

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

PUGET SOUND ENERGY

For an Order Approving Deferral of Costs
Associated with the COVID-19 Public
Health Emergency

DOCKETS UE-200780 and
UG-200781

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GRANTING ACCOUNTING
PETITION, IN PART, AND
DENYING IN PART, SUBJECT
TO CONDITIONS

BACKGROUND

- 1 On April 17, 2020, Governor Inslee issued Proclamation 20-23.2, which prohibits all energy companies from (1) disconnecting residential service due to nonpayment, (2) refusing to reconnect residential customers who were disconnected due to nonpayment, and (3) charging late fees or reconnection fees. Proclamation 20-23.4, issued on May 29, 2020, also requires utilities to develop COVID-19 Customer Support Programs consistent with state guidance from the Governor's office and that will address payment plan options for residential customers who are in arrears due to the COVID-19 pandemic.
- 2 In June, the Commission formed a COVID-19 response workgroup of stakeholders in Docket U-200281 to facilitate development of guidelines for ensuring that customers experiencing economic hardship as a result of the COVID-19 pandemic maintain access to essential services after Proclamation 20-23 expires and the moratorium on disconnections and late fees is no longer in effect. Workgroup members exchanged proposed term sheets and participated in several workshops. The participants agreed on some of the issues presented but were unable to reach consensus on a single proposed set of guidelines or requirements. Accordingly, Commission staff (Staff) prepared a term sheet that reflected the terms on which the workgroup agreed and Staff's recommended resolutions of the disputed issues (Term Sheet).
- 3 On October 6, 2020, the Commission conducted a recessed open meeting to address the Term Sheet. Staff revised the Term Sheet to reflect the Commission discussion during the recessed open meeting (Revised Term Sheet). The Commission heard additional comment on the Revised Term Sheet at its regularly scheduled open public meeting on October 15, 2020.

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4 On October 20, 2020, the Commission entered Order 01 in Docket U-200281, which adopted the Revised Term Sheet with several modifications. As relevant here, the Commission adopted guiding principles related to COVID-19 deferred accounting for “use in evaluating the deferred accounting petitions the utilities have filed or intend to file with respect to their recovery of costs related to responding to the COVID-19 pandemic.”¹ The Commission expressly adopted the following four guiding principles:

- Petitions must identify specific categories of expenditures and certain revenues and must not be overly broad.
- Companies must establish regulatory asset accounts that provide for specific expenditure and revenue categories and regulatory liability accounts for identified benefits, but are not required to provide in their petitions estimated deferral amounts.
- Recovery of any deferred costs will be subject to a prudence review per the Commission’s standard practice.
- Companies must file reports that itemize their costs approved for deferral in the docket in which their accounting petition was filed. The first report should be filed by December 1, 2020, and should cover the period from March 1, 2020, to September 30, 2020. Subsequent reports should be filed 30 days after the close of each quarter and must include information from the previous quarter to continue until the conclusion of the proceeding in which the company seeks recovery of the deferred costs or until such time as the Commission determines the reports are no longer beneficial.

5 The Commission declined, however, to adopt Staff’s proposed categories of costs appropriate for deferred accounting treatment. Those categories are: (1) specific, incremental COVID costs, (2) bad debt expense, (3) late payment fees, (4) reconnections charges, and (5) costs associated with bill payment assistance programs. The Commission determined instead that it will consider each utility’s deferred accounting petition in the docket in which it was filed, and that “[u]ltimately, the Commission will consider each

¹ *In the Matter of Response to the COVID-19 Pandemic*, Docket U-200281, Order 01 ¶23 (Oct. 20, 2020).

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petition on its merits and render a decision based on the record compiled in each docket.”²

6 On September 3, 2020, Puget Sound Energy (PSE or Company) filed a Petition for an Order Approving Deferral of Costs Associated with the COVID-19 Public Health Emergency. The Company filed a revised petition on November 6, 2020, consistent with the requirements set out in the Revised Term Sheet (Revised Petition).

