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17 behalf of the Federal Executive Agencies.

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20 Boulevard, Tallahassee, Florida 32399-0850, appearing on
21 behalf of the Florida Public Service Commission Staff.

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1 APPEARANCES CONTINUED:

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6 Service Commission.

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EXHIBITS

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1 P R O C E E D I N G S

2 CHAIRMAN CLARK: All right. All of these
3 parties are ready to go this morning. We're going
4 to go ahead and get started. I'll call this
5 hearing to order. Today is September 15th. It's
6 9:30 a.m. I'd ask staff, if they would, to please
7 read the notice.

8 MR. TRIERWEILER: By notice issued on
9 August 31st, 2020, this time and place was set for
10 a hearing in Docket No. 20190038-EI. The purpose
11 of the hearing is more fully set out in the notice.

12 CHAIRMAN CLARK: All right. Thank you,
13 Mr. Trierweiler.

14 Let's take appearances now. We'll begin with
15 Gulf Power.

16 MR. BADDERS: Yes, Mr. Chairman, good morning.
17 This is Russell Badders on behalf of Gulf Power. I
18 also have Jason Higginbotham, entering an
19 appearance for him, and for Ken Rubin.

20 CHAIRMAN CLARK: All right. Thank you very
21 much, Mr. Badders.

22 OPC.

23 MR. DAVID: Yes, Mr. Chairman. This is Tad
24 David on behalf of the Office of Public Counsel.
25 And I'd also like to enter an appearance for J.R.

1 Kelly, Public Counsel, please.

2 CHAIRMAN CLARK: Thank you, Mr. David.

3 Federal Executive Agencies.

4 CAPTAIN FRIEDMAN: Good morning, sir. This is
5 Captain Rob Friedman on behalf of FEA. I'm also
6 joined by Mr. Drew Jernigan, who is on by
7 telephone.

8 CHAIRMAN CLARK: All right. Thank you,
9 Mr. Friedman.

10 And Commission staff.

11 MR. TRIERWEILER: Walt Trierweiler for
12 Commission staff, and I'd like to make an
13 appearance for my co-counsel, Shaw Stiller.

14 CHAIRMAN CLARK: Thank -- thank you,
15 Mr. Trierweiler.

16 MS. HELTON: And Mary Anne Helton is here as
17 your adviser along with your general counsel, Keith
18 Hetrick.

19 CHAIRMAN CLARK: All right. Great. Did we
20 get everybody? Is anybody missing?

21 All right. Let's move into preliminary
22 matters. Staff, do we have anything we need to
23 address?

24 MR. TRIERWEILER: State buildings are
25 currently closed to the public, and other

1 restrictions on gathering remain in place due to
2 COVID-19. Accordingly, this hearing is being
3 conducted remotely with the parties participating
4 by the communications media technology.

5 Members of the public who want to observe or
6 listen to this hearing may do so by accessing the
7 live video broadcast, which is available from the
8 Commission website. Upon completion of the
9 hearing, the archived video will also be available.

10 Each person participating today needs to keep
11 their phone or device muted when they are not
12 speaking and only unmute when they are called upon
13 to speak. If they do not keep their phone muted or
14 put the phone on hold, they may be disconnected
15 from the proceeding and will need to call back in.
16 Also, telephonic participants should speak directly
17 into their phone and not use the speaker function.

18 Staff is aware of no other matters at this
19 time.

20 CHAIRMAN CLARK: All right. Thank you very
21 much.

22 Do any of the parties have any preliminary
23 matters to address? All right. Seeing none.

24 Staff, what is the current status of the
25 proceeding?

1 MR. TRIERWEILER: There is a joint settlement
2 agreement and stipulation before the Commission
3 today, which was filed by all three parties on
4 August 25th, 2020. The purpose of today's hearing
5 is to address whether it is in the public interest
6 for the Commission to approve this settlement
7 agreement.

8 CHAIRMAN CLARK: All right. Thank you,
9 Mr. Trierweiler.

10 All right. Now we're going to hear opening
11 statements. Each party is going to be given five
12 minutes to make their opening statement. We're
13 going to go in the order -- Gulf Power will go
14 first, followed by the Office of Public Counsel,
15 and then we will move into FEA.

16 Mr. Badders?

17 MR. BADDERS: Thank you. Good morning. I'll
18 stay well under the five minutes. Good morning,
19 Commissioners. This is Russell Badders on behalf
20 of Gulf. We are here today on a joint motion of
21 Gulf, OPC, and FEA seeking Commission approval of
22 the stipulation and settlement resolving all issues
23 in this docket.

24 Gulf and the other signatories believe the
25 settlement is in the public interest and

1 respectfully request Commission approval.

2 Joint-motion settlements speak for themselves,
3 but I would like to spend just a minute summarizing
4 the key elements of the settlement agreement before
5 you today.

6 Briefly, the settlement has two main parts.
7 The first addresses the financial terms, and the
8 second addresses process provisions. Turning to
9 the financial terms, it's really very
10 straightforward.

11 The settlement provides for a \$5-million
12 reduction in the amount recoverable by Gulf through
13 the storm-recovery mechanism. It also defines how
14 we will calculate interest in the -- on the
15 unamortized reserve balance.

16 The second part of the settlement provides for
17 certain process provisions. These provisions are
18 geared towards data collection and minimizing
19 contractor costs in the future. These provisions
20 mirror those approved in a prior FP&L settlement
21 last year.

22 Gulf submits that the settlement represents a
23 reasonable compromise in this proceeding.

24 Considered as a whole, the settlement fairly and
25 reasonably balances the interest of customers and

1 the company.

2 Commissioners, I will close by thanking your
3 staff and -- and the parties for working with us.
4 And we respectfully request your approval of the
5 settlement agreement. I'm available to answer any
6 questions that you may have.

7 CHAIRMAN CLARK: Thank you, Mr. Badders.

8 All right. Mr. David. OPC.

9 MR. DAVID: Yes, good morning. And -- and
10 thank you, Commissioners, for your time this
11 morning.

12 I would like to first thank the other parties
13 in this docket and for the amicable discussions and
14 the constructive negotiations that resulted in the
15 settlement that is in front of the Commission
16 today.

17 From the beginning, the issues in this docket
18 were thoroughly developed and analyzed. The
19 parties filed comprehensive testimony and -- excuse
20 me -- which will be made part of the record, and
21 conducted extensive discovery.

22 Through the critical review of all of this
23 information, we were able to confidently assess
24 whether the settlement terms are in the best
25 interest of the customers we represent. We believe

1 they are.

2 Not to be redundant, but I -- I do want to
3 stress, again, a couple of the provisions that
4 Mr. Badders mentioned. First, the \$5-million
5 reduction in the recovery requested by Gulf will
6 provide an immediate benefit to customers while the
7 process improvements mentioned will -- that Gulf
8 will implement before the 2021 storm season will
9 ensure the benefits from the settlement continue
10 for customers well into the future.

11 Because of the well-thought-out terms of the
12 settlement, including the ones we've highlighted,
13 OPC believes the Commission should find the
14 settlement in the public interest and approve the
15 settlement. I'm available for any questions also.

16 And, otherwise, thank you for your time this
17 morning.

18 CHAIRMAN CLARK: Thank you, Mr. David.

19 All right. Moving to Captain Friedman with
20 FEA.

21 Captain Friedman, you are freezing up on us
22 here. Give it just a second. Let's see what's
23 happening.

24 Captain Friedman is in Pensacola and there may
25 be heavy rain and bad weather right now.

1 CAPTAIN FRIEDMAN: (Unintelligible.)

2 CHAIRMAN CLARK: Try it again.

3 CAPTAIN FRIEDMAN: I'll be brief.

4 (Unintelligible) this matter --

5 CHAIRMAN CLARK: Captain Friedman, we can't
6 understand anything you're saying. Are you
7 available to call in? Can you call in on the phone
8 and let us do yours via audio?

9 CAPTAIN FRIEDMAN: Is that any better now?

10 CHAIRMAN CLARK: That's better.

11 CAPTAIN FRIEDMAN: Good morning -- (technical
12 interruption) -- now.

13 CHAIRMAN CLARK: Yes, sir, we can hear you
14 now.

15 CAPTAIN FRIEDMAN: Let me try to stop the web
16 cam.

17 CHAIRMAN CLARK: We did not understand that
18 statement.

19 CAPTAIN FRIEDMAN: Yes, is that -- let me get
20 that set up here. One moment -- (technical
21 interruption) -- now.

22 Here. Let me try to call in, here.

23 MR. JERNIGAN: Mr. Chairman, this is Drew
24 Jernigan with the Federal Executive Agencies. Can
25 you hear me?

1 CHAIRMAN CLARK: Yes, sir, we can hear you
2 loud and clear.

3 MR. JERNIGAN: Since Mr. -- Captain Friedman
4 seems to be having some difficulties, if you
5 wouldn't mind, I -- I'll go ahead and make the
6 brief statement for him.

7 CHAIRMAN CLARK: Yes, sir, that will be fine.

8 MR. JERNIGAN: All right. Like the other
9 parties, I'd like to thank everyone for their
10 cooperation in working towards this settlement.
11 The Federal Executive Agencies and, in particular,
12 Tyndall Air Force Base, as everyone knows, was
13 significantly (technical interruption) by this.
14 And we were very -- very receptive and happy with
15 the response we got from Gulf Power in this.

16 Working towards the settlement, I'd like to
17 thank all the parties for what they have put into
18 this. And we agree with all parties that this is
19 in the public interest and request that it be
20 approved.

21 Thank you very much.

22 CHAIRMAN CLARK: All right. Thank you very
23 much. I appreciate your stepping in and -- and
24 filling in for us there.

25 All right. I believe that concludes all the

1 parties' opening statements. So, let's move on to
2 the record, Mr. Trierweiler.

3 MR. TRIERWEILER: Staff has prepared a
4 comprehensive exhibit list for this settlement
5 hearing, which includes Exhibits 1 through 36. The
6 list and the identified exhibits have been provided
7 to the parties, Commissioners, and the court
8 reporter.

9 Staff requests the comprehensive exhibit list,
10 itself, be marked as Exhibit No. 1; Gulf's
11 responses to staff's data request as Exhibit 35;
12 and the joint settlement agreement to be marked as
13 Exhibit 36.

14 CHAIRMAN CLARK: All right. These exhibits
15 are marked as identified.

16 (Whereupon, Exhibit Nos. 1, 35, and 36 were
17 marked for identification.)

18 MR. TRIERWEILER: It is staff's understanding
19 that the parties do not object to the Exhibits 1
20 through 36. Staff requests that the Exhibits 1
21 through 36 be entered into the record at this time.

22 CHAIRMAN CLARK: Without objection?

23 All right. They are moved into the record.

24 (Whereupon, Exhibit Nos. 1 through 36 were
25 admitted into the record.)

1 MR. TRIERWEILER: The parties have requested
2 that the prefiled direct testimony of Witnesses
3 Talley, Goldstein, Clark, Boyett, Kollen, and
4 Gorman, and the rebuttal testimony of Talley and
5 Goldstein be entered into the record as though
6 read.

7 CHAIRMAN CLARK: Without objection, they are
8 moved into the record.

9 (Whereupon, Witness Talley's prefiled direct
10 testimony was inserted into the record as though
11 read.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
GULF POWER COMPANY
DIRECT TESTIMONY OF PAUL A. TALLEY
DOCKET NO. 20190038-EI
NOVEMBER 15, 2019

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Q. Please state your name and business address.

A. My name is Paul A. Talley. My business address is Gulf Power Company, One Energy Place, Pensacola, Florida, 32520.

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

A. I am employed by Gulf Power Company (“Gulf” or the “Company”) as the Manager of Technical Services in the Power Delivery organization.

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

A. As Manager of Technical Services, I am responsible for the support functions and applications associated with operations of the transmission and distribution (“T&D”) electric grid. In this capacity, I am responsible for Gulf’s emergency preparedness and the overall coordination of the Company’s restoration activities for major events, ensuring the restoration of electric service to customers safely and as quickly as possible.

Q. Please describe your educational background and professional experience.

A. I have a Bachelor of Electrical Engineering from Auburn University. I joined Gulf in 1991, and I have over 28 years of technical and managerial experience in a variety of positions within Distribution, Transmission, and the Marketing organizations. Since 2016, I have been responsible for Gulf’s emergency preparedness. In this capacity, I have overseen the Company’s storm drill creation and execution, employee storm duty assignments, and storm training; coordinated the Company’s response to major events affecting its service area; and provided

1 oversight for Company personnel involved in mutual assistance restoration efforts
2 for other utilities.

3 **Q. Are you sponsoring any exhibits in this case?**

4 A. Yes. I am sponsoring the following exhibits:

- 5 • PAT-1 – Weather Advisory 1 – Hurricane Michael
- 6 • PAT-2 – Weather Advisory 8 – Hurricane Michael
- 7 • PAT-3 – Weather Advisory 21 – Hurricane Michael
- 8 • PAT-4 – Satellite Image of Hurricane Michael
- 9 • PAT-5 – Estimated Restoration Time Map
- 10 • PAT-6 – Gulf Power T&D Hurricane Michael Restoration Cost

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

12 A. The purpose of my testimony is threefold. First, I will provide an overview of
13 Gulf's emergency preparedness and restoration process. Next, I will describe the
14 details of the work completed and costs incurred by Gulf's T&D organization in
15 connection with Hurricane Michael. Specifically, I will explain Gulf's Hurricane
16 Michael storm preparations prior to the storm making landfall; the intense response
17 and restoration efforts that commenced as soon as storm conditions subsided
18 enough to allow work to be done safely; and the follow-up activities that continued
19 past the initial restoration period that were essential to restoring Gulf's facilities to
20 their pre-storm condition. Finally, I will discuss Gulf's highly successful
21 performance in restoring service to customers who experienced outages due to
22 Hurricane Michael, one of the most destructive storms to make landfall in the
23 continental United States and the only Category 5 hurricane to ever make landfall

1 in the panhandle of Florida. In covering these three areas, my testimony will
2 support both the prudence of Gulf's activities associated with the restoration
3 process and the reasonableness of the Hurricane Michael T&D restoration costs.

4
5 **II. GULF POWER'S EMERGENCY PREPAREDNESS PLAN &**
6 **RESTORATION PROCESS**

7
8 **Q. What is the objective of Gulf's emergency preparedness plan and restoration**
9 **process?**

10 A. The primary objective of Gulf's emergency preparedness plan and restoration
11 process is to safely restore critical infrastructure and the greatest number of
12 customers in the least amount of time so that the customers and the communities
13 we serve can begin their recovery process and bring some normalcy to their lives.

14 **Q. Describe generally how Gulf approaches this objective.**

15 A. This objective is achieved by extensive planning, training, and working within the
16 framework of Gulf's well-established and proven restoration process. This
17 approach has allowed Gulf to be flexible and effective over the years, enabling the
18 Company to scale and change its response based on the many variables that each
19 storm event presents. Gulf's emergency preparedness plan incorporates annual
20 process reviews for each area, includes lessons learned for on-system events and
21 when providing off system or mutual assistance support to other utilities,
22 implements new technologies, and provides employee training to ensure they are
23 prepared to perform their storm role when needed.

1 While Gulf's processes are in place to manage and mitigate the cost of restoration,
2 which includes actions taken prior to a storm event, the objective of safely restoring
3 electric service as quickly as possible cannot, by definition, be pursued as a "least
4 cost" process. Said another way, restoration of electric service at the lowest
5 possible cost will not result in the most rapid restoration.

6 **Q. What are the key components of Gulf's emergency preparedness plan?**

7 A. Gulf's emergency preparedness plan is the product of many years of planning,
8 development, and refinement. Moreover, it incorporates historical experience,
9 including knowledge and efficiencies gained from assisting other utilities in the
10 mutual aid process, and adopts best practices from across the industry. Key
11 components of the plan include:

- 12 • Disaster response policies and procedures;
- 13 • Scalable internal organizational structures based on the required response;
- 14 • Timelines for specific activities;
- 15 • Mutual assistance agreements and vendor contracts and commitments in
16 place;
- 17 • Plans and logistics for staging sites;
- 18 • Communication plans for customers, employees, community leaders,
19 Emergency Operations Centers ("EOC"), state officials and regulators,
20 including the Florida Public Service Commission ("Commission");
- 21 • A centralized Corporate Emergency Management Center ("CEMC" or
22 "Command Center") established to coordinate and manage all aspects of an
23 emergency response;

- 1 • Checklists and conference call agendas focused on situational awareness;
- 2 • Damage assessment collection and communication including field and
- 3 aerial patrols; and
- 4 • Systems to support the outage management process and customer
- 5 communications.

6

7 Gulf's emergency plan is comprehensive and flexible, giving the Company the
8 ability to facilitate a prompt and effective response to unique emergency situations,
9 in order to restore electric service safely and as quickly as possible.

10 **Q. Does Gulf regularly update its plan?**

11 A. Yes. As stated above, prior to storm season each year, Gulf reviews and updates its
12 emergency preparedness plan. This starts with a review and update involving the
13 emergency preparedness plan by the Command Center leadership team to ensure
14 staffing and critical personnel assignment roles are filled. Within the different
15 support areas, key components are reviewed such as logistics support and
16 preparations, customer communications plan, and telecommunication and computer
17 infrastructure readiness. In many cases, employees assume emergency
18 preparedness roles that differ from their daily responsibilities, and an annual review
19 ensures they are capable and trained well in advance to respond to any type of
20 event. An additional aspect of the annual review is to ensure that any best practices
21 and lessons learned from the previous year's training, drills, and actual responses
22 are memorialized within the Company's plan.

23

1 **Q. What else does Gulf do to prepare for each storm season?**

2 A. Gulf's Supply Chain organization increases inventory of critical restoration items,
3 and creates material "storm kits" that can be rapidly deployed to affected areas in
4 order to begin the restoration process.

5

6 The logistics team ensures that staging sites are available, and works with property
7 owners to renew agreements for the use of these sites. Services for parking, food,
8 laundry, medical, hotel coordination, and other large housing accommodations are
9 all reviewed with contractors and vendors to ensure contracts and agreements are in
10 place.

11

12 It is important to ensure availability and on-time delivery of these critical items and
13 services. This thorough planning and preparation, well-in-advance of hurricane
14 season, provides the foundation for a safe and rapid restoration process, when
15 needed.

16 **Q. Does Gulf regularly test its emergency preparedness plan?**

17 A. Yes. Each year, prior to the start of hurricane season, as part of Gulf's culture of
18 preparedness, the emergency preparedness plan is tested by conducting several
19 drills. Because many different types of events, not only named tropical storms,
20 could cause a major interruption of electric service, Gulf's emergency preparedness
21 plan is built to respond to a variety of potential service interruptions, and
22 accordingly, its annual drills have taken on many forms over the years. Given that
23 the most likely source of interruption is a hurricane, the drill's most common

1 approach is to simulate a hurricane impacting Gulf's service area so that Company
2 personnel can practice their storm roles. The drills are designed to provide a
3 realistic and challenging scenario that requires personnel to react to situations and
4 practice functions not generally performed during normal operations. These events
5 are typically full-scale scenarios that require participation by employees and
6 leadership representing every business unit in the Company, as well as optional
7 participation from external organizations and media representatives. Preparation
8 for the drills begins early in the year in order to create a scenario that is engaging
9 and effective for testing purposes. Gulf holds scheduled Command Center calls
10 leading up to the drill to replicate what occurs during the lead up to an actual storm
11 event. Additionally, the Power Delivery organization typically conducts several
12 internal training sessions and simulations leading up to the drill to ensure teams are
13 ready to respond. The drill itself puts leadership and employees in the field to
14 review substation procedures and conduct simulated damage assessments for
15 resource acquisition and management. It also includes engagement with customer
16 service, accounting, communications, information technologies, and every aspect
17 of business continuity and operations, including plants, transmission, and
18 distribution. In addition to the company-wide drill, many Command Center teams
19 conduct exercises within their area. They may even participate with external
20 organizations such as county or state EOCs as part of those organizational
21 exercises. All of this training is conducted during the course of ordinary business.
22 The costs of these activities are not charged to storm costs; therefore, they are not
23 part of the evaluation of costs the Commission is conducting in this proceeding.

