**NATIONAL ASSOCIATION OF STATE UTILITY CONSUMER ADVOCATES**

**NASUCA Recommendations Concerning the Accounting and Revenue Requirement Issues Arising from COVID-19 and Requests for Accounting Order Deferral**

*\*\*\*\*Disclaimer: This is a working document and may change at any time. Anyone is welcome to use these language suggestions and send us additional language suggestions to be added to this document. The statements contained within this document ae not an official NASUCA Resolution as defined in the NASUCA Constitution and By-Laws, nor should any statement in this document (with the exception of the links to official NASUCA Resolutions) be considered an official policy statement on behalf of or attributed to NASUCA or any of its individual members.\*\*\*\**

1. Commissions should assess the existing risk assumed by utility shareholders when evaluating requests to establish COVID-19 regulatory assets.

**Alternatively:**

Commissions should assess the existing risk assumed by utility shareholders when evaluating requests to establish COVID-19 regulatory assets. Deferral of incremental COVID-19 costs and reduced revenues may not be appropriate for utilities with a variety of existing regulatory mechanisms that protect utility shareholders; and

1. NASUCA strongly encourages shared costs of the pandemic by ratepayers and shareholders alike, as utilities are not guaranteed to earn their authorized rates of return; and
2. Under these unprecedented circumstances, utilities have an obligation to reduce discretionary expenses to minimize cost impacts to ratepayers. Utilities should not receive one-hundred percent recovery of Covid-19 costs if the utility has taken a ‘business as usual’ approach to managing its costs and mitigating bad debt expenses; and

**Alternatively:**

Under these unprecedented circumstances, utilities have an obligation to manage their costs to reflect needed expenditures and to minimize cost impacts on ratepayers. Utilities should be expected to manage their costs, including Covid-19 costs, as other businesses do, and not expect to be held harmless of the effect of the pandemic; and

1. Pandemic related cost reductions should offset deferred cost increases claimed by utilities including increases in bad debt expense. Cost reductions may include reductions in cost of capital (due to new debt issuances) and reduced contractor O&M costs. As such, any accounting order to track costs attributable to COVID-19 should also track savings attributable to COVID-19.

**Alternatively:**

Commissions should recognize pandemic related cost reductions that offset pandemic cost increases, such as reductions in cost of capital (due to new debt issuances), reduced contractor O&M costs, reduced travel and other discretionary activities and costs. As such, any accounting order to track costs attributable to COVID-19 should also track savings attributable to COVID-19.

OR

Utilities should be required to offset deferred cost increases claimed by utilities, including increases in bad debt expense, with pandemic-related cost reductions, such as reduced travel and other expenses. Cost reductions may also include reductions in cost of capital (due to new debt issuances) and reduced contractor O&M costs, as well as any state and/or federal assistance dollars received by utilities. As such, any accounting order to track costs attributable to COVID-19 should also track savings attributable to COVID-19.

Examples of cost savings may include:

* Fuel cost savings and related O&M savings;
* RTO savings from low gas prices;
* Refinancing of outstanding debt (to take advantage of lower interest rates);
* Use of Short-term debt;
* Reduced allocation of costs from shared services or parent organizations due to cost reductions experienced at those entities;
* Reduced O&M -travel, reduced office expenses including power, office supplies, etc.;
* Reduced income and revenue taxes;
* Deferral of capital projects that will not affect reliability or safety;
* Reduced salaries and wages to reflect reduced labor expenses (e.g from reduced overtime, furloughs, scaled back services);
* Reduced incentive pay or employee bonuses to reflect current economic circumstances;

1. NASUCA strongly encourages Commissions to consider any outside sources of revenue or funds such as government grants or loans (e.g. PPP loans, Main Street Lending Program or the like) when making determinations on new ratemaking requests: and

**Alternatively:**

NASUCA strongly encourages utilities to seek outside sources of revenue or funds such as government grants or loans (e.g. PPP loans, Main Street Lending Program or the like) in order to offset pandemic-related costs, and when evaluating new utlity ratemaking requests: and

1. Any requests for special recovery of pandemic-related O&M costs or expenses must be analyzed in a three-step process. They are:
2. Commissions must analyze utilities’ claim of costs and expenses derived from specialized reports directly related to COVID-19

**Alternatively:**

1. Commissions must analyze utilities’ claim of costs and expenses that

support the conclusion that the costs and expenses are directly related to COVID-19

1. These costs and expenses must be compared to the companies’ O&M costs under the most recent test year, illustrating how the costs are outside the normal ebb and flow, which would qualify for extraordinary ratemaking treatment

c. Whether the utility’s total net costs, which should consider the costs and expenses directly related to

COVID-19, any COVID-19 cost reductions, and any proceeds from other sources, are greater than the approved

