

Water & Wastewater Reference Manual for Utility Companies



June 2015

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The purpose of this manual is to provide utility owners in-depth information so that they can be better situated to keep compliance with the applicable statutes and rules, to have knowledge of the Commission's ratemaking process, and to gain a better understanding of the different rate relief mechanisms available to utilities.

Water & Wastewater Reference Manual

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Water and Wastewater Certification



Certificates

- Section 367.031, Florida Statutes (F.S.), *Original certificate*, relates to water and wastewater utilities under the jurisdiction of the Commission.
- Water and wastewater utilities must obtain a certificate from the Commission to provide service prior to receiving a permit from the Department of Environmental Protection (DEP) or the Water Management District.
- Certificate grants the service territory for water and wastewater utilities.



Provision of Service

Section 367.111 (1), F.S.

- A utility must provide service to anyone in its territory within a reasonable time.
- The Commission may delete unserved portions of a territory if the utility's service is not provided within five years of authorization.
- Each utility shall provide safe, efficient, and sufficient service.
- The Commission may reduce the utility's return on equity for failure to meet the standards.



Rule 25-30.032, Florida Administrative Code (F.A.C.) Applications

- Applications are filed with the Commission Clerk
- Forms are available on the website under “Water & Wastewater Application Packages”

<http://www.floridapsc.com/utilities/waterwastewater/>



Types of Certificate Applications

- 1) Original, No-Certificate & Grandfather – This application is applicable in the following situations:
- A new utility not yet providing service which is requesting initial rates and charges
 - A utility already in operation which has been providing service without specific compensation and is now requesting rates and charges
 - A utility already in operation and charging for service
 - A utility that is operating in a county that has adopted a resolution declaring that such county is subject to the jurisdiction of the Commission



Types of Certificate Applications (cont.)

- 2) Territory Amendment - This application is for a certificated water or wastewater utility that proposes to extend its service territory into an area in which there is no existing water or wastewater system or proposes to delete a portion of its service territory.
- 3) Transfer - This application is for the transfer of an existing water or wastewater system, regardless of whether service is currently being provided. The application for transfer may result in the transfer of the seller's existing certificate, amendment of the buyer's certificate or granting an initial certificate to the buyer.



Types of Certificate Applications (cont.)

- 4) Transfer of Majority Organizational Control - This application is applicable when the only change the utility is requesting is a change in majority of organizational control.
- 5) Abandonment - While there is not an application for abandonments, any person, lessee, trustee, or receiver owning, operating, managing, or controlling a utility which intends to abandon the utility must file the notice required by Section 367.165, F.S.



Common Application Deficiencies

- Incorrect noticing
- Omitted information
- Incorrect name on evidence of land ownership
- Incorrect or incomplete tariffs



Original Certificate Application and Initial Rates and Charges

Applicant must demonstrate:

- The need for service in proposed territory.
- Consistency with the local comprehensive plan.
- Financial and technical ability.
- Appropriateness of system capacity.
- Cost justification for initial rates and charges.

Section 367.045(1), F.S., *Certificate of authorization; application and amendment procedures* & Rule 25-30.033, F.A.C., *Application for Original Certificate of Authorization and Initial Rates and Charges*



Existing Utility Charging for Service

The applicant must:

- Demonstrate financial and technical ability.
- Justify or support the appropriateness of system capacity.
- Provide proof of authority for current rates and charges.
- Provide an explanation regarding the provision of service prior to obtaining Commission Certificate.

Section 367.045(1), F.S., *Certificate of authorization; application and amendment procedures* & Rule 25-30.034, F.A.C., *Application for Certificate of Authorization for Existing Utility Currently Charging for Service*



Grandfather Certificate

- An application for a grandfather certificate is for any utility that is already established with rates and charges but has recently come under PSC jurisdiction.
- The applicant must provide:
 - A description of its current territory.
 - Proof of authority for current rates and charges.

Section 367.045(1), F.S., *Certificate of authorization; application and amendment procedures* & Rule 25-30.035, F.A.C., *Application for Grandfather Certificate*



Traditional Territory Amendment

Applicant must demonstrate:

- The need for service in proposed area.
- Consistency with local comprehensive plan.
- Financial and technical ability.
- The appropriateness of system capacity.

