conditions have provided ample opportunity to learn over the last 30 years and approaches to restoration have evolved as a result.

In 1992, Hurricane Andrew hit Florida causing significant damage and interrupting power to 1.4 million customers. The restoration took months to complete.

Ice events in Quebec and the Carolinas in 1998 and 2002 took multiple weeks each to restore and were remarkable in that utilities across the US and Canada pooled resources to help the affected companies get back on their feet in four weeks (Quebec) and two weeks (Carolinas), respectively. The hurricane season of 2004 gave Florida ample opportunity to practice with hurricanes Charley, Francis, Ivan, and Jeanne. The quick restorations garnered support from the ratepayers and the age of Mutual Assistance had certainly arrived..

Between 2005 and 2016, there have been many opportunities to exercise mutual assistance and major restorations, establishing Regional Mutual Assistance Groups (RMAGs) to exchange resources. In 2013, the EEI created a National Response Event that established a process for utilities to share resources fairly after resource allocation challenges in Hurricane Sandy. Companies refined their approach to storm response, such as where to park trucks and house people, how to identify the scope of damage and keep valuable resources fully utilized, how to communicate accurate and useful information to customers, and how to do all of this safely and in a fiscally responsible manner.

By 2017, many utilities had developed mature processes, and Florida utilities in particular, were well versed in restorations. Following a relatively uneventful summer, hurricane Irma arrived and put Florida utilities to the test. Forecasts called for a strong system to run up the west coast of Florida, maintaining strength over the water while dragging strong winds along its right side along the coast of Florida. Utilities recognized the threat and secured resources but were faced with the issue of where to position them. The entire peninsula of Florida was threatened, with a slightly better prognosis on the Atlantic coast, as long as the storm did not shift east from its path. Uncertain about where to safely house crews, many waited just out of state or along Florida's panhandle for the storm to pass before proceeding to join the restoration effort. This proved more difficult than anticipated, as the state was evacuating people north and several roads were blocked or damaged. Duke Energy Florida (DEF) executed the largest single restoration effort in its history, and collectively Florida utilities brought 50,000 people into the state to help with restoration, which was completed in under two weeks despite the breadth and extent of the damage. Not having the resources in the right place to react quickly was identified as an area for improvement.

In 2018, DEF was faced with little advance warning for Hurricane Michael. Forming on October 7, it was forecast to clip the edge of DEF's service territory on October 10th. DEF monitored the system and began calling in mutual assistance support on October 8th. Heeding the lessons of Hurricane Irma, crews were directed to muster to the east of the storm's path and were able to begin movement toward the affected region after the storm passed on the afternoon of the 10th, getting to work on the morning of the 11th. While Hurricane Andrew took months to

restore 28 years prior, Michael was restored within a week with the exception of one coastal area that had to be completely rebuilt, and Michael was in fact a stronger storm at landfall.

Case Studies

The following includes several real-world case studies from the last two decades, describing the importance and challenges that utilities face in obtaining and managing mutual assistance in advance and during major storms. The focus of these case studies is on industry lessons learned and not on the specific utility's performance, therefore the names of the utilities and identifying details have been omitted.

Hurricane Katrina and Hurricane Rita

Certain forecasts for back to back hurricanes create an opportunity for pre-positioning crews

The Gulf Coast was hit by Katrina as a Category 4 hurricane with sustained winds of 140 mph. In its wake, less than a month later, Rita, a Category 3 hurricane left massive destruction, including major damage to the transmission system affecting several states.

The areas impacted by these storms overlapped putting utilities in competition for human and material resources. As the second storm, Rita, approached, availability of crews was low, thus responding utilities could only recover quickly by strategically pre-positioning the crews which allowed thin numbers of people to maximize their effectiveness.

In this instance there was never a question to pull in as much mutual assistance as possible, this restoration would require an army to rebuild the system. There was a high level of certainty in the forecast as these storms approached the service territory. An illustrative quote before landfall from Max Mayfield of the National Hurricane Center was, "There's certainly a chance it can weaken a bit before it gets to the coast, but unfortunately this is so large and so powerful that it's a little bit like the difference between being run over by an 18-wheeler or a freight train. Neither prospect is good."

The company was challenged to use all available crews to their best advantage. Pre-positioning them to increase efficacy was critical. The company sustained the worst damage of its system in history restoring six times as many outages as they had ever previously done. They brought in 16,000 workers to help restore power as quickly as possible.

The logistics of base camps, fueling, safety, and morale throughout the restoration were critical to utilize the 16,000 people working on the system to restore electricity. Thankfully, the company had pre-planned many of these logistics and contracts and were able to execute to the plan despite many hurdles including flooding, and outages of company facilities.

These camps were built to house, feed, fuel, and clean crews. Caterers prepared breakfast by six a.m. and packed box lunches for the crews to take out. Security was also a consideration given civil unrest and inoculations from mosquito-borne illnesses that were likely in the flooded areas. Communications systems were out of service making internal communications, customer communications, as well as vendors for invoicing was very difficult.

2011 Snowstorm

One utility was compared negatively to two neighboring utilities because they requested crews 3.5 hours later.

A major snowstorm hit the Mid-Atlantic region causing widespread outages across three neighboring utilities. Utility A secured internal crews to travel north plus 200 mutual assistance crews, and Utility B called for about 400 crews to assist by the afternoon before the snow began that evening.

Utility C held out on calling for mutual assistance until the evening as snow and ice was falling because the weather forecast had been uncertain and shifting. There was a strong possibility that there would be only rain and they did not want to call in crews they may not use and incur unnecessary costs. As the storm passed through the area, the worst possible weather under the circumstances materialized; windy with wet, icy snow weighing heavily on lines and overhanging tree limbs.

The media approach to covering the outage was to show outage numbers as a race between the utilities to restore, despite the fact that the storm hit each service territory differently, density of customers was different, roads cleared and other factors make it difficult to compare the utilities fairly.

Throughout the restoration, Utility C trailed the other two utilities while the media called out their lack of preparation related to delaying the decision to acquire off-system crews for assistance. Customers became irate as Utility C said they would have everyone restored by the evening four days after the storm cleared, and still had storm-related outages five days after the storm had cleared. Meanwhile Utility B was completed by the night three days after the storm cleared and Utility A in just two days.

In the wake of this storm and a subsequent major storm that materialized quickly, the commission requested studies to analyze what it would be required to restore any storm in one to four days. Owing to the sheer number of resources that would be required to restore major outages in very short timeframes, one runs into practical constraints of the number of

personnel that can be managed safely and kept productive in the field by a host utility, and that crews would have to be sourced from increasingly large distances as the size of the response increases, requiring decision making to pull resources well ahead of landfall when forecasts are uncertain. While utility customers have little appetite for outage events that take over a week to restore, it is generally understood that it is not practical to restore major outage events in much less than a week.

Hurricane Sandy

Utility implemented improvements from lessons learned

Hurricane Sandy followed by wintry weather caused 625,000 outages in this utility's service territory. Reports released by the US Department of Energy showed that this was the hardest area hit by the storm and one of the longest restorations taking a total of 12 days.

Sandy was the third record-setting storm causing significant outages in this company's service territory in two years. The company had received criticism and significant negative consequences from the commission as a result of the response to the first two storms. Based on the lessons learned from those storms, they were able to make major improvements to their response plan and implemented them in this response with much success.

In a post-storm assessment, the regulators found that the company had performed "in a generally acceptable manner" despite major system devastation. They praised the company for major improvements in communications to customers, government, and media. They recognized that the utility had challenges somewhat beyond their control to attain the mutual assistance they had requested.

The utility took steps to prepare and acquire resources ahead of the storm. They secured contractors and placed all internal personnel on-call. While they showed considerable effort to acquire mutual assistance, this storm hit a large section of the country, and many utilities were planning for the worst and pulling all resources available in advance of the storm planning to release them to other utilities if they were not required. Competition for mutual assistance was high. The utility was allocated approximately 2,000 crews they requested, but it came in from distant utilities, delaying their arrival time.

Hurricane Sandy

Utility attained and managed crews from 30+ states

Hurricane Sandy was forecasted to be strong, but the actual impact was even more significant than predicted. It devastated communities across the northeast including record-setting flood impacts and sustained high winds. 1.4 million customers of the utility lost power between this

storm and the snowstorm that struck just days into the initial restoration. This constituted four times as many outages as the utility had ever experienced.

During the two weeks that followed, the utility managed one of the largest restoration efforts in history. In addition to thousands of internal employees, they brought in external overhead and underground crews from 30 states and two Canadian provinces. A total external workforce of over 6,000 people worked on the system including base-camp mutual assistance workers, contracted electricians, damage assessors, and wire guards.

NY Scorecard

As a result of Hurricane Sandy, the New York Public Service Commission developed the reliability scorecard to objectively hold utilities accountable to a standard. These metrics establish minimum levels of performance to assess utility restoration performance against after significant outage events. Many utilities have been referring to these metrics to define success.

The scorecard assigns metrics and points to three categories: preparation, 150 points; operational response, 550 points; and communications, 300 points. Of the 1000 points available 60 are directly related to mutual assistance. At least 380 points (and arguably more) are not directly tied to mutual assistance but they will not be possible to attain without full staffing:

- Employees/Contractors planning – 15 points
- Participation in all pre-event mutual assistance group calls – 15 points
- Crew requests made within a specific time depending on length of event – 20 points

Other sections that may be affected by insufficient staffing if mutual assistance is not secured in a timely manner:

- Preliminary damage assessment completed within 24 hours – 30 points
- Publication of various levels of detail in ETRs – 150 points
- ETR Accuracy at various levels of detail- 120 points
- Zero injuries – 80 points

Hurricane Irma

Large storm causes massive damage, but restoration was off to a quick start with mutual assistance

Hurricane Irma made landfall true to forecasts as a Category 4 storm with sustained winds of 130 miles per hour causing widespread outages from. It brought extreme winds, storm surge,

and tornadoes. The entire Florida peninsula was hit hard affecting approximately 50 utilities (including municipal utilities and co-ops) across the state.

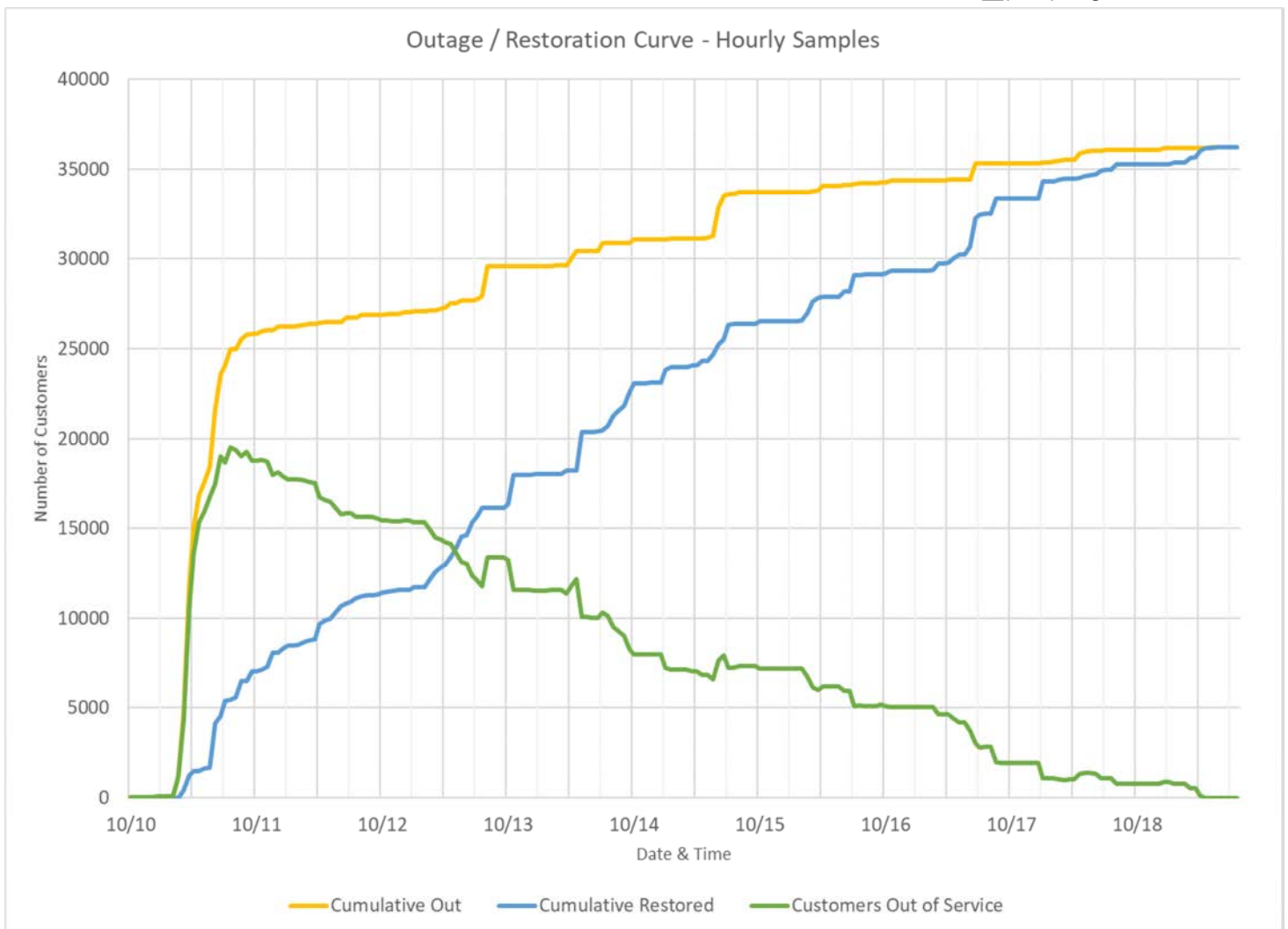
The storm caused about three quarters (approximately 1.2 million) of Utility 1's customers to lose power. By mid-day of next day, 100,000 customers were already restored. Mutual assistance was critical for rapid restoration of power after this hurricane. In order to make progress this quickly, a workforce (internal and external) of over 9,000 crews were used.

