BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 20180049-EI

EVALUATION OF STORM RESTORATION COSTS FOR FLORIDA POWER & LIGHT COMPANY RELATED TO HURRICANE IRMA.

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VOLUME 2
PAGES 215 through 334

PROCEEDINGS:	HEARING
COMMISSIONERS PARTICIPATING:	CHAIRMAN ART GRAHAM COMMISSIONER JULIE I. BROWN COMMISSIONER DONALD J. POLMANN COMMISSIONER GARY F. CLARK COMMISSIONER ANDREW GILES FAY
DATE:	Tuesday, July 9, 2019
TIME:	Commenced: 1:00 p.m. Concluded: 2:05 p.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	DEBRA R. KRICK Court Reporter
APPEARANCES:	(As heretofore noted.)

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I N D E X

WITNESSES

EXHIBITS

NUMBER:		ID	ADMITTED
2-5	As identified on the comprehensive exhibit list		326
9	As identified on the comprehensive exhibit list		326
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P R O C E E D I N G S

CHAIRMAN GRAHAM: Okay. Seeing no more questions, we need to enter all the prefiled testimony for Witness Miranda, Ferguson and Manz into the record, correct?

MR. RUBIN: Yes.

MS. BROWNLESS: Go ahead.

MR. RUBIN: Yes.

(Whereupon, prefiled testimony was inserted.)

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Manuel B. Miranda. My business address is Florida Power & Light Company, 700 Universe Blvd., Juno Beach, Florida, 33408.

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

A. I am employed by Florida Power & Light Company ("FPL" or the "Company") as Senior Vice President of Power Delivery.

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

A. As Senior Vice President of Power Delivery, I am responsible for the planning, engineering, construction, operation, maintenance, and restoration of FPL's transmission and distribution ("T&D") electric grid. During storm restoration events, I assume the additional role of FPL's Area Commander. In this capacity, I am responsible for the overall coordination of all restoration activities to ensure the successful implementation of FPL's restoration strategy, which is to restore service to our customers safely and as quickly as possible.

Q. Please describe your educational background and professional experience.

A. I have a Bachelor of Science in Mechanical Engineering from the University of Miami and a Master in Business Administration from Nova Southeastern University. I joined FPL in 1982 and have 36 years of technical, managerial and commercial experience gained from serving in a variety of positions within Customer Service, Distribution and Transmission. For more than 10 years, I have held several vice president positions within Distribution and Transmission,

including my current position. For storm restoration events, I have served as FPL's Area Commander for the last five years. Additionally, for the last five years, I have served as a member on the National Response Executive Committee, a group that oversees a process designed to enhance the industry's ability to respond to national-level events by improving access and visibility to resources from all across the country.

Q. Are you sponsoring any exhibits in this case?

A. Yes. I am sponsoring the following exhibits:

- MBM-1 – Satellite View of Hurricane Irma
- MBM-2 – FPL's T&D Hurricane Irma Restoration Costs

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide an overview of FPL's emergency preparedness plan and restoration process. I will also provide details for the work and costs incurred by FPL's T&D organization in connection with Hurricane Irma. Specifically, I will describe FPL's T&D Hurricane Irma storm preparations, response and restoration efforts, follow-up work activities necessary to restore FPL's facilities to their pre-storm condition, and details on T&D storm restoration costs. Finally, I will discuss FPL's overall successful performance in restoring service to those customers that experienced an outage due to Hurricane Irma. As a result, my testimony supports the prudence of FPL's activities and the reasonableness of the Hurricane Irma T&D restoration costs.

II. EMERGENCY PREPAREDNESS PLAN & RESTORATION PROCESS

Q. What is the objective of FPL's emergency preparedness plan and restoration process?

A. The primary objective of FPL's emergency preparedness plan and restoration process is to safely restore critical infrastructure and the greatest number of customers in the least amount of time so that FPL can return the communities it serves to normalcy.

Q. Describe generally how FPL approaches this objective.

A. Achieving this objective requires extensive planning, training, adherence to established storm restoration processes, and execution that can be scaled quickly to match each particular storm. To these ends, FPL's emergency preparedness plan incorporates comprehensive annual restoration process reviews and includes lessons learned, new technologies, and extensive training activities to ensure FPL's employees are well prepared.

While FPL has processes in place to manage and mitigate the costs of restoration (including actions taken prior to a storm event), the objective of safely restoring electric service as quickly as possible cannot, by definition, be pursued as a "least cost" process. Said another way, restoration of electric service at the lowest possible cost will not result in the most rapid restoration.

Q. What are the key components of FPL's emergency preparedness plan?

A. FPL's emergency preparedness plan is the product of years of planning, study, and refinement based upon actual experience. Key components of this plan include:

- Disaster response policies and procedures;
- Scalable internal organizational structures based on the required response;
- Planned timeline of activities to assure rapid notification and response;
- Mutual assistance agreements and vendor contracts and commitments;
- Plans and logistics for the staging and movement of resources, personnel, materials, and equipment to areas requiring service restoration;
- Communication and notification plans for employees, customers, community leaders, emergency operation centers, and regulators;
- An established centralized command center with an organization for command and control of emergency response forces;
- Checklists and conference call agendas to organize, plan, and report situational status;
- Damage assessment modeling and reporting procedures;
- Field and aerial patrols to assess damage;
- Comprehensive circuit patrols to gather vital information needed to identify the resources required for effective restoration; and
- Systems necessary to support outage management processes and customer communications.

This plan is comprehensive and well-suited for the purpose of facilitating prompt and effective responses to emergency conditions, such as hurricanes, to restore power as quickly as possible.

Q. Does FPL regularly update its plan?

A. Yes. Each year, prior to storm season, FPL reviews and updates its emergency preparedness plan. To ensure rapid restoration, key focus areas of this plan are staffing the storm organization, preparing logistics support, enhancing customer communication methods, and ensuring that required computer and telecommunication systems are in place. As part of this process, all business units within FPL identify personnel for staffing the emergency response organization. In many cases, employees assume roles different than their regular responsibilities. Training is conducted for thousands of storm personnel each year, regardless of whether they are in a new role or a role in which they have served many times. This includes training on processes that range from clerical and analytical to reinforcing restoration processes for managers and directors.

Q. What else does FPL do to prepare for each storm season?

A. In the logistics support area, preparations include: 1) increasing material inventory; 2) verifying and securing adequate lodging arrangements; 3) securing staging sites (temporary work sites that are opened to serve as operation hubs for Incident Management Teams to plan, coordinate, and execute area restoration plans and also provide parking, food, laundry service, medical care, hotel coordination, and, if necessary, housing for large numbers of external and internal restoration resources); 4) verifying staging site plans; and 5) securing any necessary

agreements and contracts for these support services. These activities are important to ensure availability and on-time delivery of these critical items at a reasonable cost. All of this planning and preparation provides the foundation to begin any restoration effort.

Q. Does FPL regularly test its emergency preparedness plan?

A. Yes. Each year, prior to the start of hurricane season, FPL tests its readiness during a hurricane "dry run" exercise. This event simulates a storm (or multiple storms) impacting FPL's service territory. The purpose is to provide a realistic, challenging scenario that causes the organization to react to situations and to practice functions not generally performed during normal operations. It is a full-scale exercise, executed with active participation by employees representing every business unit in the company as well as external organizations, local government officials,and media representatives. After months of preparation, the formal exercise activities begin 96 hours before the mock hurricane's forecasted date and time of impact. FPL's Command Center is fully mobilized and staffed. Field patrollers are required to complete simulated damage assessments that are then utilized by office staff to practice updating storm systems, acquiring resources, and developing estimated times of restoration. The exercise also includes simulating customer and other external communications as well as updating our outage management system and other storm-specific applications. Additionally, FPL conducts an annual full-scale staging site exercise to assess the readiness of staging site processes (e.g., communications, logistics, materials, and equipment). This training is conducted in the course of our ordinary approach to business and the costs of these activities are

not charged to storm costs and, therefore, are not part of the evaluation of costs the Florida Public Service Commission is conducting in this proceeding.

Q. How does FPL respond when a storm threatens its territory?

A. FPL responds by taking well-tested actions at specified intervals prior to a storm's impacts. When a storm is developing in the Atlantic Ocean or Gulf of Mexico, our staff meteorologist continuously monitors conditions and various departments throughout the company initiate preliminary preparations for addressing internal and external resource requirements, logistics needs, and system operation conditions.

At 96 to 72 hours prior to the projected impact to FPL's system, FPL activities include: activating the FPL Command Center; alerting all storm personnel; forecasting resource requirements; developing initial restoration plans; activating contingency resources; and identifying available resources from mutual assistance utilities. In addition, all FPL sites begin to prepare their facilities for the impact of the storm.

At 72 to 48 hours, computer models are run based on the projected intensity and path of the storm to forecast expected damage, restoration workload, and potential customer outages. Based on the modeled results, commitments are confirmed for restoration personnel, materials, and logistics support. Staging site locations are then identified and confirmed based on the storm's expected path. Communications lines are ordered for the staging sites and satellite

communications are expanded to improve communications efforts. External resources are activated and begin moving toward the expected damage areas in our service territory and internal personnel may also be moved closer to the expected damage.

At 24 hours, the focus turns to pre-positioning personnel and supplies to begin restoration as soon as it is safe to do so. As the path and strength of the storm changes, FPL continuously re-runs damage models and adjusts plans accordingly. Also, FPL contacts community leaders and County Emergency Operations Centers ("EOCs") for coordination and to review and reinforce FPL's restoration plans. This outreach includes confirming the assignment of FPL personnel to the County EOCs for the remainder of the storm and identifying restoration personnel to assist with road clearing and search-and-rescue efforts. FPL also has personnel assigned to the State EOC to support coordination and satisfy information needs. Throughout the process, FPL also provides critical information (e.g., public safety messages, storm preparation tips, and guidance if an outage occurs) to the news media, customers and community leaders.

Q. Has FPL had any recent past opportunities to execute its emergency preparedness plan and overall restoration process?

A. Yes. In September and October 2016, FPL was required to implement its full-scale emergency preparedness plan and restoration process as a result of impacts from Hurricanes Hermine and Matthew, respectively.

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

A. Yes. Consistent with its culture of continuous improvement, FPL implemented several enhancements to its processes based upon its experience with the 2016 storms. I will discuss these later in my testimony.

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

A. Significant standardization in field operations has been institutionalized including: work-site organization; work preparation and prioritization; and damage assessment. For external crew personnel, FPL provides an orientation that includes safety rules, work practices, and engineering standards. For external personnel providing patrol and management assistance, training is provided to explain their duties as well as FPL processes and procedures. Also, procedures to ensure rapid preparation and mobilization of remote staging sites have been developed to allow FPL to establish these sites in the most heavily damaged areas.

Storm plan requirements are documented in a variety of media including manuals, on-line procedures, checklists, job aids, process maps, and detailed instructions. System data is continuously monitored and analyzed throughout the storm. FPL conducts multiple daily conference calls, utilizing structured checklists and agendas, with FPL Command Center leadership to confirm process discipline, discuss overall progress, and identify issues that can be resolved quickly because leaders from all FPL business units participate. Conference calls are also held

twice a day with all field restoration and logistics locations to provide a further mechanism to ensure critical activities are performed as planned and timely communications occur at all levels throughout the organization. Also, each organization within FPL conducts its own daily conference call(s) to ensure plans are executed appropriately and issues are being resolved expeditiously. Overall monitoring and performance management of field operations are performed through the FPL Command Center. In addition, FPL Command Center personnel routinely conduct field visits once restoration has begun to validate restoration process discipline and application, assess progress at remote work sites, and identify any adjustments that may be required.

Q. How does FPL assess its workload requirements?

A. There are a variety of factors that impact restoration workload. In each storm, FPL utilizes its damage forecast model to predict the expected damage and hours of work to restore service. These forecasts are based on the location of FPL facilities, the storm's projected path, and the effects of varying wind strengths on the electric infrastructure. As conditions change, the damage model is updated. The workload projections are matched with resource factors such as availability and location, and FPL's capacity to efficiently and safely manage and support available resources. As soon as the storm passes, certain employees are tasked with driving predetermined routes to survey damage. Additionally, FPL utilizes damage assessments obtained through aerial and field patrols and customer outage information contained in FPL's outage management system.

Q. How does FPL begin to acquire resources?

A. Normally, 96 to 72 hours prior to expected storm impact, FPL begins to contact selected contractors to assess their availability. Additionally, as a member of the Southeastern Electric Exchange ("SEE") and Edison Electric Institute ("EEI"), FPL begins to utilize the formalized industry processes to request mutual assistance resources. At 72 to 48 hours, depending on the storm track certainty and forecasted intensity, FPL may begin to financially commit to acquire necessary resources and request that travel to and within Florida commence. Resource needs are continually reviewed and adjusted, if necessary, based on the storm's path, intensity fluctuations, and corresponding damage model results.

Q. Please provide detail on how FPL acquires additional resources.

A. As previously mentioned, an important component of each restoration effort is FPL's ability to scale up its resources to match the increased volume of workload. This includes acquiring external contractors and mutual assistance from other utilities, within (e.g., other Florida investor-owned, municipal and cooperative utilities) as well as outside of Florida. FPL is a participating member of the SEE Mutual Assistance Group. While this group is a non-binding entity, it provides FPL and other members with guidelines on how to request assistance from a group of approximately 50 utilities, primarily located in the southern and eastern United States. The guidelines require reimbursement for direct costs of payroll and other expenses, including roundtrip travel costs (i.e., mobilization/demobilization), when providing mutual aid in times of an emergency. In addition, FPL participates with EEI and the National Response Event organization to gain access to other utilities

and has requested assistance from those companies based on similar mutual assistance agreements. Resource requests may include line crews, tree trimming crews, patrol personnel, crew supervisors, material-handling personnel and, in some cases, logistics support.

FPL also has a number of contractual agreements with power line and vegetation contractors throughout the U.S. Many of these agreements are with contractors that FPL utilizes during normal operations. Depending on the severity of the storm and our resource needs, a large number of additional line and vegetation companies may be contracted to provide additional support pending their release from the utilities for which they normally work. If these additional power line and vegetation contractors are needed, FPL negotiates rates with the new contractors on an as-needed basis prior to the commencement of work.

Q. How does FPL take cost into account when acquiring resources for storm restoration?

A. As indicated earlier, while rapid restoration (the primary restoration objective) does not permit the least overall cost for restoration, FPL is always mindful of costs when acquiring resources. For example, prior to storm season, FPL's storm preparation process includes negotiating contracts with vendors, which include line contractors, tree trimming contractors, logistics, environmental, and salvage contractors. For line and tree contractors, we endeavor to acquire resources based on a low-to-high cost ranking and release these same resources from storm restoration assistance in reverse cost order subject to the overriding objective of

quickest restoration time and related considerations. FPL also considers travel distance when procuring storm restoration resources, as longer distances require increased drive times and can result in higher mobilization/demobilization costs. Final contractor and mutual-aid resource decisions take into consideration the number, availability, relative labor costs, and travel distances of required resources. This information is then evaluated relative to the expected time to restore customers.

Q. Describe FPL's plan for the deployment and management of the incoming external resources.

A. The deployment and movement of resources are coordinated through the FPL Command Center, utilizing personnel tracking and outage management systems to monitor execution of the plan. Daily management of the crews is performed by the field operations organization, which is responsible for executing FPL's restoration strategy. Decisions on opening staging sites to position the restoration workforce in impacted areas are based primarily on the arrival time(s) of external resources. Daily analysis of workload execution and restoration progress permits dynamic resource management. This enables a high degree of flexibility and mobility in allocating and deploying resources in response to changing conditions and requirements. Another critical factor is FPL's ability to assemble trained and experienced management teams to direct field activities. As part of the storm organization, management teams include Incident Commanders and crew supervisors to directly oversee field work.

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

A. FPL has centralized all external resource acquisition within the FPL Command Center organization. This organization approves resource acquisition targets, which are continually monitored by the Planning Section Chief, who reports to me and keeps me informed during the entire restoration process.

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

A. These external resources are assigned to an FPL Storm Production Lead when they arrive at their designated staging site. The Storm Production Lead is responsible for verifying crew rosters as FPL accepts these resources on to its system. The Storm Production Lead is also responsible for reviewing and approving daily timesheets to ensure that time and personnel counts are recorded accurately. The timesheets are then provided to the Finance Section Chief (whose role and responsibilities are described in FPL witness Ferguson's testimony) and sent to FPL's contractor payment center, where they are used to verify invoices received from the contracted companies.

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

A. Logistic functions serve a key role in any successful restoration effort, i.e., ensuring that basic needs and supplies are adequately available and provided to the thousands of restoration personnel involved. These functions include, but are not limited to, the acquisition, preparation, and coordination of: staging sites, environmental services, salvage, lodging, laundry, buses, caterers, ice and water,

office trailers, light towers, generators, portable toilets, security guards, communications, and fuel delivery. Agreements with primary vendors are also in place prior to the storm season as part of FPL's comprehensive storm-planning process. FPL personnel from all parts of the company meet additional logistics staffing needs. Most of these employees are pre-identified, trained and assigned to provide site logistics management and support other restoration workforce needs. FPL contracts for additional logistics resources for larger restoration efforts that exceed internal logistics support capabilities.