1 **Q. How does Gulf respond when a storm threatens its service area?**

2 A. Gulf responds by implementing its thoroughly vetted plans well in advance of a
3 forecasted impact. When weather systems develop in the Atlantic Ocean or Gulf of
4 Mexico, Gulf begins monitoring and consulting available weather resources for the
5 latest information and storm forecast. The Gulf Command Center, which is the
6 centralized leadership and decision making organization during a restoration event,
7 begins working with their teams on preliminary preparations for addressing internal
8 and external resource requirements, logistics needs, and system operation
9 conditions. At regular intervals, the Command Center initiates conference calls for
10 the leadership team to ensure there are no exceptions or barriers to preparation
11 plans and to make sure everyone has the latest event information for their team.
12 The Command Center will be activated and all Company personnel alerted once
13 damage to the Gulf system is expected to occur within reasonable certainty. The
14 Command Center will then finalize staffing plans, forecast resource requirements,
15 develop initial restoration plans, and identify available resources from mutual
16 assistance utilities and contract services. If the storm continues to progress in a
17 manner that will impact Gulf's system, the Company continues to activate plans to
18 acquire and move resources toward the Florida panhandle, set staging site and
19 vendor commitments in motion, dispatch personnel to state and county EOCs, and
20 continue outreach to customers, media outlets, and community leaders regarding
21 preparations and the restoration process. All of these actions are taken to ensure
22 that restoration activities can begin as soon as crews can safely return to work.

1 **Q. Has Gulf had previous opportunities to execute its emergency preparedness**
2 **plan and overall restoration process?**

3 A. Yes. Over the years, Gulf has had several opportunities to activate its emergency
4 preparedness plan, all of which have added to the continual improvement and
5 refinement of the plan described above. In 2017, Hurricane Nate affected portions
6 of the panhandle and required a partial activation of the Command Center. In
7 September of 2018, there was another partial activation of the Command Center in
8 response to the effects of Tropical Storm Gordon. The 2018 full activation of the
9 Command Center for the Hurricane Michael response was the first full activation
10 since Hurricane Katrina during the 2005 storm season. Other partial activations of
11 the Command Center include Ice Storm Leon in January 2014, the flood event of
12 April 2014, and the back-to-back tornadoes in February 2016.

13 **Q. Did Gulf implement improvements to its emergency preparedness plans and**
14 **restoration process based on its experiences from these recent storms?**

15 A. Yes. Every restoration event is different, and each event presents opportunities to
16 learn and continue to refine our processes and planning. Even though 13 years had
17 passed between Gulf's last full activation for a live event and Hurricane Michael,
18 every partial activation was an important opportunity to train employees and build
19 experience within the team.

20 **Q. How does Gulf ensure the emergency preparedness plan and restoration**
21 **process are consistently followed for any given storm experience?**

22 A. Gulf maintains standards in the training and in work site management that ensure
23 consistency across the system for organization, work preparations, damage

1 assessment, and crew management. Storm plan requirements are documented in a
2 variety of manuals and training materials, job aides, checklists, and detailed
3 instructions. System data and restoration progress is continually monitored through
4 the storm and recovery period. During restoration, Gulf conducts multiple daily
5 calls among personnel stationed in the Command Center and in each business unit
6 to ensure consistency and progress. These calls include a focus on barriers, issues,
7 exceptions within the process, and solutions to address these issues. In addition,
8 the Command Center personnel routinely conduct field visits once restoration has
9 begun to validate restoration progress, assess remote work sites, and identify any
10 adjustments that may be required. With that said, Gulf's emergency preparedness
11 plan was created as a framework that allows for some flexibility by decision
12 makers in the Command Center and the field to adapt to the ever changing
13 situations associated with restoration work, meet the needs of their team, and
14 respond efficiently. Every storm situation is different, which requires the team to
15 stay within the framework of the plan while at the same time being efficient and
16 creative.

17 **Q. How does Gulf assess its workload requirements?**

18 A. Gulf uses historical responses to similar events, team experience to both on-system
19 and off-system events, and the framework of the emergency preparedness plan to
20 make initial damage predictions and preliminary workload requirements. As soon
21 as storm conditions subside enough to allow work to be done safely, initial
22 assessments are made of the damaged area, using both aerial and field patrols. This
23 is combined with customer outage information from Gulf's outage management

1 system. The restoration plan is continually adjusted based on available resources,
2 the location of those resources, and the timing of potential releases from other
3 utilities that may be completing restoration activities or are able to provide
4 resources once they are in the clear from possible storm impact.

5 **Q. How does Gulf acquire resources as a storm approaches with a probability**
6 **that it will impact the Company's service area?**

7 A. Gulf begins to acquire and assess available resources through three parallel paths:
8 (1) available contractors and company resources within affiliate companies; (2)
9 select contractors with which Gulf has established contracts and experience; and (3)
10 utilization of formalized industry processes to request mutual assistance resources
11 as a member of the Southeastern Electric Exchange ("SEE") and Edison Electric
12 Institute ("EEI"). As storm track certainty and forecast intensity continue to
13 validate a direct impact on Gulf's system, Gulf begins to financially commit to
14 acquire necessary resources and request that travel to or near the Florida panhandle
15 commence. Resource needs are continually reviewed and revised based on the
16 storm's forecasted path, intensity, and damage estimates.

17 **Q. Please provide detail on how Gulf acquires additional resources.**

18 A. As I described above, an important component of each restoration effort is Gulf's
19 ability to scale and adjust resources to match the anticipated workload. This effort
20 includes acquiring external contractors and mutual assistance from affiliate
21 companies, other utilities, within (e.g., other Florida investor-owned, municipal,
22 and cooperative utilities) and outside the State of Florida. Gulf is a founding
23 member and active participant of the SEE Mutual Assistance Group. While this

1 group is a non-binding entity, it provides Gulf and other members with guidelines
2 on how to request and obtain assistance from a group of approximately 60 utilities,
3 primarily located in the southern and eastern United States. The guidelines require
4 reimbursement for direct costs of all payroll and other expenses, including
5 roundtrip travel cost (i.e., mobilization/demobilization), when providing mutual aid
6 in times of an emergency. In addition, Gulf participates with EEI and the National
7 Response Event organization to gain access to other utilities with similar mutual
8 assistance agreements. Resource requests may include line crews (T&D),
9 vegetation management crews, assessment personnel, crew supervision, logistics
10 support, material-handling personnel and, in some cases, management support.

11 **Q. How does Gulf take cost into account when acquiring resources for storm**
12 **restoration?**

13 A. As indicated earlier, while a rapid and safe restoration of electrical service is the
14 primary objective in the aftermath of a major weather event, achieving that
15 objective may not allow for the least overall cost of restoration. With that being
16 said, Gulf is mindful of cost when acquiring resources. Preparation prior to storm
17 season includes negotiating contracts with vendors, which include line contractors,
18 tree trimming contractors, logistics, environmental, and other contractors. Many of
19 these contractors are those used by Gulf during normal operations. For line and
20 tree trimming contractors, Gulf similarly endeavors to acquire additional resources
21 through vendors with whom we have existing contracts and experience or through
22 affiliate companies. This process allows the Company to base acquisitions of
23 resources on a low-to-high cost model. Gulf also endeavors to release resources

1 following restoration in a reverse cost order, subject to the overriding objective of
2 quickest restoration time and related considerations. Gulf is mindful of travel
3 distance and time when procuring storm restoration resources, as longer distances
4 require increased drive time and can result in higher mobilization/demobilization
5 costs. Final contractor and mutual assistance resource decisions take into
6 consideration the number, availability, team makeup, relative labor cost, and travel
7 distance of available resources, along with projected restoration times to restore
8 electric service to customers.

9 **Q. In a storm event like Hurricane Michael, is there often competition for
10 resources as other utilities also prepare for potential impact?**

11 A. Yes. As multiple utilities are facing impact from a single event, this creates a
12 higher demand for resources in a given area and can cause a company to extend
13 their reach and potentially increase cost to gain the required resources. With all
14 aspects of a restoration event, there has to be flexibility within the plan to adapt and
15 successfully achieve the primary objective of a safe and rapid restoration response
16 for the customer.

17 **Q. Describe Gulf's plan for the deployment and management of the incoming
18 external resources.**

19 A. The deployment and movement of resources are coordinated through the Command
20 Center, utilizing a resource management tool, outage management system data, and
21 information from the field. The information from these areas is combined to
22 monitor the execution of the restoration plan. Daily management of the crews is
23 performed by the field operations organization. Daily analysis of workload

1 execution and restoration progress at the operating center level permits the dynamic
2 management of resources. This high degree of flexibility and mobility in allocating
3 and deploying resources in response to changing conditions and requirements
4 allows the field management team to be successful. Experienced management
5 teams along with well-trained Substation Team Leaders create the core model for
6 the efficient oversight of field work. During the course of event preparations and
7 restoration, decisions on specific resource acquisition, staging site locations and
8 activation, and work prioritization are made based on the best information available
9 at that time.

10 **Q. What controls are in place for the acquisition of resources?**

11 A. Gulf has a centralized process within the Command Center for the acquisition of all
12 external resources. Acquisition is based on approved targets set by Power Delivery
13 and Command Center leadership teams and reported out during all Power Delivery
14 and Command Center conference calls.

15 **Q. What processes and controls are in place to ensure the proper accounting of
16 the work performed by these resources and their time?**

17 A. External resources are processed through a “check-in” site to insure that team
18 rosters and information is correct and verified in the resource management system.
19 Once in the system, the Command Center assigns resources to an operation
20 manager and a subsequent Substation Team Leader, who is responsible for
21 managing the daily work for that team until they are released back to the Command
22 Center for redeployment or release, which is tracked in the resource management

1 system. Timesheets are verified as part of the invoice review process, as described
2 in Gulf witness Clark's testimony.

3 **Q. What logistics, logistics support personnel, and activities are required to**
4 **support the overall restoration effort?**

5 A. The logistics functions are key to a successful restoration effort. Ensuring that
6 basic needs and supplies are adequate and available to the thousands of restoration
7 personnel involved is critical. These functions include, but are not limited to, the
8 acquisition, preparation, and coordination of: staging sites, environmental services,
9 salvage, lodging, laundry, transportation, meals, ice and water, basic facilities, light
10 towers, generators, portable toilets, security guards, communications, fuel delivery,
11 medical, and construction materials. Agreements with primary vendors are in place
12 well before storm season as part of Gulf's emergency preparedness plan. Gulf
13 employees from across the Company staff many of the logistics roles and provide
14 oversight during an active restoration. Most of these employees are pre-identified,
15 trained and assigned to teams to provide site logistics management and support for
16 the restoration effort. Gulf contracts with multiple vendors to provide additional
17 logistics resources for larger restoration efforts that exceed internal support
18 capabilities.

19 **Q. Does Gulf have controls in place to ensure that necessary items for logistics are**
20 **procured and appropriately accounted for?**

21 A. Yes. Gulf's logistics function is responsible for overseeing and coordinating the
22 procurement of resources required to operate a staging site. The logistics
23 leadership and support team ensures that each staging site's resource requirements

1 are initially procured and received. The team provides guidance and assistance to
2 help ensure active financial controls are in effect during the restoration event.
3 These points are discussed in more detail by Gulf witness Goldstein.

4 5 III. HURRICANE MICHAEL

6
7 **Q. Please provide an overview of Hurricane Michael and how it impacted Gulf
8 and Gulf's customers.**

9 A. On Friday, October 5, 2018, at 10:00 am, Gulf received the first weather alert
10 associated with Disturbance 47 from the Company's meteorological service,
11 Exhibit PAT-1. The disturbance was located 340 miles southeast of Cozumel,
12 Mexico, and it was expected to strengthen to a Tropical Storm that would make
13 landfall in the Mobile, Alabama, area on Wednesday, October 10th, with sustained
14 winds of 45 mph. If the forecast held, Gulf's Western District would be on the east
15 side of the storm and receive high winds and significant rainfall.

16
17 By Sunday morning, October 7th, the forecast changed, and the latest models were
18 predicting a Category 1 Hurricane impacting the Destin, Florida area within Gulf's
19 Central District. The forecast was for 80 mph sustained winds, and maximum gusts
20 of 105 mph at the time the storm would make landfall, Exhibit PAT-2. At 1:00 pm
21 on October 7th, Governor Rick Scott declared a State of Emergency for the
22 counties in the panhandle of Florida.

1 On Tuesday, October 9th, the forecast continued to shift eastward with a potential
2 impact expected in the Bay County area, which includes Panama City, the
3 operations center for Gulf's Eastern District. As the storm forecast shifted toward
4 Panama City, the intensity of the storm continued to increase as the now-named
5 storm, Hurricane Michael, was predicted to make landfall as a powerful Category 3
6 major hurricane.

7
8 On Wednesday, October 10th, Hurricane Michael made landfall 20 miles southeast
9 of Panama City as a Category 5 hurricane with sustained winds of 160 mph, an
10 increase from the morning forecast, Exhibit PAT-3, as the storm continued to
11 strengthen. At a pressure of 919 millibars, Hurricane Michael ranks as the third
12 strongest storm to ever make landfall in the continental United States. When
13 measured by wind speed, Hurricane Michael is currently the fourth strongest storm
14 to make landfall in the continental United States. Moreover, as a Category 5 storm,
15 Hurricane Michael was the strongest storm to ever make landfall in the panhandle.
16 Hurricane-force winds extended 45 miles from the eye, and tropical storm force
17 winds extended 175 miles from the storm center. As can be seen in the satellite
18 view depicted in Exhibit PAT-4, Hurricane Michael's strong weather bands and
19 wind fields covered the entire Gulf system.

20
21 Hurricane Michael battered Bay County and the surrounding area for hours. As the
22 storm crossed the panhandle of Florida and moved into Alabama and Georgia, the
23 storm was still a major hurricane as a Category 3 storm.

1 Hurricane Michael was a devastating and extremely destructive storm. It damaged
2 trees, destroyed homes and businesses, created widespread power outages across
3 the entire Gulf service area with major damage to the Company's T&D system.
4 Communications of all types were virtually eliminated into and out of the Bay
5 County area, including emergency and 911 services. Hurricane Michael was
6 devastating to the people and communities in the panhandle at a level that had
7 never been experienced in this area.

8 9 IV. GULF'S RESPONSE

10
11 **Q. How did Gulf initially respond to prepare for the potential impacts of**
12 **Hurricane Michael?**

13 A. As I mentioned previously, Gulf's first notification of Disturbance 47 occurred at
14 10:00 am, on October 5, 2018, when the storm was 340 miles southeast of
15 Cozumel, Mexico. At 1:00 pm that same afternoon, the emergency preparedness
16 team hosted the first Command Center call for initial preparations and planning for
17 the following week. The storm was monitored throughout the weekend by the
18 emergency preparedness team and leadership. When the Sunday morning forecast
19 on October 7th moved the storm path toward the east with the potential to impact
20 Destin, Florida, as a Category 1 hurricane, the second call was scheduled for that
21 afternoon. It was critical that the Command Center leadership team understood the
22 potential impact of 80 mph winds and storm surge on the system. It was also
23 critical that storm response teams began preparations first thing Monday morning,

1 October 8. Governor Scott’s declaration of a State of Emergency for the panhandle
2 on October 7th elevated the community response as well.

3
4 On Monday, October 8th, Gulf had several internal Command Center preparation
5 calls throughout the day. Communication with affiliate companies within the
6 Southern Company began as preparations were made for possible impact of three
7 different companies within the Southern family of companies. At this time, the
8 Company began communications with the SEE and member utilities to determine
9 available mutual assistance resources from across the region. The Company also
10 began securing contractor resources to support possible restoration efforts, started
11 internal preparations for the storm, making sure that employees were activating
12 their personal storm plans for their family and homes.

13
14 On Tuesday, October 9th, at 7:00 am, Gulf was activated to full emergency
15 operations mode with the full activation of the Command Center, including all
16 support personnel. At this point, the weather services continued to forecast
17 strengthening of the weather system with possible landfall in Panama City, located
18 in Gulf’s Eastern District, as a Category 3 hurricane. Preparations continued
19 throughout the day to secure resources, secure infrastructure and facilities, evacuate
20 employees, move equipment and materials, plan for staging sites and logistics,
21 activate fueling contracts, and other necessities for a major restoration effort. By
22 the end of the day, Gulf had approximately 3,200 transmission, distribution,
23 vegetation management personnel, and support personnel pre-staged in Pensacola,

1 Florida, outside of the Florida panhandle, or en route to the area for arrival
2 Wednesday evening, October 10th, when the storm was expected to exit the area.
3 Storm preparations continued throughout the day and into the night as the
4 Command Center and supporting leadership team made final plans and decisions.

5 **Q. What was the magnitude of damage to Gulf's T&D infrastructure and the**
6 **number of customers that experienced outages as a result of Hurricane**
7 **Michael?**

8 A. As a result of Hurricane Michael's path, size, the intensity of a Category 5 storm,
9 and associated tornadoes, all eight counties served by Gulf were impacted. The
10 distribution and transmission systems in Bay County were devastated by the 160
11 mph sustained winds that greatly exceeded design criteria associated with the
12 National Electrical Safety Code extreme wind loading standards. Over 140,000 of
13 Gulf's customers experienced an outage during Hurricane Michael. The peak
14 number of customers experiencing outages at one time was 125,452, which
15 occurred just after landfall on October 10, 2018. 96% of customers in Bay County
16 were without power as Hurricane Michael crossed into Alabama and Georgia. And
17 while the storm weakened after landfall, it remained a powerful and destructive
18 Category 3 hurricane as it left the state.

19 **Q. How did Gulf ultimately respond to the impacts of Hurricane Michael?**

20 A. To respond to Hurricane Michael, Gulf ultimately coordinated approximately
21 8,000 restoration personnel (approximately 1,000 Gulf employees and 7,000
22 external resources) – the largest restoration workforce that Gulf has ever
23 assembled. External resources came from 15 different states and Canada. To

1 support these resources and facilitate the restoration effort, Gulf established eight
2 staging sites, seven of them in Bay County, including one site that was not part of
3 initial preparation plans and was constructed a week into the restoration effort to
4 facilitate the construction resources that were needed to support the rebuilding
5 efforts in the hardest hit area of Panama City. The rebuilding of this area, from the
6 ground up in many cases, was extensive compared to the typical restoration work
7 that was encountered in other areas across the system.

8
9 As discussed previously, the damage to Gulf's T&D infrastructure was extensive.
10 For example, to restore service to customers, Gulf replaced over 200 miles of
11 distribution conductor, approximately 4,000 distribution transformers, and over
12 7,000 distribution poles. Tree damage was also extensive, requiring a significant
13 amount of line-clearing on both the transmission and distribution systems.
14 Additionally, to gain access to Gulf's facilities during restoration, significant effort
15 was necessary to remove fallen trees and tree branches from road ways and the
16 electric infrastructure.

