State of Florida

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 (Sewards, Mouring) BF ALM
Office of the General Counsel (Stiller, J. Crawford) JSC

RE: Docket No. 20200194-PU – 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.

AGENDA: 10/06/2020 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners AT 9/24/20

PREHEARING OFFICER: Fay

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: Please place this item on the Agenda after the items for Docket Nos. 20200151-EI and 20200178-GU, but before the item for Docket No. 20200189-WS.

Case 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,

[1] All FPUC divisions and CFG are collectively referred to as "Companies" within this recommendation.

incremental operating expenses, and safety-related costs attributable to COVID-19. Given the ongoing nature of the COVID-19 pandemic, the total extent of the Companies' COVID-19-related costs is not known at this time. Commission consideration of the potential recovery of the regulatory assets will be addressed in a future proceeding.

This recommendation addresses the creation of regulatory assets for each entity listed above 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 the Companies' request for approval to establish regulatory assets for recording the deferral of certain costs attributable to COVID-19?

Recommendation: The Commission should approve the Companies' request to establish regulatory assets 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 the Companies' employees and customers during the COVID-19 pandemic. Additionally, the Commission should deny the Companies' request to establish regulatory assets for recording the deferral of lost revenue. The approval to establish the regulatory assets, 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 assets are included.

The Companies should be required to 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 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, FPUC and CFG should 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 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 assets. The first set of COVID-19 regulatory asset reports should be filed on December 1, 2020, and every month thereafter until the Companies present the regulatory assets 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 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 disconnections.

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, staff believes that 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, staff recommends that the Commission 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 Commission 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, 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 the Companies' 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 assets.

The approval to establish the regulatory assets, 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 assets are included.

In addition, staff recommends that FPUC and CFG be required to track any assistance or benefits received by the Companies 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, the Companies should 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 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 assets. The first set of COVID-19 regulatory asset reports should be filed on December 1, 2020, and every month thereafter until the Companies present the regulatory assets for Commission consideration.

Issue 2: 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. (Stiller)

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.