7 In its Revised Petition, PSE seeks to defer:

- Direct costs incurred as a result of the COVID-19 pandemic, including incremental costs associated with personal protective equipment (PPE), cleaning supplies and services, contact tracing, medical testing, financing costs to secure liquidity, IT updates, equipment for remote work, the administrative costs of implementing the Revised Term Sheet, and labor for employees temporarily unable to work due to the pandemic where such labor is typically charged to capital but must be charged to expense.
- Cost savings directly associated with (1) savings, credits, payments, or other benefits received by the Company from a federal, state, or local government that are directly related to a COVID-19 direct cost, including federal, state, or local tax credits or benefits, and (2) expense savings directly associated with the pandemic such as travel and training costs, reduced parking expenses, reduced expenses for office supplies, and other employee expenses.
- Any amount of bad debt expense incurred in 2020-2022 above the bad debt baseline, defined as the amount that is currently being collected from customers for bad debt during the year. For 2020, PSE proposes to use the pro-rated amount from its 2017 and 2019 general rate cases, and the 2019 rate case amounts for 2021 and 2022.
- For calendar year 2020, the annual amount of late payment fees defined in PSE’s rate proceeding/s that were in effect in 2020 as described in the previous bullet, less the actual amount collected by PSE for January 1, 2020, through March 1, 2020. For 2021, PSE proposes to defer the annual amount of late payment fees as defined in PSE’s 2019 general rate case, prorated monthly for the period of

² *Id.* at ¶26.

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January 1, 2021, through the Resumption Date plus 180 days. If the Resumption Date plus 180 days extends into 2022, PSE will defer late payment fees using the same formula as described for 2021 in 2022.

- For calendar year 2020, the annual amount of disconnection and reconnection charges defined in PSE's rate proceeding/s that were in effect in 2020 as described in the previous bullet, less the actual amount collected by PSE for January 1, 2020, through March 1, 2020. For 2021, PSE proposes to defer the annual amount of disconnection and reconnection charges as defined in PSE's 2019 general rate case, prorated monthly for the period of January 1, 2021, through the Resumption Date plus 180 days. If the Resumption Date plus 180 days extends into 2022, PSE proposes to defer reconnection fees using the same formula as described for 2021 in 2022. However, PSE, for its electric revenues, will prorate the average annual amount by the percentage of electric AMI meters installed as of March 1, 2020, for calendar year 2020 and January 1, 2021, for calendar year 2021. A similar proration for gas is unnecessary as there is no ability to conduct a remote only reconnect or disconnect on gas meters.
- Costs to fund a COVID-19 bill payment assistance program, as described in Order 01 in Docket U-200281.
- Other incremental costs associated with COVID-19, as may be identified.

8 PSE proposes to record the costs identified above as a regulatory asset in Federal Energy Regulatory Commission (FERC) Account 186 (Miscellaneous Deferred Debits), record the deferral of cost savings as regulatory liability in FERC Account 253 (Other Deferred Debits), and debit the originating FERC account associated with the cost savings. PSE does not propose that interest should accrue on the unamortized balance.

9 Staff reviewed PSE's Revised Petition and recommends the Commission grant it, in part, and deny it, in part. Specifically, Staff recommends the Commission deny the Company's request to defer unspecified "other incremental costs," which is inconsistent with the first guiding principle the Commission adopted in Order 01 in Docket U-200281, which states that requests should not be overly broad. Staff further recommends the Commission deny the Company's request to defer labor expenses because PSE provided no additional explanation for these costs or how it intends to identify the level of labor costs attributable to the pandemic. In the absence of this information, Staff is unable to determine whether these costs are appropriate for deferral.

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- 10 On November 19, 2020, the Office of the Washington Attorney General Public Counsel Unit (Public Counsel) and The Energy Project (TEP) (together, Joint Commenters) filed a joint response to the accounting petitions filed by each regulated energy company. The Joint Commenters argue that the companies' petitions each propose accounting deferrals that would "insulate shareholders from responsibility for a variety of costs and reduced revenues ... and further burden Washington residents with such costs in the future, while providing immediate financial benefits to the utilities' shareholders, with no showing of financial need or hardship to justify" the requested relief.³ The Joint Commenters argue that the utilities should view any authorized deferral and future cost recovery with the "spirit of shared sacrifice,"⁴ and urge the Commission to significantly narrow the scope of any deferrals.
- 11 The Joint Commenters further argue that only two categories are appropriate for deferred accounting treatment: (1) customer assistance programs and (2) bad debt. The Joint Commenters expressly advocate that the Commission decline to approve: (1) lost revenues arising from customer usage due to the COVID-19 pandemic; (2) late fees, disconnection fees, and reconnection fees that were not charged during the moratorium; (3) direct costs related to the COVID-19 pandemic, such as personal protective equipment and cleaning supplies, which should be offset by reduced costs related to decreased employee travel and training, among other items; (4) COVID-19 relief cost savings, including any benefits received from federal, state, or local government relief programs; (5) labor costs or payroll taxes, because normalized, ongoing levels of employee labor and benefits expenses are fully recovered in currently effective rates; and (6) carrying charges or interest on authorized regulatory deferrals.
- 12 In the event that the Commission allows the deferral of direct costs, the Joint Commenters request the Commission adopt a rebuttable presumption that direct costs are offset by savings, thus requiring utilities to present evidence in future proceedings demonstrating that realized cost reduction offsets did not exceed such incremental costs incurred in 2020 or 2021, and that the Commission require a broad tracking of offsetting cost savings. Finally, the Joint Commenters recommend that any deferred accounting petition the Commission approves should be subject to an earnings test and specific reporting requirements.