Section 367.045(2), F.S., *Certificate of authorization; application and amendment procedures* & Rule 25-30.036(3), F.A.C., *Application for Amendment to Certificate of Authorization to Extend or Delete Service*



Traditional Territory Amendment (cont.)

Applicant must demonstrate (cont.):

- The impact on current rates and charges.
- The impact on customers (if application is for territory deletion).

Section 367.045(2), F.S., *Certificate of authorization; application and amendment procedures* & Rule 25-30.036(3), F.A.C., *Application for Amendment to Certificate of Authorization to Extend or Delete Service*



Quick Amendment Application

A quick amendment application is appropriate if:

- Equivalent Residential Connections (ERCs) are no greater than 25.
- No other utility is willing or capable of serving.
- Private facilities have failed (well or septic tank) and service is otherwise not available.
- Application to be approved within 45 days of notice if no objection filed.

Section 367.045(2), F.S., *Certificate of authorization; application and amendment procedures* & Rule 25-30.036(2), F.A.C., *Application for Amendment to Certificate of Authorization to Extend or Delete Service*



Transfers

- A utility may not transfer its certificate or facilities without prior Commission approval unless the transfer is made contingent upon Commission approval.
- The transferor remains liable for any outstanding regulatory assessment fees, fines, or refunds.
- The transfer must be in the public interest.

Section 367.071(1), F.S., *Sale, assignment, or transfer of certificate of authorization, facilities, or control* & Rule 25-30.037, F.A.C., *Application for Authority to Transfer*



Transfer Certificate or Facilities to a Regulated Utility

To receive Commission approval:

- The buyer must have the financial and technical ability to operate the utility.
- The buyer must agree to fulfill the commitments, obligations, and representations of the seller.
- The proposed net book value of the system, as of the transfer date, must be supported.

Section 367.071(1), F.S., *Sale, assignment, or transfer of certificate of authorization, facilities, or control* & Rule 25-30.037(2), F.A.C., *Application for Authority to Transfer*



Transfer Certificate or Facilities to a Regulated Utility (cont.)

- The Commission may set rate base in a transfer to a regulated utility.
- A positive acquisition adjustment¹ will not be included in rate base absent extraordinary circumstances.
- A negative acquisition adjustment will be included in rate base if the purchase price is less than 80 percent of net book value.

Section 367.071(5), F.S., *Sale, assignment, or transfer of certificate of authorization, facilities, or control* & Rule 25-30.0371, F.A.C., *Acquisition Adjustments*

¹An acquisition adjustment results when the purchase price differs from the net book value of the assets at the time of the acquisition.



Transfer of Majority Organization Control (TMOC)

- To receive Commission approval:
 - The buyer must have the financial and technical ability to operate the utility.
 - The buyer must agree to fulfill the commitments, obligations, and representations of the seller.
- Rate base is not affected by a TMOC.

Section 367.071, F.S., *Sale, assignment, or transfer of certificate of authorization, facilities, or control* & Rule 25-30.037(3), F.A.C., *Application for Authority to Transfer*



Transfer to a Governmental Entity

Transfer to a governmental entity is approved as a matter of right. The transfer application must include:

- A statement that the governmental entity obtained the most recent income and expense statement, balance sheet, statement of rate base and contributions in aid of construction (CIAC).
- A copy of the contract and list of assets being transferred.
- A statement regarding the disposition of customer deposits, outstanding regulatory assessment fees, fines, or refunds owed.

Section 367.071, F.S., *Sale, assignment, or transfer of certificate of authorization, facilities, or control* & Rule 25-30.037(4), F.A.C., *Application for Authority to Transfer*



Abandonment

- The utility must provide 60 days notice to both the county and the Commission.
- Failure to provide the notice is a violation of Florida Statutes and is a first degree misdemeanor.
- The county will petition the Court to appoint a receiver to operate the utility and dispose of the property.