17
18 Gulf's transmission system also sustained severe damage from the Category 5
19 hurricane winds that affected several transmission line corridors in Bay County
20 and the surrounding area. Typically, this type of transmission damage would not
21 be expected during a hurricane. However, 160 mph sustained winds, which were
22 present for several hours as the storm system moved across the area, are well
23 above even the extreme wind loading design criteria for these structures. To

1 restore transmission service, Gulf had to repair or replace over 100 miles of
2 transmission line and repair or replace 194 transmission structures.

3
4 As stated above, more than 140,000 customers across the entire Gulf system
5 experienced an outage from Hurricane Michael. While 99% of all customers who
6 could receive power were restored in 13 days, the vast majority of customers
7 located outside of the heavily damaged areas in Panama City were restored faster.
8 For example, more than 50% of customers had their service restored within 5 days
9 and more than 70% in 10 days. Based on the heavy damage to the electric system,
10 communication system, and other infrastructure in the area, local officials and
11 community leaders outside of Gulf were predicting a month to restore service to
12 many customers. Gulf, with assistance from restoration resources from across the
13 country, was able to restore electric service to all that could receive power in 13
14 days, bringing hope to a community devastated by the storm and its impact.
15 Please see Exhibit PAT-5 that shows the initial restoration plan and estimated
16 restoration times that Gulf was able to communicate to customers and achieve.

17
18 Gulf's effective pre-planning, established restoration processes, creative
19 engineering, and adaptive workforce, together with the dedication and execution
20 of contracted external resources, our partners within the SEE and EEI, allowed
21 Gulf to achieve its goal of safely restoring critical infrastructure and the greatest
22 number of customers in the least amount of time, one full day ahead of the very
23 aggressive goal of 14 days.

1 **V. T&D RESTORATION COSTS**

2

3 **Q. What were the final Hurricane Michael T&D restoration costs?**

4 A. As provided in Exhibit PAT-6, Gulf's total T&D Hurricane Michael restoration
5 costs were \$422 million, including follow-up work to restore the T&D electric
6 system to its pre-storm condition. Exhibit PAT-6 also contains a breakdown of
7 these costs by function (i.e., Transmission and Distribution) and by major cost
8 category (i.e., Regular and Overtime Payroll and Related Cost, Contractors,
9 Vehicle and Fuel, Materials & Supplies, Logistics, and Other).

10

11 As shown in Exhibit PAT-6, two of the major categories ("Contractors" and
12 "Logistics") account for \$378 million, or 90% of the total T&D restoration costs,
13 including \$256 million of costs associated with external line contractors, mutual
14 assistance utilities, Gulf embedded contractors, line clearing/tree trimming
15 contractors, and other contractors (e.g., contractors performing overhead line
16 patrols and environmental assessments) that supported Gulf's service restoration
17 efforts and follow-up work to restore facilities to their pre-storm condition. T&D
18 "Logistics" costs totaled approximately \$122 million, or 29% of the total T&D
19 restoration cost, and include costs associated with staging sites and other support
20 needs, such as lodging, meals, water, ice, laundry, and transportation.

21

22 The other five cost categories in Exhibit PAT-6 account for the remaining \$44
23 million, or 10% of the total T&D restoration costs. \$11 million of the remaining

1 costs are comprised of “Regular and Overtime Payroll & Related Costs” associated
2 with Gulf employees who directly supported Hurricane Michael T&D restoration
3 efforts and follow-up work. This includes Gulf line personnel, engineers, and other
4 field support personnel. \$28 million of the remaining costs are associated with
5 Materials and Supplies, which include costs associated with items such as wire,
6 transformers, poles, and other electrical equipment used to restore electric service
7 for customers and repair and restore storm-impacted facilities on the Gulf system to
8 their pre-storm condition. The other approximately \$5 million of remaining costs
9 includes costs associated with the “Vehicle and Fuel” and “Other” major cost
10 categories. “Vehicle and Fuel” covers Gulf’s vehicle and associated fuel
11 expenditures, including cost for fuel that Gulf supplied to line contractors, mutual
12 assistance utilities, and other contractors. The “Other” category includes costs not
13 previously captured, such as affiliate payroll and related costs, contractors, freight
14 charges and other miscellaneous items.

15 **Q. Please describe the follow-up work required for T&D.**

16 A. As previously discussed, the primary objective of Gulf’s emergency preparedness
17 plan and restoration process is to safely restore critical infrastructure and the
18 greatest number of customers in the least amount of time. To do so may require
19 utilizing temporary fixes (e.g., bracing a cracked pole, or bypassing a damaged
20 piece of equipment, etc.) and/or delaying certain repairs (e.g., replacing lightning
21 arrestor, repairing street lights, etc.) that are not required to expeditiously restore
22 service. In order to return the system to its pre-storm condition and provide for

1 extended reliability, these conditions must be addressed once initial restoration is
2 complete.

3
4 Restoring Gulf's T&D facilities to their pre-storm condition generally involves two
5 steps: (1) evaluating the system and facilities to identify follow-up work; and (2)
6 executing the identified work. In total, Gulf's costs for T&D follow-up work
7 associated with Hurricane Michael were \$20.7 million.

8
9 **VI. EVALUATING GULF POWER'S RESTORATION RESPONSE**

10
11 **Q. Was Gulf's Hurricane Michael restoration plan and its execution timely, safe
12 and effective?**

13 A. Yes. As mentioned throughout this testimony, Gulf's primary goal when faced
14 with major restoration activities is to safely restore critical infrastructure and the
15 greatest number of customers in the least amount of time so the Company, our
16 customers, and the communities we serve can begin to recover from the effects of
17 the storm. With more than 96% of our customers without electric service in Bay
18 County, and the Company facing not only a restoration effort but in many areas a
19 complete rebuild of the electric grid, Gulf was confronted with a tremendous
20 challenge. There were unique hurdles in every area of the restoration effort that
21 required the entire team to be creative and persistent in overcoming daily barriers.
22 Gulf set a very aggressive estimated restoration time for the affected areas,
23 continued to focus on customer service and communication, and restored 99% of

1 the customers that could receive electric service in just 13 days, a full day ahead of
2 the estimated restoration time for the most heavily impacted areas of Panama City.
3 As such, we are confident that Gulf's plan, preparation, and execution were
4 extremely effective in timely restoring electric service to Gulf's customers.

5 **Q. What factors contributed to the effectiveness of Gulf's Hurricane Michael**
6 **restoration plan and execution?**

7 A. Gulf was faced with devastation beyond even the worst case scenarios that had
8 been outlined in previous emergency management plans. There are numerous
9 items at a high level that led to an effective restoration process following Hurricane
10 Michael:

- 11 • A leadership team dedicated to preparing, training, and drilling a workforce
12 for the possibility of a future event;
- 13 • An emergency preparedness plan that allowed scalability to adapt to a major
14 event;
- 15 • A flexible and well trained workforce that adapted to changes and
16 challenges;
- 17 • A strong communication plan for customers, media, state and local
18 officials;
- 19 • Great affiliate support, contractor support, and assistance from the SEE and
20 member utilities;
- 21 • Stable and effective outage management system and energy management
22 system to provide data;

- 1 • Enhanced wireless voice and data communication system provided by
- 2 Southern Linc; and
- 3 • Previous storm restoration experience both on-system and off-system that
- 4 produced lessons learned and industry best practices.

5 **Q. Did Gulf receive national recognition for its overall restoration performance**
6 **during Hurricane Michael?**

7 A. Yes. In January 2019, EEI, a national association of investor-owned utilities,
8 awarded its Emergency Recovery Award to Gulf for its efforts and response during
9 Hurricane Michael. EEI's Emergency Recovery Award recognizes its U.S. and
10 international members for outstanding efforts to restore service safely and promptly
11 following storms or natural disasters. Winners are chosen by a panel of judges
12 based on a company's ability to respond to a crisis efficiently and quickly,
13 overcome difficulties, utilize innovative recovery techniques and technologies, and
14 communicate effectively with customers.

15 **Q. What are your conclusions regarding Gulf's Hurricane Michael restoration**
16 **efforts?**

17 A. Gulf's restoration performance for Hurricane Michael was outstanding, showing
18 dedication to our customers and the communities we serve. Our goal is to
19 continuously improve in everything we do, and I believe that is evident in how the
20 Company responded to this devastating storm. Gulf has not been impacted by a
21 major event in many years, and many of our employees, even those in leadership,
22 had never had the unfortunate experience to fully exercise their storm role during a
23 live event. The implementation of improvement, training, and annual drilling

1 provided significant benefits and contributed to a remarkable performance in
2 completing the major portion of restoration activities in just 13 days.

3

4 Storm restoration work never fits into a nice, neat package. There are always
5 challenges and opportunities for improvement both during and after an event. How
6 the Company responds to those challenges during an event is a determining factor
7 of the restoration's success. Overall, I believe the entire restoration team, which
8 includes Gulf employees, affiliate employees, contractors, mutual assistance
9 personnel and vendors performed extremely well in a very difficult situation. A
10 storm like Hurricane Michael will always test the commitment and fortitude of
11 every person involved, and I am extremely proud and grateful to have been a part
12 of this outstanding team.

13 **Q. Does this conclude your direct testimony?**

14 A. Yes.

1 (Whereupon, Witness Talley's prefiled rebuttal
2 testimony was inserted into the record as though
3 read.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

GULF POWER COMPANY

REBUTTAL TESTIMONY OF PAUL A. TALLEY

DOCKET NO. 20190038-EI

JULY 9, 2020

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I. INTRODUCTION

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23

Q. Please state your name and business address.

A. My name is Paul A. Talley. My business address is Gulf Power Company (“Gulf” or the “Company”), One Energy Place, Pensacola, FL 32520.

Q. Did you previously submit direct testimony?

A. Yes. I submitted written direct testimony on November 15, 2019, together with Exhibits PAT-1 through PAT- 6.

Q. Are you sponsoring any rebuttal exhibits in this case?

A. Yes. I am sponsoring the following exhibits:
Exhibit PAT-7 – Gulf’s Response to OPC's INT. No. 46 - Amended
Exhibit PAT-8 – Gulf’s Response to OPC's INT. No. 59 - Amended

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to those portions of the direct testimony of Office of Public Counsel (“OPC”) witness Lane Kollen critical of Gulf’s preparation for and management of its Hurricane Michael storm restoration. Witness Kollen separates his testimony into three categories: (1) Process Findings; (2) Methodologies Findings; and (3) Disallowance Findings. I explain that his “Process Recommendations” go well beyond the relief requested by Gulf in this docket, purport to dictate the terms and conditions of Gulf’s contracts with vendors, and suggest an approach to storm cost recovery proceedings inconsistent with Rule 25-6.0143, F.A.C. (the “Rule”). My rebuttal testimony will directly respond to and rebut each of the three categories of unsupported assertions identified above as they relate to the operational

1 aspects of Gulf's preparations for and response to Hurricane Michael, and will explain
2 why his "Process Recommendations" have no place in this proceeding.

3 **Q. Please summarize your rebuttal testimony.**

4 A. Witness Kollen's "Process Findings" related to Gulf's contracting, oversight, and
5 management of third-party contractors for Hurricane Michael storm restoration work
6 reflect a complete misunderstanding of both Gulf's process and its efficient and
7 effective execution of that process in the wake of the most destructive hurricane in
8 Gulf's history and the third strongest to make landfall in the continental United States.
9 He makes unsupported assumptions about Gulf's processes and discusses "likely"
10 impacts, but he fails to provide factual support for his opinions. His hindsight approach
11 ignores the situation faced by Gulf as Hurricane Michael approached, and fails to
12 recognize the efficiency of Gulf's response to the devastation caused by Hurricane
13 Michael.

14
15 Witness Kollen's "Methodologies" criticisms, as they relate to the restoration process
16 and the follow-up work, are also misplaced. He ignores the plain language in the
17 Commission's Rule providing for recovery for "storm-related damages," and instead
18 suggests that 2019 costs should be disallowed based upon his own belief that recovery
19 should be limited to costs that are "necessary to restore service." In essence, he has
20 unsuccessfully tried to build an argument for disallowances based upon "Process
21 Findings" and "Methodologies Findings" that are inconsistent with, and contrary to,
22 the controlling Commission Rule. For these reasons, and those described by Gulf

1 witness Goldstein in his rebuttal testimony, witness Kollen’s proposed disallowances
2 should be rejected.

3

4 **II. RESPONSE TO OPC WITNESS KOLLEN’S “PROCESS ISSUES”**

5

6 **Q. Before addressing the specific issues in OPC witness Kollen’s direct testimony, do**
7 **you have any general observations about his Process Findings and**
8 **Recommendations?**

9 A. Yes. In order to properly evaluate Gulf’s storm preparedness plan and restoration
10 process, it is necessary to consider the projected and actual path of a storm, its potential
11 impact on other areas resulting in competition for resources, the scope of the damage
12 caused by a storm, as well as other key factors, such as the availability of and
13 competition for resources, the number of resources required to repair infrastructure and
14 restore power, the number of customers impacted, and the duration of outage times. In
15 my direct testimony, I explained that Gulf’s primary goal when faced with a major
16 restoration activity is to safely restore critical infrastructure and the greatest number of
17 customers in the least amount of time. I also explained that while a rapid and safe
18 restoration of electrical service is the primary objective in the aftermath of a major
19 weather event, achieving that objective may not allow for the least overall cost of
20 restoration. With that being said, Gulf is mindful of cost when acquiring resources,
21 and acted prudently in acquiring the needed resources for Hurricane Michael
22 restoration.

1 In considering witness Kollen's testimony, it is essential that we keep in mind that
2 Hurricane Michael was the third strongest storm to ever make landfall in the continental
3 United States and resulted in outages for 125,452 customers, including 96% of Gulf's
4 customers in Bay County. Gulf's storm restoration efforts required coordination with
5 approximately 8,000 individuals, approximately 7,000 of whom were external
6 resources, which was the largest restoration workforce that Gulf has ever assembled.

7 **Q. Has witness Kollen supported his "Process Findings" with facts?**

8 A. No. Witness Kollen's "process issues" are, in large part, generalizations - without
9 supporting facts - about Gulf's response to Hurricane Michael. He fails to consider the
10 rapidly changing environment and the many variables that impacted the Company's
11 ability to respond to the storm. Witness Kollen has not taken into account the
12 unprecedented nature of the hurricane, the scope of the storm's destruction and the
13 scarcity of external resources to assist in the restoration effort, or the number of Gulf's
14 customers who were without power. He apparently assumes that Gulf had perfect
15 knowledge of the size, scope and strength of the storm, and that there was an
16 overabundance of resources ready and willing to rush in to help, and to do so at any
17 price dictated by Gulf. And it should be noted that while Mr. Kollen clearly has a long
18 resume testifying on regulatory accounting issues, his resume does not appear to
19 identify any operational or storm restoration experience or expertise. This deficiency
20 undermines his series of unsupported and speculative operational and storm preparation
21 and restoration opinions sprinkled throughout his testimony. His detached academic
22 approach simply ignores the reality of a utility's response to a storm event and the
23 efforts that follow.

1 **Q. You say that the “Process Issues” are in large part generalizations. Can you**
2 **provide some examples?**

3 A. At page 6, lines 6 through 9, without acknowledging that Gulf’s processes are those
4 commonly used by utilities facing a storm like Hurricane Michael, witness Kollen
5 criticizes Gulf’s management of the third party contracting process. But he is not even
6 able to take the next step, which would be showing a direct impact on costs. Instead,
7 he can only go so far as to say that based upon his unsupported assumption, this alleged
8 failure “likely” led to excessive costs. He cannot state with any degree of certainty, nor
9 does he point to even a single actual instance, where Gulf’s contracting process resulted
10 in excessive costs.

11

12 At page 13, lines 9 through 15, witness Kollen asks whether Gulf “*could*...have
13 achieved better and lower cost terms” if they had pre-negotiated contracts. (emphasis
14 added). Without recognizing that the Company did in fact have pre-negotiated contracts
15 in place, or that there was a scarcity of resources in the run-up and in the aftermath of
16 the storm, the best he can say in answer to his own question is “*Quite possibly.*
17 *Although that cannot be known with certainty,* it is clear the Company failed in the
18 ordinary course of business to enter into contracts to provide sufficient contingent
19 capacity.”

20

21 These are just two examples of the type of generalizations and speculation upon which
22 OPC’s testimony is based.

1 An analysis of a storm restoration effort should not be conducted in a vacuum nor
2 should it be based on speculation or suppositions. Rather, it is essential to give context
3 to the response and decision-making process. Witness Kollen’s testimony ignores the
4 specific nature of Hurricane Michael or its impact on Gulf’s service areas.

5 **Q. How did Gulf prepare to respond to Hurricane Michael?**

6 A. Gulf embodies a culture of preparedness, which extends beyond our preparations for
7 “storm season.” Gulf reviews and updates its emergency preparedness plan annually,
8 increases its inventory of critical restoration items, and conducts several storm drills.
9 Gulf also pre-negotiates contracts with vendors it anticipates might be called upon to
10 render assistance, and actively participates in mutual assistance organizations such as
11 the Southeast Electric Exchange (“SEE”) and the Edison Electric Institute (“EEI”).
12 While Gulf focuses on tailoring its emergency preparedness plan to meet expected
13 demands and projections, it is neither prudent nor practical to prepare for every scenario
14 that may arise with a storm. As a result, the goal of our storm procedures, training, and
15 drills is to prepare our team to respond to any situation, based on the information that
16 is available at the time the event occurs, and to make decisions that are in the best
17 interests of our customers.

18

19 If witness Kollen was aware of the year-round work and preparations Gulf undertakes
20 to prepare for major storm events and for other events potentially impacting the utility,
21 I don’t believe he would have claimed that Gulf was not adequately prepared to respond
22 to Hurricane Michael.

1 **Q. Did the Company have sufficient resources available in the normal course of**
2 **business from affiliates, through regional mutual assistance agreements, and/or**
3 **otherwise under contract with independent contractors prior to the storm?**

4 A. Yes. The Company has a well-established Storm Supplier List (“SSL”) through which
5 the Company has established pre-negotiated contracts with third-party contractors for
6 storm restoration response. This list was reviewed, updated annually, and completed
7 long before the beginning of the 2018 storm season. Historically, the number of
8 external resources under contract with Gulf through the SSL had created an appropriate
9 balance of adequate resource reserves to assist in the response to the representative
10 types of storms Gulf had experienced in the past. However, because Hurricane Michael
11 caused damage across multiple states, other utilities across the southeastern and
12 northeastern regions of the United States were either directly impacted by the storm, or
13 preparing for and anticipating such impact. Therefore, these utilities were unable to
14 commit their resources to the SEE including Gulf in anticipation that Hurricane
15 Michael would soon impact these utilities’ own systems. As a result, resources from
16 other utilities became scarce prior to and immediately after Hurricane Michael made
17 landfall in Gulf’s service territory, and it became very difficult to obtain those resources
18 regardless of pre-negotiated contracts.

19 **Q. How did Gulf manage its arrangements with affiliates for Hurricane Michael**
20 **storm restoration support?**

21 A. At the time Hurricane Michael made landfall, Gulf was a subsidiary of the Southern
22 Company. Two of Southern Company’s largest affiliates, Alabama Power Company
23 (“Alabama Power”) and Georgia Power Company (“Georgia Power”), had historically

1 provided resources to assist Gulf in responding to extreme weather events. However,
2 both Alabama Power and Georgia Power were heavily impacted by Hurricane Michael,
3 which was still a Category 3 hurricane when it crossed into their respective states. As
4 a result, Southern Company was unable to release any significant resources to Gulf
5 until a week into the restoration effort because the larger utilities were engaged in their
6 own restoration activities.

