

**BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN**

Accounting Treatment for Utility Costs
Incurred Due To and During Declared Public
Health Emergency COVID-19

Docket No. 5-AF-105

**JOINT SUPPLEMENTAL COMMENTS OF THE CITIZENS UTILITY BOARD
AND THE WISCONSIN INDUSTRIAL ENERGY GROUP**

I. INTRODUCTION

On April 3, 2020, the Citizens Utility Board (CUB) and Wisconsin Industrial Energy Group (WIEG), together the Joint Customers, submitted limited comments in response to the Commission's Notice of Investigation (NOI) regarding the appropriate accounting treatment associated with utilities' increased expenditures and/or foregone revenues associated with COVID-19.¹ On the same day, the Wisconsin Utilities Association (WUA) and many investor-owned utilities filed their own comments. Joint Customers, whose positions remain unchanged, file these supplemental comments to respond to the utilities' positions on four of the six NOI questions.

II. RESPONSES TO WUA AND MAJOR INVESTOR-OWNED UTILITIES (IOU)

A. Identify what expenditures and/or foregone revenues the utility has incurred to date as a result of and during the declared public health emergency for COVID-19. Provide a brief description of the expenditures and/or foregone revenues incurred, the account(s) charged, and date(s) incurred.

Based on WUA's response, it appears that the expenditures so far generally include purchase of additional personal protective equipment for utility employees in the field and implementing technology to provide employees the ability to work remotely. Since there are no specific FERC accounts to track COVID-19 related costs, WUA recommends that the Commission consider

¹ See ERF No: 387006.

establishing uniform reporting and tracking measures as part of this docket. Joint Customers support this recommendation and further suggest that the utilities collaborate with Commission Staff to set up the categories for uniform tracking and be required to submit reports with monthly data on a quarterly basis. A similar compliance approach was required in docket 05-AF-101 for reporting on volumetric credits pertaining to the refunds associated with the Tax Cuts and Jobs Act.²

B. Identify what expenditures and/or foregone revenues the utility anticipates it may incur as a result of and during the declared public health emergency for COVID-19. Provide estimates if possible and a brief description of the method used to determine the estimated expenditures and/or foregone revenues.

While acknowledging that it may be too early to provide a comprehensive list of such items at this time, WUA's list of potential cost increases (incremental to items cited in response to #A) include uncollectible expense and arrearages, outside services and increased short-term and long-term debt financing costs. Provided that the increased expenditures can be directly attributed to the public health emergency, Joint Customers support the deferral and tracking of such expenditures. WUA's comments also indicate the potential for foregone revenues related to the Governor's and the Commission's suspension of revenue sources such as customer deposits, late payment charges and increased deferral payments.³ Joint Customers support deferral accounting treatment for these items and also recognize the potential for additional revenue deferrals associated with the recommended tariff waiver provisions submitted in our initial comments, which will also be included in comments to be filed on April 10.

In addition to the potential cost increases or increases in deferred revenues discussed above, Joint Customers also recommend that the utilities also identify and implement initiatives aimed at minimizing costs and track savings from an operational and capital expenditure perspective. For instance, utilities may delay capital expenditures that were forecasted in the test year in recent rate cases or may implement cost saving measures that were not accounted for in authorized rates. While the draft order in this docket contemplates authorization of deferral treatment for

² See ERF No: 343223 in docket 05-AF-105, order point 18.

³ Joint Customers note that except for late payment fees, these items are not necessarily foregone revenues but rather revenues that are deferred or actions that result in delaying revenue assurance (such as customer deposits).

expenditures and/or revenue deferrals, Joint Customers also recommend deferral of savings. Further, as indicated in response to the earlier question (#A), Joint Customers recommend that utilities work collaboratively with Staff to set up the categories for uniform tracking and be required to submit reports with monthly data on a quarterly basis. Such an approach will assist Staff in auditing the deferred items more efficiently when utilities file petitions to seek recovery of the deferrals.

D. Other than deferral accounting treatment, identify other proposals for the accounting treatment for the expenditures and/or foregone revenues the utility has or will incur as a result of and during the declared public health emergency for COVID-19.

WUA provided feedback with respect to the accounting treatment for increased expenditures and foregone revenues and both WUA and major IOUs provide options to offset increased costs and revenue deferrals.

1. Increased Expenditures

With respect to increased expenditures, WUA asks the Commission to clarify that bad debt or uncollectible expense can also be subject to deferral treatment in addition to other increased expenditures directly attributable to the public health emergency. Joint Customers do not oppose this request and believe that deferral accounting treatment of increased bad debt expense is appropriate.⁴ However, since a certain amount of bad debt expense is already assumed or embedded in base rate, Joint Customers expect that the utilities will track the changes compared to what is already authorized in terms of amounts and the ratio of uncollectible expenses to revenues. Joint Customers also recommend that the utilities work with Staff to identify if any other information specific to each utility should be tracked, to enable proper auditing in future rate case proceedings when the specific utility seeks recovery of these deferred amounts.