Section 367.165, F.S., *Abandonment* & Rule 25-30.090, F.A.C.,
Abandonments



Florida Law and Rules Applicable to Water and Wastewater Utilities

- Chapter 367, F.S., *Water and Wastewater Systems* contains the Commission's authority to regulate privately owned water and wastewater utilities.
- Rules 25-9, F.A.C., *Construction and filing of tariffs by public utilities*; 25-10, F.A.C., *Water and sewer systems*; 25-22, F.A.C., *Rules governing practice and procedure*; and 25-30 F.A.C., *Water and wastewater utility rules*; contains the rules and regulations for utilities regulated by the Commission.
- Rule violations and penalties may go up to \$5,000 per day.



Online Resources

Transfer application packages can be accessed at the following link:

<http://www.floridapsc.com/utilities/waterwastewater/applicationpkg/index.aspx>



Annual Price Index and Pass Throughs



Price Index Outline

- The Price Index, as established by the Commission, is a measure that reflects changes in operating costs for water and wastewater utilities. The Price Index mechanism allows water and wastewater utilities to increase rates without applying for a rate case.
- The Price Index is addressed in Section 367.081(4)(a), F.S. - *Rates; procedure for fixing and changing.*
- The Price Index is also addressed in Rule 25-30.420, F.A.C. - *Establishment of Price Index, Adjustment of Rates; Requirement of Bond; Filings After Adjustment; Notice to Customers.*



Purpose and History

- Since March 31, 1981, pursuant to the guidelines established by Section 367.081(4)(a), F.S., *Rates; procedure for fixing and changing*, and Rule 25-30.420, F.A.C., *Establishment of Price Index, Adjustment of Rates; Requirement of Bond; Filings After Adjustment; Notice to Customers*, the Commission has established a Price Index increase or decrease for major categories of operating costs on or before March 31 of each year. This process allows water and wastewater utilities to adjust rates based on current specific expenses without applying for a rate case.



Purpose and History

- The Index is calculated by comparing the Gross Domestic Product Implicit Price Deflator Index of the current and previous fiscal year. This same procedure has been used each year since 1995 to calculate the Price Index.



Price Index Statute - 367.081(4)(a), F.S.

In accordance with Section 367.081(4)(a), F.S.:

- The Commission must issue an order establishing a price increase or decrease index of major categories of operating costs, on or before March 31 of each year.
- The percentage increase or decrease must reflect the increase or decrease in such costs based on the most recent 12 months of historical data available.
- The Commission, by rule, shall establish the procedure to be used in determining such indices.



Price Index Statute - 367.081(4)(a), F.S.

In accordance with Section 367.081(4)(a), F.S. (cont.):

- The Commission must also establish the procedure by which a utility, without further action by the Commission, may implement an increase or decrease in rates based upon application of the indices.
- The utility may not apply the Index increase or decrease to expenses that the Commission has disallowed or adjusted in the utility's most recent rate proceeding before the Commission.



Price Index Statute - 367.081(4)(c), F.S.

Before implementing a change in rates under this subsection, the utility shall file an affirmation under oath as to the accuracy of the figures and calculations upon which the change in rates is based, and stating that the change will not cause the utility to exceed the range of its last authorized rate of return on equity.



Price Index Statute - 367.081(4)(d), F.S.

If, within 15 months after the filing of a utility's annual report required by Section 367.121, F.S. - *Powers of commission*, the Commission finds that the utility exceeded the range of its last authorized rate of return on equity after an adjustment in rates as authorized by this subsection was implemented within the year for which report was filed or was implemented in the preceding year, the Commission may order the utility to refund with interest the Index increase.



Price Index Statute - 367.081(4)(e), F.S.

A utility may not adjust its rates under this subsection more than two times in any 12-month period.



Strategy for Filing

- As the statute indicates, a utility may not have more than two increases within any 12-month period.
- There is a strategy for combining Price Index and pass through adjustments into one filing.
- To the extent that a utility can, it should combine them because when a utility files them together, it counts as only one filing.
- A utility may not have more than one Index between April 1 of a specific year and March 31 of the following year.