Utility 2 notably ran a restoration using 28,000 people including internal and external crews. Across the state, there were an estimated 50,000 mutual assistance and contract crews from across the country helping to restore the system. Despite their success and speed in restoration, the utility has faced criticism that they had difficulty tracking the expenses of so many different crews. Utility 2 has since developed an app that will help the process of tracking costs. There were also comments that crews that had not been in place ahead of the storm had problems getting into the state due to storm debris and damage. It was noted that doing more pre-staging in the future and calling crews even earlier could mitigate the need to travel after the storm.

Scenario Analysis

The Impact of Mutual Assistance Timing

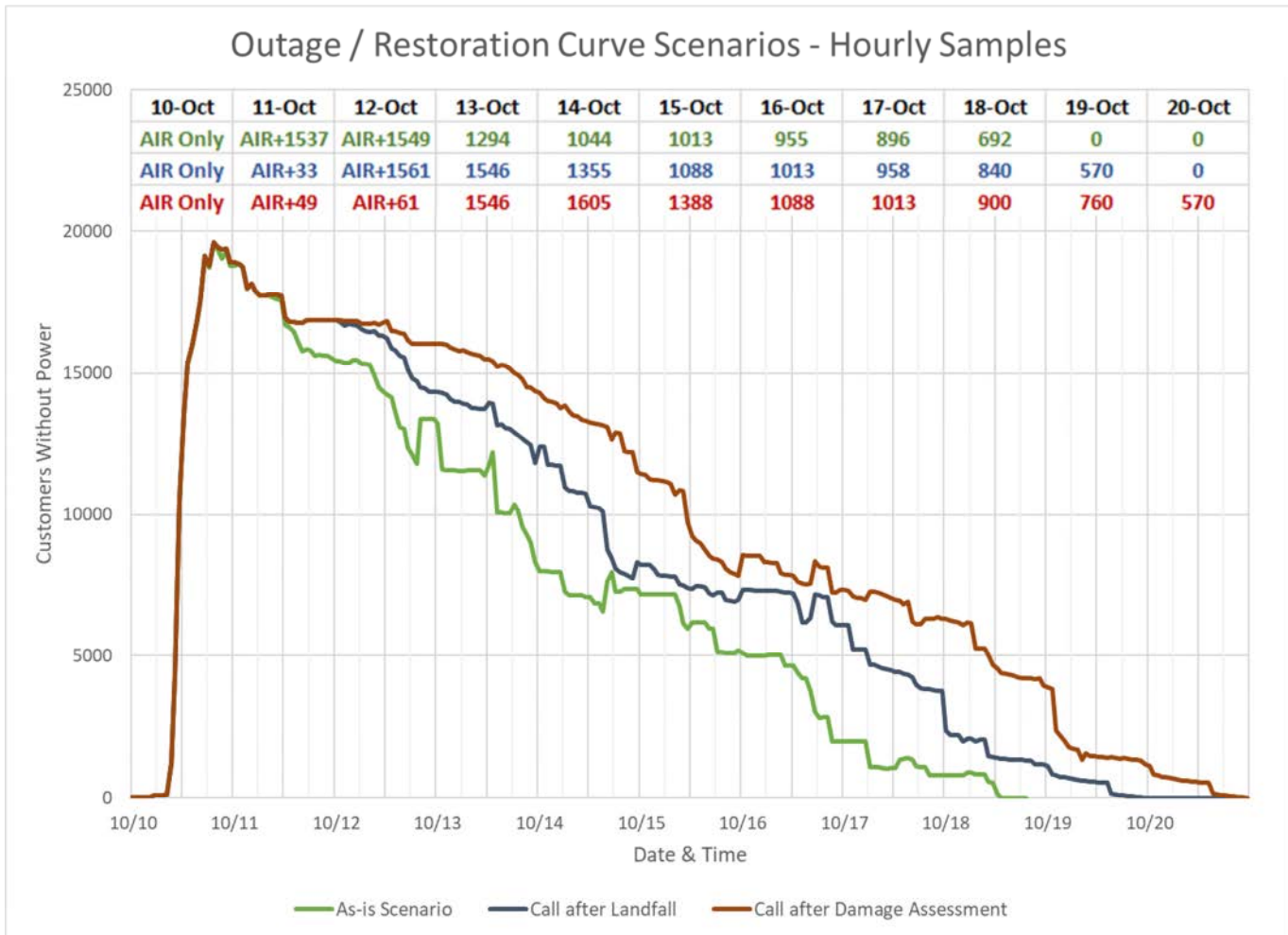
Major weather events generate a volume of work which far exceeds a utility's capacity to address all damage locations simultaneously. As illustrated by the yellow line below, the majority of outages occur as the storm passes through, but additional outages occur later, primarily due to weakened infrastructure or trees near the infrastructure. The many damage locations represent a volume of work required to repair lines and restore customers, and the pace at which the workforce consumes that fixed volume, represented by the blue line, is a function of the size of the workforce and the support organization's ability to keep the workforce focused on productive work. The difference between these lines, represented by the green line, indicates the number of customers out at each point in time, with the height of the line showing the ongoing size of the outage, and the area under the curve representing the total customer hours of interruption.



The diagram above is the actual restoration curve for DEF following Hurricane Michael. The gains on October 11th are largely a function of DEF’s AIR (Assess, Isolate, Restore) process which capitalizes on opportunities for quick restorations performed by DEF crews that do not require repairs, and sets the table for mutual assistance resources to perform restorations with a simplified safety process. Prioritization in the earliest hours of the restoration focus on energizing critical facilities such as water treatment plants and hospitals, and the types of services such as gas stations and big box stores that enable citizens to support themselves as the restoration is ongoing. These restorations, enabled by the AIR process, can be carried out by mutual assistance crews and are generally complete by the time outages have been reduced by 25% from the peak. As these key facilities are brought back online, and as damage assessment data starts to flow in, work optimization shifts its focus to restoring the maximum number of customers per hour of wrench time, and for operational efficiency.

Pre-positioning mutual assistance resources ensures that DEF can make the journey to 25% of customers restored expeditiously. Using the restoration and workforce statistics from

Hurricane Michael, following are two projected alternate restoration curves, 1) where DEF puts out the call for mutual assistance the morning of October 10 when they are absolutely confident that the storm will hit their territory hard, and 2) where they wait until the morning of October 11 when they have had the opportunity to perform an initial assessment of damage.



This analysis shows delaying the start of the largest portion of the workforce by one or two days extends the completion of the restoration by a similar amount. What is more significant, however, is the extension of the period between the outage peak and the restoration of the first 25%, along with the essential services that are typically covered in that critical period. Similarly, the overall impact of the outage in customer-hours is increased from 1.7 million to 2.1 million by waiting until the morning of the 10th to request resources, and up to 2.5 million by waiting until the morning after the storm hits.

In addition to delaying key portions of the restoration, waiting for resources to arrive hinders utilities' ability to predict estimated times of restoration (ETR) with confidence. Calculating ETRs is a matter of estimating the amount of labor required to repair all damage locations and

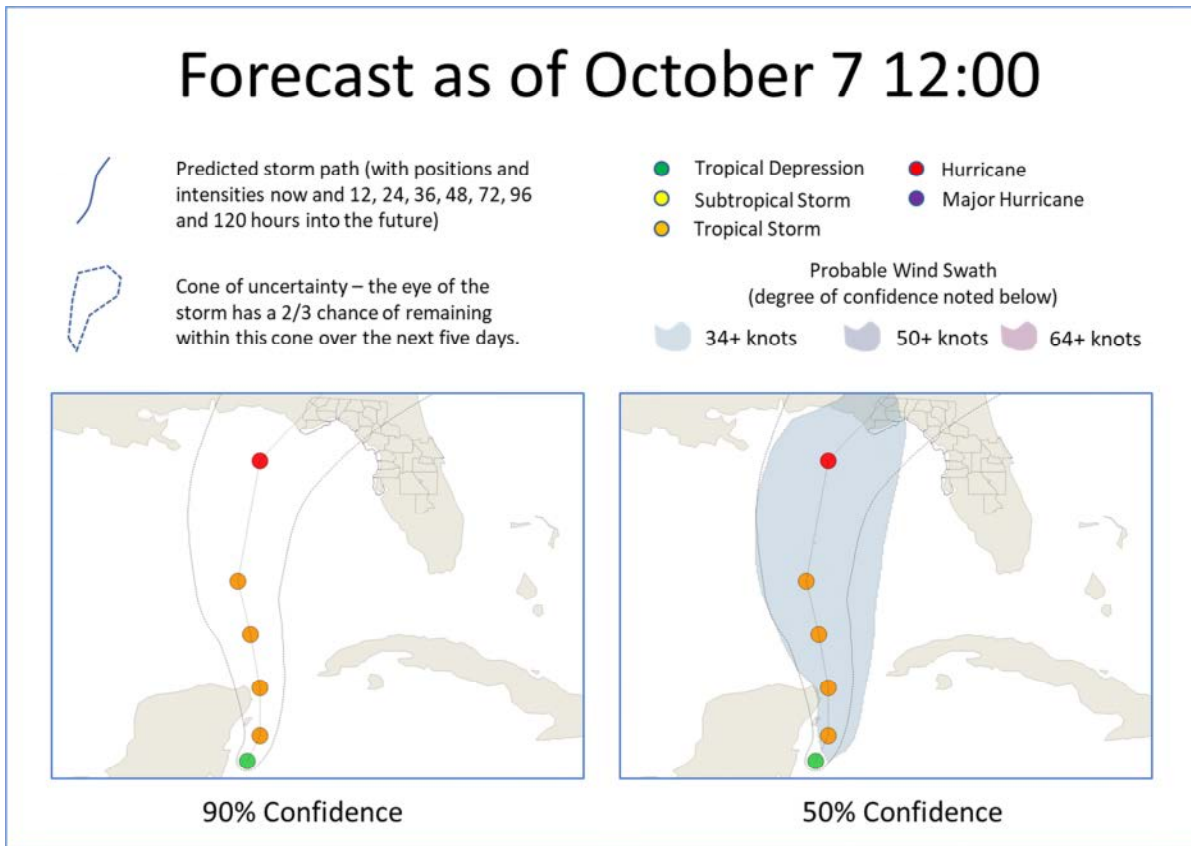
dividing that bulk total by the amount of available labor. Once teams are working in the field, planners can be confident about the amount of work they will produce. Before they confirm their availability, mobilize, travel through whatever conditions the storm has left behind, arrive at the staging areas, are onboarded and trained and ultimately deploy to their first assignment, it is very difficult to predict when they will start doing productive work. The diagram laid out above makes assumptions about the availability of labor, their travel time and congestion at the staging sites due to large volumes of arrivals in a small window of time. In all likelihood, the blue and red curves would be delayed even more than shown.

A final risk which is on the rise as storm seasons become more active is the possibility that a second storm arrives before the damage from the first is fully restored. Establishing priorities and executing a restoration efficiently with accurate ETRs and effective communications is a challenging endeavor at the best of times. The complication of executing two restoration efforts simultaneously is best avoided by getting each individual restoration complete as quickly as possible.