7 **Q. Were mutual assistance resources readily available to assist Gulf with its**
8 **Hurricane Michael storm restoration efforts?**

9 A. No. As I noted earlier, Hurricane Michael impacted multiple states in the southeastern
10 region of the United States. Gulf is a member of the SEE, which provides mutual
11 assistance resources for member utilities during restoration efforts. However, in
12 addition to Gulf, many of the SEE member utilities had either been directly impacted
13 at the time Gulf requested mutual assistance, had decided to hold their resources in
14 anticipation of potentially being impacted by the storm, or their resources had already
15 been committed to other impacted utilities as part of the SEE allocation process. As a
16 result, available SEE mutual assistance resources were allocated to Gulf during the
17 initial stages of the storm restoration effort, but not at the required level or the level
18 that would have been seen in the past due to the far reaching impact of Hurricane
19 Michael. Given the limitations of its affiliates and the SEE, Gulf was required to look
20 outside of these networks to obtain resources to assist in the storm restoration effort.
21 Gulf's decisions in this regard were prudent inasmuch as they balanced the needs of
22 timely and efficiently restoring power to our customers with the costs of bringing in
23 available external resources.

1 **Q. How did Gulf respond to the shortage of available mutual assistance resources?**

2 A. As I have previously discussed, affiliate and mutual assistance resources were not
3 readily available during the early stages of the Hurricane Michael storm restoration
4 effort because many of the utilities that employed those individual had either been
5 directly impacted by Hurricane Michael, anticipated the need to deploy resources in the
6 near future to repair their own systems, or were already committed to other impacted
7 utilities. As the affiliate and mutual assistance requests were being made, Gulf was
8 also reviewing its existing contracts against its estimates of the resources that would be
9 required to safely and efficiently restore power to its customers in a timely manner, and
10 determined that there was a significant gap in its workforce. Based on this analysis,
11 Gulf relied upon its seasoned personnel, who have years of experience negotiating
12 contracts with independent contractors, to search for and obtain available contractor
13 resources. Gulf's employees who acquired these external resources utilized their
14 background and understanding of the electric industry and the current market
15 conditions to select resources at reasonable rates. In some cases, Gulf's personnel were
16 required to negotiate terms with these contractors that reflected the scarcity of available
17 resources due to demands by other utilities. However, in every discussion and
18 negotiation, Gulf's employees applied their knowledge and experience to the
19 acquisition of resources.

20

21

1 **Q. During Gulf's efforts to obtain additional resources to help restore power to**
2 **Gulf's customers, did the Company simply offer contracts to all potential vendors,**
3 **as suggested by witness Kollen?**

4 A. No. Contrary to witness Kollen's assertion, Gulf remained selective in its contractor
5 acquisition process and declined to enter into agreements with certain contractors, even
6 though those contractors had offered their services, because Gulf determined that it
7 would not be in the best interests of its customers to acquire those specific resources.

8 **Q. Why did Gulf decline to enter into contracts with certain contractors?**

9 A. Prior to and throughout the Hurricane Michael storm restoration effort, Gulf remained
10 committed to balancing its objectives of safely and efficiently restoring power to
11 customers in a timely manner with its goal of mitigating costs. As a result, Gulf
12 reviewed all contractor proposals to determine whether they were reasonable in light of
13 Gulf's needs and the then-current market conditions. In the event that Gulf was unable
14 to negotiate what it considered appropriate rates or terms with a prospective contractor,
15 Gulf declined to enter into an agreement with that individual or company. Gulf's
16 personnel relied upon their previous experience and industry knowledge to determine
17 whether proposed contractor rates and terms were reasonable and also considered
18 factors such as contractor location, travel time, and timing of resource availability in
19 determining whether to acquire a particular resource.

20 **Q. Did Gulf, in fact, agree to contracts that guaranteed 16 hours per day, seven days**
21 **a week?**

22 A. In some cases, yes. However, it is important to note that witness Kollen's comments
23 about these contracts perfectly illustrates the importance of providing context to an

1 analysis of Gulf's Hurricane Michael storm restoration process. Although Gulf's
2 agreements with certain independent contractors did guarantee 16 hours of work per
3 day, seven days a week, it is standard industry practice for utilities to enter into these
4 types of contracts with storm restoration crews. Agreements guaranteeing 16-hour
5 work days are not exclusive to Gulf and were not exclusive to Gulf's Hurricane Michael
6 storm restoration effort. To the contrary, many utilities enter into agreements for 16-
7 hour workdays with restoration crews, and in many cases, 16-hour workdays are
8 mandated under labor contracts between utilities and the International Brotherhood of
9 Electrical Workers. In fact, Gulf's storm preparation plans, including its plans for
10 managing crews and obtaining fuel, materials, and logistics, are based on crews
11 working 16-hour days until crews are released from duty and return home. Guaranteed
12 or not, Gulf's restoration plans and those of most utilities are built around a 16-hour
13 workday and that is what is expected of crews that respond for assistance.

14 **Q. How did Gulf determine that crews guaranteed a 16-hour work day in fact worked**
15 **16 hours?**

16 A. During the storm related activities, including the immediate restoration efforts and the
17 work that extended into 2019, the Gulf leadership team remained fully engaged in
18 restoration activities, including making sure daily work plans were in place for crews
19 at the pre-established starting time and conducting evening recaps of the day's work to
20 review progress and prepare for the next day. Based on this, it is the customary industry
21 standard and Gulf's expectation that crews assisting with storm restoration work in fact
22 followed Gulf's system for 16 hours each day. I am confident that our daily oversight

1 of crews efficiently guaranteed that line and vegetation crews were paid for the times
2 they actually worked.

3

4

III. RESPONSE TO OPC WITNESS KOLLEN'S

5

"METHODOLOGIES ISSUES"

6

7 **Q. OPC witness Kollen takes issue with Gulf's requests for recovery for work**

8 **related to the storm that was performed in 2019. Please explain Gulf's position.**

9 A. In my direct testimony and through multiple responses to OPC's written discovery,

10 including Gulf's Response to OPC's INT. No. 46 – Amended, Exhibit PAT-7, Gulf

11 provided a detailed explanation of the nature and scope of the destruction caused by

12 Hurricane Michael as well as Gulf's need to continue rebuilding its system into 2019.

13 To reiterate, the work performed in the Eastern District of Gulf's system in the Panama

14 City area during 2019 was undertaken to repair storm-related damage, and was solely

15 focused on rebuilding and restoring the system to its pre-storm condition. While the

16 Gulf team and the responding resources did an outstanding job of quickly restoring

17 power to our customers during the initial 13 days of the event, those efforts did not

18 return the grid to its original condition. In order to ensure that our system would

19 continue to reliably deliver electricity following the devastation caused by Hurricane

20 Michael, Gulf was required to continue its restoration activities into 2019.

21 **Q. Does the Rule support this approach?**

22 A. Yes. While witness Kollen admits that the standard for cost recovery of incremental

23 costs is set forth in the Rule, he nonetheless recommends a disallowance of nearly \$20

1 million for 2019 costs based upon an argument he makes at page 18, lines 4 through
2 14, that these costs did not qualify as costs “necessary to restore service.” In taking
3 this approach, he ignores the plain language in the Rule. On no less than six occasions
4 the Rule describes the process for the accounting and recovery of costs for “storm-
5 related damages,” and describes the types of “storm-related costs” subject to recovery.
6 The Rule in no way suggests a limitation for recovery for costs “necessary to restore
7 service,” as suggested by witness Kollen. Notwithstanding that fact, there is no doubt
8 that Gulf’s 2019 work that is included in its request for recovery was both storm related
9 and necessary to restore service to our customers as they were repairing, rebuilding,
10 and putting their lives back together.

11 **Q. Will you please describe the system restoration work that Gulf and its resources**
12 **performed in 2019 and explain why that work is properly considered storm-**
13 **related?**

14 A. Yes. The continued restoration work that Gulf performed in 2019 can be broken down
15 into 4 categories: (1) repairing services and reconnecting customers that were able to
16 receive service following repairs to their property, (2) evaluating the condition of the
17 system and making repairs and corrections to meet applicable standards, (3) providing
18 service to new temporary facilities that were required to facilitate customers’ ongoing
19 rebuilding and repair activities, and (4) restoring outdoor and street lighting systems
20 for municipalities, commercial customers, and individual residential customers.

21

22

1 **Q. Did the devastation caused by Hurricane Michael impact work demands for Gulf**
2 **personnel and its external contractor resources?**

3 A. Yes. As a result of Hurricane Michael, Gulf's customer driven tickets for reconnects,
4 new connects for temporary service, and repair tickets in November increased five-
5 fold, as compared to the previous three-month average. From December 2018 to March
6 2019, the number of tickets for this work was double the historical average, and from
7 April to June 2019, Gulf continued to receive 1.5 times the average number of tickets.
8 These tickets were primarily driven by customers who were repairing their own
9 premises for reconnection or requesting temporary services in order to begin their
10 rebuilding processes. A portion of the tickets were also the result of residual damage
11 from Hurricane Michael that had weakened portions of the grid and began to fail over
12 time. As Gulf began to receive less customer-driven tickets, it started to ramp down its
13 usage of external resources.

14 **Q. What process did Gulf utilize to assess the damage to its system and identify work**
15 **that needed to be completed as a result of Hurricane Michael?**

16 A. Because of the extensive damage to the system, Gulf conducted several audits by
17 engineering to assess and evaluate our system to ensure that it had been restored to its
18 pre-storm condition and would provide reliable service for our customers. The repair
19 and construction associated with the electric grid during 2019 was solely driven by
20 these reviews and focused on ensuring the system met the same safety and engineering
21 standards it had met prior to the storm. This work was managed by Gulf employees as
22 part of the ongoing restoration process.

1 **Q. Was Gulf able to restore power to its customers and maintain the reliability of its**
2 **system by rebuilding existing equipment and infrastructure that had been**
3 **damaged by Hurricane Michael?**

4 A. In some cases, Gulf was able to rebuild existing equipment and infrastructure on its
5 system and verify that the rebuilt equipment complied with all applicable safety and
6 engineering standards. Many times, areas of the system were inaccessible due to
7 damage to trees and buildings as a result of the storm. As customers and other
8 responsible parties cleared these areas for access, Gulf was able to re-install and repair
9 poles, primary conductors, and transformers that were in place prior to the storm to
10 serve the customers coming back in the area to rebuild their homes, businesses, and
11 lives. However, in other cases, Gulf was required to construct new lines and install
12 new equipment to provide service to customers and maintain a safe and reliable grid.
13 This is because many of our customers were in the process of rebuilding their homes
14 and businesses using alternate plans, which required Gulf to install new equipment to
15 meet the specific needs of those structures. Often businesses brought in temporary
16 buildings to house their employees while repairs and construction took place around
17 their facilities. These temporary facilities, in many cases, had to be engineered and
18 constructed for reliable service.

19 **Q. What other Hurricane Michael storm-related work did Gulf personnel and Gulf's**
20 **contractor resources perform in 2019?**

21 A. The largest portion of Gulf's Hurricane Michael storm restoration work in 2019 was
22 related to restoring service to Gulf's outdoor lighting customers whose facilities had
23 sustained extensive damage during the storm. During the first six months of 2019 Gulf

1 restored, rebuilt, and repaired over 11,500 outdoor lighting fixtures, over 350 lighting
2 poles, and over 200,000 feet of wire to restore the lighting system in Gulf's Eastern
3 District following Hurricane Michael. In order to complete this effort, Gulf performed
4 an extensive evaluation of the lighting infrastructure within the Eastern District of its
5 service area to understand the nature and scope of the damaged and missing lighting
6 fixtures, poles, and wire. Once the evaluation was completed, the data was compiled
7 and material was ordered. Some specialty poles and fixtures required up to a four-
8 month lead time to procure.

9 **Q. What was Gulf's methodology for releasing external resources as the Hurricane**
10 **Michael storm restoration process concluded?**

11 A. As I noted, Gulf's initial focus was to restore power, which we successfully completed
12 for the majority of our customers in less than two weeks following Hurricane Michael.
13 Afterwards, Gulf conducted a series of comprehensive audits and studies to assess the
14 damage to our system and identify facilities that required repair or replacement, and
15 then began the restoration objectives I have previously discussed. Part of that process
16 was a constant review of external resources and a methodical approach to allocate and
17 balance our personnel and contractor resources with the customer driven work at the
18 time, continually ramping down the work force as demands changed. At the end of June
19 2019, Gulf released the remaining few storm restoration resources that were on the
20 system and closed the final chapter of its Hurricane Michael restoration efforts.

21

1 With the amount of restoration work being performed in Bay County after Hurricane
2 Michael, Extraordinary Circumstances directives, as that term is described in the Sunshine
3 811 Excavation Guide, were issued by all municipalities and utilities owning and operating
4 underground facilities. In light of this directive, Gulf determined that the safest and most
5 prudent and appropriate method of performing the necessary locates was through the use
6 of a contractor capable of performing hydro-excavation. The hydro-excavation process
7 required Gulf to have its contractor on standby for facility owners to locate their
8 underground infrastructure, so that Gulf could then make repairs to its facilities without
9 adversely impacting the governmental and other underground facilities. Smith Industrial
10 was the contractor engaged to perform the required hydro-excavation, and they performed
11 their work, or were required to remain in place on a daily basis to perform their work, for
12 storm follow-up work for Distribution and Lighting following Hurricane Michael. The use
13 of Smith Industrial helped to ensure that Gulf would not damage critical communication,
14 sewer, water, and gas facilities during repair and rebuild of Gulf's electric facilities.

15 **Q. Why was it appropriate to pay this vendor for 112 hours per week during the**
16 **time they were engaged to assist with storm related work, including during the**
17 **times when they were not actively performing hydro-excavation services?**

18 A. The nature of this work required Gulf to have its contractor on standby for facility
19 owners that were not able to identify their underground infrastructure, so that Gulf
20 could then make repairs to its facilities without adversely impacting governmental and
21 other underground facilities without further delay. As such, Smith's contract required
22 them to remain in place on a daily basis to provide their services for Hurricane Michael
23 related follow-up work for Distribution and Lighting. The use of Smith Industries
24 under these terms helped to ensure that Gulf would not damage critical

1 communications, sewer, water, and gas facilities during repair and rebuild of Gulf's
2 electric facilities, and that the work could be timely completed. As with other external
3 resources, these resources were monitored and balanced to match the work level and
4 restoration needs.

5

6

V. RESPONSE TO OPC WITNESS KOLLEN'S "PROCESS
RECOMMENDATIONS"

7

8

9 **Q. Please comment on witness Kollen's three process recommendations described on**
10 **page 10 of his testimony.**

11 A. First, let me say that witness Kollen's "process recommendations" have no place in this
12 docket, are in no way related to the relief sought by Gulf, or the standard to be applied
13 by the Commission in this proceeding. These recommendations essentially place the
14 Commission in the position of managing the day to day responsibilities of the utility.
15 I also note that while he relies on language included in the recent 2019 settlement
16 agreements in Duke, Tampa Electric, and FPL storm cost recovery cases to support his
17 theories, witness Kollen at the same time admits that "their terms do not strictly apply
18 to the 2018 storm season and by their terms cannot be imposed on Gulf."¹ Those
19 settlement agreements, signed in the year *after* Hurricane Michael struck, have no

¹ OPC witness Kollen relies upon provisions in the Duke and Tampa Electric Settlement Agreements approved in Commission Order No. PSC-2019-0232-AS-EI dated June 13, 2019 (Duke) and Order No. PSC-2019-0234-AS-EI (TECO) dated June 14, 2019, and in the FPL Settlement Agreement approved in Commission Order No. PSC-2019-0319-S-EI dated August 1, 2019, as precedent for his "process recommendations". This, notwithstanding the fact that in the Tampa Electric agreement, OPC agreed as follows: "The way the dollar amounts for the Initial Reduction, Additional Reduction and the Reduced Recoverable Amounts were developed *will not have any precedential value.*" (emphasis added). In the FPL agreement, OPC agreed that "*Nothing in this Agreement will have precedential value.*" (emphasis added)

1 precedential value, and in any case do not apply to Gulf. Witness Kollen seems to want
2 to create a new standard based on 2019 settlements, and then apply it retroactively to a
3 storm that occurred in 2018.

4 **Q. Please explain why the first and second “process recommendations” should be**
5 **disregarded by the Commission.**

6 A. While the first and second “process recommendations” proposed by witness Kollen
7 might be appropriately considered in a rulemaking, they do not control consideration
8 of the relief requested by Gulf, nor are they appropriate in a storm cost recovery
9 proceeding. Witness Kollen would have the Commission dictate how and when the
10 utility should contract with vendors, including the details of the contracting process and
11 the types of terms and conditions to include, who to call upon for assistance, and in
12 what order, and on and on. Even if these recommendations were properly part of this
13 case – which they are not – if implemented they would seriously hamper Gulf’s ability
14 to safely restore power to the greatest number of customers in the shortest amount of
15 time.

16 **Q. How would Gulf’s response to a hurricane or other weather event be impacted if**
17 **witness Kollen’s first and second “process recommendations” were adopted?**

18 A. As the Commission knows, response to and recovery following a major storm event is
19 a fluid process, where constantly changing circumstances require the utility to make
20 real time decisions on the appropriate approach to restoration. 16-hour work days are
21 customary, but this can be exceeded with proper justification and approval. For
22 example, additional work beyond the standard 16-hour day is justifiable during
23 restoration to provide service to a critical community infrastructure facility such as a

1 hospital. There are times when the utility manager must use his or her judgment to
2 bring in additional assistance, whether in the form of vendors already under contract,
3 or additional resources whose contracts may even be negotiated as the foreign crews
4 begin to travel. There are times when specialized equipment may be required, and
5 those contracts would be handled individually utilizing the best option available.

6
7 Witness Kollen proposes an approach where the Commission would dictate to the
8 utility specific parameters for how and when all of these agreements should be put in
9 place, the order in which different categories of resources should be brought in (i.e.,
10 first affiliates, then regional mutual assistance, then other mutual assistance, followed
11 by regional third party contractors, and finally non-regional third party contractors),
12 and other details that rest squarely within the judgment of prudent utility managers.
13 And while the utility remains mindful of costs as it executes its recovery plan, safe and
14 rapid restoration of power, based upon the knowledge and experience of the utility, is
15 the top priority.

16
17 The proposed ordering in which external resources could be obtained would negatively
18 impact the restoration process because it would impede the flexibility that is required
19 to work towards an efficient and timely restoration of power and repair of facilities. It
20 would be inefficient, ineffective, and unproductive to follow a rigid protocol as outlined
21 in witness Kollen's second "process recommendation." His proposal completely
22 ignores the scarcity of resources, and the way in which assistance is provided when
23 there are many utilities competing for resources. Simply put, witness Kollen's "process

1 recommendations” fail to take into account the real world situation that exists when a
2 hurricane approaches and impacts a utility’s service territory.

3 **Q. In the aftermath of Hurricane Michael, has Gulf in fact agreed to modify some of**
4 **its procedures as they relate to resource acquisition?**

5 A. Yes. On January 1, 2019, NextEra Energy, Inc. (“NEE”) acquired Gulf, and as a result,
6 Gulf is now a sister company of Florida Power & Light Company (“FPL”). Since
7 joining NEE, Gulf has adopted and has already begun to implement the contracting
8 processes outlined in FPL’s Stipulation and Settlement of Storm Restoration Costs
9 Related to Hurricane Irma (“FPL Irma Settlement Agreement”), which include
10 requirements related to contracting with and acquiring storm response contractors.²

11

12 By adopting FPL processes as part of the NEE family of companies, Gulf may now call
13 upon third-party storm restoration contractors engaged by FPL through existing and
14 future contracts.