Acceptable Combination Filings

- The following filing examples are appropriate:
 - Index and a pass through
 - Two pass throughs



Rule 25-30.420, F.A.C., Requirements

In accordance with Rule 25-30.420, F.A.C., *Establishment of Price Index, Adjustment of Rates; Requirement of Bond; Filings After Adjustment; Notice to Customers*, the Commission must:

- Establish a Price Index on or before March 31 of each year.
- Determine major categories of operating costs to which the Index will apply.
- Consider cost statistics compiled by government agencies. (i.e. Table 1.1.9. Implicit Price Deflators for Gross Domestic Product of the U.S. Department of Commerce's Bureau of Economic Analysis. Please see the following link:

<http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=3&isuri=1&903=13>)



Index Application

The utility must include the following in its Index Application:

- Company letter/Notice of Intent
- Index and Pass Through Adjustment
- Schedule of Annualized Revenue
- Schedule of Present & Proposed Rates
- Customer Notice
- Affirmation
- Statement on Quality of Service



Rule Requirements

In accordance with Rule 25-30.420, F.A.C., *Establishment of Price Index, Adjustment of Rates; Requirement of Bond; Filings After Adjustment; Notice to Customers*, the utility that seeks to increase its rates through the Index process must:

(1) File an Index Application.

- The utility's application should include the following:
 - Notice of intent 60 days prior to the effective date of the rate change
 - A computational schedule showing the increase or decrease in annual revenue that will result when the Index is applied



Rule Requirements (cont.)

(1) File an Index Application. (cont.)

- The utility's application should include the following (cont.):
 - An affirmation from utility that it will not exceed the range of its last authorized rate of return on equity, pursuant to Section 367.081(4)(c), F.S.
 - A copy of the proposed customer notice
 - An annualized revenue calculation
 - A Quality of Service Statement

(2) File revised tariff sheets.



Rule Requirements (cont.)

(3) Provide Additional Earnings Information, if requested.

- The Commission may require filing information to determine whether the utility has exceeded its last authorized rate of return.

(4) Notify customers of the increase/decrease.

- The utility must notify customers in advance of rate implementation and explain the reason for the rate increase.

(5) Be in compliance with filing requirements.

- The utility must have a current Annual Report on file with the Commission.



Rule Requirements (cont.)

(6) Secure a bond if required by the Commission.

- Where there is a history of inadequate service or record keeping, the Commission may require the utility to secure a bond.



Rule Requirements (cont.)

No utility shall implement a rate increase within one year of the official date that it filed a request for a rate increase, unless the rate proceeding has been completed or terminated.



Historical Analysis of the Annual Price Index for Water and Wastewater Utilities

Year	Commission Approved Index	Year	Commission Approved Index
2003	1.31%	2009	2.55%
2004	1.60%	2010	0.56%
2005	2.17%	2011	1.18%
2006	2.74%	2012	2.41%
2007	3.09%	2013	1.63%
2008	2.39%	2014	1.41%



Jurisdictional Water & Wastewater Utilities Filing for Indexes and/or Pass Throughs

Year	Percentage	Year	Percentage
2003	27%	2009	53%
2004	22%	2010	29%
2005	33%	2011	43%
2006	32%	2012	30%
2007	47%	2013	41%
2008	42%	2014	39%



Benefit to the Utility of Filing an Annual Index

The utility can more timely recover rising costs and lessen rate shock in subsequent rate cases.



Purpose of Filing a Pass Through

A pass through adjustment allows a utility to recover increases or decreases in certain eligible expenses within a 45-day time frame. A utility is eligible to file a pass through as long as it has a current annual report on file. Eligible expenses include the following:

- Purchased water or wastewater
- Electric service
- Ad valorem taxes against used and useful property
- Additional water and wastewater quality testing required by the Florida Department of Environmental Protection (DEP)



Purpose of Filing a Pass Through (cont.)

A pass through adjustment allows a utility to recover increases or decreases in certain eligible expenses within a 45-day time frame. A utility is eligible to file a pass through as long as it has a current annual report on file. Eligible expenses include the following (cont.):

- Fees charged by DEP in connection with the National Pollutant Discharge Elimination System (NPDES)
- Regulatory Assessment Fees (RAFs)



Pass Through Statute 367.081(4)(b), F.S.