Consideration of Uncertainty in Forecasts

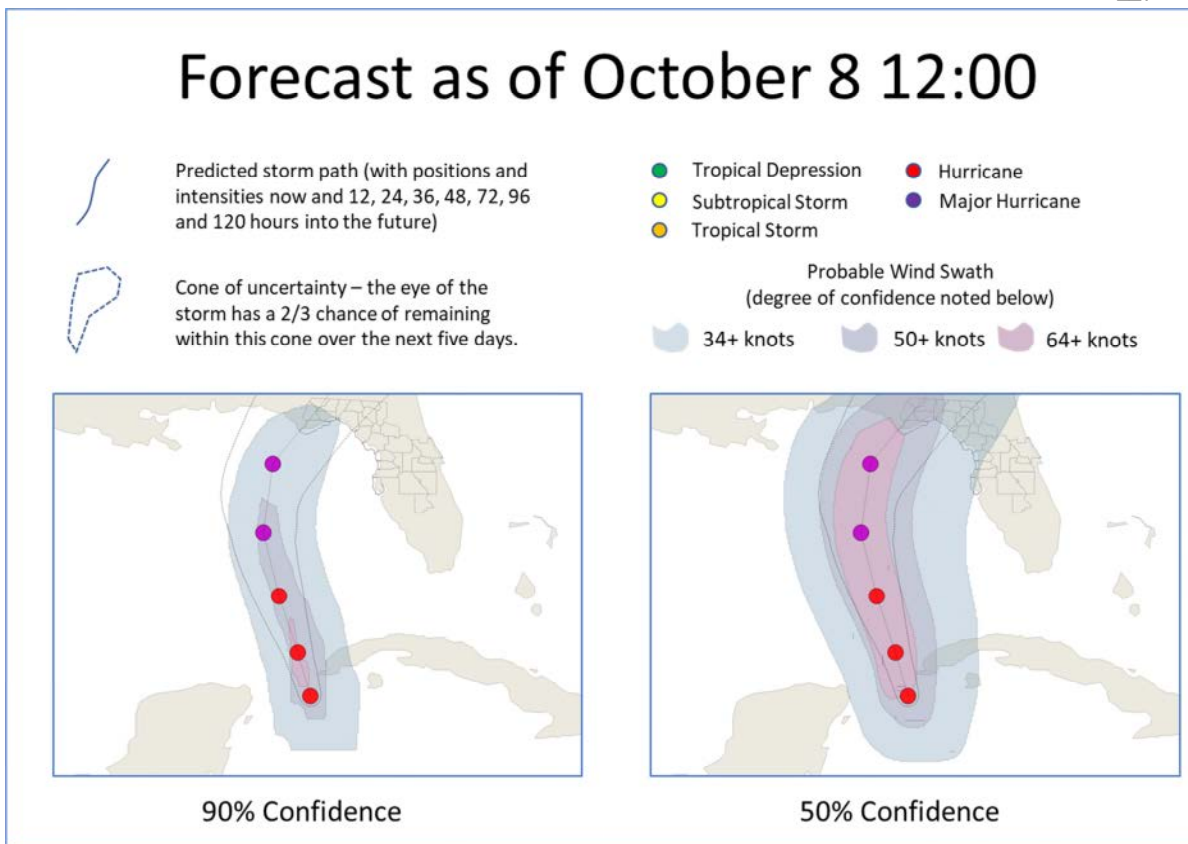
Planning for a tropical storm inevitably involves making decisions in the face of uncertainty. While several scientific models use the best data available to predict the formation, path, and intensity of storms, utilities need to make decisions using uncertain data in order to move crews safely into position to respond as quickly as possible. NOAA provides a range of forecast products, and DEF augments that with the services of staff meteorologists, but the confidence of forecasting diminishes with each day into the future it is looking, so DEF must make the most of incomplete information.

DEF knew definitively on the 10th of October that they would be hit by Hurricane Michael, but that is too late to begin positioning crews safely around the service territory. Looking back at the origins of the storm, the information available on the 7th of October was worthy of note, but by no means a guarantee of significant damage:



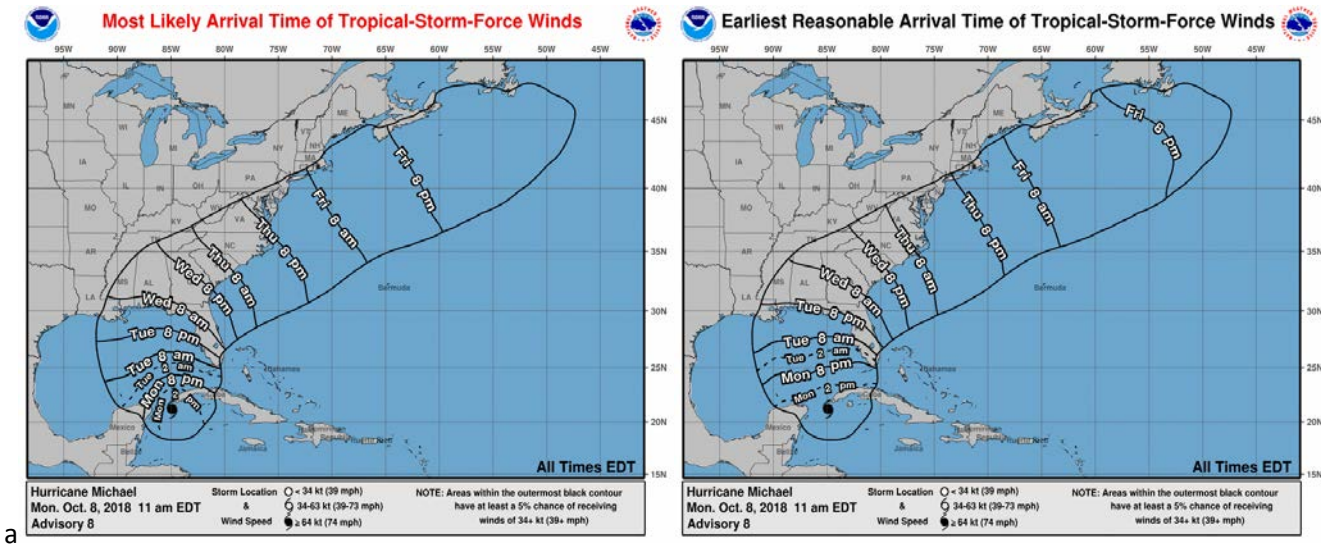
As of noon on October 7th, there was general consensus in the models that the newly forming storm would move north and gather strength to make landfall at hurricane strength around midday on October 10th. While this was the prediction, there was enough likelihood that the storm might move in a different direction or fail to gain the strength modeled, that there was only a 50% confidence that tropical storm force winds would reach the panhandle. Indeed, the system was only a tropical depression at that point.

DEF's action at this point was to activate their watch office and form contingency plans for if the storm behaved in the way predicted. By the next day, the storm had reached hurricane force and was moving in the direction predicted. High winds hitting the panhandle in two days were predicted with greater confidence:



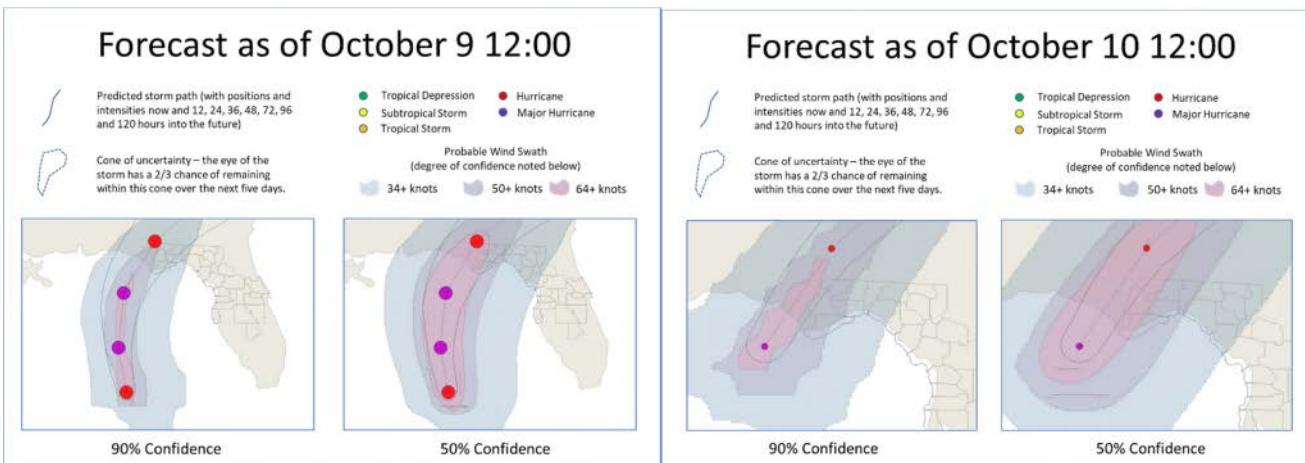
At this point, the storm was predicted to be a major hurricane before making landfall, and DEF knew with high confidence that they would experience at least tropical storm force winds and chances were that hurricane force winds would reach the coast. Having learned a lesson about the difficulty of moving crews after the storm, it was on this day the company put the call out for mutual assistance, so they could make the trip to the mustering points to shelter in place while the storm passed.

In addition to uncertainty about what would arrive on DEF's shores is the question of when. At the same time the forecasts above were available, the difference between the most likely time at which tropical storm force winds would reach land and the earliest they could reasonably be expected was approximately 12 hours. As was learned from the Irma experience, crews who do not arrive prior to landfall face slow and difficult driving conditions once the storm has passed through and wreaked havoc on the road system, which also may be commandeered for an evacuation in the opposite direction.

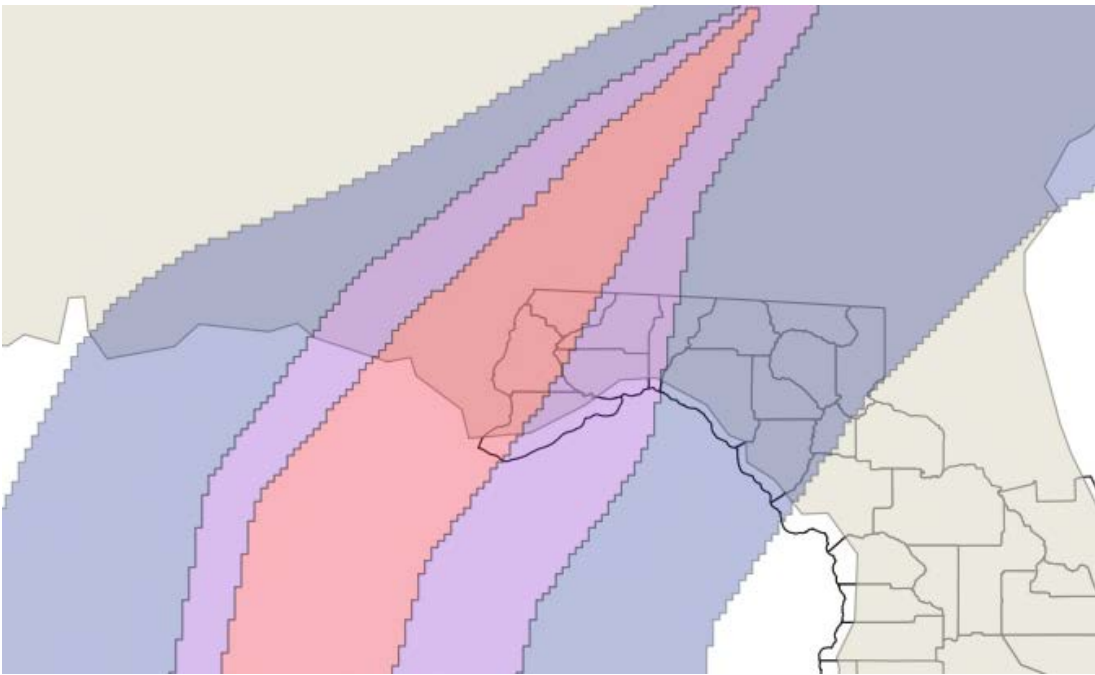


Crews traveled in from various locations to sites east of the storm’s projected path with an aim of arriving before the storm to enable rapid deployment once the hazard had passed.

The storm proceeded as expected, and the confidence of the forecast for DEF’s territory continued to reaffirm the original prediction of path and intensity, while the eye landed slightly later than expected.



In the end, while the 90% confidence maps alone provided DEF enough impetus to act, the 50% confidence maps, which are used to contemplate less certain but plausible scenarios proved to be fairly accurate in terms of what happened near the coastline. Where they came up short was how far inland the winds persisted, and the effects of that difference were felt well further north in the DEF service territory, as illustrated in this diagram of the actual swath that arrived.



Trends

Successful Mutual Assistance

The size and frequency of storms in the last 15 years has created a never-before seen need for mutual assistance on a large scale. Line personnel, vegetation management, various specialists, and other staff are needed to manage outage events to restore power as quickly as possible to meet rising expectations from customers and regulators. There are many instances of mutual assistance utilization where activation of outside crews has been a critical factor in the success of the restoration. In each of these cases, the decision to mobilize these crews needed to be made early for the crews to arrive safely before the storm, and in time to get to work as soon as the storm clears. The utility must take a calculated risk based on the best information available. Utilities are using advanced weather models, historical outage data, and pre-determined decision trees to inform these critical decisions.

Emergency management is a process of continual improvement. As noted in the Historic section above, the industry as a whole and individual companies have come a long way in maturing their mutual assistance processes and policies but opportunities for improvement can be seen in every new response. there is still room for improvement.

One uncompromising aspect of any restoration is the commitment to safety of all responders and customers. Electric work requires strict adherence to safety policies in the best of conditions due to the dangerous nature of the work. In a storm restoration, crews are working to get the job done quickly and with additional dangerous conditions including storm debris, temperature extremes, long work hours, and more. Despite all this, serious recordable injuries

are relatively low. In order to maintain safety for crews and the public the company must ensure they:

- Incorporate sufficient off-shift rest time in every day in reasonably comfortable accommodations;
- Use enough resources to complete the full restoration before reaching dangerous levels of fatigue;
- Enforce strict adherence to local safety protocols;
- Train mutual assistance crews upon arrival for local health hazards and familiarization with equipment, protocols, and safety policies;
- Allow sufficient time for rest while traveling long distances;
- Maintain control of crew activities and fitness for duty while riding out the storm; and
- Support crews with a logistics staff to have proper hygiene, food safety, and medical support.