³ Joint Comments ¶3.

⁴ *Id.*

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- 13 On December 4, 2020, Earthjustice, on behalf of Puget Sound Sage and Front and Centered, filed comments recommending the Commission deny the accounting petitions filed by each regulated energy company. Earthjustice argues that public interest considerations weigh strongly in favor of denial due to the impact of the COVID-19 pandemic on Washington consumers. Earthjustice echoes the Joint Commenters' request that the Commission should issue a statement calling for "shared sacrifice" between utilities and their customers.⁵
- 14 On December 7, 2020, the Alliance of Western Energy Consumers (AWEC) filed comments expressing support for the Joint Commenters' proposals. Specifically, AWEC supports the Joint Commenters' recommendation that only certain categories of costs should be deferred, and that the Commission should require an earnings test prior to allowing recovery of any deferred amounts. In the event the Commission allows utilities to defer incremental bad debt expense, AWEC recommends the Commission make clear that such incremental amounts will not factor into the historical average that is included in base rates in future rate cases because these are outlier amounts for which the utilities will have received full recovery.
- 15 On December 8, 2020, the NW Energy Coalition (NVEC) filed comments expressing support for the Joint Commenters' proposals.
- 16 The Commission also received 483 comments from interested persons who are opposed to the accounting petitions filed by each utility. The commenters raised various issues, most commonly noting that the financial hardship created by the COVID-19 pandemic has been much greater for consumers than for utilities. Other commenters noted that rate increases disproportionately impact individuals with fixed incomes, that many small businesses have been forced to close due to the pandemic, and that local foodbanks are experiencing an increased need. Finally, commenters criticized the petitions for being overly broad, for seeking reimbursement for discriminatory fees prohibited by the Governor, and for failing to track savings as closely as they track costs.

DISCUSSION

- 17 We grant PSE's Revised Petition in part, and deny it in part, subject to the conditions described herein. Many of the Joint Commenters' positions, addressed in more detail below, are concerned with the recovery of deferred amounts rather than the deferrals

⁵ Earthjustice Comments, p. 7.

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themselves. Accordingly, those arguments should be raised at the time PSE seeks to recover the deferred costs in rates. As the Joint Commenters correctly observe, this Order does not pre-approve or guarantee recovery of any of the costs we approve for deferral in this docket. Moreover, this Order does not approve any specific methodology for measuring the costs and revenue identified in the Revised Petition. Any future recovery is subject to prudence review; the utility bears the burden of proving not only that the costs in question were prudently incurred, but also that it was confronted with extraordinary hardship at the time the deferral was recorded. We address each of the parties' proposals, including their proposed conditions, in turn.

Direct Costs

- 18 Staff supports the Company's request to defer direct costs – other than labor costs, discussed separately, below – including PPE and cleaning supplies, for actions taken in response to the COVID-19 pandemic. The Joint Commenters oppose the deferral of direct costs, arguing that these costs are reasonably presumed to be fully offset by pandemic-related cost reductions for expenses such as employee travel, training, office supplies, and office cleaning. In the alternative, the Joint Commenters recommend the Commission adopt a rebuttable presumption that direct costs were offset by such savings. Finally, the Joint Commenters urge the Commission to require broad tracking of offsetting operational cost savings.
- 19 We agree with Staff that the Company should be allowed to defer direct costs related to actions taken to respond to the pandemic because they are unusual and extraordinary, and decline to adopt a rebuttable presumption that these direct costs were offset by savings. Instead, we adopt the Joint Commenters' recommendation that PSE track all its operational COVID-19 related savings as a regulatory liability in FERC Account 253 (Other Deferred Credits), which may offset any or all of the direct costs the Company incurs. At the time PSE seeks recovery of deferred costs, it should simultaneously present its tracked savings and demonstrate how it has used those savings to offset its costs, which will inform the Commission's prudence review. Rather than impose an evidentiary presumption, we require the Company to present a holistic view of its costs and savings for Commission consideration.

