

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: June 24, 2020

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Sewards, Mouring) *BF ALM*
Office of the General Counsel (Stiller, Crawford) *JSC*

RE: Docket No. 20200151-EI – Petition for approval of a regulatory asset to record costs incurred due to COVID-19, by Gulf Power Company.

AGENDA: 07/07/20 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All

PREHEARING OFFICER: Brown

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On May 22, 2020, Gulf Power Company (Gulf or Company) filed a petition for approval to establish a regulatory asset to record costs incurred due to Coronavirus Disease 2019 (COVID-19). Gulf has requested deferral of incremental bad debt expense and safety-related costs attributable to COVID-19. Given the ongoing nature of the COVID-19 pandemic, the total extent of Gulf's COVID-19-related costs are 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 366.04 and 366.06, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the Commission approve Gulf Power Company's request for approval to establish a regulatory asset for recording costs attributable to COVID-19?

Recommendation: Yes. The Commission should approve Gulf's request to establish a regulatory asset for recording costs incurred due to COVID-19. The approval to establish a regulatory asset, for accounting purposes, does not limit the Commission's ability to review the amounts, recovery method, recovery period, and other related matters for reasonableness in a future proceeding in which the regulatory asset is included.

Gulf should be required to track any assistance or benefits received by the Company in connection with COVID-19, regardless of form, 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 during the emergency declaration. 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, Gulf 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, Gulf should be required to file quarterly reports identifying the amounts of the costs incurred, any assistance or benefits received, and any cost savings realized which have been recorded in the regulatory asset in conjunction with its earnings surveillance report (ESR). The first COVID-19 regulatory asset report should be filed on August 17 with Gulf's June 2020 ESR and every three months thereafter until the Company presents the regulatory asset for Commission consideration. (Sewards)

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 May 22, 2020, Gulf filed a petition for approval to establish a regulatory asset to defer certain costs incurred due to COVID-19. Gulf has requested approval to record incremental bad debt expense and safety-related costs attributable to COVID-19 in the requested regulatory asset.

Gulf has calculated bad debt expense of approximately \$2.1 million for April 2020, while the historic monthly average for April is approximately \$0.3 million. Gulf anticipates that COVID-19-related bad debt expense will continue to increase in future months. An allowance for bad debt expense is included in base rates. This allowance is typically based on the three-year average of bad debt expense experienced by the utility.

Gulf currently estimates that safety-related costs for its employees, contractors, and customers will exceed \$4.0 million for 2020, of which approximately \$2.0 million will be recorded as operating expenses. Staff notes that Gulf's total COVID-related safety costs remain subject to change.

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. The alternative would be for a company to seek a rate case 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, Gulf states that it is not possible to fully anticipate the scope or timeframe of the financial impact on the Company and its customers related to COVID-19. Because of the unique circumstances resulting from the global pandemic, staff recommends that the Commission approve Gulf'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. The approval to establish a regulatory asset, for accounting purposes, does not limit the Commission's ability to review the amounts, recovery method, recovery period, and other related matters for reasonableness in a future proceeding in which the regulatory asset is included. If staff's recommendation herein is approved, the order that issues will be procedural and preliminary in nature. An adversely affected party's point of entry to request an evidentiary hearing before the Commission will be afforded in a future proceeding addressing cost recovery of the regulatory asset.

In addition, staff recommends that Gulf be required to track any assistance or benefits received by the Company in connection with COVID-19, regardless of form, 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 during the emergency declaration. 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, Gulf 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, Gulf should be required to file quarterly reports identifying the amounts of the costs incurred, any assistance or benefits received, and any cost savings realized which have been recorded in the regulatory asset in conjunction with its ESR. The first COVID-19 regulatory asset report should be filed on August 17 with Gulf's June 2020 ESR and every three months thereafter until the Company presents the regulatory asset for Commission consideration.

Issue 2: Should this docket be closed?

Recommendation: Yes. The docket should be closed upon the issuance of the procedural order. (Stiller)

Staff Analysis: The docket should be closed upon the issuance of the procedural order.