Mutual Assistance Criticism

In recent years, more companies are making timely decisions, as their past experience and that of other companies have proven that failing to request adequate support, and not communicating specific, accurate and timely ETRs carries repercussions in the form of harsh criticism from customers, media, and regulators, and often resulting in penalties.

There is also pressure to ensure that spending is prudent. Events with less certain forecasts are creating situations where utilities must take a calculated risk to request mutual assistance. The costs of transporting crews, including their set up and break down time back home, transit time in either direction, and time spent on orientation and onboarding at the host utility are significant, and these costs are particularly difficult on the occasions where forecasts prove to be inaccurate.

Alternatively, the consequences of delaying the mutual assistance are extensive and include the possibility that other utilities in the projected path of the storm will have already acquired the closest available crews, further decreasing availability of crews, while increasing cost and travel time. This ultimately delays customer restoration, creating additional hardship to the communities, and increasing safety and economic risks.

Conclusion

Customers rely on the resilience of the electric grid now more than ever from their cell phones to electric vehicles. People, business, and infrastructure rely on electric service for life-safety, income, security, comfort, and convenience. Utilities are tasked to make responsible choices to maintain reliable service for their customers when they face extreme weather or other hazards.

Mutual assistance is a proven method for accelerating the restoration power to customer from the damage caused by large events. For mutual assistance to arrive safely and in time to be most effective, decisions must be made early and based on predictions that are not 100% accurate. In order to make the best decisions possible for their customers, cost management is just one variable and must be balanced against the community's safety risks and economic hardships that are caused by delaying power restoration. While the company will use the best information available at the time to avoid unnecessary spending, the costs to customers may be significantly higher if mutual assistance was not requested in a timely fashion.

Regulators around the country have encouraged the use and advanced activation of mutual assistance process as a part of the effective overall storm response through actions and documentation such as the New York State Restoration Scorecard, and the *Review of Florida's Electric Utility Hurricane Preparedness and Restoration Actions* which are being used by the industry as a standard of performance.

17. On pages 8-9 of his testimony, Witness Schultz provides a timeline for Hurricane Michael, please identify in Witness Schultz's opinion when DEF should have begun preparing for the impact of the storm, and what steps would have been appropriate at each point in time.

RESPONSE: Mr. Schultz did not take issue with the timeline as listed.

18. Please identify each instance in which Witness Schultz has participated in storm restoration planning for a utility.

RESPONSE: None.

19. Please identify each instance in which Witness Schultz has participated in storm restoration coordination for a utility.

RESPONSE: None.

20. Please identify each instance in which Witness Schultz has participated in acquiring resources for a storm restoration on behalf of a utility.

RESPONSE: None.

21. Please identify each instance in which Witness Schultz has participated in contracting with storm restoration resources on behalf of a utility.

RESPONSE: None.

22. Please identify each instance in which Witness Schultz has participated in managing contractor resources during a storm restoration event on behalf of a utility.

RESPONSE: None.

23. Please explain what is meant by the sentence "It is common for a utility to claim that getting contractor crews in place prior to a storm." (page 10, lines 16-17).

RESPONSE: In Mr. Schultz's extensive experience in reviewing storm costs utilities commonly claim that to properly respond to restoration needs post storm, that external contractor crews have to be contacted and committed before the storm impacts the system.

24. Please define "overly proactive in committing contractors" as used on page 10, line 19.

RESPONSE: In anticipation of a storms impact and the damage that may be incurred a utility may contact and commit to external contractor crews that results in compensating crews to far in advance of the storm and compensating crews for travel and standby that is not required.

25. Does OPC believe it is appropriate to proactively engage off-system resources (e.g., mutual assistance, contractors, etc.) the utility believes will be necessary to react to the anticipated impacts of an approaching storm?

- a. If no, please identify when a utility should begin engaging off system resources to respond to a storm event?
- b. If yes, please explain when a utility can proactively engage off-system resources in anticipation of a storm without being "overly proactive" in doing so?

RESPONSE: Yes.

- a. N/A
- b. The timing is dependent on a case by case basis. When it is evident crews will be needed the commitment to begin traveling is appropriate either the day prior to the anticipated impact or the day of the storm, all dependent on the location of the crews.

26. Does OPC believe it is possible to engage contractors to assist with storm response without beginning to pay those contractors at the time of engagement?

- a. If yes, please explain the basis for that position.

- b. If no, please explain what OPC believes to be a prudent basis and level of compensation.

RESPONSE: The question is ambiguous as the time of engagement could vary, for example from a week prior to the storm, the day of the storm or even after the storm impacts the system. That said contractors will require payment when they begin their response by traveling to the Company.

- a. See above response.
 - b. A prudent level of compensation is base pay rates for travel up to and until time exceeds 40 hours then overtime and/or double-time rates would apply depending on the circumstances.
27. Please explain the factual basis for the statement “The ongoing collection that was provisionally authorized on an interim basis only is based on the premise that the filing was 100% accurate.” (P. 10, ll. 24-25).

RESPONSE: The Company is being compensated on the filed cost request as opposed to a less than filed cost such as 90%, 75% or some other percentage. The Company has an obligation to ensure that the estimate is fully accurate and does not contains costs that were not incurred on behalf of DEF, are not duplicates, or are not completely devoid of minimal levels of description of the services provided and justification for those services. Estimates cannot be considered accurate for interim recovery if they are included in the estimate of incremental costs without proper review and scrutiny, including sufficient auditing.

28. Please explain how the statement cited in question 27 is consistent with the paragraph 38(c) of the 2017 RRSSA, which establishes the storm cost recovery mechanism (“SCRM”).

RESPONSE: The paragraph states that “All storm-related costs shall be calculated and disposed of pursuant to Commission Rule 25-6.0143, F.A.C., and will be limited to costs resulting from a tropical system named by the National Hurricane Center or its successor, an *estimate of incremental costs* above the level of storm reserve prior to the storm event, and replenishment of the storm reserve to the level as of the Implementation Date of the

2012 Settlement Agreement (as the term "Implementation Date" is defined in the 2012 Settlement Agreement) or approximately \$132 million (retail)." (Emphasis added) This essentially allows the Company to recover its *estimated* costs in advance of any review on the assumption the costs in the filing are 100% accurate. (Emphasis added)

29. Witness Schultz states "the Company has selectively used the Agreement as a basis for costs that are being request for recovery in this docket." (P. 16, ll. 11-12). Please identify each category of costs for which Witness Schultz believes the Company did not follow the Agreement, and the basis for that belief.

RESPONSE: The Company did not base mobilization/demobilization using actual travel time and the requests included exempt overtime. Additionally, the method of capitalization is not consistent with the Agreement.

30. On page 11 lines 17-19 of Witness Schultz testimony, Witness Schultz recommends the Commission order recovery of \$6.1M related to distribution line contractor costs be removed due to allegedly imprudent control and excessive mobilization and demobilization and excessive standby time. Please provide your detailed calculation to arrive at this recommendation.

RESPONSE: See the discussion in the testimony of Mr. Schultz on page 47, lines 1-7.

31. Please refer to page 11 of Witness Schultz testimony where Witness Schultz alleges that Duke failed to justify \$430,524 of distribution line clearing invoices. What constitutes adequate justification in your opinion?

RESPONSE: See the discussion in the testimony of Mr. Schultz on page 57, lines 4-13.

32. Please explain whether Witness Schultz believes the Incremental Cost Methodology contained in the Agreement complies with the ICCA methodology outlined in Rule 25-6.0143, F.A.C.?

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**IN RE: PETITION FOR LIMITED PROCEEDING FOR RECOVERY OF
INCREMENTAL STORM RESTORATION COSTS RELATED TO HURRICANE
MICHAEL AND TROPICAL STORM ALBERTO BY DUKE ENERGY
FLORIDA, LLC.**

FPSC DOCKET NO. 20190110-EI

REBUTTAL TESTIMONY OF THOMAS R. MORRIS

JULY 31, 2020

1 **I. INTRODUCTION AND QUALIFICATIONS.**

2 **Q. Please state your name and business address.**

3 A. My name is Thomas R. Morris. My business address is Duke Energy Florida, LLC,
4 3300 Exchange Place, Lake Mary, FL 32746.

5

6 **Q. Have you previously filed testimony in this docket?**

7 A. Yes, I provided direct testimony on November 22, 2019.

8

9 **Q. Has your job description, education, background or professional experience**
10 **changed since that time?**

11 A. No.

12

13 **II. PURPOSE AND SUMMARY OF TESTIMONY.**

14 **Q. What is the purpose of your testimony?**

1 A. The purpose of my testimony is to provide the Company's rebuttal to inaccurate
2 assertions and incorrect conclusions contained in the direct testimony of OPC
3 Witness Schultz.

4
5 **Q. Are you sponsoring any exhibits to your testimony?**

6 A. Yes. I am sponsoring the following exhibit to my testimony:

- 7 • Composite Exhibit No. __ (TM-1) – Excerpts from OPC's Responses to DEF's First
8 Set of Interrogatories to OPC and OPC's Responses to DEF's Second Set of
9 Interrogatories to OPC.

10

11 **Q. Please summarize your testimony.**

12 A. My testimony addresses certain inaccurate or mischaracterized assertions and
13 erroneous conclusions in Witness Schultz's testimony. I have not attempted to rebut
14 each and every factual error or misconception contained in his testimony, but rather
15 concentrated on the items below. Other items requiring correction and/or clarification
16 are addressed by the rebuttal testimonies of Mr. Cutliffe and Mr. Foster.

17

18 With regards to Witness Schultz's testimony, I am disputing his recommended
19 adjustments to DEF's storm costs totaling \$56,083,000, except for the removal of
20 \$4,000 of non-incremental labor as explained below. Witness Schultz's adjustments
21 are not warranted due to his misinterpretation and inconsistent application of the
22 Storm Cost Settlement Agreement (the "Agreement") approved in Order No. PSC-

1 2019-0232-AS-EI, the Incremental Cost and Capitalization Approach (“ICCA”)
2 methodology, and Rule 25-6.0143, F.A.C. (the “Rule”).

3

4 **III. OPC Witness Schultz’s Testimony**

5 **Q. Do you agree with Witness Schultz’s total recommended adjustment on page 11,**
6 **lines 10 – 24 and page 12, lines 1-14 of \$56,083,000?**

7 A. No, with the exception of the \$4,000 amount I discuss in the next question. Witness
8 Schultz’s interpretation of the Agreement, ICCA, and Rule is not always correctly
9 and consistently applied to DEF’s storm costs. Below, I discuss my position on each
10 of Witness Schultz’s recommended storm cost adjustments. There are other
11 comments and statements made by Witness Schultz that I do not address in my
12 Rebuttal Testimony; however, this does not mean I agree or consider them correct.

13

14 **Q. Why did DEF not remove \$4,000 of non-incremental overtime as stated by**
15 **Witness Schultz on page 15, line 2?**

16 A. This was an error. Based on the Agreement, affiliate base labor is kept separate from
17 DEF’s base labor to calculate the historical three-year average. However, when the
18 calculation is done for overtime, affiliate and DEF overtime are combined. Affiliate
19 and DEF overtime were inadvertently kept separate. The \$4,000 affiliate overtime
20 should be treated as non-incremental costs as stated by Witness Schultz.

21

22 **Q. Do you agree with Witness Schultz’s testimony on page 19, lines 6-10, that “Rule**
23 **25-6.0143(1)(f),2, F.A.C., specifically states ‘[b]onuses or any other special**

1 **compensation for utility personnel not eligible for overtime pay.’ Thus, these**
2 **costs are prohibited from being charged to the reserve. That means both types**
3 **of extra compensation costs should be excluded?”**

4 A. No. This is a misinterpretation of the Rule, which states:

5 (f) The types of storm related costs prohibited from being charged to the
6 reserve under the ICCA methodology include, but are not limited to, the
7 following:

8 ...

9 2. Bonuses or any other special compensation for utility personnel *not*
10 *eligible for overtime pay.* (emphasis added).

11

12 The “exempt supplemental pay” is considered overtime by the Company. Thus, the
13 exempt supplemental pay is a category of compensation for utility personnel who *are*
14 eligible for overtime pay, and is therefore not prohibited from being charged to the
15 reserve.

16

17 Finally, once again this argument should be rejected because Witness Schultz and
18 OPC are directly arguing against the Incremental Cost Methodology Addendum
19 (“ICMA”) included in the Agreement, which states: “Exempt Supplemental
20 Compensation (ESC): All ESC associated with storm duty for employees who are
21 eligible for overtime is charged to the storm reserve charge codes and is incremental
22 recoverable.”