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

A. Yes. FPL's logistics organization is responsible for overseeing and coordinating the procurement of resources required at our staging sites. The Logistics Section Chief and logistics team ensure that each staging site's resource requirements are initially procured and received. The Finance Section Chief also provides guidance and assistance to help ensure active, real time financial controls are in effect and adhered to during the restoration event. These points are discussed in more detail by FPL witness Ferguson.

III. HURRICANE IRMA

Q. Please provide an overview of Hurricane Irma as it developed and began to threaten Florida.

A. On Wednesday, August 30, 2017, Tropical Storm Irma developed just west of the Cape Verde Islands. Within several days, as Irma moved westward, it quickly intensified into a major hurricane. On Tuesday, September 5, Irma intensified into a rare Category 5 hurricane with sustained winds reaching 180 mph, making it one of the strongest hurricanes ever observed in the open Atlantic Ocean. As Hurricane Irma continued westward into the Caribbean, it caused catastrophic damage to the islands of Barbuda, Saint Barthélemy, Saint Martin, Anguilla, and the U.S. Virgin Islands. Hurricane Irma's trail of destruction resulted in billions of dollars in damage and left some areas of these islands barely habitable, with thousands of people homeless.

Hurricane Irma was a large, relatively slow-moving storm and as can be seen in Exhibit MBM-1, Satellite View of Hurricane Irma, roughly the size of the entire state of Florida. On Wednesday, September 6, the National Hurricane Center's Hurricane Irma five-day forecast "cone" encompassed the entire Florida peninsula, and voluntary and mandatory evacuation orders were issued in several counties. On the morning of Thursday, September 7, the National Hurricane Center issued its first storm surge and hurricane watches for the southern Florida peninsula. That Thursday evening, the National Hurricane Center issued its first storm surge

and hurricane warnings for Florida, extending from Jupiter Inlet southward around the peninsula to Bonita Beach and including the Florida Keys, Florida Bay, and Lake Okeechobee areas. Storm surge and hurricane watches were also extended northward into the Treasure Coast and Sarasota and Manatee counties. As Hurricane Irma approached Florida, forecasts increased in certainty that the state would be seriously impacted, with possible landfall in Miami-Dade County, the most heavily populated area served by FPL.

Hurricane Irma continued on its destructive path, making landfall as a Category 5 storm in northern Cuba on Saturday, September 9. At this point, Irma's hurricane-force winds and tropical storm-force winds extended outward from its center 70 miles and 195 miles, respectively, and FPL's service territory began to experience the effects of Hurricane Irma. While its interaction with Cuba somewhat weakened Hurricane Irma, the storm regained some intensity, becoming a Category 4 hurricane as it moved toward the Florida Straits.

Q. Please provide an overview of Hurricane Irma once it made landfall in Florida.

A. Hurricane Irma made its first direct U.S. landfall in the Florida Keys during the morning of Sunday, September 10 as a Category 4 hurricane, causing extensive damage to, and in many cases, the destruction of structures and knocking out power, telecommunications, and other services throughout the area. The storm's hurricane and tropical-force winds extended up to 80 and 220 miles, respectively, from its center. Miami International Airport reported wind gusts of up to 72 mph.

Hurricane Irma made its second direct U.S. landfall in the Marco Island/Naples area of Southwest Florida as a Category 3 hurricane, with sustained winds of 115 mph. Throughout Sunday, virtually all of southern Florida, from the east coast to the west coast, experienced hurricane-force winds, tropical storm-force winds, and tornadic activity as Irma's reach expanded outward up to 400 miles from its center. Maximum sustained winds of 112 mph and a gust of 130 mph were reported in Marco Island. A 142 mph wind gust was reported at the Naples Municipal Airport. Sustained hurricane force winds extended well inland over the southern Florida peninsula. At Government Cut, off of Miami Beach, sustained winds of 75 mph and a wind gust of 112 mph at Deerfield Beach were recorded. Nearly all of the inland observations in the Miami-Dade and Broward County metro area reported sustained winds just below hurricane force. The Opa Locka Airport reported sustained winds of 64 mph with a gust of 85 mph and several other nearby stations reported similar wind speeds.

As Hurricane Irma continued northward and its center approached the Tampa and Orlando areas, hurricane conditions began to diminish, however, tropical storm conditions were still experienced on both the west and east coasts of the state. Reports from both sides of the state confirmed Irma's expansive wind field. For example, just offshore of Tampa in the Gulf of Mexico, sustained winds of 51 mph were measured and just off the east coast of Florida at Cape Canaveral, sustained winds of 64 mph were measured. Tropical storm conditions were also reported across much of northern Florida, especially to the east of the center, e.g., sustained

winds of 59 mph and a gust of 86 mph were measured at the Jacksonville International Airport. Irma also brought storm surge and tremendous amounts of rainfall across the Florida peninsula, with up to nearly 22 inches reported in St. Lucie County, and significant flooding in FPL's service area as far north as St. Augustine.

During the afternoon and evening of September 10, Irma continued moving slowly northward for approximately 24 hours. Large parts of the Florida peninsula were covered with hurricane-force winds, tropical storm-force winds, and heavy rainfall for nearly two days.

Q. Can you provide any comparisons (e.g., strength, size, path, etc.) between Hurricane Irma and Hurricane Wilma (the last major storm to make landfall in FPL's service territory)?

A. Yes. There are several significant comparisons worth noting. First, the forward speed and paths of these two storms were very different. Hurricane Irma was a much slower storm and its path (landfall in the Keys and southwest Florida coast, exit through north Florida into Georgia) resulted in impacts throughout all of Florida. In contrast, Hurricane Wilma, cut across the southern portion of the state (landfall in the southwest Florida coast, exit through the southern east coast of Florida) and did not impact FPL's entire service territory. Hurricane Irma impacted some areas with tropical storm force winds for approximately 24 hours, while Hurricane Wilma, a faster forward moving storm, cut across the southern portion of Florida in approximately five hours.

Hurricane Irma also produced significantly more rainfall than Hurricane Wilma. For Hurricane Irma, rainfall totals of 10-15 inches were broadly seen within Florida, with some areas, such as St. Lucie County, sustaining a maximum rainfall of approximately 22 inches. For Hurricane Wilma, rainfall generally ranged from 3-7 inches, with a maximum rainfall of approximately 11 inches at the Kennedy Space Center.

Tornadoes were also more prevalent in Hurricane Irma than Hurricane Wilma. For Hurricane Irma, 21 tornados were confirmed within Florida (the vast majority of which were located in FPL's service territory). For Hurricane Wilma, 10 tornadoes were confirmed within Florida.

Finally, Hurricane Irma was a much more damaging storm than Hurricane Wilma, as determined by the Cyclone Damage Potential Index (an index developed by the National Center for Atmospheric Research, which rates a storm's ability to cause destruction). In fact, based on this index, Hurricane Irma's damage potential was more than 1.5 times greater than Hurricane Wilma's damage potential.

IV. FPL'S RESPONSE

Q. How did FPL initially prepare to respond to the potential impacts of Hurricane Irma?

A. Shortly after Tropical Storm Irma formed on August 30, 2017, FPL's emergency preparedness teams closely monitored the storm and initiated early discussions and preliminary preparations. On September 5, 2017, one day after Governor Rick Scott declared a state of emergency in all 67 counties, FPL activated its emergency response organization, fully staffed its Command Center and initiated the cadence of daily planning and management meetings to ensure the efficient and timely execution of all pre-landfall checklists and preparation activities. Also, FPL initiated customer communications and outreach, urging customers to prepare for Hurricane Irma's impacts, including potentially prolonged power outages.

Through its pre-landfall planning activities, and based on the forecasted path and intensity of the storm, FPL reasonably anticipated the consequences of a massive and potentially devastating storm and began to commit to resources to be available to support the anticipated restoration work. In fact, it was the largest pre-staging of storm resources in FPL's history, exceeding the previous largest pre-staging of resources established the year before in response to Hurricane Matthew. FPL began to open staging sites and pre-position resources throughout its service territory.

Q. What was the magnitude of damage to FPL's T&D infrastructure and the number of customers that experienced outages as a result of Hurricane Irma?

A. As a result of Hurricane Irma's path, size, slow movement, strength, rainfall, and associated tornadic activity, all 35 counties that FPL serves were impacted. As expected, the damage to FPL's T&D infrastructure was more extensive and widespread than the damage experienced from Hurricane Matthew one year earlier. Additionally, customers experiencing an outage as a result of Hurricane Irma exceeded 4.4 million.

Q. How did FPL ultimately respond to the impacts of Hurricane Irma?

A. To respond to Hurricane Irma, FPL arranged for approximately 28,000 personnel (approximately 6,000 FPL employees and 22,000 external resources) – the largest restoration workforce ever assembled by one utility. External resources came from 30 states and Canada. To support these resources and facilitate the restoration effort, FPL established 29 staging sites throughout its entire service territory – more than ever before.

As previously mentioned, the damage to FPL's T&D infrastructure was extensive. For example, to restore service to customers, FPL replaced over 775 miles of distribution conductor, more than 4,500 distribution transformers, and over 4,500 distribution poles. As was the case with Hurricane Matthew, tree damage was also extensive, requiring a significant amount of line-clearing. Additionally, to gain access to FPL's facilities during restoration, significant effort was required to remove fallen trees and tree branches.

More than 4.4 million customers experienced an outage from Hurricane Irma. While all customers were essentially restored within 10 days, the vast majority of customers were quickly restored. For example, approximately 2.3 million customers (or more than 50% of the customers experiencing an outage) had their service restored within one day; approximately 3.3 million customers (or 75% of the customers experiencing an outage) had their service restored in three days or less; and approximately 4.3 million customers (or 95% of the customers experiencing an outage) had their service restored in seven days or less. For all customers experiencing an outage, the average number of days a customer was out of service was approximately two days after the storm cleared FPL's service territory.

FPL's effective pre-planning, well-tested and established restoration processes, together with the dedication and execution of its employees and contracted external resources, allowed FPL to achieve its goal of safely and restoring critical infrastructure and the greatest number of customers in the least amount of time.

V. T&D RESTORATION COSTS

Q. What were the final Hurricane Irma T&D restoration costs?

A. As provided in Exhibit MBM-2, FPL's T&D Hurricane Irma Restoration Costs, total T&D restoration costs were $1.321 billion, which includes $93.2 million for follow-up work to restore FPL's T&D facilities to their pre-storm condition.

Exhibit MBM-2 also contains a breakdown of these costs by function (i.e., Transmission and Distribution) and major cost category (i.e., Regular and Overtime Payroll and Related Costs, Contractors, Vehicle and Fuel, Materials & Supplies, Logistics and Other).

As shown on Exhibit MBM-2, two of the major cost categories ("Contractors" and "Logistics") account for $1.202 billion, or 91% of Total T&D restoration costs. T&D "Contractors" costs account for $930.3 million, or 70% of the Total T&D restoration costs, and include external line contractors, mutual assistance utilities, FPL embedded contractors, line clearing/tree trimming contractors, and other contractors (e.g., contractors performing overhead line patrols and environmental assessments) that supported FPL's service restoration efforts and follow-up work to restore facilities to their pre-storm condition. T&D "Logistics" costs totaled approximately $272.1 million, or 21% of Total T&D restoration costs, and include costs associated with staging sites and other support needs, such as lodging, meals, water, ice, laundry, and buses.

The other five cost categories in Exhibit MBM-2 account for the remaining $118.1 million or 9% of the Total T&D restoration costs. $45.8 million of the remaining costs are comprised of "Regular and Overtime Payroll & Related Costs" associated with FPL employees who directly supported Hurricane Irma T&D service restoration efforts and follow-up work. This includes FPL linemen, patrol, other field support personnel, and T&D staff personnel. $42.6 million of the remaining

costs are associated with Materials and Supplies, which includes costs associated with items such as wire, transformers, poles, and other electrical equipment used to restore electric service for customers and repair and restore storm-impacted FPL facilities to their pre-storm condition. The other $29.7 million includes costs associated with the "Vehicle and Fuel" and "Other" major cost categories. "Vehicle and Fuel" covers FPL's vehicle and associated fuel costs, including costs for fuel that FPL supplied to line contractors, mutual assistance utilities, and other contractors. The "Other" category includes costs not previously captured, such as affiliate payroll and related costs, contractors, freight charges and other miscellaneous items.

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

A. As previously discussed, the primary objective of FPL's emergency preparedness plan and restoration process is to safely restore critical infrastructure and the greatest number of customers in the least amount of time. At times, this means utilizing temporary fixes (e.g., bracing a cracked pole or cross arm) and/or delaying certain repairs (e.g., replacing lightning arrestors and repairing street lights) that are not required to restore service expeditiously. However, these conditions must be subsequently addressed during the restoration follow-up work phase, when facilities are restored to their pre-storm condition.

Restoring FPL's T&D facilities to their pre-storm condition is generally a two-step process: (1) assessing/identifying the necessary follow-up work to be completed; and (2) executing the identified work. In total, FPL's costs for T&D follow-up

work associated with Hurricane Irma were $93.2 million. While costs for T&D-related follow-up work are spread among most major cost categories, approximately $90.6 million, or 97% of these costs, are associated with Contractors ($73.0 million) and Materials and Supplies ($17.6 million). The major drivers for these two major cost categories are associated with assessments (e.g., overhead line inspections, thermovision, street lights, etc.) to identify the necessary repairs/replacements to restore FPL's facilities to their pre-storm condition and the labor, equipment and materials required to address the identified work.

VI. EVALUATING FPL'S RESTORATION RESPONSE

Q. Would you consider FPL's Hurricane Irma's restoration plan and its execution to be effective?

A. Yes. As mentioned before, FPL's primary goal is to safely restore critical infrastructure and the greatest number of customers in the least amount of time so that FPL can return the communities it serves to normalcy. Hurricane Irma's path and large footprint caused outages to more than 4.4 million FPL customer accounts located in all 35 counties that FPL serves. These widespread outages brought unique restoration challenges (e.g., logistics and redeploying service restoration personnel). Fortunately, FPL and the entire restoration team overcame those challenges, as the average time a customer was out of service was limited to approximately two days after the storm cleared FPL's service territory. So, yes, I believe our plan and execution were very effective.

Q. What factors contributed to the effectiveness of FPL's Hurricane Irma restoration plan and execution?

A. The high percentage of restoration accomplished in the first few days after Hurricane Irma exited FPL's service territory and the overall successful restoration effort resulted from, among other actions:

- Strong centralized command, solid plans and processes, and consistent application of FPL's overall restoration strategy (e.g., focusing first on restoring critical infrastructure and devices that serve the largest number of customers);
- Utilization of FPL's damage-forecasting model, along with aerial patrols and ground assessments, that allowed us to identify the number and location of needed resources;
- Aggressive and prudent acquisition, pre-positioning, and redeployment of restoration resources;
- Robust outage management system functionality and real-time information, which allowed FPL to continually gauge restoration progress and make adjustments as changing conditions and requirements warranted;
- Strong alliances with vendors, which assured an ample, readily available supply of materials; and
- Previous storm restoration experience, application of lessons learned, process enhancements, regular practice and training, and employee skill and commitment.

Q. Were there any key restoration plan/process enhancements that were implemented as a result of recent FPL storm experiences?

A. Yes. Enhancements adopted and utilized by FPL during 2016 as well as several additional enhancements implemented during Hurricane Irma included:

- Implementing a more effective acquisition and re-deployment of external resources -- e.g., committing to acquiring external resources earlier and having them travel earlier and pre-staging them closer, yet out of danger, to the areas expected to be affected by the approaching storm to enable FPL to begin restoration work more quickly;
- Utilizing alternative lodging (e.g., mobile sleeper trailers and cots at staging sites/FPL facilities) to eliminate travel time and increase restoration productivity;
- Utilizing turnkey, all-inclusive suppliers at staging sites to increase the speed and efficiency of staging site set-up, operations, and site dismantlement;
- Increasing physical fuel inventory and improving fuel delivery capabilities (both FPL and vendor-supplied resources);
- Improving coordination with county EOCs, including pre-designating restoration personnel to assist with road-clearing efforts and ensuring key critical infrastructure facilities requiring restoration prioritization are identified, and establishing an online government portal that allows government officials to obtain the latest news releases and information on customer outages, estimated restoration times, FPL crew resources, outage

maps, and other information. All of these enable EOCs to better serve their respective communities' needs;

- Adding advanced new tools, such as automated voice calls to customers, increased outreach and storm updates utilizing social and broadcast media, daily news briefings and embedded reporters at the FPL Command Center, to better communicate accurate, timely information to FPL customers;
- Increasing the utilization of advanced technology, such as using smart grid technology, drones, and mobile devices to facilitate damage assessments and deploying FPL's Mobile Command Centers and Community Response Vehicles (high-tech remote command posts and communication hubs that quickly relay crucial information, decisions and logistical needs to/from FPL's Command Center) to impacted areas to provide better, faster and more efficient support;
- Retaining a robust list of staging sites at multiple locations throughout the state and maintaining contact with site owners to ensure availability and use; and
- Expanding the pre-provisioning of select key staging site locations for faster set-up and activation, which enabled rapid activation of these sites to support restoration work.

