ITEM NO. CA7

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 17, 2022

REGULAR ____ CONSENT _X_ EFFECTIVE DATE _____March 24, 2022_____

DATE: May 6, 2022

TO: Public Utility Commission

FROM: Kathy Zarate

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

SUBJECT: IDAHO POWER:
(Docket No. UM 2067(2))
Application for the reauthorization of deferred accounting of costs from COVID-19 Public Health Emergency.

STAFF RECOMMENDATION:

Approve Idaho Power's request application for reauthorization to defer COVID-19 related costs for the 12-month period beginning March 24, 2022.

DISCUSSION:

Issue

Whether the Public Utility Commission of Oregon (Commission) should approve Idaho Power's application for the reauthorization of deferred accounting of costs from the COVID-19 Public Health Emergency for the 12-month period beginning March 24, 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).

Analysis

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 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.

While the majority of the cost categories previously deferred have returned to pre-COVID-19 levels, the Company is still incurring funding costs associated with the Arrearage Management Program, the COVID-19 bill payment assistance program approved through Tariff Advice No. 21-02, and as described in paragraph 25 of the Settlement Stipulation approved by the Commission in Order No. 20-401. Accordingly, the Company requests reauthorization of the deferral, which will now only include costs associated with the Arrearage Management Program.

Thus, on March 21, 2022, Idaho Power filed UM 2067(2), requesting the Commission authorize the Company to defer for later ratemaking treatment Arrearage Management Program costs from the COVID-19 public health emergency.

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

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 stipulated agreement with the utilities also required providing 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. As of the date this memo was written, the Company has filed all required reports.

Description of expenses
The amounts subject this deferral renewal are the arrearage program costs.

Reason for Deferral
The Commission initially authorized deferred accounting of Idaho Power's costs related to COVID-19 for the 12-month period beginning March 24, 2020, in Order No. 20-377. The Company's initial request for reauthorization of deferred accounting for the 12-month period beginning March 24, 2021, was filed in Docket No. UM 2067(1) and approved on March 24, 2022, under Order No. 22-092. Idaho Power requests reauthorization to defer Arrearage Management program costs associated with the COVID-19 public health emergency, effective March 24, 2022. The Company's deferral request in this case is filed pursuant to ORS 757.259(2) (e) and is intended to minimize the frequency of rate changes or the fluctuation of rate levels.

Proposed Accounting
Idaho Power will continue to record amounts subject to the deferral order in accordance with the Code of Federal Regulations to the Federal Energy Regulatory Commission (FERC) Account 182 – Regulatory Assets, with the corresponding entry recorded to an accounts receivable account. Absent approval, the costs would be debited to FERC Account 904 – Uncollectible Accounts.

Estimated Deferrals in Authorized Period
The Company has deferred net extraordinary COVID-19 costs of approximately $525,000 as of December 31, 2021, which includes approximately $350,000 in Arrearage Management Program costs.

Idaho Power ceased deferring incremental expenses, incremental bad debt expense, and reconnect fees, which were offset by employee travel, training, and vehicle savings, effective the second quarter of 2021, as the Company returned to collection/disconnection activities for residential customers in July 2021.

While Idaho Power is requesting reauthorization to defer only those costs associated with the Arrearage Management Program, the Company cannot precisely estimate deferred amounts beginning March 24, 2022. However, the program is only in effect until October 1, 2022, or until it reaches its funding cap of approximately $520,000.

Information Related to Future Amortization

- Earnings Review – Prior to amortization, an annual earnings review will be conducted pursuant to ORS 757.259(5). In Staff's opening testimony in Northwest Natural's general rate case, UG 435, Staff advocates that an earnings test be applied only for the direct costs net of benefits. Staff recommends this because the direct costs net of benefits are most closely related to the regular business operations whereas the other categories are either new programs agreed to in the Stipulated Agreement or overlap with these new programs. Staff intends to recommend the same treatment for the amortization of all utilities' COVID-19 deferrals. Because Idaho Power is requesting deferral of Arrearage Management Program costs, Staff recommends not applying the earnings test results to the amounts deferred under this authorization.
- 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.
- 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. 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, Idaho Power has agreed to accrue interest on this deferral equal to the blended treasury rate plus 100 basis points. 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.

Conclusion

Based on Staff's review of Idaho Power's applications for reauthorization, Staff concludes that the proposal represent an appropriate use of deferred accounting under ORS 757.259. Further, Staff believes that the Company's application, 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 Idaho Power's applications for reauthorization of deferred accounting of costs from COVID-19 Public Health Emergency for the 12-month period beginning March 24, 2022.