15 **Q. Notwithstanding the fact that Gulf is not bound by the settlement agreements**
16 **identified by witness Kollen, and that these “process recommendations” are not**
17 **part of the relief requested in this docket, has Gulf voluntarily made process**
18 **improvements including some of those contained in the referenced settlement**
19 **agreements?**

20 A. Yes. Gulf has a culture of constant improvement and strives to take advantage of the
21 lessons learned, not only when the Company has been faced with severe weather
22 events, but also when responding to other utilities across the country and providing

² See Order No. PSC-2019-0319-S-EI, issued on August 1, 2019, in Docket No. 20180049-EI, In re: Evaluation of storm restoration costs for Florida Power & Light Company related to Hurricane Irma.

1 mutual assistance. In addition, Gulf has been proactive in implementing best practices
2 from other utilities and ensuring that processes meet customary industry standards and
3 those required by the SEE. Thus, Gulf has already reviewed and incorporated practices
4 and lessons learned from the proceedings involving Duke and Tampa Electric.
5 Furthermore, as I previously stated, since joining NEE, Gulf has incorporated and
6 implemented all of the process improvements outlined in FPL's Hurricane Irma
7 Settlement Agreement. Accordingly, there is no need for the Commission to impose
8 additional requirements on Gulf's future storm activities at this time.

9 **Q. Do you have any final observations in response to the testimony submitted by OPC
10 and Federal Executive Agencies?**

11 My rebuttal testimony demonstrates that intervenors' recommendations fail to
12 consider, and in fact ignore, important variables that impacted Gulf's response to
13 Hurricane Michael and the subsequent storm related work. On the heels of the most
14 destructive hurricane in Gulf's history and the third strongest to make landfall in the
15 continental United States, the Gulf team worked diligently to safely and efficiently
16 restore electric service to our customers in the Panama City area and elsewhere in our
17 service area. Gulf's management of a restoration workforce of almost 8,000 resources
18 and restoration of service to over 130,000 customers in just 13 days demonstrates that
19 the Company was well prepared, and employed an effective storm response and
20 restoration processes.

21 **Q. Does this conclude your rebuttal testimony?**

22 A. Yes.

1 (Whereupon, Witness Goldstein's prefiled
2 direct testimony was inserted into the record as
3 though read.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

GULF POWER COMPANY

DIRECT TESTIMONY OF MITCHELL GOLDSTEIN

DOCKET NO. 20190038-EI

NOVEMBER 15, 2019

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I. INTRODUCTION

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Q. Please state your name and business address.

A. My name is Mitchell Goldstein, and my business address is One Energy Place, Pensacola, Florida, 32520.

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

A. I am employed by Gulf Power Company (“Gulf” or the “Company”) as Vice President, Finance.

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

A. I am responsible for Gulf’s finance organization, including financial accounting and internal and external reporting. As a part of these responsibilities, I ensure that the Company’s financial reporting complies with requirements of Generally Accepted Accounting Principles (“GAAP”) and multi-jurisdictional regulatory accounting requirements.

Q. Please describe your educational background and professional experience.

A. I graduated from the Wharton School of the University of Pennsylvania in 1982 with a Bachelor of Science Degree in Economics, *magna cum laude*, and from Harvard Business School in 1986 with a Masters of Business Administration Degree, *with honors*. I began my working career with Strategic Planning Associates (“SPA”), a management consulting firm, in 1982, as a Research Analyst. I left SPA in 1984 to attend business school, returned as an Associate in 1986, and was promoted several times, becoming Vice President in 1994. In 1995, I joined Campbell Soup Company as Director, Strategic Planning, and became Vice President and Chief Financial

1 Officer of Vlastic Foods International, a company spun-off from Campbell, in 1998. I
2 subsequently held the Chief Financial Officer position for several companies,
3 including The Great Atlantic & Pacific Tea Company, Nice-Pak Products and Clear
4 Channel Radio, before joining NextEra Energy in 2011 as Vice President, Finance,
5 for the company's Nuclear division. I assumed my current responsibilities in January
6 2019.

7 **Q. Are you sponsoring any exhibits in this case?**

8 A. Yes. I am sponsoring the following exhibit:

- 9 • MG-1 – Hurricane Michael Incremental Cost and Capitalization Approach
10 Adjustments

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

12 A. The purpose of my testimony is to support the calculation of the Hurricane Michael
13 recoverable amount Gulf is seeking for cost recovery in this proceeding and to
14 demonstrate that Gulf's storm restoration and recovery accounting processes and
15 controls are well established and documented and that they are implemented by
16 personnel who are suitably trained, all undertaken to ensure proper storm accounting
17 and ratemaking. Specifically, my testimony will show that:

- 18 1. Gulf has effective and appropriate controls and accounting procedures for
19 storm events;
- 20 2. Gulf's accounting for Hurricane Michael was in accordance with the
21 Incremental Cost and Capitalization Approach ("ICCA") methodology
22 required under Rule 25-6.0143, Florida Administrative Code ("F.A.C.") ("the
23 Rule"); and

1 3. Gulf’s calculation of the proposed recovery amount is in accordance with the
2 right to replenish the storm reserve included in Gulf’s 2017 Stipulation and
3 Settlement Agreement approved by the Florida Public Service Commission
4 (“FPSC” or the “Commission”) in Order No. PSC-17-0178-S-EI (“2017
5 Stipulation and Settlement Agreement”).

6 **Q. Please summarize your testimony.**

7 A. Gulf’s control processes ensure proper storm accounting and ratemaking. All costs
8 associated with contractor and logistics invoices and employee expenses were
9 evaluated in a thorough invoice review process to determine the correct and final
10 amount of costs incurred, by function and type of activity. The ICCA methodology
11 was applied to storm costs in accordance with the Rule to determine the amount
12 recoverable from Gulf’s customers. The final storm recoverable amount has been
13 calculated in accordance with the ICCA methodology and the 2017 Stipulation and
14 Settlement Agreement that was in effect at the time of Hurricane Michael’s impact;
15 therefore, the amounts reflected on Exhibit MG-1 are appropriately recoverable from
16 customers.

17
18 **II. STORM ACCOUNTING PROCESS AND CONTROLS**

19
20 **Q. How does Gulf track storm restoration costs?**

21 A. Gulf establishes separate functional (i.e., distribution, transmission, etc.) work orders
22 for each storm to aggregate the total amount of storm restoration costs incurred for
23 financial reporting and regulatory recovery purposes. The Company uses these work

1 orders to account for all costs directly associated with restoration, including costs that
2 would not be recoverable from Gulf's storm reserve based on the Commission's
3 requirements under the ICCA methodology. All storm restoration costs charged to
4 storm work orders are captured in Federal Energy Regulatory Commission ("FERC")
5 Account 186, Miscellaneous Deferred Debits, or directly into capital accounts. All
6 costs charged to FERC Account 186 are subsequently cleared and charged to either
7 the storm reserve, base operations and maintenance ("O&M") expense, capital, or
8 below-the-line expense, as applicable.

9 **Q. When did Gulf begin charging costs related to Hurricane Michael to the storm**
10 **work orders?**

11 A. Due to the expected risk of significant outages and substantial infrastructure damages,
12 Gulf began making financial commitments associated with securing resources prior to
13 Hurricane Michael's anticipated impact. On October 8, 2018, Gulf established and
14 activated work orders to begin tracking costs for Hurricane Michael. An email
15 communication was sent to all business units to inform them that work orders had
16 been activated for purposes of collecting storm restoration charges. The pre-landfall
17 costs charged to the storm work orders include the acquisition of external resources
18 (e.g., line and vegetation crews), mobilization and pre-staging of internal and external
19 resources, opening of staging and check-in sites, reserving lodging, and securing
20 Gulf's existing operational facilities in preparation for the impacts of the storm.

21

22

1 **Q. Does Gulf have a process in place to review the invoices related to Hurricane**
2 **Michael?**

3 A. Yes. Gulf executed a thorough and detailed review of all contractor and logistics
4 invoices, as well as employee expenses related to Hurricane Michael restoration
5 activities, as detailed in Gulf witness Clark's testimony.

6 **Q. What processes are in place during a restoration event to ensure proper cost**
7 **management and reporting?**

8 A. The Customer Service and Operations Support ("CSOS") Team communicates the
9 storm work order instructions to the personnel directly supporting storm restoration
10 and preparing cost estimates before, during, and after the restoration is complete. In
11 addition, the CSOS Team estimates the cost of the storm each day during restoration
12 using information gathered from each major business unit and the storm accountants.
13 The CSOS Team then reports these costs each day to the storm and executive
14 management teams. After restoration is complete, CSOS Team reconciles charges of
15 all the storm work orders, ensuring that appropriate costs are charged to the storm,
16

17 **III. ANALYSIS OF HURRICANE MICHAEL STORM COSTS**

18
19 **Q. How did Gulf apply the ICCA methodology to its total storm restoration costs**
20 **for Hurricane Michael?**

21 A. Hurricane Michael storm costs are accumulated in FERC Account 186 Miscellaneous
22 Deferred Debits, including charges that are considered non-incremental or capital.
23 There are separate storm work orders for each function charged during storm

1 restoration. Using the ICCA methodology, non-incremental amounts are calculated
2 for the costs collected in these work orders and subsequently credited from FERC
3 Account 186 and debited to either a base rate O&M expense or below-the-line
4 expense. Capital costs also are identified and subsequently recorded in the
5 appropriate capital accounts¹. After non-incremental and capital costs are removed
6 from FERC Account 186, the remaining balance, representing incremental storm
7 charges, is jurisdictionalized by using retail separation factors that were authorized by
8 the 2017 Stipulation and Settlement Agreement², and credited from FERC Account
9 186 and debited to FERC Account 228.1, Accumulated Provision for Property
10 Insurance. The non-retail incremental storm charges also are credited from FERC
11 Account 186 and charged to expense, leaving a zero balance in FERC Account 186.

12 **Q. What is the total amount of retail incremental storm costs for Hurricane**
13 **Michael?**

14 A. As reflected on Exhibit MG-1, line 49, the total amount of retail incremental storm
15 costs for Hurricane Michael is \$312.8 million. This amount represents \$427.7 million
16 of incurred Hurricane Michael storm restoration costs less \$6.2 million of non-
17 incremental costs, \$5.0 million in third-party reimbursements, and \$101.9 million of
18 capital costs, resulting in total incremental costs of \$314.6 million (system). Once
19 jurisdictional factors are applied at the functional level, the total amount of storm
20 costs eligible for recovery from retail customers associated with Hurricane Michael is
21 \$312.8 million (“Retail Recoverable Costs”).

¹ These capital costs include reserve equipment in FERC Account 368, Line Transformers, used in storm restoration that were subtracted as part of the Capitalized Cost Adjustment.

² Because Hurricane Michael occurred in October 2018, cost recovery is governed by Gulf’s 2017 Stipulation and Settlement Agreement together with the Rule.

1 **Q. What types of costs are included in Gulf's Retail Recoverable Costs charged to**
2 **the storm reserve for Hurricane Michael?**

3 A. In accordance with the Rule, the categories of costs outlined below were properly
4 included in the calculation of the total Retail Recoverable Costs reflected on Line 49
5 of Exhibit MG-1:

- 6 • **Regular Payroll and Related Costs:** Includes \$2.4 million of regular payroll
7 and related payroll overheads for employee time spent in direct support of storm
8 restoration and is net of amounts normally recovered through capital. This
9 amount excludes bonuses and incentive compensation.
- 10 • **Overtime Payroll and Related Costs:** Includes \$6.2 million of overtime payroll
11 and payroll tax overheads for employee time spent in direct support of storm
12 restoration.
- 13 • **Contractor Costs and Line Clearing:** Includes \$255.9 million of costs for
14 mutual aid utilities, line contractors and vegetation contractors, including
15 mobilization and de-mobilization costs.
- 16 • **Vehicle and Fuel:** Includes \$0.5 million for incremental vehicle costs and fuel
17 used by both Gulf and contractors for storm restoration activities.
- 18 • **Materials and Supplies:** Includes \$29.9 million in materials and supplies used
19 to repair and restore service and facilities to pre-storm condition. This amount
20 does not include that portion of materials and supplies used in the Hurricane
21 Michael restoration activities that are included in the capital cost.

- 1 • **Logistics Costs:** Includes \$121.8 million of costs for staging and check-in sites,
2 meals, lodging, buses and transportation, and rental equipment used by
3 employees and contractors in direct support of storm restoration.
- 4 • **Other Costs:** Includes \$4.7 million of costs, primarily for reserve equipment in
5 FERC Account 368, Line Transformers, held prior to the storm that were
6 installed as a part of restoration. This reserve equipment was subtracted as part
7 of the Capitalized Cost Adjustment included on Line 43 of Exhibit MG-1.

8 **Q. How did Gulf determine the non-incremental costs it incurred for Hurricane**
9 **Michael?**

10 **A.** Once all costs were incurred and recorded, the CSOS Team completed a detailed
11 review in order to determine non-incremental costs under the ICCA methodology.
12 Per the ICCA methodology, non-incremental costs are those that are included in
13 normal base rate operations. Below is a summary of non-incremental costs incurred
14 for Hurricane Michael as defined in the Rule, which have been removed from the
15 total costs recorded to FERC Account 186 (see line 26 on Exhibit MG-1).

- 16 • **Regular Payroll:** In general, regular payroll costs recovered through base O&M
17 are non-incremental. Gulf calculated the non-incremental payroll by function.
18 For Steam & Other and Customer Service functions, the payroll costs were
19 recorded to base O&M, and were therefore fully removed from Account 186 as
20 non-incremental payroll. As it relates to the Distribution function, the 2018
21 budgeted payroll allocation between base O&M and capital was 30 percent and
22 70 percent, respectively. Therefore, 30 percent was removed as non-incremental
23 base O&M payroll. As it relates to the Transmission function, the 2018

1 budgeted payroll allocation between base O&M and capital was 20 percent and
2 80 percent, respectively. Therefore, 20 percent was removed as non-incremental
3 base O&M payroll. Lastly, the payroll costs for support functions (such as
4 Accounting, External Affairs, Human Resources, Legal, etc.) were base O&M
5 and were fully removed from Account 186 as non-incremental payroll. This
6 non-incremental payroll was then allocated to T&D, and is included on Line 15
7 for T&D. The total amount of non-incremental payroll for Hurricane Michael is
8 \$4.5 million.

- 9 • **Vegetation Management:** The vegetation management storm adjustment is
10 calculated by taking a monthly O&M average for normal vegetation expenditures
11 over a 3-year period. Based on this calculation, the storm charges are reviewed
12 and compared to the historical monthly expenditure average for the month(s)
13 associated with the storm. Any amount exceeding the calculated 3-year average
14 of historical spending is shown as incremental above base storm vegetation cost.
15 Any amount up to the calculated historical average is removed from the storm
16 accounts. Based on this methodology, \$0.8 million was non-incremental, of
17 which \$0.3 million was related to the Distribution function and \$0.5 million was
18 related to the Transmission function.
- 19 • **Vehicle Utilization and Fuel costs:** All Gulf-owned vehicle costs charged to
20 the storm work orders, are considered non-incremental. While fuel costs
21 incurred by Gulf directly related to storm restoration are charged to the storm
22 work orders, only the incremental fuel expense that exceeded the October 2018
23 budget is considered a recoverable storm expense. Gulf determined \$0.2 million

1 was non-incremental for both Gulf-owned vehicle costs and fuel costs, of which
2 a majority is reflected in the Distribution function.

- 3 • **Thank-You Advertisements:** Public service announcements regarding key
4 storm-related issues such as safety and service restoration estimates are
5 recoverable through the storm reserve; however, thank-you advertisements
6 directed to customers and mutual aid utilities cannot be charged to the storm
7 reserve. Thank-you advertising totaling \$7 thousand for Hurricane Michael was
8 charged below-the-line.

- 9 • **Legal Claims:** Certain claims were paid that primarily related to property
10 damage caused by Gulf personnel and contractors during restoration. None of
11 the cost of claims is recoverable through the storm reserve; therefore, claims
12 totaling \$0.3 million were charged to base O&M and reflected in the T&D
13 functions.

- 14 • **Family Services:** Employee assistance costs provided to Gulf employees are
15 reflected in the General function, and are not recoverable through the storm
16 reserve. These costs totaling \$0.4 million were charged to base O&M.

17 **Q. How did Gulf determine the capital costs incurred and recorded on its books**
18 **and records for Hurricane Michael?**

- 19 A. The amount of capital costs for each storm event is determined by applying part
20 (1)(d) of the Rule, which states that "...the normal cost for the removal, retirement
21 and replacement of those facilities in the absence of a storm" should be the basis for
22 calculating storm restoration capital.

23

1 Costs related to storm restoration work³ are initially charged to FERC Account 186
2 and estimated capital costs are then reclassified to the appropriate capital accounts.
3 Gulf employs a storm accounting capital estimation process derived from the amount
4 of materials and supplies issued during a storm less returns. Gulf utilizes this data as
5 a basis to calculate the total amount of capital costs for the Distribution function in
6 accordance with Gulf's capitalization policy, which includes materials, labor and
7 overhead. The capital costs for other functional areas are determined based on an
8 estimate of the actual work performed and then likewise recorded to the appropriate
9 capital accounts.

10

11 Once the capital work is completed, the costs are recorded to the appropriate
12 functional plant account in FERC Account 101, Plant In Service, based on the
13 estimated normalized cost of installed units of property. Retirements of fixed assets
14 removed during restoration are recorded when the new incurred capital costs are
15 placed in service via a new discrete work order. As shown on line 43 of Exhibit MG-
16 1, a total of \$101.9 million was recorded as capital costs for Hurricane Michael.

17 **Q. How much did Gulf incur in its T&D functions associated with Hurricane**
18 **Michael?**

19 A. Gulf finalized the cost estimate as of October 31, 2019. As reflected on Exhibit MG-
20 1, Gulf incurred \$422.0 million of costs in its T&D functions after power had been
21 restored to a majority of Gulf's customers.

22

³ These costs exclude reserve equipment in FERC Account 368 used in storm restoration that were subtracted as part of the Capitalized Cost Adjustment.

1 **Q. Did Gulf incur costs in functions other than T&D?**

2 A. Yes, Gulf incurred costs associated with replacement and repairs to company
3 buildings and structures as well as call center support from the customer service
4 function as indicated on Exhibit MG-1 line 12.

5 **Q. Did Gulf receive, or does it expect to receive, any insurance recoveries associated**
6 **with storm damage resulting from Hurricane Michael?**

7 A. No. Gulf does not have insurance for its T&D assets. In addition, Gulf could not
8 make a property insurance claim for non-T&D assets as a result of Hurricane Michael
9 because no loss exceeded the deductible amount for insured assets.

10 **Q. Did Gulf receive any third-party reimbursements for storm-related costs?**

11 A. Yes. As shown on line 39 of Exhibit MG-1, AT&T, Inc. reimbursed Gulf \$4.8 million
12 for 2,234 poles replaced by Gulf on its behalf, as well as \$0.1 million reimbursement
13 from PowerSouth for the replacement of a radial line.

14 **Q. What jurisdictional separation factors have been applied to the Incremental**
15 **Storm Losses to determine the amount of Retail Recoverable Costs to charge to**
16 **the storm reserve?**

17 A. The jurisdictional separation factors from Gulf's 2017 Test Year filed in Docket No.
18 20160186-EI have been applied to jurisdictionalize the Hurricane Michael
19 Incremental Storm Losses and were provided by Gulf witness Boyett.