Q. Did FPL receive national recognition for its overall restoration performance during Hurricane Irma?

A. Yes. In January 2018, the EEI, a national association of investor-owned utilities, awarded its Emergency Recovery Award to FPL for its efforts and response during

Hurricane Irma. EEI's Emergency Recovery Award recognizes its U.S. and international members for outstanding efforts to restore service promptly following storms or natural disasters. Winners are chosen by a panel of judges based on a company's ability to respond to a crisis swiftly and efficiently, overcome difficult circumstances, utilize unique or innovative recovery techniques, communicate effectively with customers and restore service promptly.

Q. What are your conclusions regarding FPL's Hurricane Irma restoration efforts?

A. FPL's restoration performance was excellent and significantly faster than it was during the 2004 and 2005 storm seasons. Our commitment to continuous improvement was instrumental in achieving this excellent performance. The implemented improvements and enhancements provided significant benefits and contributed to the remarkable achievement of quickly restoring service to the vast majority of the more than 4.4 million customers experiencing an outage, such that the average time a customer was without service was limited to approximately two days after the storm cleared FPL's service territory. This is a remarkable achievement, especially when considering it was the largest number of customer outages ever experienced by one U.S. electric utility from a single weather event.

Storm restoration is not an exact or precise science and there are always opportunities for improvement and at FPL we strive to learn from each experience. However, overall, I believe the entire restoration team, which included FPL employees, contractors and mutual assistance utilities personnel, performed

extremely well. This allowed FPL to meet our overarching objective to safely restore critical infrastructure and the greatest number of customers in the least amount of time. Storm restoration is a dynamic and challenging process that tests the fortitude of each person involved. I am exceptionally proud and extremely grateful to have been associated with such a committed and dedicated restoration team.

Q. Does this conclude your direct testimony?

A. Yes.

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Manuel B. Miranda. My business address is Florida Power & Light Company, 700 Universe Blvd., Juno Beach, Florida, 33408.

Q. Have you previously submitted prepared direct testimony in this proceeding?

A. Yes. I submitted direct testimony and accompanying Exhibits MBM-1 and MBM-2 on August 31, 2018.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimony submitted by Office of Public Counsel ("OPC") witness Helmuth W. Schultz III, who, because of his lack of operational and storm response experience, misunderstands what is required to restore service as quickly as possible. As a result, Mr. Schultz recommends that FPL's Hurricane Irma distribution contractors costs be reduced by $64.3 million because certain contractor line restoration hourly labor rates ($60.1 million) and contractor standby times ($4.2 million) are, in his opinion, excessive.

Q. Please summarize your rebuttal testimony.

A. My testimony demonstrates that despite Mr. Schultz's Monday-morning quarterbacking, FPL's decisions to acquire additional restoration line contractor resources prior to and during the most severe hurricane to impact FPL's service territory and the state of Florida, including the limited number of contractors Mr. Schultz identified with higher hourly labor rates, were reasonable and prudent and necessary in order to quickly restore service to FPL's customers. Also, Mr.

Schultz's proposed "conservative" 20% adjustment to reduce contractor standby times and costs because non-embedded line contractors arrived too early is arbitrary, illogical, fails to recognize the uncertainty associated with forecasting the path and intensity of a major storm and ignores FPL's valuable lessons learned and the excellent restoration results achieved by pre-staging restoration resources. Additionally, if accepted, both of Mr. Schultz's proposed adjustments would ultimately be detrimental to FPL's customers and to the state as a whole, as they would result in longer restoration times and hamper FPL's ability to "attempt to restore service within the shortest time practicable consistent with safety" (Rule 25-6.044(3), F.A.C.). Therefore, Mr. Schultz's proposed adjustments are unwarranted and should be rejected.

Q. Are you sponsoring any exhibits to your rebuttal testimony?

A. Yes. I am sponsoring the following exhibit:

- MBM-3 – OPC Responses to FPL Interrogatory Nos. 13-17 and 19
- MBM-4 – Aerial View of an FPL Staging Site

II. FPL'S HURRICANE IRMA RESPONSE

Q. Having reviewed OPC witness Schultz's criticisms of FPL's storm response, do you see any overarching problems with his recommendations?

A. Yes. Mr. Schultz fails to recognize and appreciate the severity of conditions that are placed upon a utility as it prepares its service territory for the potential impending impacts of a major hurricane - like FPL did for Hurricane Irma. Perhaps this results from Mr. Schultz having zero operational and decision-making

experience before, during, and after a storm threatens and then impacts a utility's service territory (as indicated by the responses Mr. Schultz provided to FPL discovery and included in Exhibit MBM-3, OPC Responses to FPL Interrogatory Nos. 13-17 and 19). Additionally, Mr. Schultz's Monday-morning quarterbacking and unrealistic second-guessing criticisms fail to recognize FPL's strategy to restore service to our customers safely and as quickly as possible, consistent with FPSC rules.

Q. Does having this operational and management experience matter when determining what actions a utility should take in response to an impending storm?

A. Yes. I have been involved with FPL's storm response efforts from 1992 to the present, including when Hurricane Andrew made landfall, through the 2004/2005 storm seasons, when seven storms impacted FPL's service territory, and most recently during Hurricanes Matthew and Irma. This includes being involved with or responsible for making decisions regarding when and how many resources FPL must acquire to respond to a storm, as well as to send resources to assist with other utilities' storm response efforts (e.g., Hurricane Maria in Puerto Rico and, most recently, Hurricane Michael in the Panhandle). Actual storm operational and management experience helps to guide a company's actions, activities and response in light of the conditions and circumstances that are known when decisions must be made. For FPL, these storm decisions centered around the key components of our emergency preparedness plan, which I provided on page 6 of my direct testimony. For instance, pre-negotiating contractor rates at market in advance of a storm

assists FPL in deciding when and what resources to bring onto its system. Contrary to Mr. Schultz's fundamental misunderstanding, pre-storm contractor negotiations do not guarantee that those contractor resources are going to be available when called upon (e.g., a contractor may be supporting another currently active restoration event). Mr. Schultz's lack of real world, practical experience is further illustrated by his misunderstanding of why and when FPL acquired and pre-staged resources in order to successfully implement its successful restoration process. I address Mr. Schultz's alleged "excessive" rates and standby time criticisms and his associated recommended adjustments in more detail below.

III. ALLEGED "EXCESSIVE" CONTRACTOR RATES

Q. Mr. Schultz recommends labor costs associated with 15 contractors be reduced by approximately $60.1 million because they charged hourly labor rates (for regular, overtime, standby and/or mobilization/demobilization time) that exceeded $[redacted] per hour. Do you have any general observations regarding Mr. Schultz's recommended adjustment?

A. Yes. In addition to the rebuttal testimony provided by FPL witness Reagan, which addresses the contractor hourly rates concerns raised by Mr. Schultz, I believe Mr. Schultz's arbitrary and unsupported hourly labor rate cap for line restoration contractors is completely unrealistic. Worse, the use of his arbitrary cap on hourly rates would be detrimental to FPL's customers and conflict with FPL's ability to "attempt to restore service within the shortest time practicable consistent with safety" (Rule 25-6.044(3), F.A.C.).

Q. What is the basis for your opinion that the adoption of an arbitrary hourly labor rate cap for line restoration workers would negatively impact FPL's ability to maximize restoration efforts after a hurricane?

A. If such a policy was adopted it would have a chilling effect on decision-makers responsible for obtaining additional restoration resources during a major storm event and unduly limit FPL's (and other Florida electric utilities') efforts to acquire already scarce resources. It could also result in the selection of contractor restoration resources that, ultimately, would be costlier (e.g., selecting a contractor just under the hourly labor rate cap but considerably farther away resulting in more mobilization/demobilization costs) and extend restoration times because of a scarcity of contractors willing and able to perform the work at Mr. Schultz's arbitrary rate limit. This would be "penny-wise and pound-foolish" and clearly not in the best interests of FPL's customers.

Q. Please explain how FPL acquires additional external restoration resources in response to a storm that is approaching FPL's service territory?

A. As provided more extensively in my direct testimony, an important component of each restoration effort is FPL's ability to scale up its resources to match the increased volume of the restoration workload. This includes acquiring external contractors and mutual assistance resources from other utilities through industry organizations, e.g., the Southeastern Electric Exchange ("SEE") and Edison Electric Institute ("EEI"), as well as other restoration power line contractors, which FPL independently acquires. While FPL is mindful of costs when acquiring additional external resources (e.g., acquiring resources based on a low-to- high cost

ranking), a storm's path, intensity and size, if significant enough, can substantially limit the availability of external resources, as the demand for available resources can exceed the available supply. In such instances, FPL has limited alternatives and may be required to acquire external restoration resources that are at the higher end of the low-to-high cost ranking.

Q. Was this the case with Hurricane Irma?

A. Yes. With Hurricane Irma's forecasted path, intensity and size, the vast majority of the utilities within the southeast region of the U.S. were forced to hold on to their own resources (employees and contractor resources) in order to respond to their own specific restoration needs. Additionally, based on forecasted damage and outage estimates, these same utilities were also seeking additional line restoration resources through the SEE, other organizations, and through individual independent restoration contractors. Resource availability was also being impacted by the Hurricane Harvey restoration efforts that were still on-going in Texas. As a result, as the storm approached, the demand for acquiring additional line restoration resources significantly exceeded the supply of available resources. In fact, on September 8, 2017, the day before Hurricane Irma began to impact FPL's service territory, SEE members' requests for additional line resources exceeded the available supply by more than 8,000 in total. This excessive demand limited FPL's (as well as other utilities') options and as a result, FPL had to acquire some external resources located at the upper end of the hourly labor rate cost ranking. Mr. Schultz's lack of decision-making experience pre-storm and during a storm response event is exactly why his 20/20 hindsight criticism of how FPL obtained

restoration resources in advance of Hurricane Irma impacting its service territory is impractical, nonsensical, and unwarranted.

Q. Were any of the 15 higher rate line restoration contractors' resources pre-staged in order to restore service immediately after the winds from Hurricane Irma subsided?

A. Yes. 14 out of the 15 contractors identified in Mr. Schultz's Exhibit No. HWS-2 (page 4 of 6) as higher rate contractors had restoration line restoration resources pre-staged for Hurricane Irma. In fact, in total, these contractors provided approximately 1,400 line restoration personnel that were pre-staged for Hurricane Irma.

Q. How many line restoration resources, in total, did the 15 contractors provide for the entire Hurricane Irma restoration effort?

A. These 15 contractors provided over 1,700 line restoration resources, in total, to support the FPL Hurricane Irma restoration effort.

Q. If FPL had not been able to acquire these additional external resources because of Mr. Schultz's proposed $[redacted] per hour contractor labor rate cap, would it have impacted FPL's Hurricane Irma restoration efforts?

A. Absolutely. The 1,400 pre-staged line restoration resources acquired from these 15 contractors represented approximately 20% of all pre-staged line restoration resources, while the 1,700 total line restoration resources acquired from these 15 contractors represented 13% of the total line restoration resources that supported FPL's Hurricane Irma restoration efforts. To provide perspective, if those 1,700 resources had all been located together at their own staging site, it would have been

larger than the vast majority of the 29 FPL staging sites opened for Hurricane Irma. In Exhibit MBM-4, Aerial View of an FPL Staging Site, I have provided an aerial view of the Gulfstream Park staging site (located in Broward County) to provide a visual perspective of the size and magnitude of an FPL staging site. Additionally, 1,700 restoration resources would produce nearly 19,000 man-hours of restoration work per day or more than 185,000 man-hours of restoration work for the entire 10-day restoration effort. The absence of or delay in obtaining these resources would have had a significant impact on the restoration effort, as critical infrastructure function customers (e.g., hospitals, 911 centers, police and fire), key community needs (e.g., gas stations, grocery stores, pharmacies), as well as FPL's other customers would have waited for lower cost contractors to become available – whenever that may have been – all the while waiting for service to be restored. Any such policy would clearly be inconsistent with the Commission's rule previously mentioned which directs utilities to restore service as quickly as practicable consistent with safety.

Q. Did FPL mitigate contractor labor costs by utilizing its contractor workforce effectively and diligently?

A. Yes. As was previously stated, FPL endeavors to acquire resources based on a low-to high cost ranking and release resources in reverse order, subject to the overriding objective of quickest restoration time and related considerations. As can be seen in Mr. Schultz's Exhibit No. HWS-2 (page 4 of 6), the 15 contractors identified with what he calls "excessive" hourly labor rates billed, on average, 33,256 hours per contractor (498,838 hours/15). The remaining 24 contractors

identified in Exhibit No. HWS-2 billed, on average, 55,647 hours per contractor (1,335,522 hours/24). This comparison clearly indicates that FPL utilized line contractors with lower labor rates significantly more than the contractors with the higher hourly labor rates, thus mitigating overall contractor labor costs.

Q. Please summarize your response to Mr. Schultz's recommended $60.1 million reduction in labor costs for alleged "excessive" contractor rates.

A. Based on both my rebuttal testimony and FPL witness Reagan's rebuttal testimony, Mr. Schultz's recommended adjustment is unwarranted, in conflict with FPSC rules, would be ultimately detrimental for FPL's customers and, therefore, should be rejected.

IV. ALLEGED "EXCESSIVE" CONTRACTOR STANDBY TIMES AND COSTS

Q. Mr. Schultz believes line contractor restoration crews' Hurricane Irma standby times are excessive and recommends a reduction of FPL's contractor standby costs based on a "conservative" 20% reduction or approximately $4.2 million. Do you agree with Mr. Schultz's recommended adjustment?

A. No. Mr. Schultz's proposed "conservative" 20% reduction in standby times and corresponding costs is arbitrary, fails to recognize the uncertainty associated with major storms, ignores FPL's valuable lessons learned and the excellent restoration results that have been achieved through the pre-staging of resources. Further, his "just-in-time" approach would ultimately be detrimental to FPL's customers since it would most certainly extend restoration times. As a result, Mr. Schultz's

proposed adjustment to reduce FPL's distribution contractor standby times and costs are unwarranted and should be rejected.

Q. Does Mr. Schultz provide any support or basis for his proposed "conservative" 20% reduction in standby times and costs?

A. No. It appears to be a conclusory statement without any detail or support. His only support is an unsupported allegation as to "non-embedded contractors arriving early and charging FPL's ratepayers for two days (i.e., September 9th and 10th), and in many cases 16 hours a day, and this is considered excessive and not justified".

Q. What are "non-embedded" contractors?

A. Embedded contractors refers to a contingent workforce of contractors (e.g., line and vegetation contractors) that perform work (e.g., construction, maintenance and restoration) on FPL's system on a daily basis as part of FPL's normal (i.e., non-storm) activities. During storm events, embedded contractors are reassigned from non-storm work to storm restoration work. After their storm restoration work is completed, embedded contractors are re-assigned back to normal work activities. In contrast, non-embedded contractors are vendors that are not performing contracted non-storm work on FPL's system at the time of the storm, but are acquired to assist with FPL's storm restoration efforts.

Q. Are you aware of the "many cases", as Mr. Schultz put it, where non-embedded contractors charged 16 hours per day of standby time on September 9 and September 10?

A. No. However, I am not surprised standby time was charged on those days as Hurricane Irma was directly impacting FPL's service territory from September 9 – September 11 and FPL had pre-staged non-embedded resources in order to be ready to respond as soon as the impacts of Hurricane Irma subsided enough to allow crews to safely work.

Q. Mr. Shultz's proposed standby time adjustment implies that there is certainty to predicting the timing, location and strength of major storms and, therefore, there should be certainty as to when resources are acquired and pre-staged. What is your experience regarding the certainty of predicting the impacts of major storm?

A. My extensive experience regarding major storm predictions is that while improvements have been made in forecasting the path and strength of storms, much uncertainty still exits. This was certainly evident with Hurricane Irma. In fact, as mentioned in my direct testimony, late in the evening on September 7, as Hurricane Irma was approaching Florida, there were forecasts of a potential landfall in Miami-Dade County – the most heavily populated area in FPL's service territory. Of course, Hurricane Irma ultimately made landfall as a Category 4 hurricane on the morning of September 10 in the Florida Keys and once again that afternoon as a Category 3 hurricane in the Marco Island/Naples area.

Q. How does FPL address changes in a storm's path and strength?

A. As conditions change, FPL continues to update its damage model, and workload projections are matched with resource factors such as availability and location. When FPL has enough certainty regarding a storm's timing, path, and potential impacts, it begins to acquire resources, of course being mindful of the potential for conditions to still change.