If any utility which receives all or any portion of its utility service from a governmental authority or from a water or wastewater utility regulated by the Commission and the utility redistributes that service to its customers, the utility's current approved rates shall be automatically increased or decreased without a hearing upon verified notice to the Commission 45 days prior to its implementation of the increase or decrease that the rates charged by the governmental authority or other utility have changed.



Pass Through Application

The utility must include the following in its Pass Through Application:

- (1) Statement, by class of customer and meter size, setting out by month the gallons of water and wastewater service sold by the utility for the most recent 12-month period*
- (2) Affirmation reflecting authorized rate of return on equity
- (3) Copy of proposed customer notice

*Note: Not required for pass through of increased ad valorem taxes or RAFs.



Pass Through Application

The utility must include the following in its Pass Through Application (cont):

- (4) Revised tariff sheets
- (5) Rate of return on equity the utility is affirming it will not exceed
- (6) Calculation of change in revenue
- (7) Annualized revenue calculation
- (8) Waiver of 45-day implementation (If combined with an Index)



Regulatory Assessment Fees



Regulatory Assessment Fees (RAFs)

- All water and wastewater utilities subject to FPSC jurisdiction on or before December 31 for the preceding year, even if the utility has not applied for or has been issued a certificate, are required to pay RAFs.
- RAFs are required by Section 367.145, Florida Statutes (F.S.) - *Regulatory assessment and application fees.*
- Detailed RAF filing requirements are set forth in Rule 25-30.120(2), F.A.C. - *Regulatory Assessment Fees; Water and Wastewater Utilities.*



RAF Calculations

- Each water and wastewater utility is required to pay RAF of 4.5 percent of its gross operating revenue.
- Gross operating revenue is exclusive of revenue generated from areas that do not fall into the defined Uniform System of Accounts outlined by NARUC. <http://www.naruc.org>



RAF Calculations (cont.)

- Utilities may deduct the annual expense of purchased water or wastewater treatment from another utility regulated by the FPSC from its gross operating revenues before calculating the amount of the RAF due for that year.
- A minimum annual RAF of \$25 per system is required by rule regardless of revenue earned.



RAF Filing Dates

- Small Class C water and wastewater utilities are those that received revenues less than \$200,000 in the preceding calendar year. Small Class C water and wastewater utilities file RAFs annually. Annual billing period is: January 1 - December 31. The payment is due annually on March 31 or the next business day.
- Large Class A & B water and wastewater utilities are those that received revenues greater than \$200,000 in the preceding calendar year. Large Class A & B water and wastewater utilities must file RAFs bi-annually. Bi-annual billing periods are: January 1 - June 30 and July 1 - December 31. The payment due dates are July 30 and January 30 or the next business day.



RAF Return Forms

- RAF return forms are mailed to the utility's mailing address of record in mid-December for the January 30 payment due date, mid-February for the March 31 payment due date, and mid-June for the July 30 payment due date.
- Failure to receive a RAF return form does not excuse the utility from timely remitting RAFs.
- Utilities may contact the Commission and request a RAF return form be emailed or faxed if the RAF return form is not received via regular United States Postal Service mail.



RAF Filings

RAFs may be filed by:

- Regular United States Postal Service mail, registered return receipt is recommended.
- Private mail carriers with tracking numbers (i.e., FEDEX, UPS).
- Hand delivered to the Commission Clerk prior to 5 P.M. on the applicable due date.

Note: RAFs are considered paid on the date they are postmarked or date-stamped “Received” by the Commission Clerk.



RAF Filings (cont.)

RAFs mailing address:

Florida Public Service Commission
Attention: Fiscal Services
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850



RAF Payment Method

- RAFs may be paid by bank check or cashier's check, made payable to the Florida Public Service Commission.
- The Commission does not accept credit cards or online payments at this time.