20 **Q. What is the storm reserve balance after recording the total incremental retail**
21 **storm costs for Hurricane Michael?**

22 A. As shown on line 1 on Exhibit MG-1, the pre-storm reserve balance was \$48.0
23 million as of September 30, 2018. The \$312.8 million of Retail Recoverable Costs

1 for Hurricane Michael charged to the storm reserve created a deficiency of \$264.8
2 million (the “Eligible Restoration Costs”), which was offset by an additional accrual
3 to the reserve post-storm of \$18.3 million.

4 **Q. What is the total Recoverable Storm Amount Gulf is requesting approval to**
5 **recover in this proceeding?**

6 A. As reflected on Line 63 on Exhibit MG-1, the total Recoverable Storm Amount that
7 Gulf is requesting is \$295.7 million. This amount represents the sum of Eligible
8 Restoration Costs of \$264.8 million, the partial offset of \$18.3 million related to the
9 post-storm reserve accrual, the replenishment of its storm reserve to \$40.8 million,
10 and interest on the unrecovered deficit in the storm reserve of \$8.3 million, all of
11 which have been grossed up for regulatory assessment fees.

12 **Q. Is this calculation in compliance with Gulf’s 2017 Stipulation and Settlement**
13 **Agreement?**

14 A. Yes. Under Gulf’s 2017 Stipulation and Settlement Agreement, Gulf is entitled to
15 request recovery of the storm reserve deficit and replenish its storm reserve to the
16 balance as of December 31, 2016, which was \$40.8 million.

17 **Q. Does this conclude your direct testimony?**

18 A. Yes.

19

1 (Whereupon, Witness Goldstein's prefiled
2 rebuttal testimony was inserted into the record as
3 though read.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

GULF POWER COMPANY

REBUTTAL TESTIMONY OF MITCHELL GOLDSTEIN

DOCKET NO. 20190038-EI

JULY 9, 2020

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1 **I. INTRODUCTION**

2

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

4 A. My name is Mitchell Goldstein. My business address is Gulf Power Company (“Gulf”
5 or the “Company”), One Energy Place, Pensacola, Florida, 32520.

6 **Q. Did you previously submit direct testimony in this proceeding?**

7 A. Yes. I submitted written direct testimony on November 15, 2019, together with Exhibit
8 MG-1 – Hurricane Michael Incremental Cost and Capitalization Approach
9 Adjustments.

10 **Q. Are you sponsoring any rebuttal exhibits in this case?**

11 A. Yes. I am sponsoring the following exhibits:

12 • Exhibit MG-2 – Hurricane Michael Incremental Cost and Capitalization
13 Approach Adjustments (Revised July 9, 2020), which is an update to the storm
14 costs provided in Exhibit MG-1 included with my direct testimony. This update
15 includes corrections or adjustments that have been identified during the course
16 of this proceeding.

17 • Exhibit MG-3 – Gulf’s Response to OPC's Interrogatory No. 59 – Amended.

18 **Q. What is the purpose of your rebuttal testimony?**

19 A. The purpose of my rebuttal testimony is to respond to the proposed adjustments to
20 Gulf’s recoverable Hurricane Michael storm costs that have been recommended by
21 Office of Public Counsel (“OPC”) witness Lane Kollen, and by Federal Executive
22 Agencies (“FEA”) witness Michael P. Gorman. I also explain the appropriate
23 accounting used by Gulf to support recovery of its prudently incurred costs. Finally, I

1 will address the adjustments that Gulf agreed to make in its discovery responses, and
2 explain why the Florida Public Service Commission (“Commission”) should reject the
3 proposed disallowances suggested by witnesses Kollen and Gorman, and approve the
4 relief requested by Gulf.

5 **Q. Please summarize your rebuttal testimony.**

6 A. My rebuttal testimony demonstrates that Gulf properly applied the Incremental Cost
7 and Capitalization Approach (“ICCA”) methodology under Rule 25-6.0143, F.A.C.
8 (the “Rule”) to calculate incremental costs related to Hurricane Michael storm
9 restoration work. While witness Kollen offers his opinion on what he considers a
10 “reasonable” approach to determine a baseline for incremental costs, his opinion of
11 what constitutes a “reasonable standard” is not the rule Gulf is obligated to follow, nor
12 is it the standard by which Gulf’s analysis and request should be judged.

13

14 Application of the Commission Rule and the ICCA methodology to the Hurricane
15 Michael facts captured all storm related costs, a total of \$427.7 million, as shown on
16 Line 12 of Exhibit MG-1. All non-incremental costs, capitalizable costs, and third-
17 party reimbursements were removed, after which jurisdictional factors were applied to
18 determine the total of \$312.8 million of Retail Recoverable Costs, as shown on Line 49
19 of Exhibit MG-1.

20

21 Notwithstanding witness Kollen’s and witness Gorman’s unsupported opinions to the
22 contrary, Gulf has fully supported its requested recovery for Hurricane Michael storm
23 related costs and interest, including each of the specific line item costs shown on

1 Exhibit MG-1, as revised on Exhibit MG-2. This support is apparent not only in Gulf's
2 initial testimony and exhibits, but also in Gulf's responses to hundreds of discovery
3 requests and the production of thousands of pages of documents.

4

5 In short, my testimony shows that Gulf followed the Rule and Commission precedent
6 in its request for Hurricane Michael storm cost recovery, and respectfully submits that
7 OPC's and FEA's proposed disallowances should be rejected.

8

9 **II. ACCOUNTING TREATMENT AND THE ICCA METHODOLOGY**

10

11 **Q. Has Gulf appropriately applied the ICCA methodology under the Rule to**
12 **calculate incremental costs related to Hurricane Michael?**

13 **A.** Yes, Gulf has appropriately followed the Commission rule and applied the ICCA
14 methodology to arrive at the total storm related costs for which it seeks recovery in this
15 proceeding. Witness Kollen, on the other hand, bases his opinions in large part on
16 faulty assumptions about the appropriate baseline for measuring and identifying costs
17 that are incremental and therefore recoverable under the Rule. He initially quotes the
18 Commission Rule as the appropriate standard to determine recoverable storm costs,
19 then admits that he also "relied on the Commission's decisions adopting settlement
20 agreements in other proceedings involving DEF, Tampa Electric Company, and FPL."
21 And while further acknowledging that the terms of those settlement agreements "do
22 not strictly apply to the 2018 storm season and by their terms cannot be imposed on
23 Gulf Power," he nonetheless does precisely that. As such, witness Kollen has candidly
24 acknowledged that his analysis is not based upon the Commission Rule, but is instead

1 premiered on settlements in unrelated cases that he admits are not binding on Gulf. Gulf
2 on the other hand has followed the Commission’s Rule, and appropriately accounted
3 for storm related costs for Hurricane Michael consistent with the ICCA methodology.

4 **Q. Witness Kollen states that the use of a 3-year average is the “reasonable standard”**
5 **to use to identify a baseline to determine costs that are incremental and therefore**
6 **recoverable. Please comment on this approach.**

7 A. Witness Kollen is relying upon a provision in two of the settlement agreements¹ entered
8 into in 2019 where the electric utilities voluntarily agreed to the use of a 3-year average
9 for a handful of categories of costs, based upon the specific facts and circumstances of
10 their respective cases. Witness Kollen’s “reasonable standard,” at a minimum, would
11 appear to require a rulemaking if it were to be considered for universal application by
12 the Commission. And while the use of the 3-year historical average may have made
13 sense for those two utilities at the time and under those circumstances, and while there
14 may even be situations where a utility determines that the use of the 3-year average
15 makes sense to establish a baseline to determine incremental costs where that decision
16 does not adversely impact customers, the fact remains that the current Rule only
17 requires that methodology to determine the level of “tree trimming expenses” that are

¹ The provisions witness Kollen relies upon are found in the Duke and TECO Settlement Agreements approved in Commission Order Nos. PSC-2019-0232-AS-EI dated June 13, 2019 (Duke) and PSC-2019-0234-AS-EI (TECO) dated June 14, 2019. In those settlement agreements, Duke and TECO agreed that for purposes of the specific recovery sought in Docket Nos. 20170272 and 20170271-EI, respectively, a 3-year historical average would be used to determine incremental base payroll, overtime, T&D non-vegetation management contractor costs, and T&D vegetation management costs. Additionally, it should be noted that OPC, a signatory to the TECO agreement, specifically agreed as follows: “The way the dollar amounts for the Initial Reduction, Additional Reduction and the Reduced Recoverable Amounts were developed *will not have any precedential value.*” TECO, page 6, paragraph 6 (emphasis added).

1 incremental.²

2 **Q. Did Gulf use the 3-year historical average to determine the level of incremental**
3 **tree-trimming, or vegetation management costs, it seeks to recover in this**
4 **proceeding?**

5 A. Yes. Gulf used the 3-year historical average to identify incremental vegetation
6 management expenses, as required by section (1)(f)8 of the Rule.

7 **Q. Gulf used current period budgeted base rate payroll data to establish the baseline**
8 **for calculating incremental regular payroll costs. Is Gulf’s approach consistent**
9 **with the guidance for calculating incremental regular payroll costs under the**
10 **Rule?**

11 A. Yes. While the Rule does not specify the method of calculating incremental regular
12 payroll storm costs, it does provide guidance that supports Gulf’s approach in this
13 proceeding. Section (1)(d) of the Rule states in pertinent part as follows: “In
14 determining the costs to be charged to cover storm-related damages, the utility shall
15 use an Incremental Cost and Capitalization Approach methodology (ICCA). Under the
16 ICCA methodology, the costs charged to cover storm-related damages shall exclude
17 those costs that *normally would be charged* to non-cost recovery clause operating
18 expenses in the absence of a storm.” (Emphasis added). Additionally, section (1)(f)(1)
19 of the Rule, describing the types of storm related costs prohibited from being charged
20 to the storm reserve under the ICCA methodology includes “*base rate recoverable*

² The use of the 3-year historical average to determine a baseline for the identification of incremental recoverable costs for tree trimming expenses is found at Rule 25-6.0143(1)(f)8, F.A.C. This is the only section of the Rule requiring the use of the 3-year historical average to determine a baseline for the identification of incremental recoverable costs.

1 *regular payroll and regular payroll-related costs* for utility managerial and non-
2 managerial personnel.” (Emphasis added)

3 **Q. What additional guidance did the Company rely on to support its use of current**
4 **period budgeted data for calculating non-incremental costs?**

5 A. The Company relied upon the Rule and multiple Commission Orders which support
6 the appropriateness of the calculations of non-incremental costs, including:

- 7 • Order No. PSC-2005-0937-FOF-EI, Docket No. 20041291-EI, which required
8 Florida Power & Light to use the budgeted amount of regular payroll for the
9 year in which the storm occurred as the baseline to determine the incremental
10 amount of regular payroll for the 2004 storm season;
- 11 • Paragraphs 21 and 22 of Order No. PSC-2006-0464-FOF-EI, Docket No.
12 20060038-EI, which allowed recovery of regular payroll which would
13 otherwise normally be recovered through capital or cost recovery clauses; and
- 14 • Part (1)(f)7 of the Rule which specifically refers to the use of non-budgeted
15 overtime or other non-budgeted incremental call center and customer service
16 costs when calculating incremental costs for those functions.

17 A review of this guidance supports Gulf Power’s use of its current period operating
18 budget as the baseline of its calculation of non-incremental regular payroll costs.

19 **Q. Please describe how Gulf determined incremental regular payroll costs to support**
20 **its request for recovery.**

21 A. The ICCA methodology requires the utility to adjust out any regular payroll costs that
22 it is already recovering through base rates. Because Gulf’s current base rates were
23 established through a settlement approved by the Commission in 2017, Gulf used its

1 2018 budget to establish a baseline for the regular payroll costs in base rates and any
2 additional costs to be recovered through the storm reserve. For its 2018 budget, the
3 cost of Transmission and Distribution employee time was allocated between capital
4 and O&M based on the expected work mix. The cost of most other employees was
5 budgeted to O&M only.

6
7 Therefore, to determine incremental regular payroll costs, Gulf first compiled all
8 regular payroll charges to the storm cost center, in total, \$6.964 million, which is also
9 shown on Column (6) of Line 4 of Exhibit MG-1 Page 1. Gulf then quantified the
10 amount of those regular payroll charges that were included in the 2018 budget, as
11 follows:

- 12 • For Transmission employees, we subtracted 20% of costs (since 80% of their
13 time is charged to capital for the 2018 budget, based on the mix of Transmission
14 work);
- 15 • For Distribution employees, we subtracted 30% of costs (since 70% of their
16 time is charged to capital for the 2018 budget, based on the mix of Distribution
17 work);
- 18 • For all other employees, we subtracted all costs (since all of their time was
19 charged to O&M in the 2018 budget).

20
21 This process determined that \$4.544 million (65%) was the amount of regular payroll
22 charges in budget, and which therefore was not incremental. Those charges were
23 removed from the amount to be recovered through the storm reserve. The remaining

1 \$2.420 million represents the regular payroll charges for Transmission and Distribution
2 employees which were not budgeted and therefore are incremental and recoverable
3 through the storm reserve.

4 **Q. Witness Kollen recommends a disallowance of \$2.402 million in regular payroll**
5 **and related costs in Gulf’s claimed incremental regular payroll costs after**
6 **reduction for “non-incremental” costs. What is your response to this**
7 **recommendation?**

8 A. At page 20 of his testimony, witness Kollen makes this statement, but provides no
9 analysis or support to explain how he arrived at that number. His purported
10 “explanation” for this recommendation is included in his footnote 14 which simply
11 restates the math included on my Exhibit MG-1, but does not state or even suggest that
12 the math is incorrect, or that there were any supposed errors in the way Gulf calculated
13 the incremental amount of payroll and related costs. There is frankly nothing in his
14 testimony that supports this recommendation.

15

16 As explained in this rebuttal testimony, and in my direct testimony filed earlier in the
17 case, Gulf followed the Commission Rule and precedent and the ICCA methodology
18 in calculating the amount of incremental costs, including regular payroll and related
19 costs, that qualify as recoverable storm related costs. Witness Kollen’s unsupported
20 recommendation to disallow \$2.402 million in payroll and related costs should be
21 rejected.

1 **Q. Do you agree with witness Gorman’s assertion that the regular payroll costs Gulf**
2 **is seeking in this proceeding are already being paid by customers in their electric**
3 **bills, and these costs are not incremental or caused by the hurricane damage?**

4 A. No, as noted above, through the ICCA methodology, Gulf calculated and removed all
5 regular payroll costs which were in base rates, so that the remaining storm recoverable
6 costs are, in fact, incremental.

7 **Q. Witness Gorman purports to challenge Gulf’s calculation of incremental payroll**
8 **and related costs, relying on an example of “an employee who works in Legal but**
9 **is supporting Distribution during storm restoration (who) would allocate their**
10 **time to Distribution.” Please comment.**

11 A. The example of the Legal employee supporting Distribution is taken from note (C) on
12 my Exhibit MG-1. Note (C) was offered to provide an explanation of how Gulf arrived
13 at the totals for Regular Payroll and Related Costs, and Overtime Payroll and Related
14 Costs. The note, tied to lines 4 and 5 of Exhibit MG-1 Page 1, reads in its entirety as
15 follows: “(C) Represents total payroll charged to the business unit (function) being
16 supported. For example, an employee that works in Legal but is supporting
17 Distribution during storm restoration would allocate their time to Distribution.”

18 **Q. Does this note mean that the Legal employee’s time during storm restoration was**
19 **considered by Gulf to be incremental and therefore recoverable in this**
20 **proceeding?**

21 A. No, quite to the contrary. The note simply explains that in this situation, the Legal
22 employee’s time would be allocated to the Distribution function rather than the Legal
23 function. And as I described above, application of the ICCA methodology recognized

1 that the Legal employee's time was already in Gulf's O&M budget, and as such, the
2 cost of that employee's time was included as a Non-Incremental Cost on Lines 15 and
3 16 of Exhibit MG-1 Page 1.

4 **Q. Is witness Gorman correct in his belief that Gulf is seeking to collect regular**
5 **payroll costs twice?**

6 A. No. I agree with witness Gorman that in the example discussed above, the Legal
7 employee's payroll costs are being recovered in base rates. But, as I have explained,
8 Gulf recognizes those costs as non-incremental, and they are not included in any
9 request for recovery in this proceeding.

10

11

III. CAPITALIZATION OF COSTS

12

13 **Q. Did Gulf appropriately capitalize costs in accordance with the Rule and the ICCA**
14 **methodology?**

15 A. Yes. On the sheet labeled "Final Capital ICCA" produced with Gulf's response to
16 OPC's 1st Request for Production of Documents Request No. 1, the Company provided
17 backup data and summarized the amounts which were charged to capital in 2018 and
18 2019, in total \$101.861 million which is also shown on Column (6) of Line 43 of
19 Exhibit MG-1 Page 1.

20 **Q. OPC takes the position that Gulf failed to limit its request to costs caused by the**
21 **storm, arguing that "it does not appear that the costs incurred in 2019 were**
22 **necessary to restore service." Please comment on this assertion.**

23 A. As witness Talley has noted in his testimony, the storm-related destruction caused by
24 Hurricane Michael was catastrophic and required work well into 2019 to rebuild and

1 restore the system to its pre-storm condition. The Rule plainly sets out a process for
2 recovery of costs for such “storm-related damages,” with no limitation for costs
3 “necessary to restore service.” As such, witness Kollen’s proposed disallowance of
4 nearly \$20 million discussed on pages 32-33 of his testimony is based upon an
5 unsupported and unsupportable interpretation of the Rule governing storm cost
6 recovery under the ICCA methodology. This proposed disallowance should be rejected
7 in its entirety because virtually all of these costs have already been capitalized and the
8 remainder were incremental and therefore properly included in Gulf’s request. Because
9 Gulf witness Talley and Gulf’s responses to discovery in this proceeding describe the
10 nature of the Hurricane Michael storm related work performed in 2019, I will limit my
11 comments to the Rule itself and the accounting treatment of those costs.

12
13 Witness Kollen suggests that the 2019 costs should be disallowed based upon a failure
14 to show that the work was “necessary to restore service.” In so doing, he again
15 completely ignores the plain meaning and clear language of the controlling Rule, and
16 instead chooses to rely upon a self-described “standard” that is nowhere to be found in
17 the Rule. Sections 1(c) and 1(d) of the Rule use the phrase “storm-related damages” –
18 not costs “necessary to restore service” - six times in describing the types of costs
19 recoverable under the ICCA methodology. And in section 1(e) of the Rule, recoverable
20 costs are described as “storm related costs.” There is no doubt that Gulf has satisfied
21 the requirements of the Rule through the testimony of Gulf witness Talley and the
22 voluminous discovery produced in this case, and that the costs were properly accounted

1 for in Gulf's books and records, first as costs to address storm related damages, and
2 then capitalized in accordance with the Rule.

3 **Q. On pages 32 and 33, witness Kollen states that \$19.941 million should be excluded**
4 **from the Company's requested recovery and therefore not recovered through the**
5 **storm reserve. Do you agree with his assessment?**

6 A. No. As I have explained, the 2019 costs included in Gulf's request for cost recovery
7 are clearly related to Hurricane Michael. Field inspections conducted in late 2018 and
8 early 2019 across the area impacted by Hurricane Michael confirmed the storm related
9 damage which needed to be repaired or replaced to put the Gulf Power system in its
10 pre-storm condition. This work primarily consisted of lighting and distribution work
11 which was capitalized and is therefore already excluded from the Company's storm
12 recovery request through the removal of Capitalizable Costs on line 43 of Exhibit MG-
13 1, Page 1. Therefore, witness Kollen's proposed disallowance of \$19.941 million
14 should be rejected.