23

1 **Q. Do you agree with Witness Schultz’s statement on page 19, lines 20-21 that**
2 **“Duke has side-stepped the Rule and has chosen to include these costs because of**
3 **the Agreement?”**

4 A. No. The Company has not “side-stepped” the Rule, which states “bonuses or any
5 other special compensation for utility personnel not eligible for overtime pay” by
6 including exempt supplemental compensation. DEF has an established, predictable,
7 and objective policy for paying supplemental compensation to exempt employees;
8 therefore, these costs should not be excluded. In previous storm cost recovery filings,
9 exempt supplemental pay was included and approved by the Commission as
10 recoverable storm restoration costs pursuant to the Rule.¹

11
12 Moreover, as indicated by Witness Schultz, these costs are permitted to be recovered
13 by the Agreement which states “[a]ll ESC associated with storm duty for employees
14 who are eligible for overtime is charged to the storm reserve charge codes and is
15 incremental recoverable.” In that Agreement, the settling parties agreed the ICMA
16 complied with the Rule:

17 The Company will provide in its testimony full details as to how
18 incremental and non-incremental costs were determined in accordance
19 with the Incremental Cost Methodology Addendum below *and* Rule 25-
20 6.0143, F.A.C. The Consumer Parties agree that the methodology
21 explained below is a reasonable approach to identifying incremental storm
22 costs as that concept is used in the rule.

¹ See Order No. PSC-2019-0114-FOF-EI (approving the utility’s recovery of amounts paid to employees pursuant to its “Inclement Weather Exempt Employee Compensation Policy”).

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Q. Do you agree with Witness Schultz’s statement on page 21, lines 7-8 that a \$450,000 capitalization adjustment should be made?

A. No. Witness Schultz ignores the Amendment² to the Agreement that requires DEF to “[u]se a combined simple average of hourly internal company and native contractor costs that are the type normally incurred in the absence of a storm to determine amounts to capitalize to plant, property and equipment along with the materials and other cost of equipment.” The simple average labor rate outlined in the Amendment includes base labor, burdens, and fleet costs. Since native contractors do not break-out costs into these components when they provide their rate to DEF, an hourly internal labor rate was used to approximate how much of the \$8.4M of labor/contractor costs were associated with labor burdens. The internal hourly labor rate used was \$72.28, of which \$25.09 relates to burdens. There were approximately 89,000 hours of distribution capital restoration work, which, at minimum, equates to \$2.2M in labor burdens. Witness Schultz believes there should be an adjustment because he does not see labor burdens, but as I have explained above the labor burdens are included in the simple average hourly labor rate and no adjustment is necessary.

² See Amendment to Duke Energy Florida, LLC’s Storm Cost Settlement Agreement, filed May 15, 2019, in Docket No. 20170272-EI (the “Amendment”). The Amendment was approved by the Commission as part of the Agreement by Order No. 2019-0232-AS-EI.

1 **Q. Do you agree that an upward adjustment of \$715,000 to DEF's requested**
2 **Overhead Costs should be made to move capitalized costs into the storm cost**
3 **recovery request as Witness Schultz indicates on page 23?**

4 A. No, though it is also unclear whether or not Witness Schultz is actually requesting an
5 adjustment. Distribution overhead allocation costs that are reflected in the storm
6 filing primarily relate to management and supervision labor charges. Due to the
7 extensive damage caused by Hurricane Michael, DEF requested additional
8 management and supervision resources from Duke Energy's Midwest and Carolina
9 regions to help oversee the additional resources obtained by DEF to restore power to
10 Florida customers. Non-affiliate – that is, DEF's - management and supervision costs
11 were accounted for as overhead allocations. However, affiliate management and
12 supervision costs were charged directly to the storm project, which results in those
13 costs being accounted for as DEF base labor – if these affiliate costs were not charged
14 directly to the storm project, then the affiliates providing the assistance would bear
15 these costs; this is the same process that is followed if and when DEF provides this
16 type of assistance to its affiliates. Witness Schultz's assertion that a refund of costs is
17 warranted is not correct because affiliate management and supervision costs
18 accounted for as base labor were included in the capital calculation.

19
20 The intent of the Distribution capital calculation is to estimate what the costs would
21 be under normal conditions for units of property issued to the storm project per the
22 ICCA methodology. It is difficult to break-down that estimate by cost driver and
23 compare that to a break-down of actuals by cost driver as the two may not always

1 align; this is because of the way costs are charged during a storm restoration effort
2 versus blue sky operations. That is, affiliate management and supervision costs are
3 charged as base labor, but need to be considered as part of the overhead allocation in
4 the capital calculation.

5
6 This is similar to Witness Schultz’s incorrect assertion on page 21, lines 7-8, that a
7 refund was due because he could not specifically identify labor burdens; I explain
8 above that is also incorrect for the same basic reason – breaking down estimates and
9 actuals by cost driver can lead to inconsistent results.

10
11 **Q. Do you agree with Witness Schultz’s statement on page 65, lines 16-17, “Duke**
12 **does not appear to have a set policy for capitalization of storm costs or a**
13 **standard methodology in place?”**

14 A. No. The Amendment to the Agreement and the ICCA methodology in Rule 25-
15 6.0143(1)(d) specify how storm costs are capitalized. DEF followed the
16 capitalization provisions of the Amendment and Rule for determining capital costs for
17 Hurricane Michael and Tropical Storm Alberto. I would also note that DEF produced
18 its Capitalization Policy to OPC in its response to OPC’s Third Set of Interrogatories,
19 number 19. *See* 20190110-DEF-OPCPOD3-19-
20 000001 through 20190110-DEF-OPCPOD3-19-000183.

21
22 **Q. Were capitalized costs audited for compliance to the Amendment to the**
23 **Agreement or Rule?**

1 A. Yes. Per the Direct Testimony of Simon Ojada issued on July 2, 2020, in the instant
2 docket, FPSC’s Office of Auditing and Performance Analysis performed an audit
3 (“financial audit”) of DEF’s storm recovery cost filing. The financial audit report,
4 included as Exhibit SOO-1, in Witness Ojada’s testimony, states that capitalized costs
5 were tested to determine if DEF only included recovery of those costs allowed per
6 Rule 6.0143. No exceptions were noted.

7

8 **Q. Do you agree with Witness Schultz’s assertion on page 25, lines 4-6, that “there**
9 **is no specific capital amount identified for distribution?”**

10 A. No. Witness Schultz is misinterpreting my testimony and is not understanding the
11 Amendment which directs DEF to “[u]se a combined simple average of hourly
12 internal company and native contactor costs that are the type normally incurred in
13 the absence of a storm to determine the amounts to capitalize to plant, property and
14 equipment along with the materials and other costs of equipment.” I used a simple
15 average which the Agreement requires; however, it does not state that the rate needs
16 to be broken out into the various components of labor, burdens, or fleet when doing
17 the calculation as Witness Schultz implies. The capital calculation provided shows
18 the material costs, estimated installation labor (which includes labor, burdens, and
19 fleet), and overhead allocations required to install the units of property under normal
20 conditions per the Agreement and consistent with the Rule.

21

22 **Q. Do you agree with Witness Schultz that the Company is “cherry picking” the**
23 **Agreement to use for cost recovery as stated on page 28, lines 1 – 3?**

1 A. No. DEF has consistently expressed that it adhered to the Incremental Cost
2 Methodology Addendum to the Agreement, as Amended, where possible after the
3 Implementation Date of the Agreement. Moreover, as stated in the Agreement, DEF
4 adhered to the restoration-related provisions where possible during the 2019 storm
5 season, and would fully implement the Agreement for 2020. This is a provision of
6 the Agreement that was agreed to by both DEF and OPC:

7

- 8 • **Agreement, Page 8, Section 6**, “...*the Company will make a good faith effort*
9 *to implement as many of the new processes and procedures reflected below*
10 *for the 2019 hurricane season as possible and will fully implement the*
11 *processes and procedures for the 2020 hurricane season.*”

12

13 This is also explained in my November 22, 2019, Direct Testimony in footnote 1:

- 14 • “*The Agreement was entered and approved after Hurricane Michael made*
15 *landfall and the restoration efforts were largely complete. Per the terms of the*
16 *Agreement, its provisions and process modifications became applicable as of*
17 *the date the Commission approved the Agreement, or June 13, 2019.*
18 *Therefore, the Hurricane Michael restoration and rebuild efforts were*
19 *undertaken pursuant to the same policies and procedures that existed prior to*
20 *the Agreement. DEF has endeavored to follow the Agreement's provisions*
21 *related to accounting work, although this was not always possible due to*
22 *procedures that were in place during the actual restoration work.*”

23

1 Moreover, and I do not think this can be emphasized enough, the Agreement itself
2 explicitly states it is a “reasonable means of complying with the Rule.” Therefore,
3 compliance with the Agreement is compliance with the Rule, and Witness Schultz’s
4 assertions to the contrary are false. The Agreement was entered into in recognition of
5 some of the factors that Witness Schultz is now pointing out and attempting to use
6 against DEF in this proceeding – that is, because DEF’s base rates were established
7 via settlement agreement, there are no MFRs that can be used to establish the level of
8 specific components (e.g., base labor) of DEF’s base rates. Thus, the Agreement
9 established a proxy for doing so. In some situations, because Hurricane Michael
10 predated the Agreement, DEF did not have charging codes established that allowed
11 costs to be tracked as envisioned by the Agreement (e.g., affiliate management and
12 supervision support; the restoration efforts had already occurred and therefore DEF
13 could not implement the process changes, such as entering contracts that limited
14 travel time to actual time traveled) and therefore the Agreement could not be
15 followed (*see* footnote 1 to my direct testimony). Thus, DEF was required to
16 compute the incremental costs via another means (see the discussion above related to
17 affiliate management costs). This is not “cherry-picking,” it is following the agreed
18 upon methodology where possible, and establishing another reasonable means of
19 computing incremental costs where necessary.

20

21 **Q. Do you agree with Witness Schultz that refund of \$1,929,118, broken down into**
22 **various components is due as mentioned on pages 36-37, lines 6-24 and lines 1-5**
23 **and page 67, lines 10-11?**

1 A. No. These amounts were removed in DEF’s Supplemental Exhibits of incremental
 2 storm restoration costs filed May 19, 2020, after DEF determined they were
 3 improperly charged to the storm reserve; thus, no refund is due. I do note that it is
 4 simply unclear what costs Witness Schultz is actually arguing requires a further
 5 refund, as he notes in his testimony that it appears \$1.7 million was removed as part
 6 of the May filing, though his summary on page 67 still requests a full \$1.9 million
 7 refund; he is correct that the erroneous charges have been removed (approximately
 8 \$1.7 million) with the May 19, 2020, filing, but I address what I believe to be his
 9 additional concern regarding the \$181,224 payment here for clarity.

10

11 **Q. Do you agree with Witness Schultz that a refund of \$181,224 is due to a**
 12 **duplicate payment as mentioned on page 37, lines 6-11?**

13 A. No. There was a processing error for Company R related to invoice 131800 resulting
 14 in an overpayment of \$181,224; however, that overpayment was applied to other
 15 outstanding invoices as shown below:

Invoice Number	Total Invoiced Amount	Prepayment (.1 invoice)	Final Payment (.2 Invoice)	Paid Amount	Overpayment	Credit Applied to Overpayment
131800	\$ 241,632.00	\$ 181,224.00	\$ 241,632.00	\$ 422,856.00	\$ 181,224.00	
131853	\$ 462,551.60	\$ 346,913.70	\$ -	\$ 346,913.70		\$ 115,637.90
131854	\$ 461,309.80	\$ 345,982.35	\$ 65,586.10	\$ 411,568.45		\$ 49,741.35
131857	\$ 465,190.40	\$ 348,892.80	\$ 100,452.85	\$ 449,345.65		\$ 15,844.75
						\$ 181,224.00

16

17

18 **Q. Do you agree with Witness Schultz statement on page 51, lines 14-18, that “If the**
 19 **Company is allowed to understate the capital amount, current ratepayers will**
 20 **pay for capital costs that will benefit future ratepayers. This is a concern**

1 **commonly referred to as intergenerational inequity. Current ratepayers should**
2 **not bear the total costs of plant that will be used over thirty to forty years by**
3 **future customers who are not receiving service from Duke today?”**

4 A. No. DEF has calculated the capital amount in accordance with the ICCA
5 methodology in the Rule and Agreement, as discussed in more detail below as well in
6 my Direct Testimony filed in November; the capital amount is not understated.
7 Moreover, as indicated throughout my Rebuttal Testimony, Witness Schultz appears
8 to refuse to acknowledge the Amendment to the Agreement when deriving his
9 conclusions.

10
11 Witness Schultz states on page 27, lines 1-3, of his testimony: “The Company
12 determines the capitalized amount based on an **average of internal labor rates and**
13 **native contractor rates.** This averaging process compounds the issue with
14 capitalization of storm costs.” (Emphasis added).

15
16 The Amendment requires DEF to use: “a combined **simple average of hourly**
17 **internal company and native contractor costs** that are the type normally incurred in
18 the absence of a storm to determine the amounts to capitalize to plant, property and
19 equipment along with the materials and other costs of equipment.” (Emphasis added).

