STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: August 18, 2020
AT (OFFICE): NHPUC

FROM: Stephen Frink
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SUBJECT: IR 20-089
COVID-19 Investigation
Accounting Treatment

TO: Commissioners
Docket File
Service List

SUMMARY OF COMMISSION STAFF'S RECOMMENDATION

Commission Staff recommends that the Commission authorize electric, natural gas, water, and wastewater utilities, as well as the New Hampshire Electric Cooperative (collectively, Utilities)[1] to create a regulatory asset for incremental bad debt and waived fees related to the COVID-19 pandemic.

BACKGROUND – COVID-19 INVESTIGATION

On March 13, 2020, Governor Sununu issued an executive order declaring a state of emergency due to the COVID-19 pandemic (COVID or pandemic). The Governor also issued an emergency order that temporarily prohibited the state's electric, gas, and water utilities and competitive energy suppliers from disconnecting or discontinuing service for nonpayment for the duration of a state emergency declared due to the pandemic.

On March 31, 2020 , the Commission issued Order No. 26,343, which implemented the Governors prohibition with regard to public utilities and the New Hampshire Electric Cooperative, Inc. (NHEC).

On June 4, 2020, the Commission issued an order of notice (OON) opening an investigation into the effects of the pandemic on utilities and utility customers, to consider necessary and appropriate changes to existing policies and practices regarding utility operations, collections, revenues, finances, accounting, customer assistance

[1] For purposes of this recommendation, the Utilities individually will be referred to as a "Utility" and collectively will be referred to as "Utilities."

measures, and ratemaking impacts, in light of the pandemic.   The Utilities were made mandatory participants in the investigation.

The OON required each utility to present pertinent information it believed to be relevant to the investigation. In addition, the OON included a number of requests for information and required each utility to respond to those requests on or before June 30, 2020, and to update responses each month thereafter.

COVID financial impacts, accounting, and cost recovery were the subjects of OON information requests 10 and 11, as follows:

> Request 10, " Describe whether the Utility and/or its parent company has adequate access to capital or has been negatively affected in accessing the capital markets or has been downgraded by any credit rating services."
>
> Request 11, "Describe incremental costs associated with the pandemic since the State of Emergency order, how the cost is calculated, cost to date, accounting treatment, impact on earnings, and proposed or planned rate treatment."

STAFF INVESTIGATION

Commission Staff (Staff) reviewed utility accounting practices related to COVID and proposals for regulatory treatment and rate recovery submitted by the Utilities in presentations made on June 17, 2020, and responses to the information requests provided on June 30, 2020 and updated in July. Staff reviewed National Association of Regulatory Utility Commissioners (NARUC) and the National Regulatory Research Institute (NRRI) reports and attended a NRRI workshop on the impact of COVID on utility rate making. Staff also reviewed numerous orders and decisions by other state utility regulatory commissions regarding COVID costs, savings, cost reimbursement, accounting, and rate recovery. In addition, Staff hosted technical sessions with the Utilities and other parties on COVID impacts and accounting and rate recovery-related topics.

STAFF FINDINGS

Utility Proposals

Utility responses indentified the following revenue and cost impacts related to COVID and Governor's emergency orders:

- revenue impacts associated with the service disconnection moratorium, the waiver of fees, and expanded customer payment arrangements
- increased cost of customer accounts receivables that cannot be collected, such as the cost of bad-debt write-offs or customer assistance programs

- increased working capital costs associated with customer accounts receivables that are not collected over an extended time period, particularly through any period where shut-offs are prohibited
- increased operating and maintenance costs, including but not limited to, labor costs for employees unable to work or quarantined due to COVID, non labor costs for the lease of additional vehicles to allow one person per vehicle to comply with social distancing guidelines, costs for cleaning facilities and equipment, personal protective equipment, maintaining a remote workforce and other costs to work safely and protect the public

The Utilities' proposals for regulatory accounting and rate treatment of the revenue and cost impacts related to the pandemic and the Governor's emergency orders include the following:

- Commisson should allow Utilities to defer waived fees (reconnection fees, late fees and other fees) and establish a regulatory asset, with rate recovery to be determine at a future date
- Commission should allow Utilities to establish a regulatory asset for COVID-related increases to bad-debt reserves which will subsequently manifest into bad debt write-offs, with rate recovery to be determined at a future date
- Commission should allow Utilities to defer expenses associated with the impact of COVID and establish a regulatory asset, with rate recovery to be determined at a future date
- Commission should allow Utilities to establish a regulatory asset for COVID amounts associated with new arrearage forgiveness programs, with future recovery to be determined at a future date
- Commission should consider proposals for the timely recovery of increasing cash working capital costs, expected to increase due to the increased lag in customers paying bills.

<u>Savings</u>

Unitil Corporation, the parent company of Unitil Energy Systems, Inc. (UES) and Northern Utilities, Inc., reported second quarter COVID related savings exceeded COVID related costs, as lower healthcare costs due to employees cutting back on medical procedures more than offset expenses, such purchase of personal protective equipment and provision for bad debt, since emergency orders prevented utility shutoffs when customers couldn't pay their bills.[2]

Other savings related to the pandemic could be realized through utilities taking advantage of low-interest rates to refinance long-term debt, delaying non-essential O&M, avoiding capital investment, terminating contracts no longer needed due to reduced loads and not

[2] NH Business Review August 5, 2020 Article on Unitil second quarter savings. https://www.nhbr.com/covid-cools-down-unitils-2q-earnings/

having to perform disconnects or other services that have been prohibited or curtailed as result of the pandemic.