Q. What valuable lessons learned has FPL obtained regarding pre-staging resources?

A. In the last two major storms to impact FPL's service, Hurricane Matthew in 2016 and Hurricane Irma in 2017, FPL pre-staged more resources than ever before and restoration performance for these two storms showed significant improvement vs. the last major storm to impact FPL's service territory (Hurricane Wilma in 2005).

Q. Please provide information that demonstrates the significant improvement in restoration performance for Hurricane Irma vs. Hurricane Wilma.

A. As shown below, restoration results achieved for Hurricane Irma vs. Hurricane Wilma were significantly better:

	Irma	Wilma
Total Customers Affected	4.4 Million	3.2 Million
50% of Customers Restored	1 Day	5 Days
75% of Customers Restored	3 Days	8 Days
95% of Customers Restored	7 Days	15 Days
Total Days to Restore	10 Days	18 Days
Average Days to Restore	2.3 Days	5.4 Days

Q. Are the restoration performance improvements shown above solely attributable to the pre-staging of resources?

A. No. As I stated on page 29 of my direct testimony, there were other factors that also contributed to the overall restoration performance improvements. However, the pre-staging of resources was a significant and key contributing factor.

Q. Do you believe the "just-in-time" approach Mr. Schultz appears to favor would be in the best interest of FPL's customers?

A. No. Mr. Schultz's faulty presumption that restoration resources would simply be readily available on the eve of a major storm is clearly misguided, perhaps as a result of his lack of experience in storm response decision-making. It is illogical to think that contractor restoration crews would be able to travel just as well post-storm vs. pre-storm. Based on my extensive storm experience, I know that having fewer or no pre-staged resources for Hurricane Irma would have most definitely resulted in extended restoration times for FPL's customers. This includes extending restoration times for critical infrastructure and key community needs customers (e.g., hospitals, 911 centers, police and fire, gas stations, grocery stores, pharmacies), all of which are extremely important to our communities. This, of course, would be detrimental to all customers and undermine FPL's ability to "attempt to restore service within the shortest time practicable consistent with safety" (Rule 25-6.044(3), F.A.C.). Therefore, Mr. Shultz's proposed reduction for excessive standby time and costs is unwarranted and should be rejected.

Q. Does this conclude your rebuttal testimony?

A. Yes.

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Keith Ferguson, and my business address is Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. I am employed by Florida Power & Light Company ("FPL" or the "Company") as Vice President, Accounting and Controller.

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

A. I am responsible for financial accounting, as well as internal and external reporting, for FPL. 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 University of Florida in 1999 with a Bachelor of Science Degree in Accounting and earned a Master of Accounting degree from the University of Florida in 2000. Beginning in 2000, I was employed by Arthur Andersen in their energy audit practice in Atlanta, Georgia. From 2002 to 2005, I worked for Deloitte & Touche in their national energy practice. From 2005 to 2011, I worked for Mirant Corporation, which was an independent power producer in Atlanta, Georgia. During my tenure there, I held various accounting and management roles. Most recently and prior to joining FPL in September 2011, I was Mirant's Director of SEC Reporting and Accounting Research. I am

a Certified Public Accountant ("CPA") licensed in the State of Georgia and a member of the American Institute of CPAs.

Q. Are you sponsoring any exhibits in this case?

A. Yes. I am sponsoring Exhibit KF-1 – Hurricane Irma Final Storm Restoration Costs, which provides the final amount of restoration costs incurred for Hurricane Irma. As explained in detail below, FPL is not seeking any incremental recovery for the storm costs through either a surcharge or depletion of the storm reserve and, therefore, the Incremental Cost and Capitalization Approach ("ICCA") is not applicable to the Hurricane Irma storm restoration costs. Notwithstanding, I am also sponsoring Exhibit KF-2 – Hurricane Irma Incremental Cost and Capitalization Approach Adjustments, which is being provided for informational purposes only and to facilitate the review of the storm restoration costs.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the final amount of Hurricane Irma storm restoration costs incurred by FPL and the accounting treatment for those costs. In addition, I demonstrate that FPL's storm restoration and recovery accounting processes and controls are well established, documented, and implemented by personnel that are suitably trained, to ensure proper storm accounting and ratemaking. I will also discuss why the ICCA methodology is not applicable for the Hurricane Irma storm costs because FPL is not seeking any incremental recovery for the costs through either a surcharge or depletion of the storm reserve.

Q. Please summarize your testimony.

A. FPL's long standing control processes and procedures were employed for Hurricane Irma, and those control processes continue to ensure proper storm accounting and ratemaking. As a result of the enactment of the Tax Cuts and Jobs Act of 2017 ("Tax Act") in December 2017, FPL decided to forego seeking incremental recovery of Hurricane Irma storm restoration costs under FPL's 2016 Stipulation and Settlement Agreement ("Settlement Agreement") and recognized the costs that would have been charged to the storm reserve as base operations and maintenance ("O&M") expense. Therefore, the ICCA methodology is not applicable to the Hurricane Irma O&M expenses. However, to facilitate review of the storm restoration costs, FPL has calculated the non-incremental O&M adjustments to its final Hurricane Irma storm restoration costs as of May 31, 2018 on Exhibit KF-2 as if the ICCA methodology had been applied in accordance with the Rule 25-6.0143, Use of Accumulated Provision Accounts 228.1, 228.2 and 228.4, Florida Administrative Code ("F.A.C") ("the Rule").

II. STORM ACCOUNTING PROCESS AND CONTROLS

Q. Please describe the accounting guidance and process that FPL uses for storm costs.

A. FPL's storm accounting process adheres to Accounting Standards Codification 450, Contingencies ("ASC 450"), which prescribes that an estimated loss from a loss contingency is recognized only if the available information indicates that (1) it is probable an asset has been impaired or a liability has been incurred at the

reporting date, and (2) the amount of the loss can be reasonably estimated. FPL incurs a liability for a qualifying event, such as a hurricane, because it has an obligation to customers to restore power and repair damage to its system. Therefore, once a hurricane event has transpired, FPL makes an assessment of the estimated cost to restore the system to pre-event conditions and accrues that liability in full when the amount can be reasonably estimated under ASC 450. FPL's storm accounting process is well established and consistently applied. This same storm accounting process was applied for the Hurricane Irma storm restoration costs.

Q. How does FPL track storm restoration costs?

A. FPL establishes unique functional (i.e., distribution, transmission, etc.) internal orders ("IOs") for each storm to aggregate the total amount of storm restoration costs incurred for financial reporting and regulatory recovery purposes. The Company uses these IOs to account for *all* costs directly associated with restoration, including costs that would not be recoverable from FPL's storm reserve based on the Commission's requirements under the ICCA methodology. All storm restoration costs charged to storm IOs are captured in Federal Energy Regulatory Commission ("FERC") Account 186, Miscellaneous Deferred Debits. All costs charged to FERC Account 186 are subsequently cleared and charged to either the storm reserve, base O&M expense, capital, or below-the-line expense, as applicable.

Q. When did FPL begin charging costs related to Hurricane Irma to the storm IOs?

A. Due to the expected risk of significant outages and substantial infrastructure damages, FPL began making financial commitments associated with securing resources prior to Hurricane Irma's anticipated impact. On September 5, 2017, in accordance with FPL's Storm Accounting Policy and with authorization from FPL's President and CEO, FPL established and activated storm IOs to begin tracking costs for Hurricane Irma. An email communication was sent to all business units to inform them that storm IOs had been activated for purposes of collecting storm restoration charges. Attached to the email, FPL also provided: (1) a listing of IOs by function and location, (2) guidance on recording time for payroll, and (3) guidance on the types of costs eligible to be charged to storm IOs. The pre-landfall costs charged to the storm IOs include the acquisition of external resources (e.g., line and vegetation crews), mobilization and pre-staging of internal and external resources, opening of staging and processing sites, reserving lodging, and securing FPL's existing operational facilities in preparation for the impacts of the storm.

Q. What operational internal controls are in place during a restoration event to ensure storm accounting procedures are followed?

A. Finance and accounting employees are key to storm restoration accounting and controls. As reflected in the testimony of FPL witness Miranda, the FPL Command Center organization recognizes the critical role and responsibilities of these employees. Finance or accounting representatives are assigned to each staging and processing site (referred to as a "Finance Section Chief") to ensure

active, real-time financial controls are in effect and adhered to during the restoration event. Responsibilities of the Finance Section Chief includes ensuring procedural compliance with internal cost controls, providing guidance and oversight to ensure prudent spending, collecting and analyzing data real-time, such as timesheets, and assisting with the proper accounting of mutual aid resources. Representatives from FPL's Human Resources department also are embedded at many sites and perform internal control support tasks such as providing guidance on the proper information to include on timesheets.

In addition, each business unit has a finance representative (referred to as a "Business Unit Coordinator") performing a storm controllership function for their respective business units. The responsibilities of the Business Unit Coordinator include communicating the storm IO instructions to the personnel directly supporting storm restoration, ensuring that appropriate costs are charged to the storm IOs, and preparing cost estimates before, during, and after the restoration is complete.

FPL performs extensive training each year in advance of storm season for both the Finance Section Chiefs and the Business Unit Coordinators, which includes live training and drills during FPL's "dry run" storm event. Costs associated with the annual training are not considered storm restoration costs and not included in the costs presented in this docket.

Q. Does FPL's Accounting department complete a review of all storm restoration costs recorded by each business unit once restoration is complete?

A. Yes. Post storm restoration, the Accounting department reviews the storm loss estimates compiled by each functional business unit for reasonableness prior to recording to the financial statements. Accounting will then charge these costs to either the storm reserve, base O&M expense, capital, or below-the-line expense, as applicable, to ensure proper ratemaking and recording to the financial statements.

III. ACCOUNTING TREATMENT FOR HURRICANE IRMA

Q. How does FPL typically account for storm restoration costs?

A. FPL typically charges storm restoration costs to the storm reserve by applying the ICCA methodology and recovering the incremental storm restoration costs through a storm surcharge.

As described previously, FPL utilizes unique storm IOs for each function and location to record and track all storm restoration activities for each event, which are accumulated in FERC Account 186. All costs charged to FERC Account 186 are subsequently cleared and charged to either the storm reserve, base O&M expense, capital, or below-the-line expense, as applicable.

The amount of capital costs for each storm event are determined and removed by applying part (1)(d) of the Rule, which states that "…the normal cost for the removal, retirement and replacement of those facilities in the absence of a storm" should be the basis for calculating storm restoration capital. This amount is credited from FERC Account 186 and debited to FERC Account 107, Construction Work in Progress. FPL also reclassifies non-recoverable amounts to below-the-line expense.

When the storm restoration costs are charged to the storm reserve, the ICCA methodology is used to also remove the non-incremental O&M expenses from the incremental revenue allowed recovery through a surcharge. The non-incremental O&M expenses are identified for the costs collected in the IOs and subsequently credited from FERC Account 186 and debited to base O&M.

After the capital costs, non-recoverable costs, and non-incremental O&M expenses are removed from FERC Account 186, the remaining balance, representing incremental storm charges, is jurisdictionalized by using retail separation factors authorized by the Commission in FPL's most recent base rate case, and credited from FERC Account 186 and debited to FERC Account 228.1, Accumulated Provision for Property Insurance. The remaining non-retail component of the incremental storm charges is credited from FERC Account 186 and debited to base O&M expense, leaving a zero balance in FERC Account 186.

This accounting process is typically used by FPL to charge the storm restoration costs to the storm reserve by applying the ICCA methodology and recovering the incremental storm restoration costs through a storm surcharge.

Q. How did FPL account for Hurricane Irma storm restoration costs?

A. FPL accounted for all of the Hurricane Irma storm restoration costs in FERC Account 186. FPL then determined the amount of capital and below-the-line expenses accumulated in FERC Account 186 and removed those costs from FERC Account 186 and recorded them to the appropriate FERC accounts. As outlined in FPL's Petition for Review of Florida Power & Light Company's Proposed Treatment of Tax Impacts Associated with Tax Cuts and Jobs Act of 2017 in FPSC Docket No. 20180046-EI, FPL decided to forego seeking incremental rate recovery of the Hurricane Irma storm restoration costs under the Settlement Agreement and, instead, recorded the remaining amount of Hurricane Irma storm restoration costs accumulated in FERC Account 186 to base O&M expense. This accounting treatment avoided a multi-year storm charge for recovery of the Hurricane Irma storm restoration costs and replenishment of the storm reserve.

Q. What types of storm restoration costs did FPL charge to FERC Account 186 for Hurricane Irma?

A. As reflected on page 1 of Exhibit KF-1, FPL charged $1.4 billion in storm restoration costs (including follow-up work) related to Hurricane Irma to FERC Account 186. The categories of costs outlined below are reflected on Lines 1-10 on Exhibit KF-1:

- **FPL Regular Payroll and Related Costs:** Reflects $16.8 million of regular payroll and related payroll overheads for FPL employee time spent in direct support of storm restoration. This amount excludes bonuses and incentive compensation.
- **FPL Overtime Payroll and Related Costs:** Reflects $38.7 million of overtime payroll and payroll tax overheads for FPL employee time spent in direct support of storm restoration.
- **Contractor and Line Clearing Costs:** Reflects $965.0 million of costs primarily related to mutual aid utilities, line contractors and vegetation contractors.
- **Vehicle and Fuel:** Reflects $23.9 million for fuel used by FPL and contractor vehicles for storm restoration activities.
- **Materials and Supplies:** Reflects $45.3 million in materials and supplies used to repair and restore service and facilities to pre-storm condition.
- **Logistics Costs:** Reflects $273.0 million of costs for staging and processing sites, meals, lodging, buses and transportation, and rental equipment used by employees and contractors in direct support of storm restoration.
- **Other:** Reflects $15.8 million of other miscellaneous costs, including payroll and related overheads from affiliate personnel directly supporting storm restoration.

Q. How much follow-up work did FPL incur in its transmission and distribution ("T&D") functions associated with Hurricane Irma?

A. As of the filing of this petition, FPL is continuing to conduct follow-up work in response to Hurricane Irma; however, FPL finalized the cost estimate as of May 31, 2018. All remaining work is in process or has been fully scoped and is included in the costs presented on Exhibit KF-1. As reflected on page 2 of Exhibit KF-1, FPL incurred $93.2 million of costs in its T&D functions after the majority of FPL's customers' power had been restored. This follow-up work was necessary to restore FPL's system to a pre-storm condition. The majority of the follow-up work was related to streetlight repairs as well as repair and replacement of damaged conductor and smart grid devices on storm-affected feeders. Of the total amount of follow-up work related to the T&D functions, $66.8 million was capitalized.

Q. Did FPL incur costs associated with follow-up work in functions other than T&D?

A. Yes, FPL incurred follow-up costs associated with replacement and repairs to company buildings and structures. The follow-up work costs associated with functions other than T&D are not tracked separately from restoration activities, but are included in the final cost amounts for the applicable function on page 1 of Exhibit KF-1.

Q. How did FPL determine the amount of capital costs it recorded on its books and records for Hurricane Irma?

A. The amount of capital costs for each storm event is determined by applying part (1)(d) of the Rule, which states that "…the normal cost for the removal,

retirement and replacement of those facilities in the absence of a storm" should be the basis for calculating storm restoration capital. As described previously, all costs related to storm restoration work (including follow-up work) are initially charged to FERC Account 186, and estimated capital costs were then reclassified to FERC Account 107, Construction Work In Progress ("CWIP").

For capital costs incurred during storm restoration, FPL employs a capital estimation process derived from the amount of materials and supplies issued during a storm less returns of such assets. Once restoration is complete, FPL utilizes its distribution estimation system to calculate the total amount of capital costs for the distribution function in accordance with FPL's capitalization policy, which includes materials, labor and overheads. The capital costs for follow-up work, including other functional areas, are determined based on an estimate of the actual work performed and is then likewise recorded to the balance sheet in accordance with FPL's capitalization policy.

After the capital jobs are completed, the CWIP account is credited and the appropriate functional plant account in FERC Account 101, Plant In Service, is debited based on the estimated cost of installed units of property. Retirements of fixed assets removed during restoration are recorded when the new incurred capital costs are placed in service through a new discrete IO. As shown on Line 18 on page 1 of Exhibit KF-1, a total of $105.1 million (including follow-up work) were recorded as capital costs for Hurricane Irma.

Q. Did FPL record any below-the-line expenses for Hurricane Irma?

A. Yes. As reflected on Line 22 on page 1 of Exhibit KF-1, FPL identified $0.8 million of thank you advertisements directed to customers and mutual aid utilities, which were removed from FERC Account 186 and recorded to below-the-line expense.

Q. Did FPL receive, or does it expect to receive, any insurance recoveries associated with storm damage resulting from Hurricane Irma?

A. FPL does not have insurance for its T&D assets and has not received any insurance recoveries from any source to date. At the time of this filing, FPL is assessing whether it will be in a position to make a claim under its nuclear property policy for damage to administrative buildings and other structures located at its Turkey Point nuclear facility that support nuclear operations but are not related to nuclear containment. In the event that claim is made, any insurance recovery would be treated as a reduction to base O&M expenses or capital, as applicable.

