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Public Service Commission of Wisconsin
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BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Accounting Treatment for Utility Costs Incurred Due to and During Declared Public Health Emergency for COVID-19	Docket 5-AF-105

WISCONSIN UTILITIES ASSOCIATION'S SUPPLEMENTAL COMMENTS

The Wisconsin Utilities Association ("WUA") provides these supplemental comments to respond to two proposals the Joint Customers make in their Supplemental Comments filed in this docket on April 8th: (1) utilities should be required to defer cost "savings" during the public health emergency and (2) utilities should earn carrying cost at the short-term debt rate for any incremental costs deferred under the Commission's orders in this docket.

As discussed below, requiring utilities—who are actively taking steps to address the impact of the COVID-19 public health emergency on their respective businesses—to defer "savings" now would cause significant financial harm to Wisconsin's energy providers. WUA members face significant sales erosion and bear the risk of associated revenue shortfalls as the economy comes to a standstill as a result of the pandemic. They have no choice but to manage their costs in order to maintain safe and reliable services at reasonable cost to customers. In addition, a short-term debt rate for deferred costs associated with responding to state orders; maintaining essential utility services; protecting our employees' health and well being; and ensuring customer safety during the public health emergency would not be adequate because the impacts of COVID-19 pandemic will extend well beyond the public health emergency and recovery of the deferred amounts will likely take years not months.

I. THE COMMISSION SHOULD NOT REQUIRE DEFERRAL OF COST REDUCTIONS ACHIEVED BY UTILITIES AS THEY MANAGE THEIR BUSINESSES THROUGH THE PUBLIC HEALTH EMERGENCY.

Ordering Wisconsin utilities to broadly defer cost "savings" during the public health emergency would be inappropriate as utilities manage their operations and costs in an unprecedented time when our economy has been battered by the COVID-19 crisis and the state has issued orders to ensure the availability of safe, reliable and affordable utility services during the emergency. WUA members are actively taking steps to manage costs in response to reduced sales and revenues resulting from the shutdown of many parts of the economy. Deferring cost reductions that the utilities achieve and reserving those savings for return to customers, would significantly harm utilities by weakening the utilities' balance sheets and jeopardizing their opportunity to earn their authorized returns on capital. *Madison Gas and Electric Co. v. PSCW*, 105 Wis. 2d 385, 389 (Ct. App. 1981) ("Ratepayer relief, the stated goal of the PSC majority, is a commendable goal. The goal cannot be realized, however, if it deprives the utility of the opportunity to earn a fair and reasonable rate of return.").

In accordance with its longstanding accounting policy, the Commission has authorized the utilities to defer certain incremental costs resulting from the public health emergency, namely costs incurred in response to Emergency Order #11 and the Commission's orders in Docket 5-UI-120, as well as costs "otherwise required to ensure the provision of safe, reliable and affordable access to utility services during the declared public health emergency for COVID-19." Order at 3, Docket 5-AF-105 (Mar. 24, 2020). With their April 3rd comments in this docket, WUA provided a list of specific costs they are incurring or expect they could incur in direct response to the public health emergency and the state orders, and are tracking those costs accordingly. WUA's members have also requested a deferral or escrowing of increased uncollectible expense and foregone revenues resulting from the government's suspension of tariff provisions.

The Joint Customer proposal is not limited to deferring cost savings resulting directly from the public health emergency or the state orders, but would encompass any cost reductions, realized by any means, that the utilities achieve in managing their businesses through this crisis. To our knowledge, there are no net savings that can be achieved arising from the COVID-19 public health emergency. Any potential savings in the aggregate will not result from the utilities' response to the state orders or "to ensure the provision of safe, reliable and affordable access to utility services," but rather a continued focus on preserving the utilities' quality of service and financial health even as revenues decline due to falling usage of utility services and decreased customer payments. If these reductions were deferred for potential return to customers, the utilities and their balance sheets would bear the full brunt of reduced revenues. The Commission has previously rejected similar proposals in the past. *E.g.*, *Application Requesting that the PSCW Direct Wisconsin Electric Power Company and its Parent, WEC Energy Group, Inc., to Defer the Net Savings Arising from their Voluntary and Premature Retirement of Pleasant Prairie Power Plant*, Docket 6630-AF-100 (June 6. 2018) (order declining to open docket on request to defer savings achieved during rate freeze). WUA expects that the credit markets would take an extremely dim view of such a one-sided approach and adjust the utilities' cost of capital accordingly, which would negatively impact customer bills for years into the future.