Labor Costs

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- 20 PSE seeks to defer costs related to labor for employees temporarily unable to work during the pandemic. PSE argues that such labor is typically charged to capital but must be charged to expense.
- 21 The Joint Commenters oppose this request, arguing that it would be inappropriate to defer or later recovery any utility labor costs or related benefits because such costs are continuously recovered within base rates. The Joint Commenters further contend that the distribution of labor costs between construction (capitalized) and operation/maintenance (expensed) is continuously changing, and that PSE failed to clearly identify whether and how deferral of employee labor or benefit expenses should be approached. We agree. As Staff correctly observes, PSE failed to provide adequate support for deferring these costs. PSE's proposal lacks sufficient detail related to which costs it seeks to defer, or why the Company believes it must record incremental labor expenses for employees who are not working. Accordingly, we are unable to conclude based on the evidence in the record in these Dockets that these costs are appropriate for deferral. We thus deny the portion of PSE's Revised Petition that seeks to defer these costs.

Bad Debt

- 22 Consistent with Staff's recommendation in its Revised Term Sheet, PSE seeks deferral of bad debt expense accrued in 2020, 2021, and 2022 above the bad debt baseline established in the Company's last two general rate cases. The Joint Commenters object to the timing of the deferral, recommending the Commission allow the Company to defer these amounts only for 2020 and 2021. The Joint Commenters further recommend refining how bad debt is measured for deferral. We decline to adopt the Joint Commenters' recommendation. It is premature at this juncture to speculate about when the economy, let alone consumers, will recover from the financial impacts of the COVID-19 pandemic. Because we authorize only the deferral and not the recovery of these amounts, the Commission can evaluate the appropriate timeframe for deferring bad debt retrospectively at the time PSE seeks to recover those costs. Such retrospective analysis – rather than prospective speculation – is more appropriate in uncertain, unprecedented circumstances like those created by the current pandemic. Additionally, as stated above, this Order does not approve any specific methodology for measuring deferred costs and revenue. Accordingly, AWEC's request that the Commission make clear that such incremental amounts will not factor into the historical average that is included in base rates in future rate cases is beyond the scope of the issues presented for resolution in this Docket. AWEC may offer its recommendation in the context of any future proceeding in which the Company seeks to recover these deferred amounts.

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Customer Bill Assistance

23 The Joint Commenters generally accept PSE's proposal to defer the costs of customer bill assistance, but recommend the Commission limit the deferral to the years 2020, 2021, and 2022 to reflect the temporary nature of these relief programs. We decline to adopt this limitation. As noted in the preceding paragraph, we are unable to speculate with any degree of certainty how long the pandemic will continue to negatively impact the economy. The appropriate time to establish the deferral timeframe will be when PSE seeks to recover these costs in rates.

Disconnection, Reconnection, and Late Payment Fees

24 PSE proposes to defer the annual amount of disconnection charges, reconnection charges, and late payment fees as described in paragraph 7, above. The Joint Commenters oppose this request, arguing that the Governor's Proclamations prohibit recovery of these revenues. In the event the Commission approves these revenues for deferral, the Joint Commenters request that PSE be required to offset the lost revenue by savings from avoided trips to disconnect and reconnect service.

25 Staff supports deferral of these revenues but notes that there is significant uncertainty about whether the Company will be able to recover them in light of the Governor's Proclamations. Staff argues, however, that such a determination can be made at a later date. We agree. Deferring revenues in no way guarantees their later recovery, and the Commission can revisit this issue at the time it performs its prudence review.

Other Incremental Costs

26 We deny PSE's request to defer "other incremental costs associated with COVID-19, as may be identified." We agree with Staff that this proposal runs afoul of the first cost recovery guiding principal adopted by Order 01 in Docket U-200281, which requires accounting petitions to identify specific categories of expenditures and certain revenues and prohibits overly broad requests. As the Joint Commenters aptly observe, this request is "so vague, undefined, and unlimited as to provide no information on which the Commission can rule."⁶ Accordingly, we decline to grant this overbroad request.

⁶ Joint Comments ¶56.

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27 As new and specifically identifiable expenses are incurred, PSE may either request to amend its Revised Petition in this Docket or file a new petition for an order authorizing deferred accounting treatment of those costs.

Earnings Test and Reporting Requirements

28 We decline to adopt the Joint Commenters' recommendation to require an earnings test as a condition of authorizing deferred accounting treatment. The Joint Commenters propose that PSE "test" the financial impact of accounting deferral entries each month by calculating its average achieved return on equity on a rolling 12-month basis to quantify the financial impact of the proposed deferrals. Under this system, any deferral entry that would result in excessive earnings would "fail" the test, and PSE would either reduce the deferred amount or not record the deferral.