Q. Did FPL receive any third-party reimbursements for storm-related costs?

A. Yes. As shown on Line 17 on page 1 of Exhibit KF-1, AT&T, Inc. ("AT&T") reimbursed FPL approximately $2.4 million for 878 net poles replaced by FPL on its behalf (936 AT&T poles replaced by FPL less 58 FPL poles replaced by AT&T).

Q. What was the total amount of Hurricane Irma storm restoration costs charged to base O&M expense?

A. As reflected on Line 24 on page 1 of Exhibit KF-1, after removing Hurricane Irma related capital, third-party reimbursements, and below-the-line expenses

from FERC Account 186, the remaining total amount of Hurricane Irma storm restoration costs and follow-up work was $1.27 billion. As explained above, FPL is not seeking through this proceeding to establish a charge for the recovery of the incremental Hurricane Irma costs or replenishment of the storm reserve. Rather, these storm restoration costs were recorded as base O&M expense.

IV. ICCA ADJUSTMENTS RELATED TO HURRICANE IRMA

Q. Why is it inappropriate to apply the ICCA methodology to the Hurricane Irma storm restoration costs?

A. It is important to understand the ICCA methodology and its purpose. The ICCA methodology was designed to ensure that the recovery of storm costs as an incremental charge did not result in the recovery of revenue for costs already reflected in base rates. If a company were to elect to recover the cost of a storm event through existing base rate level, there would be no issue or question of incremental revenue recovery through a storm reserve or surcharge. It would expense the storm losses and ICCA would not apply. This is exactly the factual circumstance in the case of Hurricane Irma. In fact, Part (1)(h) of the Rule allows utilities the option to "charge storm-related costs as operating expenses rather than charging them to Account No. 228.1," which is what FPL opted to do with Hurricane Irma storm restoration costs. Because all of FPL's storm restoration costs for Hurricane Irma were recorded as capital, below-the-line expense, or base O&M expense as explained above, the calculation of non-incremental storm costs using the ICCA methodology is not applicable and unnecessary.

Q. Did FPL determine the amount of non-incremental storm costs associated with Hurricane Irma pursuant to the ICCA methodology?

A. Yes. Although the ICCA methodology is not applicable for the Hurricane Irma storm restoration costs for the reasons described above, the non-incremental ICCA adjustments are provided in Exhibit KF-2 – Hurricane Irma Incremental Cost and Capitalization Approach Adjustments for informational purposes only. Lines 26 to 36 on page 1 of Exhibit KF-2 provide the additional non-incremental ICCA adjustments.

Per the ICCA methodology, non-incremental costs are those that are already included in base O&M expenses. Below is a summary of what the non-incremental charges would have been if FPL instead had requested incremental storm recovery through surcharge.

- **FPL Regular Payroll:** In general, FPL regular payroll costs recovered through base O&M are non-incremental. However, FPL regular payroll normally recovered through capital or cost recovery clauses can be charged to the storm reserve based on paragraphs 21 and 22 of Order No. PSC-2006-0464-FOF-EI, Docket No. 20060038-EI: "otherwise, the costs would effectively be disallowed because there is no provision to recover those costs in base rate operation and maintenance costs.…"

FPL determines the non-incremental FPL payroll by calculating the Company's budgeted base O&M payroll percentage as compared to total budgeted payroll for the month in which the storm occurred, including cost

recovery clauses and capital by cost center, and then multiplies that percent by the total actual payroll costs incurred (excluding overtime) for FPL employees directly supporting storm restoration. The total amount of FPL regular payroll and related overheads that would be non-incremental under the ICCA methodology for Hurricane Irma is $6.8 million. The remaining regular payroll and related overhead expense is considered incremental as it would have been incurred as a component of capital or cost recovery clauses absent the Hurricane Irma storm restoration efforts.

- **Vegetation Management:** Based on part (1)(f)(8) of the Rule, storm-related tree trimming expenses must be excluded if the Company's total tree trimming expense in a storm restoration month is less than the average expense for the same month in which the storm occurred in the prior three years. The tree trimming expenses during September 2017, in which Hurricane Irma restoration work was performed, exceeded the three-year average for September in prior years by $134.8 million. Based on this methodology, of the total $139.9 million in storm-related tree-trimming expenses, $5.1 million would be deemed non-incremental, all of which was related to the distribution function.
- **Vehicle Utilization:** All FPL-owned vehicle utilization costs charged to storm IOs, totaling $4.2 million, would be considered non-incremental under the ICCA methodology.
- **Fuel:** Fuel costs incurred by FPL directly related to storm restoration are charged to the storm IOs. While the ICCA methodology does not speak directly to recovery of fuel costs, FPL has conservatively applied the same

methodology described above for vegetation management. The fuel expenses during September 2017, in which Hurricane Irma restoration work was performed, exceeded the three-year average for September in prior years. FPL determined $0.1 million would be non-incremental under this methodology, all of which is reflected in the distribution function.

- **Legal Claims:** Certain claims were paid that primarily related to property damage caused by FPL personnel and contractors during restoration. None of the cost of claims is recoverable through the storm reserve; therefore, claims totaling $0.2 million in the distribution function would be non-incremental and charged to base O&M expense under the ICCA methodology.
- **Employee Assistance and Childcare:** Assistance provided to employees, including childcare for the children of employees on storm duty is not recoverable under the ICCA methodology. These costs totaling $0.9 million would be charged to base O&M expense.

Q. What jurisdictional separation factors would be applied to the total amount of Incremental Storm Losses reflected on Line 47 on page 1 of Exhibit KF-2 to determine the amount of Retail Recoverable Incremental Costs that would be charged to the storm reserve had FPL employed the ICCA methodology?

A. As reflected on Line 49 on page 1 of Exhibit KF-2, FPL would have applied the jurisdictional separation factors from FPL's 2017 Test Year filed in Docket No. 20160021-EI to the total amount of Incremental Storm Losses on Line 47 to determine the amount of Retail Recoverable Incremental Costs that FPL would have charged to the storm reserve if it had employed the ICCA methodology.

Q. What is the total amount of Retail Recoverable Incremental Costs that FPL would have charged to the storm reserve if FPL had employed the ICCA methodology?

A. As reflected on Line 51 on page 1 of Exhibit KF-2, FPL's Retail Recoverable Incremental Costs that would have been charged to the storm reserve for Hurricane Irma if the ICCA methodology applied was $1.25 billion.

Q. Is FPL seeking recovery or approval of the Retail Recoverable Incremental Costs calculated under the ICCA methodology?

A. No. The Retail Recoverable Incremental Costs under the ICCA methodology are a subset of the total Hurricane Irma storm restoration costs that FPL recorded as base O&M expense. FPL is not seeking any incremental recovery for the storm costs through either a surcharge or depletion of the storm reserve and, therefore, the ICCA methodology is not applicable.

Q. Does this conclude your direct testimony?

A. Yes.

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Keith Ferguson, and my business address is Florida Power & Light Company ("FPL or "the Company"), 700 Universe Boulevard, Juno Beach, Florida 33408.

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

A. Yes.

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

A. Yes. I am sponsoring Exhibit KF-3 – Updated Hurricane Irma Costs as of December 31, 2018, which is an update to the storm restoration costs provided in Exhibit KF-1 included with my direct testimony. This update to the total storm restoration costs trues-up estimated costs that were included in Exhibit KF-1, as well as makes corrections or adjustments that have been identified during the course of this litigation.

I am also sponsoring Exhibit KF-4 – Updated Hurricane Irma Incremental Cost and Capitalization Approach Adjustments as of December 31, 2018, which is an update to Exhibit KF-2 provided with my direct testimony to facilitate the review of the storm restoration costs. This update to Exhibit KF-2 includes the adjustments and corrections made in Exhibit KF-3.

Finally, attached to my rebuttal testimony is Exhibit KF-5, which is OPC's response to FPL Interrogatory No. 27.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to certain portions of the direct testimony of Helmuth Schultz III submitted on behalf of the Office of Public Counsel ("OPC"). Specifically, I will address Mr. Schultz's contention that FPL did not follow Rule 25-6.0143, Florida Administrative Code (the "Rule"). I will explain that FPL followed the Rule, but certain provisions of the Incremental Cost and Capitalization Approach ("ICCA") methodology related to the incremental Operations and Maintenance ("O&M") costs are not applicable because they make no difference to FPL's total Hurricane Irma storm restoration costs since FPL is not seeking any incremental recovery of storm costs. I will also address Mr. Schultz's comments regarding FPL's use of the reserve amortization mechanism to charge the Hurricane Irma storm restoration costs to base O&M expense. I will also explain why Mr. Schultz's recommended adjustments to the Hurricane Irma regular payroll and overtime payroll expenses are inappropriate, contrary to the Rule, ignore the facts, and should be rejected. I will respond and explain why Mr. Schultz's proposed method of capitalizing Hurricane Irma costs is inappropriate, contrary to the Rule, and should be rejected. Next, I will respond to and refute Mr. Schultz's claim that the distribution and nuclear accruals associated with Hurricane Irma storm restoration costs should be disallowed due to lack of supporting detail. Finally, I will provide an update to my direct testimony Exhibit KF-1 and Exhibit KF-2 to reflect additional immaterial reductions to storm costs and corrections that have been identified during the course of this litigation.

II. ACCOUNTING TREATMENT AND THE ICCA METHOD

Q. On pages 3-4 of his direct testimony, Mr. Schultz appears to criticize FPL for charging the Hurricane Irma storm restoration costs to base O&M and use of the reserve amortization mechanism. Can you please summarize for the Commission how FPL accounted for the Hurricane Irma storm restoration costs?

A. Yes. As I explained in my direct testimony, FPL typically charges storm restoration costs to the storm reserve by applying the ICCA methodology set forth in the Rule, and charges the incremental storm restoration costs to the storm reserve. Initially, all storm restoration costs are tracked and accumulated in FERC Account 186. Once the costs have been accumulated, FPL will clear Account 186 by charging the costs to either: the storm reserve, which is ultimately recovered from customers through a storm surcharge if the activity results in a deficit balance; base O&M expense, which is recovered from customers through base rates; capital costs, which is recovered from customers as rate base; or below-the-line expenses, which are not recovered from customers.

For Hurricane Irma, all storm restoration costs were tracked and accumulated in FERC Account 186, and prior to December 2017 FPL applied the ICCA methodology set forth in the Rule consistent with the accounting for every storm event charged to the storm reserve for over ten years, including:

- Removal of below-the-line expenses in accordance with Part (1)(f) of the Rule;
- Calculation of incremental storm costs that were charged to the storm reserve in accordance with Parts (1)(d) and (1)(e) of the Rule, and any non-incremental storm costs were charged to base O&M; and
- Capitalization of storm costs in accordance with Part (1)(d) of the Rule.

In December 2017, FPL elected to charge the incremental Hurricane Irma storm restoration costs to base O&M rather than seeking recovery through a storm surcharge. As reflected on Exhibits KF-3 and KF-4, FPL incurred a total of $1.375 billion in Hurricane Irma storm restoration costs and charged $98.2 million as capitalized costs and $822,000 as below-the-line expenses, which resulted in a total of $1.274 billion of storm restoration costs that were charged to base O&M expense. FPL then used $1.149 billion of reserve amortization to offset a portion of this O&M expense.

Q. Does FPL have the discretion to charge storm restoration costs to base O&M expense rather than to the storm reserve?

A. Yes. Part (1)(h) of the Rule states that "a utility may, at its own option, charge storm related costs as operating expenses rather than charging them to Account No. 228.1." This is precisely what FPL opted to do rather than implementing the optional interim incremental storm charge permitted by Section 6 of the 2016 Settlement Agreement.

Further, Section 6 of the 2016 Settlement Agreement approved by the Commission in Order No. PSC-2016-0560-AS-EI in Docket No. 20160021-EI gives FPL the option, but does not require, the Company to seek incremental storm cost recovery. FPL decided to forgo that option with respect to Hurricane Irma storm restoration costs. Because another option was available through the framework of the 2016 Settlement Agreement and was authorized by the Rule, FPL decided to forgo seeking an incremental charge from customers for the recovery of Hurricane Irma storm restoration costs. Instead, FPL recorded Hurricane Irma non-capitalized storm-related costs as a base O&M expense in accordance with Part (1)(h) of the Rule.

Q. Does FPL have the authority to use the reserve amortization mechanism for storm restoration costs?

A. Yes. Although, FPL's use of the reserve amortization is not a proper issue in this proceeding, as this docket was initiated to evaluate FPL's storm restoration costs related to Hurricane Irma, I will nonetheless respond to Mr. Schultz's comments. The Reserve Amount, as defined in paragraph 12 of the 2016 Settlement Agreement, may be amortized *at FPL's discretion* to earn a targeted regulatory ROE within an authorized range of 9.6% to 11.6%. The 2016 Settlement contemplates that FPL will account for unexpected changes in its business – no matter how they arise – within the framework of the 2016 Settlement Agreement. The 2016 Settlement Agreement provides FPL the flexibility to use the reserve amortization mechanism to absorb additional expenses (for example, the charge of storm costs to base O&M expense) or

lower than expected sales while remaining within the authorized return on equity range. Similarly, the reserve amortization allows FPL to absorb lower expenses or higher than expected sales while remaining within its authorized return on equity range.

There is no prohibition in the 2016 Settlement Agreement to utilizing the Reserve Amount to offset storm restoration costs, whether incremental or non-incremental, so long as FPL remains within its authorized earnings range. In fact, on page 4, line 2-4 of his direct testimony, Mr. Schultz acknowledges that FPL may use the amortization mechanism for storm restoration costs.

Q. On page 5, lines 17 through 21, and further on page 11, lines 9 through 10 of his direct testimony, Mr. Schultz states that FPL has taken the position that the Rule does not apply for Hurricane Irma storm restoration costs charged to base O&M. Do you have a response?

A. Yes. To clarify, contrary to Mr. Schultz's interpretation of FPL's accounting for Hurricane Irma storm costs, FPL did follow the Rule. As explained above, FPL followed the Rule and the applicable provisions of the ICCA methodology to calculate its Hurricane Irma storm restoration costs, including removing below-the-line expenses and calculating storm capital, but elected to charge the incremental Hurricane Irma storm restoration costs to base O&M rather than seeking recovery through a storm surcharge.

As a result of FPL's decision to charge the incremental Hurricane Irma storm restoration costs to base O&M, certain provisions of the Rule and ICCA methodology related to incremental O&M costs (i.e., regular payroll, vegetation management, etc.) to be charged to the storm reserve are not applicable because they make no difference to the total Hurricane Irma storm restoration costs that FPL charged to base O&M. The exercise of calculating incremental O&M storm costs and charging the storm reserve became unnecessary once the decision was made not to seek recovery of storm costs through a storm surcharge in December 2017. Therefore, as stated in my direct testimony, the ICCA methodology is not applicable to calculate FPL's Hurricane Irma O&M storm restoration costs.

Q. On page 5, lines 7-15 of his direct testimony, Mr. Schultz suggests that FPL's decision to reclassify the Hurricane Irma storm restoration costs as base O&M expense allows FPL to recover costs that would not have otherwise been recoverable from customers if the ICCA method applied. Do you agree with his assessment?

A. No. It appears Mr. Schultz believes that only the incremental storm restoration costs under the ICCA method are charged to customers, and that the non-incremental storm restoration costs under the ICCA method are disallowed (i.e., not charged to customers). The flaw with Mr. Schultz's interpretation is that, even if all provisions of the ICCA method applied, all reasonable and prudent non-incremental storm restoration costs are charged as base O&M expense or capital.

Had FPL sought a surcharge and applied all provisions of the ICCA methodology to calculate the incremental Hurricane Irma storm costs, the reasonable and prudent *incremental* costs would have been charged to the storm reserve and the reasonable and prudent *non-incremental* costs would have been charged to base O&M expense or capital.

III. PAYROLL COSTS

A. Regular Payroll Storm Restoration Costs

Q. Please summarize Mr. Schultz's recommended adjustment to the Hurricane Irma regular payroll expense.

A. On page 33, lines 6-9 of his direct testimony, Mr. Schultz recommends that the total amount of distribution regular payroll expense associated with Hurricane Irma storm restoration costs be reduced by $10 million, and that the incremental regular payroll expense be reduced by $4.153 million. Mr. Schultz's adjustments are based solely on his misguided application of the ICCA method and his flawed calculation of the non-incremental payroll expenses that are excluded under the ICCA method. According to his testimony on pages 27 and 30, Mr. Schultz contends that all of FPL's regular payroll expense incurred for Hurricane Irma is non-incremental under the ICCA method and should be disallowed. Further, on pages 33-34 of his testimony, Mr. Schultz reclassifies $5.847 million of regular payroll expense

that was capitalized as overtime because, according to Mr. Schultz, there is no incremental payroll expense under the ICCA method that could be capitalized.

