

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of regulatory assets to record costs incurred due to COVID-19, by Florida Public Utilities Company, Florida Public Utilities Company - Indiantown Division, Florida Public Utilities Company - Fort Meade, Florida Division of Chesapeake Utilities Corporation.

DOCKET NO. 20200194-PU
ORDER NO. PSC-2020-0404-PAA-PU
ISSUED: October 26, 2020

The following Commissioners participated in the disposition of this matter:

GARY F. CLARK, Chairman
ART GRAHAM
JULIE I. BROWN
DONALD J. POLMANN
ANDREW GILES FAY

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING PETITION FOR APPROVAL OF REGULATORY
ASSETS TO RECORD COSTS INCURRED DUE TO COVID-19, BY FLORIDA
PUBLIC UTILITIES COMPANY, FLORIDA PUBLIC
UTILITIES COMPANY – INDIANTOWN DIVISION, FLORIDA
PUBLIC UTILITIES COMPANY - FORT MEADE, FLORIDA
DIVISION OF CHESAPEAKE UTILITIES CORPORATION

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

Background

On August 11, 2020, Florida Public Utilities Company, Florida Public Utilities Company – Indiantown Division, Florida Public Utilities Company – Fort Meade, and Florida Public Utilities Company – Electric Division (jointly, FPUC), as well as the Florida Division of Chesapeake Utilities Corporation (CFG) filed a petition for approval to establish regulatory assets for each entity listed above to record costs incurred due to Coronavirus Disease 2019 (COVID-19).¹ The Companies have requested deferral of incremental bad debt expense, incremental operating expenses, and safety-related costs attributable to COVID-19. Given the

¹ All FPUC divisions and CFG are collectively referred to as “Companies” within this order.

ongoing nature of the COVID-19 pandemic, the total extent of the Companies' COVID-19-related costs is not known at this time. Our consideration of the potential recovery of the regulatory assets will be addressed in a future proceeding.

This Order addresses the creation of regulatory assets for each entity listed above and the deferral of consideration of any potential recovery to a future proceeding. We have jurisdiction over this matter pursuant to Sections 366.04 and 366.06, Florida Statutes (F.S.)

Decision

We are 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 11, 2020, the Companies filed a joint petition for approval to establish regulatory assets for each entity included in the joint petition to defer certain costs incurred due to COVID-19. Specifically, the Companies have requested approval to record and defer the following categories of costs in the regulatory assets: incremental bad debt expense, lost revenue, specifically the type attributable to the suspension of charging late fees, and safety-related costs, all of which are claimed to be attributable to the COVID-19 pandemic.

The Companies state they have seen an increase in customer account arrearages as a result of the COVID-19 pandemic. As of June 2020, aged accounts receivable of 61 days or more are approximately 243 percent, or \$1.2 million higher than normal levels. The Companies anticipate that the COVID-19-related bad debt expense will continue to increase as the levels of write-offs for uncollectible accounts increase. In addition to the increase in bad debt expense, the Companies expect to experience a loss of revenue attributable to the suspension of customer disconnects and the charging of late fees that would have coincided with those disconnects.

FPUC and CFG state they have incurred additional costs associated with the actions to preserve the health and safety of its employees, contractors, and customers. The Companies' actions include, but are not limited to, the following types or subsets of safety-related costs: COVID-19 testing for at-risk employees, the purchase of personal protective equipment, the purchase of other materials and supplies to protect employees' and customers' health and safety, the purchase of additional cleaning and sanitation supplies, as well as incurring other miscellaneous safety-related expenses. Additionally, the Companies state that as they provide essential services, they have found it necessary to compensate employees that are forced into harm's way to perform their jobs. As such, FPUC and CFG have incurred additional expense for hazard pay to compensate these employees.

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, it is not possible to fully anticipate the scope or timeframe of the financial impact on FPUC and CFG and their customers related to COVID-19. Because of the unique circumstances resulting from the global pandemic, we approve the Companies' request to establish regulatory assets for each entity included in the joint petition for recording costs incurred due to COVID-19 and defer consideration of the potential recovery of the amounts recorded in the regulatory assets 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, we 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 the Companies' employees and its customers during the COVID-19 pandemic. By way of example, 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, 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, lost revenue may not be included in the regulatory assets. The approval to establish the regulatory assets, for accounting purposes, does not limit our 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 assets are included.

In addition, we direct the Companies to track any assistance or benefits they receive in connection with COVID-19, regardless of form or source, that would offset any COVID-19-related expenses. This includes, 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 are to 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 Companies shall be prepared to explain what actions and efforts they have undertaken to reduce or minimize these costs and to maximize the receipt of any available COVID-19 assistance or benefits. Finally, the Companies are 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 assets. The first set of COVID-19 regulatory asset reports are to be filed on December 1, 2020, with subsequent reports due every month thereafter until the Companies present the regulatory assets for our consideration.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Petition for approval of regulatory assets to record costs incurred due to COVID-19, by Florida Public Utilities

Company, Florida Public Utilities Company - Indiantown Division, Florida Public Utilities Company - Fort Meade, Florida Division of Chesapeake Utilities Corporation, is granted as set forth herein. However, we expressly limit the inclusion of safety-related costs to those expenses that are directly and solely attributable to the health and safety of the Companies' employees and customers during the COVID-19 pandemic. Additionally, the the Companies' request to establish regulatory assets for recording the deferral of lost revenue is denied. It is further

ORDERED that the Companies shall track any assistance or benefits received in connection with COVID-19, regardless of form or source, that would offset any COVID-19-related expenses. This includes, 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 shall 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 Companies shall be prepared to explain what actions and efforts they have undertaken to reduce or minimize these costs and to maximize the receipt of any available COVID-19 assistance or benefits. It is further

ORDERED that each of the Companies shall 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 assets, with the first set of COVID-19 regulatory asset reports due on December 1, 2020, and subsequent reports due every month thereafter until the Companies present the regulatory assets for our consideration. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final upon the issuance of a Consummating Order, this docket shall remain open for the filing of the Companies' monthly reports.

By ORDER of the Florida Public Service Commission this 26th day of October, 2020.



ADAM J. TEITZMAN
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

SPS

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on November 16, 2020.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.