⁴ WEC utilities have escrow accounting treatment for bad debt expense associated with the residential class. On page 7, WUA comments seem to imply that the escrow accounting treatment for such expenses should also extend to other customer classes served by WEC. Joint Customers prefer and recommend the deferral option which requires accountability and justification to recover the costs in a rate case setting where the prudence can be examined comprehensively.

2. Specific Revenue Types

With respect to specific revenue types to be deferred, WUA requests that “the Commission extend the deferral authority granted by its March 24th order to the specific revenue types affected by its docket 5-UI-120 order.” Joint Customers support deferral accounting treatment as it applies to the Commission’s suspension of customer deposits, late payment charges, increased deferral arrangements as well as revenue impacts associated with Joint Customers’ recommended temporary waiver provisions included in initial comments and to be submitted in response to the Notice of Investigation in docket 5-UI-120.⁵

3. Options to offset increased deferrals

WUA and individual IOUs offered alternatives to mitigate the impact of future recovery of the deferrals:

- WUA indicated that individual utilities may have regulatory liability balances, such as pending fuel reconciliation balances and remaining “unprotected” Excess Deferred Income Taxes (EDIT) that could be used to offset the deferral balances. WUA urged the Commission to consider individual utility requests in this regard.
- WEC Utilities indicated that Wisconsin Gas and Wisconsin Public Service Corporation accumulated earning sharing balances for 2019 and that the Commission may want to consider using these amounts to offset the COVID-19 related deferrals.
- Wisconsin Power & Light (WPL) identified regulatory liabilities with respect to the earning sharing mechanism and 2019 fuel reconciliation and potential for additional regulatory liability balance regarding 2020 fuel costs. WPL generally requests that the Commission grant it flexibility to develop specific proposals that may benefit customers and the Company.
- Similar to WPL, Northern States Power Company (NSP) also asks for flexibility and indicates a commitment to work with Commission Staff and stakeholders to develop specific proposals that may benefit customers and the utility. NSP’s current regulatory liabilities include the 2019 fuel reconciliation and Department of Energy (DOE) payments that may be in excess of Nuclear Decommissioning Trust accruals. Future regulatory liabilities could include 2020 fuel over-recovery compared to 2020 authorized monitored fuel costs.

⁵ Neither WUA nor any major IOU has requested recovery of foregone revenues associated with lower usage.

Joint Customers appreciate the general sentiment expressed by WUA and the individual utilities for mitigating future increases associated with the deferred balances. As a practical matter, however, Joint Customers believe that it is premature to make decisions regarding the treatment of non-fuel regulatory liabilities such as EDIT, DOE related refunds or earnings sharing mechanisms in this proceeding. Adequate information is not available regarding the potential deferrals at this time. Issues such as the recoverability of the deferrals and utilization of regulatory liabilities such as EDIT, DOE refunds or earnings sharing mechanism are best addressed in a rate case and within the full context of a utility's financial situation and revenue requirement. If the concern is that of cash flow, it should be noted that the utilities have mechanisms in place to address liquidity by relatively ready access to capital markets.⁶ Consequently, Joint Customers recommend that the Commission not render decisions regarding non-fuel related regulatory liabilities in this proceeding. Regarding the fuel-related regulatory liabilities, Joint Customers recommend that the Commission not render decisions related to such liabilities in this docket but rather address them in each utility's fuel proceeding.

F. The rate at which carrying costs, if any, should be accrued for any deferral.

WUA recommends the weighted average cost of capital for any deferral on the basis that a combination of factors associated with the state health emergency could negatively affect the utilities' credit metrics and drive up their cost of borrowing.

Joint Customers recommended the short-term debt rate in initial comments and reiterate this recommendation.⁷ In addition to reasons cited in the initial comments, Joint Customers believe that the Commission's proactive efforts to address the accounting treatment related to COVID-19 related impacts are actions that the investment community will view positively. Further, it should be noted that regulated utilities are among the chosen few examples where cost based regulation allows an opportunity to defer the impacts and address recovery in the future. There are numerous industries with dire situations with no opportunity to defer current unexpected cost impacts or other adverse impacts.

⁶ See for example, WEC Energy Group Inc. 8K report dated March 31, 2020, WPL's 8K Report dated April 6, 2020.

⁷ It should also be noted that North Central Power, Northwestern Electric and Dahlberg Light and Power recommended the short-term debt rate for the carrying cost.

Joint Customers appreciate the Commission's consideration of these supplemental comments.

Dated this 8th day of April 2020

Sincerely,

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