Q. Do you agree with Mr. Schultz's adjustments to the regular payroll expense?

A. No. Importantly, Mr. Schultz does not claim that any portion of the regular payroll expense incurred by FPL for Hurricane Irma was unreasonable or imprudent. Rather, Mr. Schultz's adjustments to the regular payroll expense are based entirely on his erroneous application of the ICCA method.

Mr. Schultz's adjustment fails to recognize that all of the regular payroll expense was charged to base O&M expense or capital. Unless a non-incremental regular payroll expense is found to be unreasonable or imprudent (in which case it would be charged below-the-line and not recovered from customers), it will be charged to base O&M expense or capital. Thus, even if all of FPL's regular payroll expenses was non-incremental as suggested by Mr. Schultz, which it is not, all reasonable and prudent non-incremental regular payroll expenses would be charged to base O&M expense or capital, which is where all of the regular payroll expense for Hurricane Irma has been charged. Stated otherwise, Mr. Schultz's attempt to reclassify all of the regular payroll expense as non-incremental costs does not, absent a finding of unreasonableness or imprudence, mean the costs are disallowed as a base O&M expense as suggested by Mr. Schultz.

Q. Do you have any additional concerns with Mr. Schultz's application of the ICCA method?

A. Yes. Mr. Schultz's recommended reduction in regular payroll and calculated incremental regular payroll utilizing the Company's 2016 rate case MFRs as a baseline is inconsistent with the Rule, prior Commission orders, and ignores that the 2016 rate case was settled.

While the Rule does not expressly state whether the excluded regular payroll costs should be based on the budgeted amount or the amount included in the MFRs from the utility's last rate case (as argued by Mr. Schultz), the Rule does provide significant guidance on the purpose and intent of the Rule. Part (1)(f)(1) of the Rule prohibits "base rate recoverable regular payroll and regular payroll-related costs for utility managerial and non-managerial personnel" from being charged to the storm reserve, and Part (1)(d) of the Rule provides that "… costs charged to cover storm-related damages shall exclude those costs that normally would be charged to non-cost recovery clause operating expenses in the absence of a storm." Rule 25-6.0143(1)(f)(1) and (1)(d). In addition, Part (1)(f)(7) of the Rule specifically refers to the use of budgeted call center and customer service costs when calculating incremental costs for those functions. When these parts of the Rule are read together, it is clear that the purpose of the Rule is to exclude the normal regular payroll O&M expense that would have been incurred *in the absence of the storm*.

There is nothing in the Rule that states the non-incremental regular payroll expense must be the regular payroll expense included in the MFRs from the utility's last rate case. Rather, the intent of the Rule is to permit full recovery of non-capital expenses that are directly related to extraordinary storms and are not part of the utility's normal, day-to-day regular payroll charged to O&M expenses.

Mr. Schultz's use of MFRs from FPL's rate case to calculate the incremental recoverable regular payroll expense disregards that FPL's 2016 base rate case resulted in a settlement. The base rates in effect during Hurricane Irma (2017) were the result of a full comprehensive, black box settlement agreement approved by the Commission in Docket No. 20160021-EI. The 2016 Settlement was achieved after extensive, good faith negotiations among the signatory parties and represented a compromise of many diverse and competing litigation positions. As a result, the actual revenue requirement adopted under the 2016 Settlement was significantly less than the as-filed revenue requirement. The fixed base rates approved under the 2016 Settlement were designed to achieve this compromise settled revenue requirement, not the as-filed revenue requirement. Mr. Schultz's reliance on the payroll expense from the MFRs initially filed with FPL's 2016 rate case to calculate the incremental recoverable regular payroll expense fails to take into account that the MFRs are based on the as-filed revenue requirement, not the

significantly reduced revenue requirement approved under the 2016 Settlement and actually included in the effective base rates.

Further, Mr. Schultz's reliance on the payroll expense from the MFRs initially filed with FPL's 2016 rate case fails to recognize that O&M expenses fluctuate from year-to-year. Although the base rates charged to customers under the 2016 Settlement are fixed, the 2016 Settlement agreement did not fix or otherwise specify the amount of regular O&M payroll to be charged to base rates in any given year. Rather, the actual amount of regular O&M payroll to be charged to base rates can and does fluctuate from year to year – meaning the amount of regular O&M payroll charged to base rates in one year could be the same, more, or less than the amount charged to base rates in prior or subsequent years. In fact, in response to discovery, Mr. Schultz agrees that a utility's actual annual payroll expense may fluctuate after base rates have been established. A copy of OPC's response to FPL Interrogatory No. 27 is provided as Exhibit KF-5.

Q. If you disagree with Mr. Schultz's use of the MFRs to calculate the incremental regular payroll expense in this case, how should the incremental regular payroll expenses be determined?

A. Although calculating the incremental O&M storm costs would result in the exact outcome presented by FPL in this docket, the baseline to calculate FPL's non-incremental storm costs per the ICCA methodology would be its current period operating budget, which is reflected on the informational

Exhibit KF-2 and updated Exhibit KF-4. The use of the budgeted amount of regular payroll expenses to calculate the baseline from which incremental recoverable costs are derived is consistent with the intent and purpose of the ICCA method under the Rule because it reflects the actual amount of regular payroll expense that would be charged to base O&M expense in the absence of the storm. Further, the use of the budgeted amount of regular payroll expenses to calculate the baseline from which incremental recoverable costs are derived properly recognizes: (i) the rates in effect were the result of a settlement with a significantly reduced revenue requirement, and (ii) the actual amount of regular O&M payroll to be charged to base rates can and does fluctuate from year to year.

Additionally, use of the budgeted amount of regular payroll expenses to calculate the baseline from which incremental recoverable costs are derived is consistent with multiple Commission Orders, including:

- Order No. PSC-2005-0937-FOF-EI, Docket No. 20041291-EI, which required FPL to use the budgeted amount of regular payroll for the year in which the storm occurred as the baseline to determine the incremental amount of regular payroll for the 2004 storms;
- Paragraphs 21 and 22 of Order No. PSC-2006-0464-FOF-EI, Docket No. 20060038-EI, which allowed recovery of regular payroll normally recovered through capital or cost recovery clauses; and

- Part (1)(f)(7) of the Rule which specifically refers to the use of budgeted call center and customer service costs when calculating incremental costs for those functions.

A review of this guiding precedent and the intent of the Rule supports the use of a current period operating budget as the baseline to calculation of non-incremental storm costs.

B. Overtime Payroll Storm Restoration Costs

Q. Please summarize Mr. Schultz's recommended adjustment to the Hurricane Irma overtime payroll expense.

A. On page 34, lines 17 through 20 of his testimony, Mr. Schultz recommends that FPL's overtime payroll expense associated with Hurricane Irma be reduced by $17.158 million to exclude non-incremental payroll under the ICCA method. On pages 33-35, Mr. Schultz reclassifies $5.847 million of capitalized regular payroll as capitalized overtime and makes a corresponding reduction to overtime payroll expense. Finally, on pages 37-39, Mr. Schultz contends that FPL's capitalization rate for overtime payroll expense is understated and recommends that the overtime payroll expense be reduced by $12.471 million to reflect the higher capitalization rate.

Q. Do you agree with Mr. Schultz's recommendation to exclude non-incremental overtime payroll under the ICCA method?

A. No. Similar to his non-incremental adjustment for regular payroll expense, the fundamental flaw with his adjustment to the overtime payroll expense is

that it fails to recognize that all of the overtime payroll expense was charged to base O&M expense and, unless a non-incremental overtime payroll expense is found to be unreasonable or imprudent, it will be charged to base O&M expense. In this case, Mr. Schultz does not contend that any portion of the overtime expense associated with the Hurricane Irma storm restoration costs is unreasonable or imprudent.

Further, Mr. Schultz's non-incremental adjustment to the overtime payroll expense is based on the overtime payroll expense from the MFRs initially filed with FPL's 2016 rate case. As explained above, use of the MFRs to calculate the baseline from which incremental recoverable costs are derived is not appropriate because the 2016 rate case was settled at a revenue requirement that was significantly less than the as-filed revenue requirement.

More importantly, qualifying storm events and the associated overtime payroll are neither budgeted nor planned – they are incremental in nature. Indeed, but for the storm, FPL would not have incurred this overtime payroll expense.

Q. Do you agree with Mr. Schultz's reclassification of $5.847 million of capitalized regular payroll as capitalized overtime?

A. No. Mr. Schultz's reclassification of these costs is based solely on his position that there are no incremental regular payroll costs under the ICCA methodology and, therefore, there are no regular payroll costs to be capitalized. Mr. Schultz then simply reclassifies the capitalized regular

payroll as overtime. As explained above and in my direct testimony, Mr. Schultz's reclassification of these costs should be rejected.

I further note that Mr. Schultz's recommended adjustments are inconsistent. According to Mr. Schultz, there are no regular payroll costs to be capitalized because there are no incremental regular payroll expenses recoverable under the ICCA method. Despite his position that the entirety of the regular payroll cost is non-incremental and unrecoverable under the ICCA method, Mr. Schultz then goes on to conclude that a portion of these very same costs should be treated as a capital component of the overtime costs. The problem with this approach is that by reclassifying a portion of the regular payroll costs as overtime costs, Mr. Schultz is treating the very same costs as both non-incremental costs on one hand and then as incremental costs on the other hand. Therefore, Mr. Schultz's positions are inconsistent. Finally, Mr. Schultz offers no reasonable basis or support for reclassifying these costs from regular payroll costs to overtime costs.

Q. Do you agree with Mr. Schultz that FPL's capitalization is understated?

A. No. Mr. Schultz argues that FPL's capitalization is understated because the work performed after a storm is under abnormal conditions, not normal conditions, and overtime rates are higher than regular pay rates. Rather than relying on the normal capitalization rate, Mr. Schultz develops a separate overtime capitalization rate based on the average FPL overtime rate per

person and a three-man crew, which results in a reduction of $12.741 million to FPL's overtime expense claim.

The flaw with Mr. Schultz's proposed capitalization rate based on overtime costs is that Rule 25-6.0143 expressly requires the *normal* amount of capital costs be excluded from the recoverable storm costs. Mr. Schultz's recommended adjustment completely ignores this requirement of the Rule and should be rejected.

IV. CAPITALIZATION OF COSTS

Q. Please summarize Mr. Schultz's testimony regarding the capitalization of contractor costs.

A. On pages 72-78 of his direct testimony, Mr. Schultz contends that the amount of contractor costs that FPL capitalized for Hurricane Irma was understated. Mr. Schultz contends FPL's normal capitalization rate used for contractor costs does not represent the total cost of outside contractors who perform capital restoration work because contractor rates and hours are greater than the rates and hours for FPL's employees, and because the contractor crew size used by FPL is too low. Mr. Schultz develops his own average hourly contractor rate and, using an estimated 4-man crew, recommends an increase in contractor capital costs of $278.754 million and a corresponding reduction in the total storm restoration costs charged to base O&M.

Q. Please explain how FPL capitalized its contractor costs for Hurricane Irma.

A. As explained above, all storm restoration costs for Hurricane Irma were tracked and accumulated in FERC Account 186, and prior to December 2017 FPL applied the ICCA methodology to remove below-the-line expense, determine the incremental O&M costs, and capitalize the storm costs. FPL subsequently elected to charge the incremental Hurricane Irma storm restoration costs to base O&M rather than seeking recovery through a storm surcharge.

To determine the amount of capitalized contractor costs, FPL used part (1)(d) of the Rule, which states that "…the normal cost for the removal, retirement and replacement of those facilities in the absence of a storm" should be the basis for calculating storm restoration capital. This methodology was first prescribed in the Final Order in FPL's 2004 Storm Docket No. 20060038-EI, and was subsequently codified in the instant Rule. FPL has followed the same methodology for calculating storm capital for all storm events since the effective date of the Rule and the approach has been applied consistently by the Commission.

I also note that at the March 5, 2019 Agenda Conference, the Commission adopted Staff's recommendation in the Florida Public Utilities Company's ("FPUC") storm cost recovery proceeding at Docket No. 20180061 to reject

OPC's higher contractor capitalization rate (abnormal conditions and higher rates) as contrary to the Rule and accepted FPUC's "normal" capitalization rate based on its average in-house rates under normal conditions for the same work.

Q. Do you agree with Mr. Schultz that the capitalized contractor costs are understated?

A. No. FPL followed Part (1)(d) of the Rule in determining the amount of contractor costs to be capitalized under normal (non-storm) conditions. Rather than relying on the normal capitalization rate that would apply in the absence of a storm, Mr. Schultz develops a separate contractor capitalization rate relying on the average hourly rates charged by contractors for storm restoration during Hurricane Irma and an assumed four-man crew. Mr. Schultz's approach completely ignores the requirements of the Rule.

Q. On page 73, lines 7-13 of his direct testimony, Mr. Schultz states that FPL's capitalization of contractor costs does not comply with Generally Accepted Accounting Principles ("GAAP")? Do you agree?

A. No. FPL's accounting process and capitalization of Hurricane Irma storm costs, including contractor costs, comply with GAAP. The determination of what amount is capitalizable for FPL facilities constructed for its own use, including storm capital, is made in accordance with GAAP, and applicable guidance from FERC and the Florida Public Service Commission. FPL is also required to follow Accounting Standards Codification 980, *Regulated Operations,* ("ASC 980") for the treatment of certain costs as prescribed by

the regulator. ASC 980-340-25-1 stresses the importance of accounting for incurred costs in accordance with "rate actions of a regulator," which include, but are not limited to: rate orders, rules or regulations, regulator policies and practices, and discussions with the regulator. In this case, the Commission has expressly promulgated how storm costs should be capitalized in Part (1)(d) of the Rule.

Q. On pages 94-95, Mr. Schultz recommends that FPL should be required to develop separate capitalization rates for its Company personnel and for its contractors based on actual work, costs, and rates incurred during storm restoration activities. Do you agree?

A. No. Although contractor rates and costs during storm restoration may be higher than the rates and costs of FPL's personnel under blue-sky, non-storm conditions, unless and until the Rule is amended by the Commission through a rulemaking proceeding, the Rule requires the utility to use the normal capitalization rate that would apply in the absence of a storm. Although Mr. Schultz may disagree with the requirements and intent of the Rule, FPL clearly followed the Rule with respect to the capitalization of contractor costs.

Q. If the normal capital rate prescribed in the Rule did not apply to the Hurricane Irma contractor storm restoration costs as suggested by Mr. Schultz, do you agree with Mr. Schultz's approach to calculate the capital contractor costs?

A. No. Even if the capitalization method included in the Rule did not apply, Mr. Schultz erred in the capitalization calculations on Schedule C in his Exhibit HWS-2. Those errors include:

- Estimating actual capital contractor costs for the entire Hurricane Irma event based on the total FPL estimate of capital contractor costs, which includes both restoration capital and follow up capital. In order to develop a reasonable estimate of total capital cost incurred in a storm event, one must develop separate estimates of restoration capital and follow up capital, as the labor costs and Construction Man Hours ("CMH") hours are different and not consistent for the two types of work.
- Deriving total capitalizable CMH by using a "normal" FPL hourly labor rate. There is no need to resort to a derivation, as the capital CMH for restoration is readily available in FPL's Work Management System and should be utilized directly as the basis for capital determination. In addition, if one were to rely on a derivation, it would be inappropriate to use the FPL labor rate to derive capital CMH for contractors.
- Using an anecdotally estimated crew size in the calculation. Witness Schultz's use of a crew size of four in his calculation is arbitrary and unnecessary. A proper calculation could instead utilize all-in capital cost per CMH by employees versus contractors, without having to rely on an unsubstantiated crew size estimate.

V. ACCRUALS

Q. Please summarize Mr. Schultz's testimony regarding the distribution and nuclear storm cost accruals that you address in your rebuttal testimony.

A. On page 83 of his direct testimony, Mr. Schultz recommends that the distribution accrual of $20.166 million and the nuclear accrual of $12.967 million be excluded from the Hurricane Irma storm restoration costs charged to base O&M expense due to lack of supporting detail.

Q. Did FPL provide supporting detail for the distribution and nuclear accruals included in its storm costs?

A. Yes. As a preliminary matter, I note that Mr. Schultz does not claim that any portion of the distribution or nuclear accruals for Hurricane Irma were unreasonable or imprudent. Rather, the sole basis for his claim that these costs should be disallowed is lack of supporting details.

Contrary to Mr. Schultz's statement, FPL did provide supporting detail for these costs in response to discovery. The support for the distribution accrual was provided in FPL's response to OPC Request for Production of Documents No. 26. Likewise, the support for the nuclear accrual was provided in FPL's response to OPC Request for Production of Documents No. 14.

FPL's estimated Hurricane Irma storm restoration costs include accruals for

invoices received but not yet processed, work incurred but not yet invoiced and remaining follow-up work to be performed to restore the system back to its pre-storm condition. As of December 2018, there remained a total of $17.633 million of Hurricane Irma storm cost accruals which are reflected on Exhibit KF-3 and KF-4 for the nuclear function, and there was no remaining accrual for the distribution function.