Revenue sharing mechanisms or "RSMs" further align utility and customer interests during this crisis. Under the RSMs, the utility bears the risk of under-earning its authorized rate of return on its capital, while customers share in over-earnings the utility may achieve. The RSMs maintain the utilities' incentive to manage costs when doing so does not risk safety or reliability. If the utility is very successful in this effort, customers benefit more: the sharing of over-earnings contributes to the affordability of the utility's services.

For these reasons, WUA urges the Commission not to require deferral treatment of cost reductions achieved during and in response to the public health emergency.

II. WEIGHTED AVERAGE COST OF CAPITAL IS THE APPROPRIATE CARRYING COST ON DEFERRED COSTS IN RESPONSE TO THE PUBLIC HEALTH EMERGENCY.

Joint Customers request the Commission to limit the carrying cost on the cost deferral the Commission authorized in this docket to the short-term debt rate, which for most utilities is below 4%. Joint Customers argue that a low carrying cost is justified because (1) the Commission set the carrying cost at the short-term debt rate for savings from federal tax reform and the utilities have proposed the short-term debt rate as the carrying cost for customer fuel refunds, (2) the Commission's actions in this docket to date are sufficient to protect utility credit metrics, and (3) other businesses are not able to defer unexpected cost impacts like utilities are. Joint Customer Comments at 3, Docket 5-AF-105 (April 3, 2020); Joint Customer Supplemental Comments at 5, Docket 5-AF-105 (April 8, 2020). None of these grounds are persuasive.

The Commission has found that the short-term debt rate is an appropriate carrying cost for customer refunds resulting from federal tax reform and fuel over-collections because the refunds are certain and occur relatively soon after the savings are achieved. Additionally, the refunds due to customers from tax reform lowers rate base when rates are set. This provides customers with additional savings at the utility's weighted average cost of capital, which is not the case with incremental costs arising due to the public health emergency.

By contrast, the deferrals established in this docket are for accounting purposes only and the utilities' recovery of the deferred balances will be determined in future rate proceeding. The timing of such future rate proceedings is currently unknown, much less the timing of the utilities' actual recovery of the deferred amounts. While the Commission's actions in this docket have indeed been credit supportive, not allowing utilities to book and recover a carrying cost approximating their actual cost of effectively lending the deferred amounts to customers would degrade the utilities' financial strength.

Finally, while it is true that the regulatory compact provides utilities with the opportunity to request deferral accounting in extraordinary circumstances, by the same token utility pricing is regulated to ensure that utilities earn only reasonable returns unlike non-regulated businesses whose ability to earn is limited only by the market. Deferral accounting merely preserves the utilities' opportunity to earn their authorized returns. And the RSMs in place at several of WUA's member utilities effectively ring-fence utility earnings, with over-earnings shared with customers.

For these reasons, the utilities' weighted average costs of capital are the appropriate carrying costs for deferrals authorized in this docket.

Respectfully submitted this 14th day of April, 2020.

Wisconsin Utilities Association

*/s/ Bradley D. Jackson*____________________
Bradley D. Jackson

Quarles & Brady LLP
33 East Main Street, Suite 900
Madison, WI 53703
(608) 283-2675
Bradley.jackson@quarles.com

Joe Wilson
Quarles & Brady LLP
411 E. Wisconsin Avenue, Suite 2350
Milwaukee, WI 53202
(414) 277-5839
Joe.wilson@quarles.com