20
21 When asked in discovery if the process Witness Schultz outlined on page 27 was
22 consistent with the Amendment, OPC simply responded “No” with no further

1 explanation.³ When OPC was asked where or how DEF deviated from the approved
2 Agreement, OPC referenced page 50 of Witness Schultz’s testimony “where he points
3 out that the company used a simple average of internal and native contractor labor to
4 determine the amount capitalizable. The Settlement process calls for a simple
5 average of hourly foreign and native contractor costs to be used.”⁴ Mr. Schultz is
6 simply not recognizing that the Agreement was Amended, and it was the Amended
7 Agreement the Commission approved.⁵

8

9 **Q. Do you agree with Witness Schultz’s assertion on page 53, lines 8-19, that there**
10 **should be an adjustment to the contractor costs for the failure to properly**
11 **capitalize \$2,566,399 of costs?**

12 A. No. The contractor costs as listed are correct and follow the provisions of the
13 Agreement, as amended. Witness Schultz again ignores the Amendment that
14 specifically speaks to the capitalization of these costs. His recommendation to use a
15 higher capitalization rate than contemplated by the Amendment is inconsistent with
16 the Agreement. In addition, Witness Schultz’s position is inconsistent with the ICCA
17 methodology, which states “capital expenditures for the removal, retirement and
18 replacement of damaged facilities charged to cover storm-related damages shall
19 exclude the normal cost for the removal, retirement and replacement of those

³ OPC’s Response to DEF’s First Set of Interrogatories, number 33.

⁴ OPC’s Response to DEF’s Second Set of Interrogatories, number 46.

⁵ *See id.* (“The referenced Order [No. PSC-2019-0232-AS-EI] was approving a settlement and the witness is not aware that the capitalization process was specifically approved by the Commission as its official policy in lieu of the express language of the rule.”).

1 facilities in the absence of a storm.”⁶ In other words, the capital calculation is to
2 determine the “normal” costs absent a storm (i.e., blue-sky costs), and all costs above
3 that “normal” calculation are considered incremental and recoverable through the
4 storm reserve. Witness Schultz’s premise that the capitalization calculation should
5 account for the “fact that the costs were incurred under extraordinary circumstances
6 that cause costs to be higher”⁷ is completely inconsistent with the principles upon
7 which with the ICCA methodology is based. I also note that this Commission has
8 previously rejected Witness Schultz’s contention that capitalized costs should reflect
9 the higher costs of storm restoration rather than the “normal” costs of performing the
10 work.⁸

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Q. Do you agree with Witness Schultz’s testimony on page 55, line 20 through page 56, line 2 about Transmission seeking recovery for a \$65,387 duplicate payment?

A. No. The \$65,387 payment was refunded on March 31, 2019, which was reflected in the May 19, 2020, supplemental filing. Therefore, only a net of \$266,332.30 was charged to the 230kV Line- PX-1 Port St. Joe - Callaway (“PX line rebuild”) project and no duplicate payments are being sought for recovery.

⁶ Rule 25-6.0143(1)(d), F.A.C.

⁷ See *id.* at ll. 14-15.

⁸ See Order No. PSC-2019-0114-FOF-EI (“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.*** . . . 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. Witness Schultz’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.***”) (emphasis added).

1 **Q. Do you agree with Witness Schultz that a refund of \$6,360,621 should be ordered**
2 **due to unsupported costs as mentioned on page 60, lines 6-8?**

3 A. No. DEF provided OPC invoices for Logistics costs over \$10,000, as requested in
4 POD 16, on August 15, 2019, including supporting documentation for those invoices.
5 DEF inadvertently did not provide the support for the two invoices comprising the
6 \$6,360,621 when the discovery response was served. Since OPC did not request the
7 support in follow-up discovery, DEF did not realize its mistake until it had an
8 opportunity to review Witness Schultz’s testimony. The support for these two
9 invoices has since been provided to OPC on July 28, 2020 in DEF’s Fifth
10 Supplemental Response to OPC’s First Set of Interrogatories, number 16. The two
11 invoices and supporting backup was provided in response to Audit Request 2 of the
12 FPSC Financial Audit and found to be sufficient as indicated by the Testimony and
13 attached audit report of FPSC Staff Witness Ojada. DEF feels this misunderstanding
14 could have been remedied in discovery rather than becoming a point of contention at
15 this stage of the proceedings.

16
17 **Q. Do you agree with Witness Schultz’s contention, on page 61, lines 3 – 6, that**
18 **\$199,020 listed in discovery as “No Vendor Name” should be refunded because**
19 **“the notation that it relates to accrual of costs” means the costs are**
20 **unsupported?**

21 A. No. Witness Schultz does not take into consideration that the costs he reviewed were
22 not final, and he apparently assumes all costs are associated with received invoices.
23 Distribution was still accruing for an estimate of outstanding contractor invoices at

1 the time of the November 22, 2019, filing and that accrued amount was reversed out
2 with the actual costs in the May 19, 2020, supplemental filing. In addition, a portion
3 of the amount relates to journal entries that removed costs from the storm project.
4

5 **Q. Do you agree with Witness Schultz’s testimony on page 61, lines 9 – 14, that**
6 **Transmission’s \$3,243,044 of “Non-Vendor” costs are unsupported?**

7 A. No. Witness Schultz is again confusing accounting accruals with actual invoices.
8 For Transmission’s Contractor Costs category, the vast majority (i.e., 89.3%) of
9 Transmission's \$3,243,044 non-invoiced or "Non-Vendor" costs was for a \$2,899,254
10 accrual of forecasted PX line rebuild costs. The remaining \$343,790 relate to
11 miscellaneous accounting reclasses and other vendor accruals for which there is
12 supporting back up.
13

14 As indicated previously, FPSC staff conducted a financial audit of Hurricane Michael
15 costs, the results of which were filed in this Docket on July 2, 2020. The final report,
16 which included a review of invoices, was favorable with no exceptions noted.
17

18 **Q. Do you agree with Witness Schultz’s testimony on page 60, lines 9 – 14 that**
19 **Transmission did not provide support for the three identified logistics vendors**
20 **discussed in that section totaling \$977,489?**

21 A. No. During discovery, the names of Transmission’s staging and logistics vendors
22 were identified and provided.⁹ The vendors mentioned in Witness Schultz’s

⁹ See DEF’s Second Supplemental Response to OPC’s First Set of Interrogatories, No. 16 on Disc 4.

1 testimony were included in the Staging & Logistics category, rather than
2 Transmission; thus, the supporting documentation was provided along with the
3 logistics vendors (not the transmission vendors) invoices.

4

5 **Q. Do you agree with Witness Schultz’s testimony on page 28, line 13 through page**
6 **29, line 23 that Transmission should capitalize an additional \$34,445,227 of PX**
7 **line rebuild project costs?**

8 A. No. Per (1)(d) of the Rule: *“In addition, capital expenditures for the removal,*
9 *retirement and replacement of damaged facilities charged to cover storm-related*
10 *damages shall exclude the normal cost for the removal, retirement and replacement*
11 *of those facilities in the absence of a storm.”* DEF adhered to this Rule when
12 calculating the incremental cost of the PX Line.

13

14 As stated in Mr. William’s direct testimony, the Port St. Joe to Callaway tie line (“PX
15 Line”) with Gulf Power sustained significant damage. Due to severe damage, it was
16 determined that the entire DEF section of the line had to be completely rebuilt. In
17 addition to the PX Line, there were 44 transmission structures replaced during storm
18 restoration work, allowing nearly immediate restoration of power and stability of the
19 system. The construction of the PX Line was expedited in order to reliably serve
20 DEF customers for the upcoming winter load. As a result, DEF had to incur
21 additional costs to expedite construction of this line.

22

1 To determine the incremental amount, transmission had ranges established from a
2 parametric engineering estimate and any costs which exceeded the midpoint of that
3 range were determined to be incremental.

4
5 Contrary to Witness Schultz's contention on page 29, DEF did not ignore the
6 provisions of the agreement when performing this calculation. As provided in
7 previous testimony, transmission's project management process is different than
8 Customer Delivery, allowing transmission to identify all costs associated with a
9 specific project. Thus, transmission does not need to perform the calculation as
10 outlined in the Agreement.

11
12 The cost to restore power, replace wood poles, construct the access road, and rebuild
13 the PX Line totaled \$126,004,434. PX Line rebuild costs were \$78,530,721 of which
14 \$33,488,960 were incremental since it was in excess of what normally would have
15 been paid to rebuild the line under a non-expedited schedule. The additional costs
16 that DEF had to pay were necessary and prudently incurred, and are considered an
17 incremental capital cost per the Rule. The remaining \$45,041,761 of the \$78,530,721
18 was capitalized since this amount represents the normal cost of what the rebuild
19 would have been under non-expedited conditions. In summary, of the total
20 \$126,004,434 of restoration, pole replacement, access road, and rebuild costs for the
21 PX Line, \$92,515,474 was capitalized and \$33,488,960 was incremental.¹⁰

¹⁰ OPC Witness Schultz calculated that \$34,445,227 was charged as incremental, when, in fact, only \$33,488,960 was incremental, a difference of \$956,267.

1 Finally, I disagree that following the ICCA methodology contained in the
2 Commission's Rule constitutes a violation of GAAP, as Witness Schultz asserts on
3 page 29. The PX Line costs were calculated in accordance with GAAP, and then the
4 incremental adjustment was made in accordance with the Commission's Rule.
5 Therefore the \$33,488,960 of PX Line rebuild cost is incremental and should be
6 recovered.

7

8 **Q. Witness Schultz provides a list of recommendations on pages 67 and 68 of his**
9 **testimony; for clarity could you please provide a response to his itemized**
10 **contentions?**

11 A. Yes. As explained above:

12 • "A reduction (and refund) of \$4,000 to Duke's request for payroll for cost
13 identified as non-incremental." *DEF agrees with this adjustment.* "A
14 reduction (and refund) of \$450,000 to Duke's request for labor
15 burden/incentives cost recovery being reclassified as capitalized dollars."
16 *DEF disagrees with this adjustment because it is based on Witness Schultz's*
17 *failure to recognize the Amendment to the Agreement. When the Amendment*
18 *is taken into consideration, and with the understanding that the labor burdens*
19 *were accounted for, though not broken out, it becomes clear no adjustment is*
20 *necessary.*

21 • "An increase (or refund offset) of \$715,000 for overhead costs recovery
22 because the filing reflects more costs capitalized than existed." *DEF*
23 *disagrees with this adjustment; the costs existed but were charged directly to*

1 *the storm project rather than to overhead as discussed herein. The costs were*
2 *properly capitalized per the ICCA methodology and no refund offset is*
3 *warranted.*

4 • “A reduction to contractor costs (and refund) of \$1,929,118 for duplicated
5 costs and Carolina costs improperly charged to storm restoration.” *DEF*
6 *disagrees with this refund; as discussed, DEF’s request was reduced by \$1.7*
7 *million as part of the May supplemental filing, and the additional \$181k over-*
8 *payment was appropriately applied against other outstanding invoices from*
9 *the contractor.*

10 • “A reduction to line contractor costs (and refund) of \$6,105,055 for an
11 excessive amount of mobilization/demobilization time.” *Mr. Cutliffe*
12 *responds to this contention in his rebuttal testimony at pages 3-5.*

13 • “A reduction of \$2,588,535 (\$2,566,339 + \$22,196) to Duke’s request related
14 to capitalization of distribution line contractor costs.” *DEF disagrees with*
15 *this tis reduction. As discussed herein, DEF capitalized costs pursuant to the*
16 *Agreement, as Amended, and the ICCA methodology, which Witness Schultz*
17 *fails to recognize.*

18 • “A reduction (and refund) of \$430,524 to Duke’s request for line clearing cost
19 recovery.” *Mr. Cutliffe addresses Witness Schultz’s contentions regarding*
20 *mobilization costs throughout his rebuttal testimony.*

21 • “A reduction (and refund) of \$6,559,641 to Duke’s request for unsupported
22 distribution logistics and other contractor costs.” *DEF disagrees with this*
23 *adjustment. Although the supporting documentation for the referenced*

1 *invoices was admittedly left out of DEF's original production of documents, it*
2 *has been now provided.*

3 • *"A reduction of \$65,387 to Duke's request for transmission line contractor*
4 *costs that were duplicated." This amount was refunded March 31, 2019, and*
5 *was not included in the May 19, 2020, filing.*

6 • *"A reduction of \$4,220,553 to Duke's request for unsupported transmission*
7 *logistics and other contractor costs." DEF disagrees with this adjustment; as*
8 *indicated the documentation was provided along with the logistics invoices,*
9 *but DEF believes Witness Schultz was looking for the support along with*
10 *transmission invoices.*

11 • *"A reduction (and refund) of \$34,455,227 for Duke's unsupported*
12 *classification from transmission capital costs to storm restoration costs." DEF*
13 *disagrees with this adjustment. As explained, the purported refund is based*
14 *on Witness Schultz's flawed understanding of the ICCA methodology,*
15 *specifically his belief that it is improper to capitalize "normal" costs but*
16 *rather that DEF should capitalize the "actual" costs incurred, a position*
17 *previously rejected by this Commission as noted in footnote 8 above.*

18

19 **Q. Does that conclude your testimony?**

20 A. Yes.

RESPONSE: The Agreement provides for specifics not provided in the ICCA methodology thereby resolving disputes as to the interpretation of what the ICCA provides for. For example, the ICCA does not specify how to determine incremental costs other than the referenced methodology for vegetation costs. ICCA states that recoverable payroll excludes “Base rate recoverable regular payroll and regular payroll-related costs for utility managerial and non-managerial personnel.