VI. ADJUSTMENTS TO TOTAL STORM RESTORATION COSTS

Q. Has FPL identified any adjustments to the Hurricane Irma Storm and Restoration costs filed on August 31, 2018?

A. Yes. Since the filing of Exhibit KF-1 and KF-2 on August 31, 2018, FPL has identified and incorporated adjustments to the total storm related restoration costs, totaling $3.397 million or less than 0.25% of the total Hurricane Irma storm restoration costs, into Exhibits KF-3 and Exhibit KF-4 that are attached to my rebuttal testimony. The $3.397 million overall decrease to the total storm related restoration costs (line 10) reflects a decrease in Hurricane Irma Capitalizable Costs of $6.928 million (line 18) offset by an increase Storm Restoration Costs Charged to Base O&M of $3.531 million (line 24). Each of these adjustments are summarized below:

- Adjustments for Jurisdictional factors
    - FPL incorrectly used 2018 jurisdictional factors on Exhibit KF-2. After applying the 2017 factors, which are reflected on

Exhibit KF-4, the total incremental storm costs decreased by $67 thousand.

- Reporting misclassification for contractor work
  - As stated in FPL's response to OPC Interrogatory No. 81, FPL inadvertently misclassified an invoice totaling $216 thousand as Contractor instead of Line Clearing. FPL has corrected the misclassification resulting in no impact to the total storm restoration costs.
- Decrease in Hurricane Irma Storm Restoration Costs of $3.397 million reflected on lines 2 through 9 on Exhibit KF-3 and KF-4.
  - FPL's final true up of follow up and restoration work resulted in a net decrease to overall storm costs attributed to changes in estimates and scope of work.
  - As discussed by FPL witness Manz and addressed in FPL's answers to OPC Interrogatories Nos. 148 and 174, FPL inadvertently double paid a Contractor invoice for $1.223 million. FPL issued a credit memo for the double payment resulting in a decrease to Contractor costs and total Hurricane Irma storm costs.
  - As reflected in FPL's response to OPC Interrogatory No. 145, FPL inadvertently paid fuel totaling $9 thousand to a vendor during mobilization who had not received authorization for reimbursement for fuel purchased during mobilization. FPL

has removed this amount from its total storm costs and will seek a refund for the vendor.

- As discussed by FPL witness Manz, FPL adjusted for billing issue reimbursements in the total amount of $167,787.
- As discussed by FPL witness Gwaltney, an adjustment for contractor invoices in the amount of $247,817.

- Decrease in Hurricane Irma Capitalizable Costs of $6.928 million reflected on lines 13 through 17 on Exhibit KF-3 and KF-4.
  - FPL's final true up of follow up and restoration work resulted in a net decrease to overall capitalizable costs attributed to changes in estimates and scope of work.
  - Approximately $1.586 million of transmission work originally classified as capital was deemed maintenance (i.e., right of way clean up, tree trimming, fence repair, and helicopter patrols) resulting in a decrease of $1.586 million to Capitalizable Costs and equal increase to Storm Restoration Costs Charged to Base O&M.

Q. Does this conclude your rebuttal testimony?

A. Yes.

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Kristin Manz. My business address is Florida Power & Light Company, 700 Universe Blvd., Juno Beach, Florida, 33408.

Q. Have you previously submitted testimony in this proceeding?

A. No.

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

A. I am employed by Florida Power and Light as a Director in the Information Technology organization, a role I assumed in July of 2018. Prior to that time, from January 2017 through July of 2018, I was employed as Director of Finance Operations in FPL's accounting organization.

Q. Please describe your duties and responsibilities at the time you were the Director of Finance Operations in FPL's accounting organization.

A. As Director of Finance Operations, I oversaw a team that processed all accounts payable ("AP") transactions for the NextEra Energy enterprise; a team that managed accounts receivable transactions; and a team that governed the travel and expense reimbursement program. In this role I led the team that received, reviewed and processed the majority of invoices from vendors who assisted FPL in its restoration efforts related to Hurricane Irma.

Q. Please describe your educational background and professional experience.

A. I have a Bachelor of Science degree from the University of Florida in Management Information Science, and a Master of Business Administration with a concentration in Finance from DePaul University. I have worked in various financial, budgeting,

process improvement, automation implementation, and control enhancement roles throughout my 11 years at FPL. Before joining FPL, I had similar responsibilities for my previous employer, Motorola.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to certain portions of the direct testimony submitted by Office of Public Counsel ("OPC") witness Helmuth W. Schultz III. Specifically, I will explain the process used by FPL to review and process invoices submitted by contractors that provided restoration services to FPL as a result of Hurricane Irma. I also address and rebut Mr. Schultz's contention regarding what he perceives to be a lack of control(s) by FPL for reviewing invoices, and that either established controls are not working or are not being followed as designed.

Q. Please summarize your rebuttal testimony.

A. My testimony demonstrates that FPL's AP organization followed a prudent and effective restoration invoice review process, including the receipt, review, follow-up investigation, and where appropriate rejection, adjustment or payment of the approximately 12,000 invoice packets representing a vast majority of the $1.3 billion in total charges related to Hurricane Irma restoration activities. Execution of the invoice review process allowed FPL to identify numerous billing adjustments along the way, resulting in credits, reversals and reimbursements in the millions of dollars. FPL's AP process functioned well in facilitating the effective, efficient and timely processing of Hurricane Irma storm restoration invoices.

Q. Are you sponsoring any exhibits to your rebuttal testimony?

A. Yes. I am sponsoring the following exhibits:

- KM-1 – FPL's response and confidential Attachment to OPC Interrogatory No. 156
- KM-2 – FPL's response and confidential attachment to OPC Interrogatory No. 154
- KM-3 – FPL's responses and attachments to OPC Interrogatories No. 148 and No. 174 and Production of Documents No. 35

II. INVOICE REVIEW AND APPROVAL PROCESS

Q. Please describe FPL's invoice review and approval process.

A. Upon receipt, vendor invoices are logged to allow for tracking and monitoring as the invoices proceed through the review process. Individuals charged with the responsibility of reviewing and validating invoices for payment, what I refer to as reviewers or invoice reviewers, are identified from the core AP team. For larger projects, such as the processing of Hurricane Irma invoices, additional reviewers are obtained from other business units and trained in the AP processes. Invoice reviewers are responsible for analyzing invoices submitted by vendors to ensure that the hours and rates are properly supported. Invoice reviewers are assigned to review invoices associated with one vendor at a time to mitigate risk of duplication of payments to that vendor.

Q. Please explain how invoice reviewers determine whether a vendor invoice provides the negotiated rate at which the contractor is to be paid.

A. Invoice reviewers check invoiced rates against reports pulled from SAP that identify contractor rates that have been negotiated with the vendors. This allows the reviewer to verify that the rates included on the vendor invoice are accurate and consistent with the contracted rate.

Q. Please describe the purpose of the Storm Crew Daily Time Reports.

A. The Storm Crew Daily Time Reports ("daily timesheets") are used in the field during storm restoration. These daily timesheets are populated by each crew foreman at the end of each day and reviewed and signed by their assigned FPL Production Lead ("PL"). As described by FPL witness Miranda in his direct testimony filed in this docket on August 31, 2018, FPL Power Delivery assigns PLs to be responsible for reviewing and approving daily timesheets to ensure that time and personnel counts are recorded accurately. As Mr. Miranda also testified, the daily timesheets are then provided to the FPL Finance Section Chief, whose role and responsibilities are described in the direct testimony of FPL witness Ferguson, and then sent to FPL's AP group, where they are used to verify invoices received from the contracted companies.

Copies of the daily timesheets are also collected by the crews and taken back to the vendors' Accounts Receivable ("AR") departments to process for reimbursement. The vendor's AR department may then use the storm crew weekly time report

("weekly report") to summarize the daily timesheets to generate totals for invoicing.

Q. Does the Company also review the weekly reports or summary timesheets?

A. Yes. As I testified during the November 15, 2018 session of the deposition taken by OPC, a copy of which is attached to OPC witness Schultz's direct testimony as Exhibit HWS-3, submission of daily timesheets is mandatory to process payment, and those daily timesheets are reviewed as part of the AP process. The daily timesheets provide the information necessary for the AP reviewers to confirm the hours and activity completed by the storm crews each day approved by FPL field personnel. The use of weekly reports or summary timesheets by vendors is optional, though submission of those forms is recommended as it helps streamline the review process.

Q. With that background, please explain how the invoice reviewer uses the daily timesheets to verify the accuracy of the hours on the invoice?

A. The signed daily timesheets are ultimately submitted with the invoices received by AP. If a vendor fails to provide the daily timesheets with an invoice, AP requests the daily timesheets from the vendor, or relies upon its copy of the documents received from the FPL Finance Section Chief. AP reviewers rely on these materials to validate and verify the hours entered on the invoice. At this stage of the process, the invoice reviewer also checks for receipts for hotels, meals and other expenditures that are included on the invoice.

Q. OPC witness Schultz makes reference in his testimony to "time sheets not signed" or available. What is the process for AP reviewers when they encounter this situation?

A. There may be limited circumstances where daily timesheets were inadvertently not signed by a PL in the field or could not be located during the invoice review process. When that occurs, the reviewer follows up with Power Delivery representatives, including the PLs, to substantiate the hours reflected on the invoice or unsigned daily timesheet. This contact with Power Delivery most frequently occurs through telephonic communications to facilitate the quickest resolution of issues as they arise.

Q. How does the invoice reviewer use the information received from Power Delivery?

A. Based upon the response received from Power Delivery, the reviewer will either approve the invoice as submitted, or will modify the vendor invoice to match the substantiated information and will notify the vendor of the correction. Once this portion of the process is complete, the invoice is entered in SAP for fiduciary approval and posting for payment to the vendor.

Q. Are you saying that the AP reviewers have the authority to modify or reject invoices submitted by the vendors?

A. Absolutely. The reviewers have the authority to adjust an invoice from a vendor, reduce the amount payable on the invoice, or reject the invoice outright. Modifications to and rejection of Hurricane Irma invoices occurred numerous times in this case, a subject I will address in more detail later in my testimony.

Q. Please explain how fiduciary approval of an invoice differs from invoice review performed by AP.

A. All invoices and payments made by FPL are subject to our Sarbanes-Oxley ("SOX") internal controls, including payments for storm restoration. The AP reviewers are verifying the accuracy of the invoice provided from the vendor to identify and correct any errors prior to processing the invoice for payment. Once the invoice is reviewed and accepted by AP, it is processed in SAP and follows our standard payment SOX internal controls whereby someone within the Company with the appropriate fiduciary approval reviews and approves the invoice in SAP.

Q. OPC witness Schultz also criticizes FPL for approving payment for certain items that may not be specifically provided for in the contract documents, such as payment for what he calls "excessive time" and variation from the strict terms of the contracts. What is the AP review process when these situations are encountered?

A. As with unsigned daily timesheets, when AP reviewers encounter issues that cannot be resolved strictly on the face of the invoice and supporting documentation, Power Delivery is contacted to confirm or deny the accuracy of the billing. This can include situations where FPL management approves exceptions to the terms of the contract based upon the judgment of those managing the restoration process and the need to address the ever changing conditions in the field. As explained in the rebuttal testimony of FPL witnesses Gwaltney and Reagan, it was not only appropriate, but it was necessary for such exceptions to be made during Hurricane Irma restoration to facilitate the efficient restoration of power following this storm.

Q. Is payment of the invoice the final step in the review and approval process?

A. No. After all invoices are processed, the AP manager runs a report of all storm payments to look for potential duplicates. In performing this review, the AP manager looks at dollar amount, vendor invoice number and date. Any duplicates that are found are reversed from SAP, or, if a duplicate payment has already been made, the vendor is contacted and advised to refund the overpayment to FPL. This manual review is in addition to automated controls that exist in SAP to detect duplicate invoices when the vendor Tax Identification Number, invoice number and invoice date is the same as a previously entered invoice.

Q. Mr. Schultz contends that there are "significant invoice approval integrity issues" in FPL's process. Do you agree?

A. No, I do not agree with his contention or with his conclusion. I am confident that FPL's AP review process worked well to ensure the verification and payment of the more than $1 billion in vendor invoices reviewed and processed by the AP team. And, while it is impossible to eliminate 100% of all potential human error from a largely manual process requiring review, validation, verification and processing of such a massive volume of documents, the AP process was properly designed and administered. It facilitated the timely and appropriate evaluation and processing of vendor invoices related to Hurricane Irma restoration work.

Contrary to the opinion expressed by Mr. Schultz, my testimony demonstrates that the execution of FPL's AP process resulted in the timely, effective and efficient review, processing and payment of vendor invoices. Additionally, FPL witnesses

Miranda, Ferguson, DeVarona, Gwaltney and Reagan, together with literally hundreds of discovery responses and tens of thousands of pages of documents produced in this case, demonstrate and support the reasonableness of the costs incurred by FPL in this massive restoration effort.

Q. On pages 86-87 of his direct testimony, Mr. Schultz alleges that fuel costs were paid to contractors that purchased fuel during mobilization/demobilization in violation of the vendor contract. Please respond to this allegation.

A. As the basis for his contention, Mr. Schultz cites only to a single vendor invoice discussed during the deposition of FPL's witnesses where the vendor was paid for fuel costs incurred during mobilization/demobilization. The vendor contract provides that mobilization/demobilization rate is inclusive of fuel costs, meaning that absent exceptions being granted by FPL, contractors are not reimbursed for fuel costs incurred during mobilization/demobilization. FPL's response to OPC Interrogatory No. 145, a copy of which is attached to FPL witness Gwaltney's rebuttal testimony as part of his Exhibit TWG-1, indicated that the Company was unable to confirm whether it granted an exception to the contractor for the fuel purchased during mobilization in the invoice identified in the deposition. Therefore, FPL stated that it would seek a refund from the vendor and will make a corresponding adjustment to the total storm costs.

Q. On page 87 of his direct testimony, Mr. Schultz claims that contractor billing for fuel during mobilization/demobilization was not limited to the single occurrence identified during the deposition of FPL's witnesses. Please comment.

A. I note that other than the single invoice identified in his testimony, Mr. Schultz has not identified any other invoices in which the vendor billed and FPL paid for unapproved fuel costs incurred during mobilization/demobilization. Indeed, as stated on page 88 of his direct testimony, Mr. Schultz did not recommend any adjustments to fuel costs.

Notwithstanding these facts, FPL has determined that of the approximately $1.3 billion in total charges related to Hurricane Irma restoration activities, there was a total of approximately $1 million that was paid for all fuel costs for overhead line contractors, including fuel purchased with authorization from FPL. And while there is nothing to suggest that the situation identified by Mr. Schultz occurred with any degree of frequency, FPL plans to review the invoices that included overhead contractors billing for fuel and will make an adjustment to its total storm costs and will seek a refund from any of these contractors that billed for fuel during mobilization/demobilization without an approved exception.

Q. As a result of FPL's experience processing such a massive volume of invoices in the aftermath of Hurricane Irma, has the Company identified any lessons learned to further improve the process?

A. Yes. Consistent with FPL's culture of continuous improvement, we are currently evaluating potential modifications based on our experience during Hurricane Matthew and Hurricane Irma in an effort to further improve an already robust process.

Q. Please describe some of the lessons learned, and explain what FPL is doing to improve its AP processes.

A. Our initial focus is to eliminate the amount of paper and manual effort needed to review and substantiate storm contractor payments. In 2017, following our experience in Hurricane Matthew, the Company began working to develop an automated timesheet application. This application will largely mirror the information captured today on paper daily timesheets, but will allow the approval and submittal of those timesheets electronically. The full scope of the application is being designed and planned in phases, but the main focus will be to enhance existing controls by leveraging technology and automated processes.

Q. When do you expect this improvement to be operational?

A. While this application is still in development, the current plan is to test the initial functionality of the application during this year's storm dry run which will take place in May of 2019.

Q. Mr. Schultz raises questions about what he contends is duplicate billing by vendors. Please comment.

A. Mr. Schultz has selectively identified a handful of invoices which he believes represent duplicate payments made to vendors, and without any factual support he simply assumes that if he reviewed every invoice supporting $1.3 billion in charges that he would have found more. Mr. Schultz is either unaware of or ignores the fact that many of the invoices he identified as supposed duplicate payments were already adjusted or completely rejected as a result of FPL's processes, before they were identified by OPC in discovery or through depositions. FPL has an effective procedure for addressing invoice discrepancies.

Q. Please describe how the AP review process successfully identified invoices that might be called "duplicate" payments or duplicate invoices.

A. As part of FPL's standard payment close out process, the AP team performs a review of all invoice amounts against FPL's SAP system entries to correct any discrepancies found at that time. In this case, approximately 60 invoices totaling $12 million were identified by FPL during the initial vendor invoice review process and were either rejected by FPL and not paid to the vendors, or if paid were subsequently reimbursed, credited or reversed. The majority of these reconciliations occurred prior to June 1, 2018, the date by which FPL had documented all actual storm restoration costs and projected any further follow up costs. These reconciliations are reflected on Exhibit KM-1 - Confidential Attachment to FPL's response to OPC Interrogatory No. 156. These

reconciliations were included in Exhibit KF-1 and, therefore, no further adjustments to FPL's total storm restoration costs are necessary.