29 Staff disagrees with the Joint Commenters, arguing that an earnings test for the purpose of determining whether a cost can be deferred is administratively problematic. We agree. By this Order, the Commission authorizes PSE to defer certain costs, and we decline to condition that deferral on a future earnings state. Instead, the Commission will review the deferred costs at the time PSE seeks to recover those costs in rates. In the event PSE over-earns during the deferral period, the Company will be unable to demonstrate that it experienced extraordinary circumstances, or that, absent recovery of the deferred costs, the Company will experience extraordinary financial instability going forward.

30 We do, however, agree with the Joint Commenters that PSE should be required to segregate each category of monthly accounting deferrals within separate subaccounts for tracking purposes, maintain workpapers and documentation, and state any assumptions made and algorithms employed for each monthly entry to these subaccounts. Each entry should be recorded in sufficient detail to facilitate Commission review in later proceedings. PSE should also work with Commission Staff and other stakeholders to develop an appropriate methodology for tracking its normalized earnings during the deferral period, and should report those earnings at such time as the Company seeks to recover its deferred costs. Rather than require PSE to file with the Commission quarterly reports summarizing the monthly amounts of the deferrals for each cost category, indicating separately the amounts actually recorded within published financial statements, as the Joint Commenters propose, we require the Company to present that information at the time it requests recovery of the deferrals authorized by this Order. Such information will assist interested parties and the Commission with understanding the impact of

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COVID-19 on the Company and whether the Company has effectively managed its operations in response to the pandemic.

COVID-19 Relief Cost Savings

31 The Joint Commenters recommend that PSE be required to defer as a regulatory liability all operational cost savings in addition to all cost savings, credits, payments, or other benefits received by the Company from a federal, state, or local government that are directly related to COVID-19 relief programs, including but not limited to federal, state, or local tax credits or benefits. We agree. Tracking these savings will ensure that any deferred COVID-19 costs are appropriately offset, which will assist the Commission in its prudence review.

Conclusion

32 PSE may defer the costs, revenues, and benefits identified in its Revised Petition from the date its original petition was filed, or September 3, 2020, subject to the conditions set out in this Order. With respect to PSE's proposal to defer the annual amount of disconnection, reconnection, and late payment charges less the actual amount collected by the Company from January 1 to March 1, 2020, we require PSE to reduce its deferral by the amount actually collected by the Company from January 1 to September 3, 2020, to coincide with the beginning of the deferral period.

33 Finally, we deny PSE's request to defer these costs "net of offsets." In addition to deferring benefits received from federal, state, or local government relief programs, the Company must also track and defer operational savings, as described above.

FINDINGS AND CONCLUSIONS

34 (1) The Commission is an agency of the State of Washington, vested by statute with authority to regulate rates, rules, regulations, practices, and accounts of public service companies, including investor-owned electric and natural gas companies.

35 (2) PSE is a public service company regulated by the Commission, providing service as an electric and natural gas company.

36 (3) The Commission has jurisdiction over the subject matter of this proceeding and over PSE.

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- 37 (4) WAC 480-07-370(3) allows regulated companies to file petitions, including the Revised Petition PSE filed in these Dockets.
- 38 (5) Staff has reviewed the Revised Petition in Dockets UE-200780 and UG-200781.
- 39 (6) Staff recommends the Commission grant the Revised Petition subject to the conditions discussed in the body of this Order.
- 40 (7) This matter came before the Commission at its regularly scheduled meeting on December 10, 2020.
- 41 (8) After reviewing PSE's Revised Petition filed in Dockets UE-200780 and UG-200781 and giving due consideration to all relevant matters and for good cause shown, the Commission finds that the Revised Petition should be granted subject to the conditions as outlined in this Order.

ORDER**THE COMMISSION ORDERS:**

- 42 (1) Puget Sound Energy's Revised Petition is granted, in part, and denied in part, subject to the conditions described in the body of this Order.
- 43 (2) This Order shall not affect the Commission's authority over rates, services, accounts, valuations, estimates, or determination of costs on any matters that may come before it. Nor shall this Order granting Petition be construed as an agreement to any estimate, determination of costs, valuation of property claimed or asserted or to the possible recovery of, or return on, the amounts deferred to the regulatory asset.
- 44 (3) The Commission retains jurisdiction to effectuate the provisions of this Order.

DATED at Lacey, Washington, and effective December 10, 2020.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chair

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner