ITEM NO. CA9

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 22, 2022

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** ______**March 25, 2021**______

DATE: March 9, 2022

TO: Public Utility Commission

FROM: Curtis Dlouhy and Michelle Scala

THROUGH: Bryan Conway, Marc Hellman, and Matt Muldoon **SIGNED**

SUBJECT: AVISTA UTILITIES:
(Docket No. UM 2069(1))
Application for the reauthorization of deferred accounting of costs from COVID-19 Public Health Emergency.

STAFF RECOMMENDATION:

Approve Avista Corporation dba Avista Utilities' (Avista, AVA, or Company) applications for reauthorization to defer COVID-19 related costs, one for the 12-month period beginning March 25, 2021, and the other for the 12-month period beginning March 25, 2022.

DISCUSSION:

Issue

Whether the Public Utility Commission of Oregon (Commission) should approve Avista's applications for the reauthorization of deferred accounting of costs from the COVID-19 Public Health Emergency, one for the 12-month period beginning March 25, 2021, and the other for the 12-month period beginning March 25, 2022.

Applicable Law

ORS 757.259 allows the Commission to authorize deferred accounting for later incorporation into rates. Specific amounts eligible for deferred accounting treatment with interest authorized by the Commission include, "[i]dentifiable utility expenses or revenues, the recovery or refund of which the Commission finds should be deferred in order to minimize the frequency of rate changes or the fluctuations of rate levels or to match appropriately the costs borne by and benefits received by ratepayers." ORS 757.259(2)(e).

In OAR 860-027-0300(3), the Commission has set the requirements for the contents of deferred accounting applications. Applications for reauthorization must include a description and explanation of the entries in the deferred account, up to the date of the application for reauthorization, as well as the reason for continuation of deferred accounting. OAR 860-027-0300(4). Notice of the application must be provided pursuant to OAR 860-027-0300(6).

Unless subject to an automatic adjustment clause under ORS 757.210(1), amounts deferred under ORS 757.259(5) and OAR 860-027-0300 are allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon a prudence review and review of the utility's earnings. With some exceptions, a company's amortization of amounts deferred under ORS 757.259(5) cannot exceed an amount equal to three percent of the company's gross revenues from the preceding year. ORS 757.259(6).

<u>Analysis</u>

Background
On March 8, 2020, Oregon Governor Kate Brown declared a statewide state of emergency due to the public health threat posed by the novel infectious coronavirus, COVID-19.[1] Several extensions of that order have been issued, and the state of emergency is currently set to end April 1, 2022, although some pandemic-related protections remain in effect beyond that date.

On March 25, 2020, Avista filed UM 2069, requesting the Commission authorize the Company to defer for later ratemaking treatment costs from the COVID-19 public health emergency, which was approved by Order No. 20-378. Avista filed two applications to reauthorize UM 2069, one on March 22, 2021, and the other February 22, 2022.

On June 9, 2020, the Commission held a Special Public Meeting on the impacts of COVID-19. As a result of the Special Public Meeting, the Commission opened an investigation into the effects of COVID-19, which would later be docketed as UM 2114.

Staff, all six Commission jurisdictional energy utilities, and interested stakeholders participated in a series of workshops and meetings, leading to the creation of an Energy Term Sheet representing agreement in principle by Avista, Cascade Natural Gas (Cascade or CNG), Idaho Power Company (IPC), NW Natural Gas (NWN), (PacifiCorp

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[1] EO 20-03 (March 8, 2020).

(PAC), Portland General Electric (PGE), Staff, Oregon Citizens' Utility Board (CUB), Community Action Partnership of Oregon (CAPO), Multnomah County Office of Sustainability (MCo), Northwest Energy Coalition (NWEC), and Verde (collectively, the Parties).

On September 24, 2020, the Commission authorized the Parties to execute a stipulation incorporating the Energy Term Sheet.[2] Consistent with the Energy Term Sheet, the parties entered into a Stipulated Agreement adopted by the Commission in Order No. 20-401.

Among the items addressed in the Stipulated Agreement is the affected utilities' applications for deferred accounting related to COVID-19 costs and benefits.

Stipulated Agreement - Deferrals
All six energy utilities filed applications for deferred accounting of costs and benefits resulting from the COVID-19 health epidemic, and most have since filed applications for reauthorization of deferred accounting in beginning in March 2021. As such, the utilities' deferral applications are referenced in the Energy Term Sheet. The following terms summarize the Parties' agreement in principle on the deferral applications.

