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| State of Florida  pscSEAL | | Public Service Commission  Capital Circle Office Center ● 2540 Shumard Oak Boulevard Tallahassee, Florida 32399-0850  -M-E-M-O-R-A-N-D-U-M- | |
| DATE: | September 24, 2020 | | |
| TO: | Office of Commission Clerk (Teitzman) | | |
| FROM: | Division of Accounting and Finance (D. Andrews, Norris)  Office of the General Counsel (Trierweiler, Crawford, Stiller) | | |
| RE: | Docket No. 20200189-WS – Petition for approval of a regulatory asset to record costs incurred due to COVID-19, by Utilities, Inc. of Florida. | | |
| AGENDA: | 10/06/20 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate | | |
| COMMISSIONERS ASSIGNED: | | | All Commissioners |
| PREHEARING OFFICER: | | | Fay |
| CRITICAL DATES: | | | None |
| SPECIAL INSTRUCTIONS: | | | Please place this item on the Agenda after the items for Docket Nos. 20200151-EI, 20200178-GU, and 20200194-PU. |

Case Background

On August 3, 2020, Utilities Inc. of Florida (UIF or Utility) filed a petition for approval to establish a regulatory asset to record costs incurred due to Coronavirus Disease 2019 (COVID-19). UIF has requested deferral of incremental bad debt expense, assorted operating expenses, and safety-related costs attributable to COVID-19. Given the ongoing nature of the COVID-19 pandemic, the total extent of the Utility’s COVID-19 related costs is not known at this time. Commission consideration of the potential recovery of the regulatory asset will be addressed in a future proceeding.

This recommendation addresses the creation of a regulatory asset and the deferral of consideration of any potential recovery to a future proceeding. The Commission has jurisdiction over this matter pursuant to Sections 367.011, 367.081, and 367.121, Florida Statutes (F.S.).

Discussion of Issues

Issue :

 Should the Commission approve UIF's request for approval to establish a regulatory asset for recording the deferral of certain costs attributable to COVID-19?

Recommendation:

The Commission should approve UIF’s request to establish a regulatory asset for the accounting purpose of recording the deferral of costs associated with (1) incremental bad debt expense incurred due to COVID-19, and (2) safety-related costs incurred due to COVID-19; however, the Commission should expressly limit the inclusion of safety-related costs to those expenses that are directly and solely attributable to the health and safety of UIF’s employees and its customers during the COVID-19 pandemic. Additionally, the Commission should deny the deferral of lost revenue for inclusion in the regulatory asset. The approval to establish a regulatory asset, for accounting purposes, does not limit the Commission’s ability to review the amounts, recovery method, scope of financial impact, recovery period, specific types or subsets of proposed costs within an approved category of costs, and other related matters for reasonableness in a future proceeding in which the regulatory asset is included.

UIF should be required to track any assistance or benefits received by the Utility in connection with COVID-19, regardless of form or source, that would offset any COVID-19-related expenses. This would include, but is not limited to, any cost savings directly attributable to the suspension of disconnections or other activities as a result of the pandemic. The regulatory asset costs and offsets should be recorded and maintained in a detailed manner that will allow incremental costs and any benefits and savings to be readily identifiable in a future proceeding. In addition, UIF should be prepared to explain what actions and efforts it has undertaken to reduce or minimize these costs and to maximize the receipt of any available COVID-19 assistance or benefits. Finally, UIF should be required to file monthly reports identifying the amounts of the costs incurred, any assistance or benefits received, and any cost savings realized that have been recorded in the regulatory asset. The first COVID-19 regulatory asset report should be filed on December 1, 2020, and every month thereafter until the Utility presents the regulatory asset for Commission consideration. (D. Andrews)

Staff Analysis:

 The Commission is charged with the duty of ensuring that utilities provide safe, adequate, and reliable utility service at reasonable rates. By law, such rates must allow utilities the opportunity to recover the prudently incurred costs and a fair rate of return on capital invested by utilities for the purpose of providing such service. In turn, utilities have a responsibility, and are expected, to manage their business in a manner that addresses changes in costs and variability in sales.

On August 3, 2020, UIF filed a petition for approval to establish a regulatory asset to defer certain costs incurred due to COVID-19. UIF has requested approval to record and defer categories of costs in the regulatory asset including incremental bad debt expense and safety-related costs attributable to COVID-19. UIF has also requested approval to record a wide range of other costs, all of which are claimed to be attributable to the COVID-19 pandemic.