33. Refer to page 27, lines 1-3. Is the approach discussed in the referenced selection consistent with the Agreement, as amended on May 15, 2019?

RESPONSE: No.

34. Witness Schultz recommends a reduction of \$56.083M to DEF’s requested storm cost recovery amount. He also states throughout his testimony some adjustments were already made to DEF’s request.
- a. Please state with specificity what Witness Schultz is recommending is the appropriate amount for recovery through the storm cost recovery mechanism.
 - b. Identify which of these adjustments have been made in subsequent filings by DEF already as part of the normal process of filing actual Storm costs.

RESPONSE:

- a. Exhibit No. HWS-2, Schedule A, Pages 1 and 2 of 4.
- b. The Company has the specifics of its changes made. Based on a review of changes the known changes include the reclassification of \$940,000 of transmission costs from materials and supplies to contractors. The \$1.7 million of cost for line contractors incorrectly charged to the storm appears to be costs questioned in discovery and noted as an error in the response to discovery. The adjustments are shown on lines 285 and 286 of Exhibit HWS-2, Schedule F, Page 6g.

RESPONSE:

- a. In one instance while traveling from Texas to Michigan there was reportedly a tornado in the area where I was traveling in a heavy truck and a utility truck was in front of me and I did attempt to clock the vehicle but it drove faster than I was willing to due to the driving rain fall and wind.
 - b. Clocking travel speeds of another vehicle is done by setting one's speed at the pace the vehicle(s) being clocked are moving.
45. On page 48, lines 22-24, Witness Schultz recommends that Duke be required to separately identify the amount of hours and costs that are associated with mobilization/demobilization and standby time. The Irma settlement includes process improvement policies for Billing Start Points, Travel Time Billing, Pace of Travel and GPS Tracking Guidance that addresses this issue. Please explain what, in addition to these process improvement policies DEF is already implementing, Witness Schultz is you recommending?

RESPONSE: The process improvements would allow the Company to identify the hours of travel and from that the Company could identify the costs associated with travel. An additional process would include monitoring standby time as this would allow the Company to determine whether its policies and procedures then in effect are reasonably minimizing costs because it will provide an indication as to whether contractors are being utilized to a reasonable maximum of availability.

46. On page 50, lines 6-9, Witness Schultz states that the labor rate used to develop capitalizable costs is based on a simple average calculated based on internal labor and native contractor rates that are then multiplied by the number of hours for each unit of property to come up with an estimated capital labor to install. This does not come close to reflecting the actual costs associated with replacing plant after a storm. The process used by DEF was detailed and approved by the Commission in Order PSC-2019-0232-AS-EI in Docket 20170272-EI. Please state explicitly where DEF deviated from this approved methodology.

RESPONSE: The referenced Order was approving a settlement and the witness is not aware that the capitalization process was specifically approved by the Commission as its official policy in lieu of the express language of the rule. Please see Mr. Schultz's testimony on Page 50 where he points out that the company used a simple average of internal and native contractor labor to determine the amount capitalizable. The Settlement process calls for a simple average of hourly foreign and native contractor costs to be used.

47. On page 66, lines 5-15 and lines 19-24, Witness Schultz recommends that the FPSC mandate that the utility companies provide supporting cost documentation and testimony with the initial petition for storm cost recovery to eliminate the need for discovery and accelerate the schedule for the utility's request.
- a. Please identify the types of supporting documentation Witness Schultz contemplates being provided.
 - b. Please explain how this will reduce the need for discovery by FPSC Staff and intervening parties.
 - c. Please explain how this will accelerate approval of a Florida utility's request for storm cost recovery.

RESPONSE:

- a. The supporting documentation would include the copies of the invoices typically requested as part of the discovery process, the calculations showing how the incremental costs are calculated and the calculations of capitalized costs.
 - b. If the documents are provided with the filing the discovery questions typically asked would not be required and the review process could begin more expeditiously since time is saved in writing discovery and the allowed response time.
 - c. See response to b.
48. On page 66, lines 17-24, Witness Schultz states that the Massachusetts Department of Public Utilities is required to provide all supporting documentation at the time the petition and discovery are filed.
- a. Please explain how this has eliminated the need for discovery?

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**IN RE: PETITION FOR LIMITED PROCEEDING FOR RECOVERY OF
INCREMENTAL STORM RESTORATION COSTS RELATED TO HURRICANE
MICHAEL AND TROPICAL STORM ALBERTO BY DUKE ENERGY
FLORIDA, LLC.**

FPSC DOCKET NO. 20190110-EI

REBUTTAL TESTIMONY OF THOMAS G. FOSTER

JULY 31, 2020

1 **I. INTRODUCTION AND QUALIFICATIONS.**

2 **Q. Please state your name and business address.**

3 A. My name is Thomas G. Foster. My business address is Duke Energy Florida, LLC,
4 299 1st Avenue North, St. Petersburg, Florida 33701.

5

6 **Q. Have you previously filed direct testimony in this docket?**

7 A. No.

8

9 **Q. By whom are you employed and what is your position?**

10 A. I am employed by Duke Energy Florida, LLC (“DEF” or the “Company”) as Director
11 of Rates and Regulatory Planning.

12

13 **Q. Please describe your duties and responsibilities in that position.**

14 A. I am responsible for the Company’s regulatory planning and cost recovery, including
15 the Company’s Storm Cost Recovery Filings.

1

2 **Q. Please describe your educational background and professional experience.**

3 **A.** I joined the Company on October 31, 2005 in the Regulatory group. In 2012,
4 following the merger with Duke Energy Corporation , I was promoted to my current
5 position. I have 6 years of experience related to the operation and maintenance of
6 power plants obtained while serving in the United States Navy as a Nuclear Operator.
7 I received a Bachelor of Science degree in Nuclear Engineering Technology from
8 Thomas Edison State College. I received a Master of Business Administration with a
9 focus on finance from the University of South Florida and I am a Certified Public
10 Accountant in the State of Florida.

11

12 **II. PURPOSE AND SUMMARY OF TESTIMONY.**

13 **Q. What is the purpose of your testimony?**

14 **A.** The purpose of my testimony is to provide the Company's rebuttal to inaccurate
15 assertions and incorrect conclusions contained in the direct testimony of OPC
16 Witness Schultz.

17

18 **Q. Are you sponsoring any exhibits to your testimony?**

19 **A.** Yes. I am sponsoring the following exhibit to my testimony:

- 20 • Exhibit No. __ (TGF-1) – Excerpts from OPC's Responses to DEF's First Set of
21 Interrogatories to OPC.

22

23 **Q. Please summarize your testimony.**

1 A. My testimony addresses certain inaccurate or mischaracterized assertions and
2 erroneous conclusions in OPC Witness Schultz’s testimony. I have not attempted to
3 rebut each and every factual error or misconception contained in this testimony, but
4 have rather concentrated on the four topics outlined below. Other points requiring
5 correction and/or clarification are addressed by the rebuttal testimonies of Mr.
6 Cutliffe and Mr. Morris.

7

8 With regard to Witness Schultz’s testimony, I generally focus on four topics:

- 9 • His assertion of selective use of the provisions of the Storm Cost Settlement
10 Agreement (“Agreement”), approved in Order No. PSC-2019-0232-AS-EI, to
11 determine recoverable storm restoration costs;
- 12 • His concern regarding compliance with the Agreement and Rule 25-6.0143,
13 F.A.C.;
- 14 • His concern regarding control over storm restoration costs; and
- 15 • His request for additional filing requirements in storm cost recovery dockets.

16

17 **III. Alleged Selective Use of the Storm Cost Settlement Agreement.**

18 **Q. Do you agree with OPC Witness Schultz’s multiple assertions that DEF used**
19 **selective provisions of the Agreement as a basis for storm cost recovery?**

20 A. No. Before explaining how DEF approached compliance with the Agreement, it is
21 important to remember the timeline: Hurricane Michael made landfall on October 10,

1 2018, and the Agreement was filed on April 9, 2019,¹ and approved on June 13, 2019
2 (the “Implementation Date” of the Agreement). Because the restoration work
3 occurred prior to the Implementation Date of the restoration-related provisions, those
4 provisions obviously could not be followed when performing restoration work.

5
6 DEF has consistently expressed that it adhered to the Incremental Cost Methodology
7 Addendum (“ICMA”) of the Agreement, where possible, after the Implementation
8 Date of the Agreement, and as stated in the Agreement, adhered to the restoration-
9 related provisions, where possible, during the 2019 storm season, and would fully
10 implement the Agreement for 2020. This is explained in DEF Witness Morris’ Direct
11 and Rebuttal Testimonies, the Agreement itself, and DEF’s discovery responses in
12 this docket:

- 13
14 • **Tom Morris’ November 22, 2019, Direct Testimony, footnote 1**, *“The*
15 *Agreement was entered and approved after Hurricane Michael made landfall*
16 *and the restoration efforts were largely complete. Per the terms of the*
17 *Agreement, its provisions and process modifications became applicable as of*
18 *the date the Commission approved the Agreement, or June 13, 2019.*
19 *Therefore, the Hurricane Michael restoration and rebuild efforts were*
20 *undertaken pursuant to the same policies and procedures that existed prior to*
21 *the Agreement. DEF has endeavored to follow the Agreement’s provisions*

¹ DEF filed a technical correction to the Agreement on April 18, 2019 (correcting a scrivener’s error), and a Motion to Approve an Amended Settlement Agreement on May 15, 2019.

1 *related to accounting work, although this was not always possible due to*
2 *procedures that were in place during the actual restoration work.”*

- 3
- 4 • **Agreement, Page 8, Section 6**, “. . . *the Company will make a good faith*
5 *effort to implement as many of the new processes and procedures reflected*
6 *below for the 2019 hurricane season as possible and will fully implement the*
7 *processes and procedures for the 2020 hurricane season.”*

- 8
- 9 • **DEF’s response to Citizen’s First Set of Interrogatories (Nos. 1-39) served**
10 **August 15, 2019, and November 22, 2019 (Supplemental Response):**
11 *Please note, the Storm Cost Settlement Agreement (“Agreement”) agreed to*
12 *in Docket No. 20170272-EI was entered and approved after Hurricane*
13 *Michael made landfall and the restoration efforts largely complete. Per the*
14 *terms of the Agreement, its provisions and process modifications became*
15 *applicable as of the date the Commission approved the Agreement (i.e., the*
16 *Implementation Date), or June 13, 2019. Therefore, the Hurricane Michael*
17 *restoration and rebuild efforts were undertaken pursuant to the same policies*
18 *and procedures that existed prior to the Agreement. To the extent possible,*
19 *DEF has endeavored to follow the Agreement’s provisions related to post*
20 *restoration work (e.g., capitalization, determining incremental costs, etc.);*
21 *however, as described in DEF’s responses to specific requests, this was not*
22 *possible in all instances.*

23

1 **Q. Does using the Agreement where possible conflict with Rule 25-6.0143, F.A.C.**
2 **(“Rule”)?**

3 A. No. The incremental storm cost methodology contained in the Agreement is
4 consistent with the Rule, and therefore following the provisions of that methodology
5 is by definition consistent with the Rule. In fact, OPC has already conceded as much
6 so it is concerning that Witness Schultz appears to contradict that position now. Per
7 Section II.E. of the Agreement, “The Consumer Parties agree that the [Incremental
8 Cost] methodology explained below is a reasonable approach to identifying
9 incremental storm costs as that concept is used in the rule.” This statement should
10 foreclose OPC from arguing that any calculation done pursuant to the Agreement fails
11 to comply with the Rule.

12
13 **IV. Compliance with the Agreement and Rule 25-6.0143.**

14 **Q. Do you agree with Witness Schultz’s statement on page 40, lines 13-15, “The**
15 **Commission should give Duke a proper incentive to maintain a log of the travel**
16 **time so Duke can determine whether contractors are taking advantage of the**
17 **situation by overbilling for travel time?”**

18 A. No. There is no need for a new Commission incentive regarding travel time. Travel
19 policies are already outlined in the Process Improvements section of the Agreement.
20 DEF should have an opportunity to implement the Process Improvements agreed to in
21 the Agreement before additional processes or procedures are added to the Company’s
22 restoration efforts. I would also note that not only does the Agreement have a
23 specific mechanism for DEF and the Consumer Parties to discuss modifications to the

1 Agreement,² but also that OPC specifically agreed that it would not seek to impose
2 additional processes or procedures related to the Company's storm restoration
3 policies without the Company's agreement.³ For these reasons alone, OPC's
4 argument should be rejected, and Mr. Cutliffe's rebuttal testimony will provide the
5 Company's substantive response regarding the Company's management of travel
6 time.

7

8 **V. Control Over Costs.**

9 **Q. Do you agree with Witness Schultz's assertion on page 5, lines 6-9, that DEF**
10 **does not have enough incentive to monitor its storm costs?**

11 A. No. As with all of the Company's expenditures, storm costs are only recoverable to
12 the extent they are prudently incurred. Storm cost recovery proceedings have
13 historically been very heavily reviewed by various parties, and ultimately DEF can
14 only recover prudent costs. This provides ample incentive for DEF to prudently
15 control its costs. DEF is bound by Agreement and Rule to determine its recoverable
16 storm costs in accordance with the ICCA methodology. The Agreement outlines the
17 Incremental Cost Methodology that DEF must follow to calculate incremental storm
18 costs, which are subject to audit by Commission Staff (as occurred in this docket), an
19 independent outside firm for the first storm response that triggers the threshold in the
20 Agreement, and extensive discovery by intervening parties. In this docket, DEF
21 received a clean financial audit report from the FPSC's Office of Auditing and

² "The Parties will meet to evaluate the procedures and consider the need to amend them during the first quarter of 2022 and every three years thereafter." Agreement, ¶ 6.

³ "No Party to this Storm Cost Settlement Agreement will request, support or seek to impose a change to any provision of this Storm Cost Settlement Agreement without the agreement of the other Parties." Agreement, ¶ 7.

1 Performance Analysis⁴ and process and procedure audit report with no adverse
2 findings.⁵

3

4 Witness Schultz appears to be conflating burden of proof with timing of recovery.
5 For example, he stated in OPC's Response to DEF's First Set of Interrogatories to
6 OPC, number 13:

7 *The SCRM creates a situation where the OPC (or other intervenor) has to*
8 *individually review and determine the propriety of costs, with hundreds if*
9 *not thousands of individual invoices to review, and the burden effectively*
10 *shifts to the party challenging the cost that is already being paid for by*
11 *customers. If an intervenor does not challenge an invoice, it is*
12 *automatically and permanently recovered. Knowledge that this is the*
13 *process that will occur, appears to create a disincentive for the company*
14 *to keep down costs and to manage large cost drivers such as mobilization*
15 *and standby costs.*

16

17 What Witness Schultz fails to explain, and what does not logically follow from his
18 concern, is *why* the timing of the review of costs has any bearing on the Company's
19 burden of proof or the expected level of scrutiny its costs and supporting
20 documentation will receive. Indeed, if his concern was valid, which it is not, the
21 propriety of cost recovery clauses, where costs are recovered as incurred and
22 reviewed for prudence after recovered, would be called into doubt. Moreover,

⁴ See Exhibit No. ___ (SOO-1) to the Direct Testimony of Staff Witness Ojada, filed July 2, 2020.

⁵ See Exhibit No. ___ (CV-1) to the Direct Testimony of Staff Witness Vinson, filed July 2, 2020.

1 Witness Schultz fails to account for the fact that DEF’s actual filing and subsequent
2 additional true up show that the process is working exactly as intended: DEF was
3 permitted to begin recovering its estimated costs (a process that is still on-going),
4 subsequently made its actual filing (which resulted in a decrease in the requested
5 recovery), and after additional review, made a later true-up filing that further reduced
6 the requested recovery. Finally, because the Commission always has the final say
7 over what amounts are recovered and can order refunds it deems appropriate (or in
8 this case, a cessation of the use of tax savings to pay for the costs earlier than
9 anticipated), customers remain fully protected from imprudent costs.

10

11 **Q. Do you agree with Witness Schultz’s testimony on page 32, lines 13-15, that OPC**
12 **is the only party that routinely performs an in-depth review of storm costs?**

13 A. No. As stated above, DEF is subject to audits by FPSC staff. Also, all intervening
14 parties and Staff have a right to issue discovery on storm recovery costs. In addition,
15 as stated in DEF’s response to Citizens’ First Set of Interrogatories (No. 3), DEF
16 performed a detailed review of invoices related to Hurricane Michael restoration
17 work.

18

19 **Q. Do you agree with Witness Schultz’s testimony on page 10, lines 24-25 that the**
20 **ongoing collection of storm costs that was previously authorized on an interim**
21 **basis is based on the premise that the filing was 100% accurate?**

22 A. No. Paragraph 38c of the 2017 Second Revised and Restated Settlement Agreement
23 (“2017 Settlement”), approved in Order No. PSC-2017-0451-AS-EU, states that “the

1 parties agree that recovery from customers for storm damage costs will begin, subject
2 to Commission approval on an interim basis, 60 days following the filing of a cost
3 recovery petition with the Commission and subject to true-up pursuant to further
4 proceedings before the Commission.” It is the normal process for DEF (and the other
5 Florida utilities with similar Storm Cost Recovery Mechanisms) to file an estimate of
6 the costs and then later come in with a more detailed accounting or “true-up” of the
7 actual costs incurred. This trued-up amount is what the utility ultimately collects
8 from customers and prevents DEF from over or under-collecting from customers.

9

10 Witness Schultz states in OPC’s Response to DEF’s First Set of Interrogatories (No.
11 13), that “the SCRM was not intended to provide any assumption of correctness,
12 reasonableness or prudence to the costs that were estimated for recovery.” As
13 discussed above, DEF agrees that recovery of the costs through the SCRM, subject to
14 true-up, does not alter the burden of proof. That said, this statement clearly
15 contradicts his assertion on page 10, lines 24-25 of his testimony where he states “the
16 ongoing collection that was provisionally authorized on an interim basis only is based
17 on the premise that the filing was 100% accurate.” Here, it appears that OPC is
18 ascribing the “assumption of correctness” – or indeed, 100% accuracy to DEF’s filing
19 of *estimated* costs to begin *interim* recovery. As discussed above, the SCRM process
20 ensures that DEF only recovers prudently incurred storm costs from its customers as
21 determined by the Commission.

22

23 **VI. Additional Filing Requirements.**

1 **Q. Witness Schultz argues that additional supporting cost documentation should be**
2 **provided when a utility seeks to recover storm costs. Do you agree?**

3 A. No. Witness Schultz’s argument contradicts Section II.C of the Agreement that
4 states: “*All supporting documentation referenced under II.A will be provided to*
5 *intervenors in response to an agreed standardized discovery request shortly after*
6 *filing of testimony.*” His argument also conflicts with the provision of the Agreement
7 that sets out the process the Parties to the Agreement agreed upon to modify the
8 Agreement, and completely contradicts the provision of the Agreement where each
9 Party agreed that it would not seek to impose any change to the Agreement without
10 the other Parties’ agreement. *See* footnotes 2 & 3, above.

11
12 **Q. Do you agree with Witness Schultz’s testimony on page 66, lines 6-12, that**
13 **“...the Commission mandate additional filing requirements when a utility seeks**
14 **to recover storm costs. Duke incurred a significant amount of costs that**
15 **included substantial non-productive costs for mobilization and standby time that**
16 **served only to bloat the invoiced cost that its customers are now paying, during**
17 **the time for restoring service to customers after Hurricane Michael. When a**
18 **utility begins recovering storm costs on an interim and unproven basis, the**
19 **supporting cost documentation and testimony should be provided**
20 **simultaneously with the petition seeking cost recovery?”**

21 A. No. For the reasons outlined immediately above and in footnotes 2 and 3, I not only
22 disagree that this documentation should be required to be provided at the time of
23 filing rather than through the discovery process, but because OPC explicitly agreed to

1 this process when it executed the Agreement, OPC should now be barred from
2 making this argument.

3

4 **Q. Assuming that OPC was not barred from making this argument, do you agree**
5 **with Witness Schultz’s testimony on page 66, lines 19-24 where he suggests that**
6 **by providing all supporting documentation and testimony with the petition**
7 **seeking storm cost recovery would eliminate discovery and reduce the risk of**
8 **customer overpayment?**

9 A. Absolutely not. As mentioned previously, the 2017 Settlement, paragraph 38c allows
10 DEF to recover storm damage costs from customers on an interim basis 60 days
11 following the filing of a cost recovery petition with the Commission subject to true-
12 up pursuant to further proceedings. This allows DEF to file a good faith estimate of
13 its preliminary storm costs in order to begin recovering costs it incurred to restore
14 service to customers. DEF subsequently files its actual storm costs along with
15 testimony and supporting exhibits which are subject to discovery and review by
16 Commission Staff and intervening parties. This procedure ensures that DEF only
17 recovers its prudently incurred costs and the timing of when the supporting
18 documentation is provided is irrelevant. Moreover, filing testimony and fully
19 supported documentation with the initial petition (which is based on estimated costs)
20 would only serve to *increase* discovery and result in duplication of effort for all
21 parties because it would result in supplemental discovery requests and responses to
22 update the information when actual costs are known, including the easily foreseeable
23 requests for “variance explanations” between the estimated costs and supporting

1 documents and the actuals when produced. Even if not prohibited by the Agreement,
2 this proposal should not be implemented as it would simply reduce administrative
3 efficiency with no benefit to customers.

4

5 **V. Conclusion.**

6 **Q. Mr. Foster, have you responded to every contention regarding the company's**
7 **proposed plan Storm Cost Recovery request in your rebuttal?**

8 A. No. I addressed the major points within my field of expertise that I felt required
9 rebuttal; my decision not to refute each individual characterization of fact or opinion
10 in Witness Schultz' testimony should not be understood as agreement with those
11 points. Moreover, Witnesses Cutliffe and Morris have concurrently filed rebuttal
12 testimony directed at multiple other mischaracterizations and misconceptions
13 contained in that testimony.

14

15 **Q. Does that conclude your testimony?**

16 A. Yes.

RESPONSE: Helmuth W. Schultz, III: No report was produced other than any prefiled testimony filed in the dockets listed in HWS-1.

12. Please describe the method of compensation for each expert and the amount of expert fees incurred as of the date of the response to these Interrogatories.

RESPONSE: Mr. Schulz is compensated under a Professional Services Contract that pays him an hourly rate plus out-of-pocket expenses. To date Mr. Schultz has been paid \$64,837.07 for his work on this Docket.

13. Please identify all facts supporting Witness Schultz's assertion (Page 5, lines 7-9) that the SCRM "has created a situation where the Company has an inadequate incentive to control costs in the times immediately preceding, during and after a storm event."

RESPONSE: See the testimony of Helmuth W Schultz III at pages 3-7, 11-12, 56-62 Part of the concern arises when the operation of the SCRM coincides with a failure to strictly follow Rule 25-6.0143, Florida Administrative Code ("F.A.C."), and to consistently apply all the terms of the Storm Cost Settlement Agreement approved in Docket No. 20170272-EI ("Agreement").

The SCRM had its origin in Order No. PSC-2010-0398-S-EI, issues on June 18, 2010. By all appearances the intent was to provide relief to the company in the form of up-front cost recovery of its preliminary estimate of storm costs on an interim basis with a full hearing contemplated to follow. This provision was carried forward in 2012, 2013 and 2017 stipulations. DEF has sought recovery under the 2013 agreement (approved in Order No. PSC-2013-0598-EI) (Irma - settled) and the 2017 agreement (approved in Order No. PSC-2017-0451-AS-EI) (Michael and Dorian - pending). The SCRM also has a provision to allow customers to be surcharged to restore the storm reserve level to a pre-defined level.

It appears the intent of the upfront recovery mechanism was to allow the company to pay for costs of significant storms that drained the storm reserve without having to resort to

capital markets. It was also apparently intended to obviate the need to establish an accrual for revenue requirement recovery in order to fund or provision a storm reserve.

The SCRM, by all appearances, was not intended to provide any presumption of correctness, reasonableness or prudence to the costs that were estimated for recovery. Nor was it supposed to shift the burden of proof to customers or relieve the company of the burden of proof it would have if it had to prove up costs before any cost recovery was allowed. Absent the SCRM, a company had traditionally and historically had to file a tariff and petition for cost recovery and wait months for the hearing process to occur and then only begin recovering costs after a hearing and vote (usually an eight-month process). In the traditional post-hearing recovery of costs, the burden clearly rested on a company to demonstrate up front the reasonable and prudent nature of its expenditures.

The SCRM creates a situation where the OPC (or other intervenor) has to individually review and determine the propriety of costs, with hundreds if not thousands of individual invoices to review, and the burden effectively shifts to the party challenging the cost that is already being paid for by customers. If an intervenor does not challenge an invoice, it is automatically and permanently recovered. Knowledge that this is the process that will occur, appears to create a disincentive for the company to keep down costs and to manage large cost drivers such as mobilization and standby costs.

Regrettably, in the only adjudicated SCRM case to-date, the Commission signaled that \$509 per hour PER man (\$2036 per hour per four-man crew) for mobilization is a reasonable cost for customers to pay. See Order No. 2019-0114-EI at 10. (FPUC - Irma). This signal, coupled with the advance recovery SCRM mechanism, provides little to no incentive for a company to control costs - especially in the acquisition of reasonable-cost resources, incurrence of mobilization costs or excessive pre-emptive resource acquisition. Improper allocation of contractor resources among affiliates may also be facilitated by the burden shifting and lack of incentive to hold down costs that effectively occurs in the SCRM environment.