- The Parties agree that the Utilities' applications for deferred accounting of COVID-19 related costs and benefits should be submitted with an approval recommendation to the Commission and recovery of those amounts deferred will be subject to a future Commission prudence review. The prudence review proceeding will ensure deferrals are either directly related to this Term Sheet or are related to other increased costs due to COVID-19. These COVID-19 related deferrals shall consist of the following:[3]
    - Direct costs for reasonable measures taken by the Utility in response to the COVID-19 pandemic, including, but not limited to: incremental personal protective equipment, cleaning supplies and services, contact tracing, medical testing, financing costs to secure liquidity including carrying costs associated with time payment agreements, information technology updates and administration needed to enact the stipulation, and equipment needed for remote work options.
    - Direct costs are net of credits, payments, direct cost savings, or other benefits received by the Utility from a federal, state, or local government that are directly related to a COVID-19 direct cost, including federal, state, or local tax

[2] Order No. 20-401, Appendix A at Page 20.
[3] Order No. 20-401.

credits or benefits. Due to the unprecedented nature of the COVID-19 pandemic, not all costs may be known at this time. Utilities are not limited to deferring costs that are expressly enumerated above; provided, however, that all such costs are subject to a future Commission prudence review proceeding.

- The amount of late payment fees not assessed to customers under the Term Sheet. The amount of deferred late fees recorded in any year, including any late payment fees that were assessed prior to any suspension in that year, if applicable, shall not exceed the amount of late payment fees included in the Commission's final order from the utility's last general rate case.
- For bad debt expense, the amount that is currently being collected from customers for bad debt, as determined in its last general rate proceeding, would be the baseline. Any amount of bad debt expense incurred above this baseline, including arrearage amounts waived and associated program costs, in 2020, 2021, and 2022 would be deferred for later recovery.
- For reconnections and field visits that occur between April 1, 2021 and October 1, 2022, the amount of forgone reconnection charges and field visits that do not result in disconnection and field connection charges not assessed to customers.
- The amount of forgone reconnection charges incurred through November 15, 2020, related to customers that may have been disconnected prior to the March 13, 2020, suspension of disconnects. Forgone reconnection fees shall not exceed the amount equal to one reconnection fee per customer who was reconnected to service without charge. The reconnection fee shall be calculated using the applicable reconnection fee available in the utility's tariff for reconnection during regular working hours for the reconnected customer.
- All costs to fund a COVID-19 arrearage management program.
- The Parties agree that the deferral balance will be reviewed for prudence on an annual basis. The specific timing of the annual prudency review will be established in each utility's docket requesting deferred accounting. The timing of the amortization and the amortization period will be determined as part of the prudency review process.
- The deferral balance, whether being accrued (pre-prudence), found to be prudent in an annual prudence review (pre-amortization), or being amortized, shall accrue the same interest rate, equal to the blended Treasury rate plus 100 basis points. To the extent the amortization of the deferral is more than two years for a utility that utility may request that the Commission authorize a

larger basis point spread. For regulatory and ratemaking purposes, the financing of the deferral will not be included in the capital structure of the utility.

- Each utility shall provide the Commission with reports that itemize the utility costs, savings, and benefits resulting from COVID-19. The first report will be for the period between March 1, 2020 and September 30, 2020, and shall be filed by November 1, 2020. Thereafter, reports will be due 30 days after the close of each quarter and shall include information from the previous quarter. Each utility shall file a Report for every quarter until the quarter ending December 31, 2023, unless waived by the Commission.

Description of Expense
As described above, the amounts subject to deferral are the direct costs for reasonable measures taken by the utility in response to the COVID-19 pandemic, net of credits, payments, direct cost savings or other benefits received by the utility 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.

Reason for Deferral
Avista's application notes that it requests reauthorization of this deferral in order to appropriately match the costs borne by and benefits received by customers. Staff notes that reauthorization is consistent to meet the terms of Order No. 20-401.

Proposed Accounting
Avista is proposing to record the deferral as a regulatory asset in FERC Account 182.347 (Other Regulatory Assets) and FERC Account 254.347 (Other Regulatory Liabilities), with offsetting entries recorded in FERC Account 407.347 (Regulatory Debits) and FERC Account 407.437 (Regulatory Liabilities).

Estimated Deferrals in Authorization Period
The actual amount subject to deferral is dependent on the outcomes of the COVID-19 pandemic. As it is unknown what the full ramifications of the COVID-19 pandemic will be in Avista's Oregon service area, including the duration and scale of the impact, the Company notes that the estimated deferral balance is at this time unknown. The Company notes that it cannot estimate the costs associated with COVID-19 due to its unprecedented nature, but that there is approximately $778,000 in net costs as of December 31, 2021.[4] The Company goes on to say that there is also an estimated $890,000 in its Arrearage Management Program.