UIF states that it receives approximately $39,045 less in monthly customer payments due to foregone late payment fees and customer reconnection fees. UIF anticipates that COVID-related bad debt expense will continue to increase due to higher levels of write-offs for uncollectable accounts. UIF estimates that its bad debt expense attributable to COVID-19 will continue to increase over the coming months.

The Utility states that it has incurred additional costs associated with actions to preserve the health and safety of its employees, contractors, and customers. UIF states its actions have included the following types or subsets of safety-related costs: monitoring the health of employees and contractors at its facilities, testing for COVID-19 and antibodies, modifying facilities to ensure clean access, obtaining personal protective equipment, and adding signage on buildings to encourage COVID-related safety protocols. UIF also suggests it be allowed to record costs associated with servers, software, computer equipment, and communications equipment.

The concept of deferral accounting allows companies to defer costs due to events beyond their control and seek recovery through rates at a later time. If the subject costs are significant, the alternative would be for a company to seek a rate proceeding each time it experiences an exogenous event. The costs in the instant docket are attributed to the COVID-19 pandemic. Due to the uncertainty of this situation, staff believes that it is not possible to fully anticipate the scope or timeframe of the financial impact on UIF and its customers related to COVID-19. Because of the unique circumstances resulting from the global pandemic, staff recommends that the Commission approve the Utility’s request to establish a regulatory asset for recording costs incurred due to COVID-19 and defer Commission consideration of the potential recovery of the amounts recorded in the regulatory asset to a future proceeding. For the same reasons, it is too early to determine if the total amount and/or all types or subsets of proposed costs within an approved category of costs will be permissible for recovery. Therefore, it is staff’s recommendation the Commission approve the recording of incremental bad debt expense associated with COVID-19, and safety related costs that are limited to those expenses that are directly and solely attributable to the health and safety of UIF’s employees and its customers during the COVID-19 pandemic. By way of example, staff believes that safety-related costs could consist of expenditures associated with testing and monitoring employees, purchase of personal protective equipment, and incremental amounts related to sanitization efforts and other safety protocols.

On the other hand, staff recommends that the category of lost revenue is not an appropriate category to be included within a regulatory asset. This is because an inherent risk for any company is the loss of revenue due to reasons such as economic downturns, competition, conservation, alternative suppliers, and other events. The return on equity includes a component to compensate equity investors for business risks such as lost revenue. It would be unreasonable for customers to potentially be charged extra to make a company whole for lost revenue. As such, staff recommends that lost revenue not be permissible for inclusion in the regulatory asset. The approval to establish the regulatory asset, for accounting purposes, does not limit the Commission’s ability to review the amounts, recovery method, scope of financial impact, recovery period, specific types or subsets of proposed costs within an approved category of costs, and other related matters for reasonableness in a future proceeding in which the regulatory asset is included.

In addition, staff recommends that UIF be required to track any assistance or benefits received by the Utility in connection with COVID-19, regardless of form or source, that would offset any COVID-19-related expenses. This would include, but is not limited to, any costs savings directly attributable to the suspension of disconnections or other activities as a result of the pandemic. The regulatory asset costs and offsets should be recorded and maintained in a detailed manner that will allow incremental costs and any benefits and savings to be readily identifiable in a future proceeding. In addition, the Utility should be prepared to explain what actions and efforts it has undertaken to reduce or minimize these costs and to maximize the receipt of any available COVID-19 assistance or benefits. Finally, the Utility should be required to file monthly reports identifying the amounts of the costs incurred, any assistance or benefits received, and any cost savings realized that have been recorded in the regulatory asset. The first COVID-19 regulatory asset report should be filed on December 1, 2020, and every month thereafter until UIF presents the regulatory asset for Commission consideration.

Issue :

 Should this docket be closed?

Recommendation:

 If no protest is filed by a substantially affected person within 21 days of the issuance of the order, a consummating order should be issued. If the Commission approves the staff recommendation in Issue 1, the docket should remain open for the filing of the required monthly reports. (Trierweiler)

Staff Analysis:

 If no protest is filed by a substantially affected person within 21 days of the issuance of the order, a consummating order should be issued. If the Commission approves the staff recommendation in Issue 1, the docket should remain open for the filing of the required monthly reports.