Additionally, there were numerous instances where vendor invoices were adjusted or reduced as part of FPL's standard storm invoice review process prior to payment being issued.

Q. Were the adjustments for these 60 invoices made as a result of questions raised during the deposition of FPL's witnesses?

A. No. The approximately 60 invoices represented the rejection of $12 million of invoices, which occurred at various times up through May 31, 2018. The deposition attached to Mr. Schultz's testimony as Exhibit HSW-3 was taken months later over two full days, on November 15, 2018 and December 13, 2018. This is further evidence that FPL's controls and review process worked effectively.

Q. You testified earlier that invoice reviewers have the authority to modify or reject invoices submitted by the vendors. Please describe how AP team members would note that invoices were adjusted or reduced as part of the AP review process.

A. As stated before, all reviewers have the ability to adjust or reduce an invoice to match supporting documentation. The reviewer will generally make handwritten adjustments directly on the vendor's invoice, after which the invoice would be processed in SAP for the adjusted amount. Exhibits identified during the deposition, such as Deposition Exhibit 6 (Document No. 5202660536), reflect this process.

Q. At pages 51 through 56 of his pre-filed testimony, Mr. Schultz asserts that he "found duplicate payments and payments that were not supported, yet … the FPL review team apparently did not discover these errors". Please comment on these assertions regarding duplicate invoices.

A. Aside from the invoices discussed during the deposition sessions, which I will address below, FPL's AP process identified and FPL credited or reversed the vendor invoices that Mr. Schultz claims represent duplicate payments. The following chart, representing refunds, credits or reversals made between February 2018 and October 2018 – prior to the depositions – outlines approximately $1.9 million in refunds received or reversals made by FPL on invoices Mr. Schultz calls "duplicate payments":

Contractor Reference Legend[1]	Doc No	Bates No	Invoice No	Amount	PO	Activity
J	5202632083	48160	66559676	$253,984.64	2000250535	
J	5202632912	50557	66559676	$145,919.54	2000250993	Refund on vendor check 451777 dated 2/19/2018
J	5202633179	50545	66559838	$108,065.10	2000250990	Refund on vendor check 451777 dated 2/19/2018
OO	5202667866	25622	35137	$446,858.90	2000255188	Reversed on 2/7/2018
OO	5202626883	48053	35137	$446,858.90	2000250515	
OO	5202667862	25567	35240	$303,366.88	2000255200	Reversed on 10/11/2018
OO	5202663914	24992	35240	$303,366.88	2000254086	

[1] Based on the Contractor Legend included in Exhibit HWS-2, Schedule C, page 5 to Mr. Schultz's direct testimony.

Y	5202737250	38120	156225	$671,670.27	2000262512	
Y	5202648719	18284	156225	$655,556.67	2000252379	Refund on vendor check 144512 dated 3/29/2018
RR	5202692840	33312	3	$217,124.92	2000258174	
RR	5202747215	39237	3 IRMA	$227,519.00	2000263394	Reversed on 8/23/2018

With the exception of the 10/11/2018 reversal for Contractor OO and the 8/23/18 reversal for Contractor RR, these refunds were included in Exhibit KF-1 and, therefore, no further adjustments are necessary. A total credit of $530,886 for the 10/11/2018 reversal of Contractor OO and the 8/23/18 reversal of Contractor RR is included in Exhibit KF-3 – Updated Hurricane Irma Costs as of December 31, 2018, which is attached to the rebuttal testimony of FPL witness Ferguson.

Q. Please explain the resolution of the two invoices discussed during the deposition that witness Schultz calls "duplicates".

A. The first of the invoices that Mr. Schultz describes as "duplicates" – discussed at page 55 of his direct testimony - was addressed fully in the deposition sessions of November and December 2018. During the first session, when asked about the two invoices that Mr. Schultz believes to be a duplicate (Deposition Exhibit 31 (Document No. 5202655953) and Deposition Exhibit 32 (Document No. 5202656335)), I testified that it appeared from the documents that our vendor submitted an initial invoice and then submitted a revised invoice. I explained that if the initial invoice had already been processed we would have reversed that invoice and then paid the vendor for the charges on the revised invoice. I advised that I would need to validate within our system that this process was followed and that the reversal had been made.

During the second day of the deposition, I confirmed that, consistent with our process, FPL had in fact reversed the first of the two invoices in February of 2018 and paid the charges included on the revised invoice. We have also addressed this reversal in FPL's answer to OPC Interrogatory 154 provided as Exhibit KM-2 attached to my rebuttal testimony. This reversal of $243,832 was included in Exhibit KF-1 and, therefore, no further adjustments related to this transaction are necessary.

Q. Please explain the resolution of the second pair of invoices discussed during the deposition that witness Schultz calls "duplicates".

A. The second pair of invoices that Mr. Schultz describes as "duplicates" at page 52 of his direct testimony were fully addressed in FPL's answers to OPC Interrogatories 148 and 174 and FPL's Response to OPC's Request for Production No. 35 provided as Exhibit KM-3 attached to my rebuttal testimony. As explained in FPL's discovery responses, the invoice identified as Deposition Exhibit 22 (Document No. 5202661125) discussed during the November 15 and December 13, 2018 deposition has been remedied through the issuance of a credit memo for the full amount. The referenced reversal and credit of $1.223 million is included in FPL's Exhibit KF-3 – Updated Hurricane Irma Costs as of December 31, 2018, which is attached to the rebuttal testimony of FPL witness Ferguson.

Q. Please address the remaining issues raised by Mr. Schultz at pages 56 through 60 of his direct testimony that he claims to be "billing issues".

A. Mr. Schultz has identified what he calls "billing issues" related to contractor invoices. The FPL team determined that all of these claimed "billing issues" were

either not billing issues in the first place, or have been reversed or reimbursed in the total amount of $167,787. Those issues identified by Mr. Schultz that have resulted in reimbursements to FPL, all of which are reflected on witness Ferguson's Exhibit KF-3, are as follows:

- Contractor FF: $74,206.70 (Schultz, page 56, lines 4-11)
- Contractor SS: $55,800.00 (Schultz, page 56, lines 13-17)
- Contractor P: $37,780.40 (Schultz, page 57, lines 7-13)

These reversals or reimbursements are included in Exhibit KF-3 – Updated Hurricane Irma Costs as of December 31, 2018, which is attached to the rebuttal testimony of FPL witness Ferguson.

With reference to witness Schultz' recommended disallowances for the costs of Contractor P identified at page 57, lines 13 through 22 ($11,465 and $40,104, respectively), FPL has determined through further review of its records and communications with the vendor that the workers inadvertently omitted from the vendor's daily timesheets were in fact performing Hurricane Irma restoration work during the days in question. FPL similarly confirmed that workers inadvertently omitted from time sheets addressed by witness Schultz on page 58, line 14 through page 59, line 8 were performing Hurricane Irma restoration work and that the vendor was appropriately reimbursed.

Q. Mr. Schultz claims that either established controls are not working or are not being followed as designed, noting that exceptions were made without supporting documentation. Witness Schultz even goes so far as to say that lack of documentation could be indicative of fraud. Does his claim have merit?

A. No. As I discussed earlier in my testimony, as part of our standard invoice review process, exceptions to the contract terms can be approved in two ways. The PL who is working directly with the vendors' crews in the field can sign a timesheet at the time of restoration that approves the exception. FPL witness Gwaltney provides examples of this type of occurrence in his rebuttal testimony. Alternatively, if a reviewer received an invoice that included an exception that was submitted for payment without supporting documentation, then AP would work back through the Power Delivery organization to review the exception and obtain approval for payment. If approval was not obtained from Power Delivery, then the invoice would have been adjusted down to reflect the correction.

Mr. Schultz makes an unsupported accusation about the possibility of fraud but offers nothing whatsoever to suggest that fraud occurred. In fact, when asked in a subsequent interrogatory whether he had identified any facts to support the existence of fraud, his response clearly indicates that he has not. Throughout the time the AP team reviewed, adjusted and processed invoices, from just after the storm up to the time the final invoice was processed, we have never encountered

any circumstance that suggested anything other than honest dealing between FPL and its many vendors and contractors.

Q. OPC witness Schultz seems to have a concern that a large number of invoices were approved by a single person. Is this a valid concern?

A. No. The individual whose name appeared on many of the invoices reviewed in the deposition is one of the most knowledgeable people in the department when it comes to the storm timesheet and payment process. She was dedicated full time to reviewing storm invoices for a period of six months. Given the similar structure of the line contracts, she reviewed a large portion of the overhead line contractor invoices. At least 10 other people, including myself, contributed to the effort part time throughout that period and their names would appear on the invoices they reviewed. The invoices reviewed during the deposition were only a relatively small sample of the approximately 12,000 invoice packets that were processed by AP for Irma across all expense types.

Q. Mr. Schultz is critical of FPL for not requiring the Mobilization Travel Log to process and approve payments for mobilization and demobilization time. What is your response?

A. The log referenced by Mr. Schultz is included in the packet of forms that is provided to the vendor to facilitate the completion, review, and processing of invoices. However, as explained in the rebuttal testimony of FPL witness Reagan, the travel log is not required by the contract. Moreover, the travel log is not required to process payment for mobilization time. Rather, as I previously

explained, AP relies on the daily timesheets and Power Delivery to verify and confirm crew time, including mobilization time.

Q. Mr. Schultz contends that there were overpayments as the Storm Crew Weekly Reports were not consistent with the Daily Time Reports for crew members that performed work. Please comment.

A. As we explained in the deposition attached to Mr. Schultz's testimony as Exhibit HWS-3, FPL only requires submission of daily timesheets; the weekly or summary timesheets are not required for invoice review and approval. The invoice reviewer requires that the daily timesheets are signed, or an exception has been approved by Power Delivery, and that the sum of the daily timesheets matches what is on the invoice cover sheet. The weekly time report is a helpful tool to assist the vendor in summarizing the totals, and in most cases it will match the sum of the daily timesheets. However, the reviewer relies on the daily timesheets to process and approve payments.

Q. Does this conclude your rebuttal testimony?

A. Yes.

MR. RUBIN: And I would also ask that the stipulated exhibits of these three witnesses, which are Exhibits 2 through 5, 9 through 10 and 17 through 22 be admitted into the record as well.

CHAIRMAN GRAHAM: If there is no objections to that, we will enter those exhibits in the record. I don't see anybody saying -- raising their hands or flailing, so we enter that into the record.

(Whereupon, Exhibit Nos. 2-5, 9, 10 & 17-22 were received into evidence.)

CHAIRMAN GRAHAM: Okay. Exhibits, and concluding matters, staff.

MS. BROWNLESS: Yes, sir.

We would ask to enter into the record the stipulated staff discovery, the June 6th, 2019, settlement agreement that have been identified as comprehensive exhibits -- on the comprehensive exhibit list as Exhibit Nos. 23 through 60.

CHAIRMAN GRAHAM: If there is no objections to that, we will enter those Exhibit 23 through 60 into the record.

(Whereupon, Exhibit Nos. 23-60 were received into evidence.)

CHAIRMAN GRAHAM: Do the parties have any other concluding matters to be addressed? Mr.

Rehwinkel.

MR. REHWINKEL: Mr. Chairman, would you allow me to speak with counsel for the company before we close on this? I have something I want to see if I can clarify.

CHAIRMAN GRAHAM: To speak to FPL or --

MR. REHWINKEL: Yes, with FPL counsel.

CHAIRMAN GRAHAM: Sure. You need five minutes?

MR. REHWINKEL: Just a few seconds.

CHAIRMAN GRAHAM: Okay.

MR. REHWINKEL: Thanks.

(Discussion off the record.)

CHAIRMAN GRAHAM: Okay. My staff wanted to make sure that when we entered the witness' testimony into the record that we did it specifically in the order it's listed, which is Miranda, Ferguson and Manz.

Mr. Rehwinkel, you have the floor.

MR. REHWINKEL: Thank you, Mr. Chairman.

We've consulted, and there is a point of clarification we want to make. I don't think any of the testimony you have heard is inaccurate. It's just there is a level of refinement on the audit timing that we wanted to clarify.

And if you look at paragraph 18, the -- I think I looked -- it says independent -- initial independent audit, FPL will engage an independent outside audit firm to conduct an audit of the company's filed recoverable storm costs of the first named tropical storm, et cetera.

So the way the parties -- this provision is in Duke and TECO as well, as is the timing of it being done before testimony is filed. But the key thing to keep in mind is the company, as Mr. Ferguson testified, will accumulate all the invoices. They have projections of costs. And when they get to a point where they are sure enough about the estimate, they will file a petition and a tariff with the Commission. That's the filed case. That's what will be audited in more precision.

Then after that, there is a -- in all of the cases, there has been a lag between when that's filed, because that's what gets the money collected within 60 days. After that, that's when the testimony comes in.

So there will be -- there is a built-in timeframe for the audit to occur after the case has been filed. Whether they do preliminary work, like Mr. Ferguson was alluding to in his testimony

before they file it, that's fine, but they are going to be auditing the filed case after that petition is filed.

So we just wanted to clarify that for you. I don't think it's inconsistent with anything that's been set, but just so you understand what's going to occur.

CHAIRMAN GRAHAM: Mr. Rubin, you see it as well that same way?

MR. RUBIN: I do. I think that the potential misunderstanding might have been what's the filed case? The filed case is when the petition and the surcharge are requested, not when the testimony is later filed. So I agree with Mr. Rehwinkel.

CHAIRMAN GRAHAM: And staff?

MS. BROWNLESS: Yes, sir, we agree with that.

CHAIRMAN GRAHAM: So say you all. Okay.

All right. Is there anything we need to do to alter that, or enough has been said?

MS. BROWNLESS: We are good to go on that, sir.

CHAIRMAN GRAHAM: Okay. Any other concluding matters that need to be addressed?

MR. RUBIN: Not for FPL.

CHAIRMAN GRAHAM: Everybody is shaking their

head. Sounds good.

Ms. Brownless.

MS. BROWNLESS: We would just ask at this time if any party wishes to file a brief.

MR. REHWINKEL: No.

MR. RUBIN: We do not.

MR. WRIGHT: No thank you.

MR. MOYLE: We will respectfully take a pass on the brief.

CHAIRMAN GRAHAM: Okay.

MS. BROWNLESS: And so at this time, if the Commission is ready to make a bench decision, then we can close the record and deliberations may begin.

CHAIRMAN GRAHAM: Commissioners, are we ready to make a bench decision? I think we are. So we will close the record and we will deliberate.

Commissioner Polmann.

COMMISSIONER POLMANN: Thank you, Mr. Chairman.

We find ourselves here today with a proposed settlement after a tremendous amount of work has been done with the benefit of saving a good bit of money and time avoiding a full hearing.

We have before us the settlement, stipulated

settlement with over 100,000 pages of discovery. As we all know, advances in the technology, development of an application that we've discussed here today, I think that will, in fact, provide great benefit.

We've talked about how that's going to benefit the customers, benefit the process in the field. I look forward to hearing back from the utility on how that's being used and coordinating with the staff and learning about how that's going to end up with Phase II.

I want to appreciate how the utility has performed in their prior efforts, and encourage ongoing work in that regard. A great deal has occurred here with the storm that we are dealing with. Irma was a tremendous impact to your customers throughout your service area, and I think everybody should recognize that this has come to a pretty quick closure with the settlement agreement. I do absolutely see this to be in the public interest that we move forward expeditiously.

Mr. Chairman, I would like to make a motion to approve the settlement agreement as presented.

COMMISSIONER BROWN: Second.

CHAIRMAN GRAHAM: It's been moved and second

to approve the settlement agreement as presented.

Is there any further discussion?

Seeing none, all in favor, say eye.

(Chorus of ayes.)

CHAIRMAN GRAHAM: Any opposed?

(No response.)

CHAIRMAN GRAHAM: By your action, you have approved the settlement agreement.

Okay. So the record is closed. We will be closing the docket.

I want to thank the prehearing officer for her time and effort in bringing this to a brief conclusion. I want to thank the parties for doing the same. I know we were miles apart at the beginning of all of this, but I am glad we finally brought it together.

Once again, as I said earlier this morning, thanks again for staff and their efforts, and what they do for us day in and day out. And thank you for you my Commissioners for not stabbing me because of the day that I scheduled today.

That all being said, thank you very much for your time and your effort. Please travel safe. There is a storm out there that's brewing, and hopefully we don't have another named something

coming up in the next day or two, and we are adjourned.

Thank you.

MS. BROWNLESS: Thank you.

(Proceedings concluded at 2:05 p.m.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, DEBRA KRICK, 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 17th day of July, 2019.

DEBRA R. KRICK
NOTARY PUBLIC
COMMISSION #GG015952
EXPIRES JULY 27, 2020