

State of Florida



# Public Service Commission

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

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**DATE:** August 6, 2020

**TO:** Office of Commission Clerk (Teitzman)

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

**RE:** Docket No. 20200178-GU – Petition for approval to track, record as a regulatory asset, and defer incremental costs resulting from the COVID-19 pandemic, by Peoples Gas System.

**AGENDA:** 08/18/20 – Regular Agenda – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Polmann

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

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## Case Background

On July 2, 2020, Peoples Gas System (Peoples or Company) filed a petition for approval to establish a regulatory asset to record costs incurred due to Coronavirus Disease 2019 (COVID-19). Peoples 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 Peoples' 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 366.04 and 366.06, Florida Statutes (F.S.).

## Discussion of Issues

**Issue 1:** Should the Commission approve Peoples Gas System's request for approval to establish a regulatory asset for recording costs attributable to COVID-19?

**Recommendation:** Yes. The Commission should approve Peoples' 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.

Peoples 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, Peoples 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, Peoples should be required to file monthly 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. The first COVID-19 regulatory asset report should be filed on October 1 and every month 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 July 2, 2020, Peoples filed a petition for approval to establish a regulatory asset to defer certain costs incurred due to COVID-19. Peoples has requested approval to record incremental bad debt expense and safety-related costs attributable to COVID-19 in the requested regulatory asset.

Peoples states aged accounts receivable of 60 days or more exceeds 12 percent of its total accounts receivable balance, or approximately \$2.3 million, exceeding the Company's normal level. Peoples 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. In Peoples' last rate case, this allowance was based on a four-year average and was set at approximately \$1.6 million per year.<sup>1</sup>

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<sup>1</sup> Order No. PSC-2009-0411-FOF-GU, issued June 9, 2009, in Docket No. 080318-GU, *In re: Petition for rate increase by Peoples Gas System.*

Peoples has stated incremental safety costs attributable to COVID-19 related to the Company's efforts to follow all necessary guidelines and protocols include, but are not limited to, personal protective equipment, materials and supplies to protect employees' and customers' health and safety, additional cleaning and sanitization, employee health monitoring, COVID-19 testing of employees, transportation expense, and overtime expense related to safety preparations.

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, Peoples 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 Peoples' 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 of the proposed costs will be permissible for recovery. 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 Peoples 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, Peoples 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, Peoples should be required to file monthly 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. The first COVID-19 regulatory asset report should be filed on October 1 and every month 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.