O&M costs approved in the most recent test year;

1. All COVID related impacts should not be evaluated in the same manner. Bad Debt cost increases resulting from disconnect moratoriums may be appropriate for recovery. NASUCA strongly encourages Commissions to consider Commercial and Industrial class revenue decreases as a risk to be borne by utility shareholders; and

**Alternatively:**

All COVID related impacts should not be evaluated in the same manner. While Bad Debt cost

increases resulting from disconnect moratoriums may be appropriate for recovery, commissions should

create debt forgiveness programs when authorizing uncollectibles/bad debt recovery in rates in order to

reduce unaffordable arrearages for customers struggling to stay current on utility bills. [[1]](#footnote-1) NASUCA

strongly encourages Commissions to consider Commercial and Industrial class revenue decreases as a

risk to be borne by utility shareholders; and

**Alternatively:**

All COVID related impacts should not be evaluated in the same manner.  Bad Debt cost increases resulting from disconnect moratoriums may be appropriate for recovery, to the extent the utilities demonstrate that the bad debt cost increases flow directly from the disconnect moratoriums rather than the downturn in the economy generally. NASUCA strongly encourages Commissions to consider Commercial and Industrial class revenue decreases as a risk to be borne by utility shareholders; and

1. When evaluating whether a deferred asset should be established, Commissions should consider the extent to which such incremental costs affect consumer bills and whether COVID-19 and moratorium related costs have a substantive impact on the financial performance of the utility; and
2. Accounting orders authorizing the authority to use deferral accounting and the creation of a

deferred regulatory asset should only allow the deferral of net costs[[2]](#footnote-2) and

include a termination date for the deferral authority; and

1. Carrying charges, if applicable at all, should be limited to the short-term debt costs applied to the deferred regulatory asset; and
2. NASUCA strongly encourages Commissions to require utilities to offset COVID-19 cost recovery by any cost savings directly attributable to the suspension of disconnections or other activities during the emergency declaration. Utilities should track all costs and savings related to the implementation of these emergency measures; and
3. NASUCA strongly encourages utilities to track all costs related to the implementation of emergency measures, file a quarterly report on the amounts of incurred costs and savings which have been booked to the regulatory assets, to allow Commissions to responsibly develop sound cost recovery plans; and
4. All cost tracking reports should have clear and concise cost categories that are well defined, and be a direct response to the COVID19 pandemic; and
5. Utilities should report class-specific monthly data on gross revenue, arrearages, late payment fees, deferred payment agreements, average payment amounts, and disconnections and reconnections, by zip code, census tracker, or comparable analogous datapoint, to analyze pandemic effects and collection practices within local communities served by the utility; and
6. Commissions should require utilities to offer extended deferred payment plans, avoiding possible disconnection, and related consequences of failure to pay, while maintaining services for as long as possible;

**Alternatively:**

Commissions should require utilities to extend shut-off, late payment, deposit and reconnection

fee moratoria, ensure previously disconnected customers are reconnected during the pandemic, offer

significantly extended deferred payment plans and debt forgiveness for income-qualified customers,

thereby avoiding possible disconnection, and related consequences of failure to pay, while maintaining

services for as long as possible;

Relevant NASUCA Resolutions

DATA COLLECTION

<https://www.nasuca.org/nwp/wp-content/uploads/2018/11/2019-07-NASUCA-Data-Collection-Resolution-Joint-with-NARUC-Final.pdf>

<https://www.nasuca.org/nwp/wp-content/uploads/2018/01/2018-04-NASUCA-Data-Collection-Resolution-Final-11-11-2018.pdf>

EMERGENCY DISASTER

<https://www.nasuca.org/nwp/wp-content/uploads/2018/11/2019-01-Final-NASUCA-Emergency-Disaster-Resolution-Approved-by-CP-5-1-19.pdf>

SHUT OFF FOR CUSTOMERS WITH SERIOUS ILLNESS

<https://www.nasuca.org/nwp/wp-content/uploads/2017/08/2018-03-Protections-from-Shutoff-for-Customers-with-Serious-Illnesses-Final-6-24-18-002.pdf>

TAXATION

<https://www.nasuca.org/nwp/wp-content/uploads/2017/01/2017-08-NASUCA-Resolution-Protecting-State-Rights-to-Address-Reductions-in-Tax-Rates-Final-11-12-2017.pdf>

ELIMINATE CONVENIENCE FEES

<https://www.nasuca.org/2012-07-urging-utilities-to-eliminate-convenience-fees-for-paying-utility-bills-with-debit-and-credit-cards-and-urging-appropriate-state-regulatory-oversight/>

1. Reference Illinois order, ICC Docket No. 20-0309 [↑](#footnote-ref-1)
2. As described in Item #6 [↑](#footnote-ref-2)