External Sources for Recovery of COVID Costs

There is potential for external sources of revenue that may provide reimbursement for COVID related expenses, such as loans and grants, that could offset pandemic related expenses.

NHEC, for example, has incurred approximately $225,000 in expenses associated with the COVID-19 pandemic since the State of Emergency order. These costs largely consist of personnel time, expenditures related to added cleaning procedures, sanitization, and the purchase of equipment required to enable remote working. These costs have been tracked and expensed by the company, with the exception of equipment which is capitalized. NHEC will seek FEMA reimbursement for eligible expenses.

Regulatory Assets

Regulatory Assets and Liabilities are assets and liabilities that result from rate actions of regulatory agencies. Regulatory assets and liabilities arise from specific revenues, expenses, gains, or losses that would have been included in net income determination in one period under the general requirements of the Uniform System of Accounts but for it being probable that:

> **A.** such items will be included in a different period(s) for purposes of developing the rates the utility is authorized to charge for its utility services; or
>
> **B.** in the case of regulatory liabilities, refunds to customers, not provided for in other accounts, will be required.[3]

Accounting for regulatory assets allows public utilities to defer the recognition of certain costs; bypassing the income statement in the near term by moving these costs to the balance sheet. Deferring costs to a regulatory asset account allows a utility to spread the expense over a longer period of time, enables a utility to track unanticipated costs and allows a utility commission the ability to review those costs at the point in time when they are requested to be put into rates. Utilities are typically allowed to defer costs and record a regulatory assets for items such as decommissioning costs, extraordinary repair and maintenance costs, storm damage costs and deferred taxes.

In practice, utilities will defer costs to a regulatory asset account if a written order is received from their regulators (state and federal) that either implicitly or explicitly allows for such treatment, and the company believes there is a probability of recovery.

Decisions in Other Jurisdictions

[3] FERC USofA Definition 31

Currently most, if not all, state regulatory commissions are conducting investigations into the impact of the pandemic on utilities. While a number of state utility Commissions have not yet ruled on utility requests for authority to establish a regulatory assests for the COVID related financial impacts, the majority of the decisions thus far concerning regulatory accounting have granted authorization for deferral of incremental uncollectibles but not for other COVID related costs or lost revenue.

STAFF POSITIONS

The pandemic is an unprecedented and extraordinary event. However, because the pandemic in on-going with no certainty as to when it may end, it is not possible to reasonably assess the long-term financial impact the pandemic will have on the Utilities and their customers. Consequently, while the pandemic may be an extraordinary event, there is insufficient evidence at this time to determine what, if any, extraordinary treatment is warranted beyond that related to the severe impact the pandemic is expected to have on utility bad debt expense and lost revenue from waived fees.

Given the Governor's and Commission's orders prohibiting utility disconnections, it is appropriate and reasonable to authorize the Utilities to use regulatory accounting for impacts associated with the prohibition on utility disconnections, waiver or exclusion of certain utility fees (i.e., late fees, convenience fees, deposits, and reconnection fees), and the use of expanded payment arrangements to aid customers, and resulting impacts on uncollectible, or bad debt, expenses. The waived fees and incremental bad debt (amounts in excess of the amounts used to set current rates) should be accounted for beginning March 31, 2020 (the date of the Commission Order).

The quantification of waived fees and incremental bad debt expense is largely unknown at this time but are generally limited in scope. The final results will be analyzed when the Commission makes a final determination on the prudency and reasonableness of the amounts to be recovered from ratepayers.

With regard to the Utility proposals for regulatory authority related to increased operation and maintenance ("O&M"), the Commission should not grant such authority at this time. Those costs, and any savings that may be found to offset them, are not the direct result of Governor and Commission orders. At this time, the evidence is insufficient to demonstrate these expenses have created or will create a substantial financial burden on the utility or that the expenses are in any way so significant as to warrant extraordinary relief.

With regard to proposals for the Commission to establish a means to address an expected increase in working capital needs due to the pandemic, it is not possible to determine the pandemic's impact on utility financings costs at this time and the Utilities have reported adequate access to capital and that there has been no downgrade by credit rating services of credit worthiness.

STAFF RECOMMENDATIONS

The Commission should issue an order addressing regulatory accounting for COVID impacts on the Utilities financing that:

1) Authorizes electric, natural gas, water, and wastewater utilities, and NHEC, to create a regulatory asset for waived fees and incremental bad debt related to the pandemic.

2) Require each utility to maintain detailed accounting records of waived fees and incremental bad debt for Commission audit and review in a future proceeding when the utility requests recovery.

3) Require each utility to identify cost savings associated with the impacts of COVID and to track and report COVID cost savings since March 31, 2020, to be included in monthly COVID reporting.

4) Require each utility to identify and track any loans, grants, assistance or benefits received in connection with COVID, regardless of form or source, that would offset any COVID related expenses, to be included in monthly COVID reporting.

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