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4 Docket No. UM 2069, AVA's February 22, 2022, Supplemental Application, page 3.

Information Related to Future Amortization

- Earnings Review – Prior to amortization, an annual earnings review will be conducted pursuant to ORS 757.259(5).
- Prudence Review – Prior to amortization, a prudence review will be conducted. The prudence review will include the verification of the accounting methodology used to determine the final amortization balance, as well as a review of all costs proposed for amortization (including any offsetting cost savings).
- Interest Rate – The deferral balance, whether being accrued (pre-prudence), found to be prudent in an annual prudence review (pre-amortization), or being amortized, shall accrue the same interest rate, equal to the Blended Treasury rate plus 100 basis points.[5] To the extent the amortization of the deferral is more than two years for a utility that utility may request that the Commission authorize a larger basis point spread. For regulatory and ratemaking purposes, the financing of the deferral will not be included in the capital structure of the utility.
- Sharing – This deferral is not subject to a sharing mechanism. However, as described above, Avista has agreed to accrue interest on this deferral equal to the <u>blended treasury rate plus 100 basis points</u>.[6] This is a departure from the standard established by the Commission to use the Company's authorized rate of return for deferral balances not yet reviewed for prudence. This is a substantive interest differential and materially benefits customers by reducing the amounts recoverable by the utilities.
- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (with exceptions) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year.

Other Considerations

On February 28, 2022, Governor Brown announced that Oregon Health Authority rules requiring masks indoor public places and schools would be lifted after 11:59 on March 11. The easing of COVID-19 pandemic related requirements in Oregon was linked to declining case rates and hospitals across the West; similar transitions are taking place in neighboring states, California and Washington, and the Centers for

5 The Modified Blended Treasury rate is updated annually by the Commission as authorized by Order Nos. 08-263 and 09-065. For 2020, the Modified Blended Treasury rate is equal to 2.63 percent.

6 Docket No. UM 2114, Order No. 20-401, Appendix A at 20.

Disease Control and Prevention (CDC) updated guidance to the same effect. Nationally, the White House COVID task force has initiated plans to transition the pandemic into an "endemic phase." The plan includes a continued focus on vaccinations and genome sequencing for variants to better control for them in the future and prevent shut downs.

Staff considered whether or not to limit deferred accounting for COVID-19 related expense to the pandemic phase of the crisis and reviewed the types of costs and potential benefit (i.e. funding) that would be associated with COVID-19. Ultimately, Staff found it prudent to extend the deferral authorizations beyond the policy changes to align with the customer protections included in Order No. 20-401, several of which include deferred costs to the utility. Further, a number of arrearage management plans offered through the utilities per the Order, have remaining authorization, the expense of which is to be included in the COVID-19 deferrals. Thus, for the time being, Staff is recommending the reauthorization of deferred accounting for COVID-19 related costs and benefits, and will continue to monitor the necessity of this provision amid changing policies, lifting restrictions, and expiring customer protections over the next 12 months.

Staff notes that many pandemic-related protections are set to expire in Fall 2022 barring another extension of these protections, meaning that the deferral period would extend beyond the pandemic-related protections driving many of its costs. Staff recommends reauthorization based on the understanding that only expenses authorized for deferral under Order No. 20-401 may be included in this deferral during the 12-month period.

Future Cost Recovery

Several of the energy utilities have on-going rate cases at this time. For PacifiCorp and Northwest Natural, and perhaps Avista, Staff intends to raise as an issue in their respective general rate cases, and review for prudence, the 2020 and 2021 COVID-related costs and cost-savings as well as consider amortization period and the rate spread of any monies to be collected from ratepayers. The Portland General Rate case is nearing completion and so Staff did not have time to pursue that review in that general rate filing. Idaho Power and Cascade do not have general rate case filings underway at this time. For Portland General Electric, Idaho Power and Cascade, opportunities should arise this year to allow for the deferrals to be reviewed for prudence, cost savings identified, and consider merits of alternative rate spread.

<u>Conclusion</u>

Based on Staff's review of Avista's applications for reauthorization, Staff concludes that the proposals represent an appropriate use of deferred accounting under ORS 757.259. Further, Staff believes that the Company's applications, in light of the provisions of

Order No. 20-401, supports Staff's goals of ensuring that both customers and the Company are sufficiently protected from the impacts of the COVID-19 pandemic.

The Company has reviewed this memo and agrees with or expresses no objections to Staff's recommendation.

PROPOSED COMMISSION MOTION:

Approve Avista's applications for reauthorization of deferred accounting of COVID-19 related costs, one for the 12-month period beginning March 25, 2021, and the other for the 12-month period beginning March 25, 2022.