15

16

IV. INVOICES

17

18 **Q. Please explain the purpose of the Master Log.**

19 A. The Master Log is a non-accounting work tool that Gulf developed during its review
20 and analysis of all Hurricane Michael costs submitted by vendors. The Gulf team used
21 this tool to track invoices received from vendors and to note exceptions identified
22 during the review process. The Master Log (which was provided in response to OPC's
23 Request for Production of Documents No. 10) demonstrates that Gulf's review
24 included approximately 4,500 invoices or other charged amounts totaling

1 \$389,485,901, and that reductions of \$6,808,610 were realized. The net amount,
2 \$382,677,291, is a subset of the total costs included on Line 12 of Exhibit MG-1. As
3 such, while the Master Log contains nearly 90% of the total Storm Related Restoration
4 Costs of \$427,619,775. shown on Line 12 of Exhibit MG-2, Page 2, it was not intended
5 to cover all costs and it does not cover all costs.

6 **Q. Do you agree with witness Kollen's statement that a reconciliation of Gulf's**
7 **Master Log and Exhibit MG-1 is necessary for the Company to support its**
8 **claimed costs?**

9 A. As described above, the Master Log is a non-accounting tool Gulf developed to assist
10 with its invoice review process. My Exhibit MG-1, together with the totality of Gulf's
11 materials filed and produced in this case, provide overwhelming evidence to support
12 the Company's Hurricane Michael storm related costs.

13

14 Witness Kollen also asserts on page 33 of his testimony that he cannot discern whether
15 the "Exceptions" noted by the Company were, in fact, subtracted from the amount of
16 claimed costs. To avoid all doubt, as noted above, the net amount of \$382,677,291 is
17 the amount included in Storm Related Restoration Costs, and the full \$6,808,610
18 million of Exceptions were subtracted.

19 **Q. When Gulf developed the Master Log, was it intended to track Exhibit MG-1?**

20 A. No. As described above, the Master Log was developed as a non-accounting tool to
21 facilitate an efficient and thorough process to review vendor invoices. The information
22 on Exhibit MG-1, on the other hand, was directly pulled from the Company's official
23 accounting records maintained in Oracle (in 2018) and SAP (in 2019).

1 Providing a more precise reconciliation between the Master Log and Exhibit MG-1
2 would require a detailed line-by-line review and recompilation of each of the
3 approximately 4,500 invoices in the Master Log, an exercise that would take many
4 man-hours and serve no practical purpose, since each invoice has already been
5 reviewed in detail and appropriate reductions have been made.

6

7

V. ADDITIONAL PROPOSED ADJUSTMENTS

8

9 **Q. On pages 22 through 26, witness Kollen discusses work done by Smith Industrial**
10 **Services, and summarizes his conclusion in the table on Page 9, indicating that**
11 **\$666 thousand in costs for that work should be disallowed. Do you agree with his**
12 **assessment?**

13 **A.** No. This proposed disallowance is apparently based on a lack of knowledge or
14 misunderstanding of the work performed by Smith Industrial. As the Company
15 previously demonstrated in its narrative response to OPC's Interrogatory No. 59 –
16 Amended, Exhibit MG–3, Smith Industrial was engaged because of its capabilities of
17 performing hydro-excavation, a process for removing or moving soil with pressurized
18 water. Gulf witness Talley explains in more detail the nature and necessity of the work
19 performed by Smith Industries. Witness Talley's description provides clear support for
20 the prudence of this activity and the reasonableness of the associated costs.

21

22

23

1 **Q. Earlier in your testimony you addressed the proposed adjustments suggested by**
2 **witnesses Kollen and Gorman related to 2019 storm related costs, payroll, and**
3 **capitalization. Are there other areas you would like to address where intervenors**
4 **have recommended disallowances?**

5 A. Yes. While acknowledging that the Rule is the standard by which incremental costs
6 are measured, witness Kollen nonetheless applied his 3-year historical average
7 approach in support of disallowing two categories of costs: \$70,000 of line contractor
8 costs and \$4.02 million of materials and supplies costs. Had witness Kollen applied
9 the Rule to these categories of costs, rather than his selectively applied self-proclaimed
10 “reasonable” standard, he would have recognized the accuracy of Gulf’s analyses and
11 calculations. These proposed disallowances should be rejected.

12 **Q. How did Gulf determine the amount of incremental materials and supplies**
13 **included in its request for cost recovery?**

14 A. The Company included only those materials and supplies costs which were directly
15 associated with work orders for Hurricane Michael storm related work. Additionally,
16 in accordance with section (1)(f)10 of the Rule, Gulf did not include any amount for
17 the replenishment of the utility’s materials and supplies inventories. Application of the
18 Rule, rather than witness Kollen’s desired approach, fully supports Gulf’s request for
19 recovery of these costs.

20 **Q. On pages 27 through 29, witness Kollen identifies \$52,000 in costs that should be**
21 **disallowed. Do you agree with his assessment?**

22 A. Gulf recognized these costs as billing errors totaling \$52,000 and acknowledged in the
23 Company’s discovery responses the need to remove these charges from its request. In

1 addition, Staff's Audit identified billing errors totaling an additional \$3,000. As a
2 result, the Company is submitting a revised cost recovery figure, which reflects the
3 removal of \$55,000 in costs (see Exhibit MG-2, page 1 of 4, line 6). This reduction is
4 included in Gulf's revised request reflected on Exhibit MG-2.

5 **Q. Please explain any other revisions to Exhibit MG-2 resulting in the revised request**
6 **of \$295.049 million.**

7 A. In addition to the \$55,000 reduction noted above, Gulf has updated the table showing
8 amortization and interest accretion during the recovery period (shown on Page 3 of
9 Exhibit MG-2), reflecting actual amortization and interest rates through June 2020. As
10 a result, Gulf anticipates Interest on the Unamortized Reserve Balance will be \$645,000
11 lower than originally anticipated. This amount is shown on Line 55 of Exhibit MG-2,
12 Page 1.

13 **Q. Do you have any observations about the fact that through the extensive discovery**
14 **conducted in this case, OPC identified approximately \$55,000 of billing errors out**
15 **of total costs of more than \$300 million?**

16 A. Yes, this confirms and reinforces my belief that the Gulf invoice review team undertook
17 an extremely thorough process, and with painstaking attention to detail eliminated
18 virtually all inappropriate charges. I am incredibly proud of the team for the work they
19 did on this project. I would also add that my review of the two Staff audits submitted
20 as exhibits to the testimony of Staff witnesses Dobiac and Vinson only reinforce my
21 belief in this regard.

22

1 Gorman to reduce the unrecovered incremental storm costs by the amount of the
2 associated current income tax liability in order to calculate interest on the after-tax
3 amount of incremental storm costs should be rejected.

4 **Q. Do you agree with witness Kollen's recommendation to disallow \$8.3 million of**
5 **interest on the Unamortized Reserve Balance?**

6 A. No. On page 35 of witness Kollen's testimony, he states that Gulf should not be able
7 to include interest on Gulf's unrecovered incremental storm costs because "Rule 25-
8 6.0143, F.A.C., does not address or authorize interest." This recommendation should
9 be dismissed as Gulf Power properly included and calculated interest on the total
10 amount of incremental recoverable storm costs at the commercial paper rate. Exhibit
11 MG-1 applied an estimated commercial paper rate based on the information available
12 at that time to calculate the numbers shown on page 2. Exhibit MG-2 updates these
13 calculations, with the actual commercial paper rate used each month, shown on Pages
14 3 and 4.

15
16 In addition, similar to witness Gorman's recommendation, witness Kollen states on
17 page 36 of his testimony that if the Commission approves recovery of interest, the
18 amount of unrecovered incremental costs "should reflect an offset for the avoided
19 financing costs, even if the net result is negative." As stated previously, the
20 recommended offset is inappropriate as it focuses on the timing of when storm costs
21 are deductible for income tax purposes which is irrelevant to the fact Gulf funded the
22 full amount of incremental storm costs for Hurricane Michael above the amount
23 available in its storm reserve. Based on these reasons, witness Kollen's

1 recommendation to not allow the recovery of interest on unrecovered incremental storm
2 costs should be rejected.

3 **Q. Does this conclude your rebuttal testimony?**

4 A. Yes.

1 (Whereupon, Witness Clark's prefiled direct
2 testimony was inserted into the record as though
3 read.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

GULF POWER COMPANY

DIRECT TESTIMONY OF TRACY G. CLARK

DOCKET NO. 20190038-EI

NOVEMBER 15, 2019

1 **I. INTRODUCTION**

2

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

4 A. My name is Tracy Clark. My business address is One Energy Place, Pensacola,
5 Florida, 32520.

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

7 A. I am employed by Gulf Power Company (“Gulf” or the “Company”) as Manager of
8 Alliance Management with the responsibility of overseeing Gulf’s intercompany
9 interchange contract relationship with Southern Company, as well as the transition
10 service agreement. In addition, I am responsible for overseeing the Hurricane
11 Michael invoice review process.

12 **Q. Please describe your duties and responsibilities related to overseeing the**
13 **Hurricane Michael invoice review process.**

14 A. I directed a team that reviewed and validated invoices to source documentation from
15 vendors who assisted Gulf in its restoration efforts related to Hurricane Michael.
16 During the review and validation process, this team, where applicable, identified
17 discrepancies which were resolved through credits, refunds or adjustments to the
18 vendor invoice.

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

20 A. I graduated cum laude from Troy State University in 1995 with Bachelor of Science
21 Degrees in Accounting and Mathematics, and in 1996 with an MBA, with an
22 Accounting Emphasis. I am a Certified Public Accountant licensed in the state of
23 Alabama. I began working for Southern Company in 2003 as the Internal Controls

1 Manager and held various positions of increasing responsibility including
2 Accounting Research Manager, Financial Reporting Manager and Transmission
3 Project Manager. Since joining Gulf in 2017, I have served as Project Manager in
4 Regulatory, and as the Assistant Secretary and Compliance and Concerns Manager,
5 before assuming my current responsibilities.

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

7 A. The purpose of my testimony is to provide a detailed overview of the Company's
8 process of reviewing, approving, and where appropriate, adjusting or rejecting
9 invoices related to Gulf's post-Hurricane Michael restoration efforts.

10 **Q. Please summarize your testimony.**

11 A. My testimony establishes that Gulf followed a robust and comprehensive review
12 process, including receipt, review, and follow-up analysis to ensure that, where
13 appropriate, all Hurricane Michael invoices (which, for purposes of my testimony,
14 include contractor, line clearing, logistics, employee expenses and other expenses)
15 were rejected, adjusted or paid. Gulf reviewed approximately 4,500 invoices related
16 to Hurricane Michael restoration activities. This comprehensive process allowed
17 Gulf to reduce costs by more than \$6.6 million, some of which is reflected as
18 modifications to invoices, while in other cases vendors have reimbursed the
19 Company for amounts identified through Gulf's review process.

20

21

22

1 identified by IA that was not identified by the invoice review team, Gulf leveraged
2 these findings and identified opportunities to improve the review process.

3 **Q. How did Gulf handle the extensive volume of invoices received as a result of**
4 **Hurricane Michael?**

5 A. Due to the large volume of invoices, Gulf dedicated a team of five employees to
6 oversee the accurate and timely review of the invoices related to Hurricane Michael.
7 Gulf also hired six contractors to assist with the review process. This process
8 included a line-by-line review of each invoice received and comparison to
9 contemporaneous records of restoration work completed, including timesheets and
10 meal/accommodation records. Invoices were also compared to vendor contract terms
11 and provisions, among other activities. All reviews were detailed in a log maintained
12 for this purpose, and potential discrepancies were documented and resolved. In total,
13 there were more than 10,000 man-hours committed to this process.

14 **Q. How were identified invoice discrepancies resolved?**

15 A. For each identified discrepancy (e.g., unsupported rates, missing receipts,
16 unauthorized expenses, etc.), the invoice review team would contact the appropriate
17 Gulf personnel or the vendor directly for additional information. If appropriate
18 supporting documentation was provided to validate the invoice, the discrepancy was
19 documented as resolved, and payment was approved. Otherwise, the review team
20 had the authority to modify or reject invoices, as appropriate, to reflect only validated
21 amounts. In cases where the invoices were previously paid, refunds or credit memos
22 were obtained by Gulf. Invoices that could not be validated resulted in \$6.6 million

1 in credits and reimbursements, representing less than 2 percent the of reviewed total
2 invoice amount.

3 **Q. Do you have any observations about the fact that a thorough review of all**
4 **invoices resulted in a reduction of less than 2 percent?**

5 A. Yes. The fact that less than 2 percent of the invoice total amount had to be adjusted
6 through this comprehensive review process shows that Gulf managed its vendors and
7 the restoration process in such a way as to largely eliminate any inappropriate
8 charges.

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

10 A. Yes.

11

1 (Whereupon, Witness Boyett's prefiled direct
2 testimony was inserted into the record as though
3 read.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
GULF POWER COMPANY
DIRECT TESTIMONY OF CHARLES SHANE BOYETT
DOCKET NO. 20190038-EI
NOVEMBER 15, 2019

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

2 A. My name is Shane Boyett. My business address is One Energy Place, Pensacola,
3 Florida 32520.

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

5 A. I am employed by Gulf Power Company (“Gulf” or the “Company”) as
6 Regulatory, Forecasting and Pricing Manager.

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

8 A. I am responsible for the calculation of revenue requirements and cost recovery
9 factors for the Company’s fuel, capacity and environmental cost recovery clauses,
10 tariff administration, and the regulatory filing function of Gulf Power Company.

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

12 A. I graduated from the University of Florida in 2001 with a Bachelor of Science
13 degree in Business Administration and earned a Master of Business
14 Administration degree from the University of West Florida in 2005. I joined Gulf
15 in 2002 as a Forecasting Specialist and held that position for five years until
16 transferring to Gulf’s Regulatory, Forecasting and Pricing department, where I
17 have held positions of increasing responsibility. In 2014, I transferred to Gulf’s
18 Financial Planning department as a Financial Analyst until being promoted later
19 that year to lead the Regulatory and Cost Recovery department.

20 **Q. Are you sponsoring any exhibits with this testimony?**

21 A. Yes, I am sponsoring the following exhibits:

- 22 • CSB-1 Calculation of Proposed Storm Restoration Recovery Surcharges
- 23 • CSB-2 Proposed Revisions to Gulf Power’s Tariff Sheets

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

2 A. The purpose of my testimony is to present new Proposed Storm Restoration
3 Recovery Surcharges (“Proposed Storm Charges”) for all rate classes which are
4 based upon updated cost allocations to reflect actual costs incurred by the
5 Company. I am also proposing a true-up methodology to resolve any final over or
6 under recovery amounts related to the Proposed Storm Charges at the end of the
7 period upon which the Proposed Storm Charges are effective.

8 **Q. Please describe the Proposed Storm Charges.**

9 A. The Proposed Storm Charges set forth in my Exhibit CSB-1 are designed to
10 recover final storm restoration costs related to Hurricane Michael and to replenish
11 Gulf’s storm reserve as contemplated in paragraph 7 of Gulf’s 2017 Stipulation
12 and Settlement Agreement that resolved all issues in consolidated Docket Nos.
13 160186-EI and 160170-EI. These costs have been allocated to each retail rate
14 class based on the rate class allocations presented in my Exhibit CSB-1. From
15 there, I have solved for the annual retail storm restoration recovery amount that
16 results in the residential class factor equaling 0.8 cents per kilowatt-hour
17 (“kWh”), or \$8 per 1,000 kWh, and the other rate class factors set forth in my
18 Exhibit CSB-1. The \$8 target rate level for the residential rate class was selected
19 to strike a fair balance between mitigating rate impact to customers and timely
20 recovery of costs. The Proposed Storm Charges will allow the Company to
21 recover Hurricane Michael restoration costs and replenish the storm reserve over
22 a period of approximately 53 months which began in July 2019 with the
23 Commission’s approval of Gulf’s Interim Storm Restoration Charges.

1 **Q. If Gulf’s storm charges were set at \$4 per 1,000 kWh, how long would it take**
2 **for the Company to recovery its prudently incurred storm restoration costs?**

3 A. If Gulf proposed a \$4 per 1,000 kWh target rate level as authorized in the 2017
4 Stipulation and Settlement Agreement, the expected recovery period would be
5 approximately 102 months or 8 1/2 years.

6 **Q. Has the Commission approved the proposal to allow Gulf to recover its storm**
7 **cost recovery charges at the \$8 per 1,000 kWh level?**

8 A. Yes. The Proposed Storm Charges presented in my Exhibit CSB-1 are consistent
9 with the approach approved by the Florida Public Service Commission
10 (“Commission” or “FPSC”) in Order No. PSC-2019-0221-PCO-EI, which
11 approved interim surcharge rates effective for the first billing cycle in July 2019.
12 Pursuant to the terms of Gulf’s 2017 Stipulation and Settlement Agreement, the
13 Company is authorized to petition the Commission to allow storm recovery rates
14 greater than \$4 per 1,000 kWh for a period longer than 12 months if recoverable
15 storm costs exceed \$100 million.

16 **Q. Were there any significant differences among the rate classes between the**
17 **currently-approved Interim Storm Restoration Charges and the Proposed**
18 **Storm Charges?**

19 A. Yes, only one rate class had a change that was significantly different from the
20 interim charges. Gulf reviewed and updated the cost allocations for all rate classes
21 once the total actual storm costs were known. The final cost allocation Gulf is
22 proposing for the Outdoor Service (“OS”) rate class is considerably less than what
23 was originally estimated in the February 6, 2019 petition proposing interim rates.

1 The OS rate class includes street and general area lighting as well as customer-
2 owned fixed wattage loads like traffic signals and cable television amplifiers. This
3 difference is the result of refining the outdoor lighting costs that are directly
4 assigned to the OS rate class. In the interim filing, Gulf included \$12 million of
5 estimated lighting restoration costs in the OS rate class allocation which resulted
6 in an interim OS class allocation of 5.951% and an interim surcharge rate of 2.661
7 cents per kWh. The total lighting restoration cost is now \$10 million, which has
8 also been adjusted to remove non-incremental outdoor lighting capital costs of \$5
9 million. The result is a direct assignment of \$5 million to the OS rate class which
10 reduces the proposed OS rate class allocation to 2.646% with a proposed
11 surcharge rate of 1.178 cents per kWh.

12 **Q. How will Gulf determine the expiration date of the recovery period?**

13 A. On an ongoing basis, Gulf will compare the final Recoverable Storm Amount
14 approved for recovery by the Commission to the actual and projected revenue
15 received from the Interim Storm Charges and new Proposed Storm Charges in
16 order to monitor the forecasted expiration date of the recovery period. No fewer
17 than 90 days prior to the date Gulf expects to replenish the storm reserve to
18 \$40,808,000 (“Storm Reserve Replenishment Amount”)¹, Gulf will make a
19 compliance filing with the Commission to provide notice of its intent to terminate
20 the Proposed Storm Charges.

¹ Paragraph 7(a) of the Stipulation and Settlement allows the Company to replenish its storm reserve to the level that existed as of December 31, 2016. Gulf’s storm reserve level as of December 31, 2016 equaled \$40,808,000.

1 **Q. How will Gulf determine any final true-up amount related to the Proposed**
2 **Storm Charges, and what is the Company’s proposal to calculate and resolve**
3 **any excess or shortfall?**

4 A. Gulf will compare the final Recoverable Storm Amount approved for recovery by
5 the Commission to the actual revenue received from the Interim Storm Charges
6 and new Proposed Storm Charges in order to determine any excess or shortfall in
7 recovery. The Company is proposing to apply interest to the variance at the 30-
8 day commercial paper rate, consistent with the application of interest in other cost
9 recovery clauses. Within 45 days after the Proposed Storm Charges expire, Gulf
10 will make another compliance filing with the Commission that sets forth the
11 calculation of the appropriate final true-up rates to apply to customer bills for a
12 one-month period in order to refund the excess or collect the shortfall. The final
13 true-up rates will be designed in a manner that is consistent with the rate class
14 cost allocation used in the Proposed Storm Charges filed herein, unless modified
15 by this Commission. Gulf will apply the true-up rates to customer bills starting on
16 Cycle Day 1 of the first month that is more than 30 days after the Commission
17 approval of the true-up rates.

18 **Q. How will Gulf notify its customers of the billing change that is going to**
19 **occur?**

20 A. Gulf will notify customers of the change in their rates at least 30 days in advance
21 in the form of either a message on their bill or separate bill insert. Gulf will also
22 post the revised Storm Restoration Recovery tariff on the Company’s website.

23

1 **Q. Please describe the Jurisdictional Factors set forth in your exhibit.**

2 A. On page 3 of my exhibit CSB-1, I have identified the functional jurisdictional
3 factors for use by Gulf witness Goldstein to jurisdictionalize the incremental
4 storm restoration costs by function. These jurisdictional factors were calculated
5 on Gulf MFR Schedules B-6 and C-4, which were filed in Gulf's most recent rate
6 case, and are based upon the most recently approved Cost of Service Study, also
7 filed in Docket No. 160186-EI. The jurisdictional factors utilized by Gulf in the
8 instant proceeding represent the most recently-approved functional separation
9 factors available to the Company.

10 **Q. Does this conclude your direct testimony?**

11 A. Yes.

1 (Whereupon, Witness Gorman's prefiled direct
2 testimony was inserted into the record as though
3 read.)

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**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

)	
IN RE: PETITION FOR LIMITED)	
PROCEEDING FOR RECOVERY)	
OF INCREMENTAL STORM)	
RESTORATION COSTS)	DOCKET NO. 20190038-EI
RELATED TO HURRICANE)	
MICHAEL, BY GULF POWER)	
COMPANY)	
)	

Direct Testimony of Michael P. Gorman

- 1 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**
- 2 A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140,
- 3 Chesterfield, MO 63017.
- 4
- 5 **Q WHAT IS YOUR OCCUPATION?**
- 6 A I am a consultant in the field of public utility regulation and a Managing Principal of
- 7 Brubaker & Associates, Inc. ("BAI"), energy, economic and regulatory consultants.
- 8
- 9 **Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**
- 10 A This information is included in Appendix A to my testimony.
- 11
- 12 **Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**
- 13 A I am appearing in this proceeding on behalf of the Federal Executive Agencies
- 14 ("FEA").
- 15

1 **Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A I will respond to the development of the incremental recoverable costs for the
3 Hurricane Michael costs as outlined in Gulf Power Company (“Gulf Power” or
4 “Company”) witness Mitchell Goldstein’s Direct Testimony. Mr. Goldstein states that
5 Gulf Power’s accounting for Hurricane Michael was in accordance with the
6 Incremental Cost and Capitalization Approach (“ICCA”) methodology required under
7 Rule 25-6.0143, Florida Administrative Code (“F.A.C.”). He refers to this as “the
8 Rule” in his testimony.

9

10 **Q WHAT ISSUES DO YOU TAKE WITH MR. GOLDSTEIN’S DEVELOPMENT OF**
11 **INCREMENTAL HURRICANE COSTS?**

12 A I have two concerns with his development of incremental costs as laid out on his
13 Exhibit MG-1, pages 1 and 2. First, I take issue with his inclusion of Regular Payroll
14 and Related Costs as an incremental cost related to hurricane damage costs.
15 Second, I take issue with the way he includes a carrying charge, or interest expense,
16 on the recoverable hurricane costs.

17

18 **Q PLEASE DESCRIBE WHAT COSTS MR. GOLDSTEIN HAS INCLUDED AS**
19 **INCREMENTAL IN THE DEVELOPMENT OF HIS TOTAL SYSTEM STORM**
20 **LOSSES TO BE RECOVERED FROM CUSTOMERS?**

21 A As outlined on his Exhibit MG-1, page 1, he recommends recovery of \$295,749,000
22 of incremental costs related to storm damage. Included in that under storm
23 restoration costs is “Regular Payroll and Related Costs.” He defines Regular Payroll
24 and Related Costs as “Represents total payroll charged to the business unit (function)
25 being supported.” He gives an example as “an employee that works in Legal but is

1 supporting Distribution during storm restoration would allocate their time to
2 Distribution.”

3
4 **Q HAS MR. GOLDSTEIN ADEQUATELY JUSTIFIED THESE REGULAR PAYROLL
5 AND RELATED COSTS AS INCREMENTAL COSTS?**

6 A No. While employees' assignments may have changed as a result of the hurricane,
7 their costs are not incremental to the utility. Indeed, whether an employee's costs are
8 included in Legal fees or other places, they are included in the Company's
9 development of cost-based rates. Therefore, Gulf Power's payroll costs are already
10 being paid by customers in their electric bills, and these costs are not incremental or
11 caused by the hurricane damage. Hence, including regular payroll costs as
12 incremental storm-related costs is not reasonable, because it provides Gulf Power an
13 ability to recover regular payroll costs twice – once through base rates, and a second
14 time through incremental hurricane damage costs.

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16 **Q PLEASE DESCRIBE YOUR CONCERN WITH THE DEVELOPMENT OF THE
17 CARRYING CHARGE MR. GOLDSTEIN PROPOSES ON HIS EXHIBIT MG-1,
18 PAGE 2 OF 2.**

19 A My concern here deals with the interest rate being applied to the total incremental
20 costs, as opposed to the after-tax incremental costs. The carrying charge should
21 apply to the after-tax costs, because that represents the amount of out-of-pocket cash
22 cost to the utility that must be financed. To the extent the utility, or its parent
23 company, can use write-offs and extraordinary expenses associated with hurricane
24 damage costs to reduce their income tax liability, then the carrying charge applied to
25 these unrecovered plant costs should be based on an after-tax basis.

1 Indeed, this is similar to developing a rate of return on rate base by
2 recognizing plant investment can be funded by both investor capital, which includes a
3 carrying charge, and cost-free capital such as accumulated deferred income taxes.

4 In developing the cost recovery for the incremental hurricane damage costs,
5 the Company would recover 100% of the costs. However, in calculating the carrying
6 charge, the charge should only apply to the after-tax balance, because the Company
7 can reduce this carrying charge by immediately writing off hurricane costs as they are
8 incurred. This adjustment will lower the cost that has to be passed on to customers
9 while providing Gulf Power 100% recovery of qualifying incremental hurricane costs.

10 For this reason, I recommend Mr. Goldstein's Exhibit MG-1, page 2 of 2 be
11 adjusted to calculate a carrying interest charge on the unamortized balance based on
12 the after-tax component of this. This can be accomplished by adjusting
13 Mr. Goldstein's Exhibit MG-1, page 2 under Column 11 by using the monthly average
14 interest rate calculation multiplied by the after-tax amount of average un-recovered
15 eligible restoration costs shown under Column 6, or Column 6 times (1 minus
16 composite tax rate). This would reduce the monthly interest as he has calculated it by
17 approximately the Company's federal income tax rate, or 21%.

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19 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

20 **A Yes, it does.**

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1 (Whereupon, Witness Dobiac's prefiled direct
2 testimony was inserted into the record as though
3 read.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

COMMISSION STAFF

DIRECT TESTIMONY OF DEBRA M. DOBIAC

DOCKET NO. 20190038-EI

JUNE 26, 2020

Q. Please state your name and business address.

A. My name is Debra M. Dobiac. My business address is 2540 Shumard Oak Boulevard, Tallahassee, Florida, 32399.

Q. By who are you presently employed?

A. I am employed by the Florida Public Service Commission (FPSC or Commission) in the Office of Auditing and Performance Analysis. I have been employed by the Commission since January 2008.

Q. Please describe your current responsibilities.

A. Currently, I am a Public Utility Analyst with the responsibilities of managing regulated utility financial audits. I am also responsible for creating audit work programs to meet a specific audit purpose.

Q. Briefly review your educational and professional background.

A. I graduated with honors from Lakeland College in 1993 and have a Bachelor of Arts degree in accounting. Prior to my work at the Commission, I worked for six years in internal auditing at the Kohler Company and First American Title Insurance Company. I also have approximately 12 years of experience as an accounting manager and controller.

Q. Have you presented testimony before this Commission or any other regulatory agency?

A. Yes. I testified in the Aqua Utilities Florida, Inc. Rate Case, Docket No. 20080121-WS, the Water Management Services, Inc. Rate Case, Docket No. 20110200-WU, and the Utilities,

Inc. of Florida Rate Case, Docket No. 20160101-WS. I also provided testimony for the Water Management Services, Inc. Rate Case, Docket No. 20100104-WU, the Gulf Power Company Rate Cases, Docket Nos. 20110138-EI and 20130140-EI, the Fuel and Purchased Power Recovery Clause (Hedging Activities) for Gulf Power Company, Docket Nos. 20130001-EI, 20140001-EI and 20190001-EI, and the Fuel and Purchased Power Recovery Clause (Hedging Activities) for Florida Power & Light Company, Docket No. 20180001-EI, and the Florida Public Utilities Company's Limited Proceeding to recover incremental Storm Restoration Costs, Docket No. 20180061-EI.

Q. What is the purpose of your testimony today?

A. The purpose of my testimony is to sponsor the staff auditor's report issued on January 16, 2020, which addresses Gulf Power Company's (Gulf or Utility) petition for limited proceeding for recovery of incremental storm restoration costs related to Hurricane Michael. This report is filed with my testimony and is identified as Exhibit DMD-1.

Q. Was this report prepared by you or under your direction?

A. Yes, it was prepared under my direction.

Q. Please describe the work you performed.

A. I have separated the work performed into several categories.

Payroll, Overtime, and Related Costs

We determined regular payroll, overtime, and related costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to payroll records. No exceptions were noted.

Contractors

We determined contractor costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a

judgmental sample of costs for detail testing and traced the amounts to purchase orders, invoices, or contracts. No exceptions were noted.

Line Clearing

We determined line clearing costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to purchase orders, invoices, or contracts. No exceptions were noted.

Vehicle and Fuel

We determined vehicle and fuel costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to source documents. No exceptions were noted.

Materials and Supplies

We determined materials and supplies from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to purchase orders, invoices, or inventory records. No exceptions were noted.

Logistics

We determined logistics costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to purchase orders, invoices, or employee expense reports. No exceptions were noted.

Other Costs

We determined other costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a

judgmental sample of costs for detail testing and traced the amounts to purchase orders, invoices, or contracts. No exceptions were noted.

Capitalizable Costs

We determined capitalizable costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We requested a detailed description of the capitalizable costs, and tested these costs to determine if the Utility included for recovery only those costs that are allowed as per Rule 6.0143(1)(d), Florida Administrative Code (F.A.C.). No exceptions were noted.

Third-Party Reimbursements

We determined third-party reimbursements from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We requested a detailed description of the third-party reimbursements, and tested these costs to determine if the Utility included for recovery only those costs that are allowed as per Rule 25-6.0143 (1)(b), F.A.C. No exceptions were noted.

Below-the-Line Costs

We determined below-the-line costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We requested a detailed description of the below-the-line costs, and tested these costs to determine if the Utility included for recovery only those costs that are allowed as per Rule 25-6.0143 (1)(b), F.A.C. No exceptions were noted.

Non-Incremental Costs

We determined non-incremental costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We requested a detailed description of the non-incremental costs, and tested these costs to determine if the Utility included for recovery only those costs that are allowed by the applicable Rule.. No

exceptions were noted

Jurisdictional Factors

We determined that Gulf used the jurisdictional factors calculated for 2019 in its filing. We verified the calculation using support documentation provided by the Utility. No further work was performed.

Q. Please review the findings in this report.

A. There were no findings.

Q. Does that conclude your testimony?

A. Yes, it does.

1 (Whereupon, Witness Vinson's prefiled direct
2 testimony was inserted into the record as though
3 read.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

COMMISSION STAFF

DIRECT TESTIMONY OF CARL VINSON

DOCKET NO. 20190038-EI

JUNE 26, 2020

Q. Please state your name and business address.

A. My name is Carl Vinson. My business address is 2540 Shumard Oak Boulevard, Tallahassee, Florida, 32399-0850.

Q. By whom are you presently employed?

A. I am employed by the Florida Public Service Commission (Commission) as the Supervisor of the Performance Analysis Section within the Office of Auditing and Performance Analysis.

Q. Please describe your current responsibilities.

A. I oversee a team that performs management audits and investigations of Commission-regulated utilities, focusing on the effectiveness of management and company practices, adherence to company procedures, and the adequacy of internal controls.

Q. Briefly review your educational and professional background.

A. I earned a Bachelor of Business Administration degree in Finance from Stetson University in 1980. Prior to my employment with the Commission, I worked for five years at Ben Johnson Associates, a consulting firm serving public utility commissions and offices of public counsel across the country. Since 1989, as part of Commission staff, I have conducted and overseen numerous management audits (also known as “operational audits”) and investigations of regulated utilities. As is the case in this docket, all of these audits provided assessments of the adequacy and appropriateness of management internal controls over various operational areas of regulated electric, gas, telecom, or water utilities.

Q. Have you presented testimony before this Commission or any other regulatory agency?

A. Yes. I filed testimony regarding audits of project management internal controls over nuclear construction projects of Duke Energy Florida, LLC and Florida Power & Light Company in Docket Nos. 20080009-EI, 20090009-EI, 20150009-EI, and 20170009-EI. I also filed testimony in Docket No. 20050045-EI addressing Florida Power & Light Company's vegetation management, lightning protection, and pole inspection processes.

Q. Please describe the purpose of your testimony in this docket.

A. My testimony presents the attached audit report entitled *Review of Gulf Power Company's Storm Cost Management and Payment Processing Practices for Hurricane Michael* (Exhibit CV-1). This report was prepared by the Performance Analysis Section under my direction. The purpose of the audit was to review, examine, and assess the methods by which Gulf Power Company (Gulf) controlled, incurred, and paid for portions of its Hurricane Michael storm costs. It also provides an assessment of the current procedures that will govern the incurring and payment of costs in Gulf's future post-storm restoration and recovery efforts.

Q. Are you sponsoring any exhibits?

A. Yes. Exhibit CV-1, which presents the report, is attached to my testimony.

Q. Please summarize the areas examined by your review.

A. The objectives of the audit were to examine the following regarding Gulf's Hurricane Michael storm restoration and recovery costs:

Vendor storm cost invoice preparation and submission

Review and approval of vendor storm cost invoices

Invoice dispute, correction, and resolution

Staffing and training of payment processing personnel

Consistency of invoice with contract terms and conditions

Overrides and exceptions to procedures and contract terms

Operating systems supporting invoice payment processing

Work planning and deployment of contractors and mutual assistance resources

Oversight and work monitoring of contractors and mutual assistance resources

Recordkeeping of contractor and mutual assistance work hours and costs

Self-assessment and implementation of lessons learned

Q. Does this conclude your testimony?

A. Yes.

1 (Whereupon, Witness Kollen's confidential
2 prefiled direct testimony was inserted into the
3 record as though read in Volume 2 and the
4 proceedings continued as follows.)

5 MR. TRIERWEILER: Counsel for the parties are
6 available to address any questions concerning the
7 terms and impact of the settlement agreement and
8 why approval of the settlement agreement is in the
9 public interest.

10 CHAIRMAN CLARK: All right. Commissioners,
11 this is your time to shine. Do you have any
12 questions for the parties?

13 No questions. All right.

14 Staff, do you have any questions that you
15 would like to ask?

16 MR. TRIERWEILER: Mr. Chairman, I'm giving
17 staff, who called in -- your lead staff is also on
18 the line -- an opportunity to -- to have a
19 question. And apparently, staff has no questions
20 concerning the settlement agreement for the parties
21 at this time.

22 CHAIRMAN CLARK: All right. All right. So,
23 are there any other matters?

24 MR. TRIERWEILER: With the Commission making a
25 bench decision -- oh, I'm sorry.

1 It is staff's understanding that the parties
2 are willing to the waive the filing of post-hearing
3 briefs. If that's the case, the Commission is in
4 the posture to make a bench decision at this time
5 if it chooses to do so.

6 CHAIRMAN CLARK: Thank you, Mr. Trierweiler.
7 Are all parties in agreement to waive briefs?

8 MR. BADDERS: Gulf is, yes.

9 MR. DAVID: Just --

10 CAPTAIN FRIEDMAN: FEA is --

11 (Simultaneous speakers.)

12 MR. DAVID: Yeah, we -- we are in -- in
13 general. We just want to make sure there's no --
14 if the vote brings up an issue that needs briefing,
15 we certainly would be willing to, but at its
16 current posture, OPC doesn't see a need for briefs.

17 CHAIRMAN CLARK: All right. Thank you. All
18 parties have agreed to waive.

19 All right. Commissioners, this is ripe for a
20 bench decision, should you so choose. What is your
21 pleasure?

22 Commissioner Brown, you're recognized.

23 COMMISSIONER BROWN: Thank you, Mr. Chairman.
24 I think this is a very straightforward settlement
25 agreement and it's clear to me that it's ripe for a

1 vote in -- favorable. I'll be prepared to make
2 that motion, if the other Commissioners don't have
3 any comments.

4 CHAIRMAN CLARK: No questions or comments from
5 other Commissioners?

6 Commissioner Brown, the motion is yours.

7 COMMISSIONER BROWN: Sure. I would move to
8 approve the settlement agreement as filed and deem
9 it in the public interest.

10 CHAIRMAN CLARK: Do I have a second?

11 COMMISSIONER GRAHAM: Second.

12 CHAIRMAN CLARK: I have a motion and a second.
13 Is there any discussion or any questions?

14 Seeing none, on the motion, all in favor say
15 aye.

16 (Chorus of ayes.)

17 CHAIRMAN CLARK: Any opposed?

18 All right. The motion is approved.

19 All right. Are there any further matters that
20 need to be addressed here today by the parties or
21 by staff?

22 Staff, we'll start with you.

23 MR. TRIERWEILER: With the Commission making a
24 bench decision, staff notes that a final order is
25 due to be issued by October 5th.

1 CHAIRMAN CLARK: Thank you, Mr. Trierweiler.
2 Parties -- any of the parties have any other
3 matters that need to be addressed?

4 MR. DAVID: No, sir.

5 CHAIRMAN CLARK: All right. Sounds great.
6 Seeing no additional matters, this hearing is
7 hereby adjourned.

8 We will resume in ex- -- exactly 10:15 to take
9 up internal affairs at 10:15. I believe everyone
10 has a new dial-in number for that. So, 10:15,
11 we're back on.

12 Thank you, guys. Hearing is adjourned.

13 (Transcript continues in sequence in Volume
14 2.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, ANDREA KOMARIDIS WRAY, Court Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 24th day of September, 2020.



ANDREA KOMARIDIS WRAY
NOTARY PUBLIC
COMMISSION #GG365545
EXPIRES February 9, 2021