Extensions

A utility, for good cause shown in a written request, may be granted up to a 30-day extension. A request must be made by filing a Regulatory Assessment Fee Extension form (PSC/AIT 124 - mailed to all utilities with the RAF return form). Form PSC/AIT 124 must be filed two weeks prior to the RAF payment due date. The request for extension will not be granted if the utility has any unpaid RAFs, penalties, and/or interest due from prior periods. If an extension is granted, one of the following charges shall be added to the RAF amount due:

- 0.75 percent of the fee to be remitted for an extension of 15 days or less
- 1.5 percent of the fee for an extension of 16-30 days



Automatic Extensions

An automatic 30-day extension to submit a RAF return may be obtained by payment based on estimated gross operating revenue (by checking the “Estimated Return” space in the top left-hand corner of the RAF return form). If such return is submitted by the normal due date, the utility shall be granted a 30-day extension period in which to file and remit the actual fee due. This fee will be without the additional extension fee typically charged, provided the estimated RAF fee payment remitted is at least 90 percent of the actual RAF fee due for the period.



Penalties and Interest for not filing RAFs timely

- Pursuant to Section 350.113, F.S., *Florida Public Service Regulatory Trust Fund; moneys to be deposited therein*, an incremental penalty of 5 percent per each additional 30 days late, not to exceed 25 percent, shall be assessed against any utility that fails to pay its RAF by the due date. The amount of interest to be charged is 1 percent for each additional 30 days or fraction thereof, not to exceed a total of 12 percent annually. Interest continues to accrue until the RAFs due have been paid in full.



Penalties and Interest for not filing RAFs timely (cont.)

- Pursuant to Section 367.161, F.S., *Penalties*, the Commission may impose a penalty of \$5,000 per day for failure to timely pay RAFs or revoke any certificate of authorization issued by it. Each penalty shall be a lien upon the real and personal property of the entity, enforceable by the Commission as a statutory lien.



Penalties and Interest for not filing RAFs timely (cont.)

To avoid penalties and interest or compliance actions:

- The utility should ensure its mailing address and contact information provided to the Commission is current and inform the Commission of any changes when necessary.
- Utilities unable to pay RAFs by the due date should request a 15 to 30-day extension at least two weeks prior to the due date.



RAF Assistance and Information

- Questions or requests for information or assistance in preparing Regulatory Assessment Fee Returns should be directed to Toni Joy Earnhart, Public Utility Analyst, in the Division of Economics at (850) 413-6532 or by email at tearnhar@psc.state.fl.us.
- All information regarding RAFs can be found in Rule 25-30.120, F.A.C., *Regulatory Assessment Fees; Water and Wastewater Utilities*, which can be accessed at: <https://www.flrules.org>.



Tariff Requirements



Tariff Requirements

- A tariff contains all of the utility's rates, charges, and customer service policies that have been approved by the Commission.
- Rule 25-9, F.A.C., *Construction and filing of tariffs by public utilities*, contains the required content and organization of the tariff, as well as general instructions regarding making changes to the tariff.
- Utilities are required to maintain a copy of their current tariff at their local business office.



Types of Tariff Approvals and Revisions

- Original tariffs are approved in original certificate, grandfather certificate, and transfer cases.
- Revisions to rates may be approved as a result of a rate case, limited proceeding, index, or pass through.
- Revisions to a service availability policy or charges, miscellaneous service charges, customer deposits, or utility name may also be approved.



Effective Dates

- The Commission must approve or deny an application for an original certificate within 90 days after the application is completed. See Section 367.031, F.S., *Original certificate*.
- In rate cases, the Commission may approve interim rates within 60 days of the filing of an application, subject to refund, pending the outcome of staff's analysis. See Section 367.082, F.S., *Interim rates; procedure*.



Effective Dates (cont.)

- A rate case may take five to 15 months to complete, depending on the type of application and whether the Commission must conduct a hearing. See Sections 367.081, F.S., *Rates; procedure for fixing and changing*; 367.0814, F.S., *Staff assistance in changing rates and charges; interim rates*; 367.091, F.S., *Rates, tariffs; new class of service*.
- An index will become effective no less than 60 days after receipt of the application and a pass through will become effective no less than 45 days after receipt of the application. See Section 367.081(4), F.S., *Rates; procedure for fixing and changing*.



Effective Dates (cont.)

- Applications for a limited proceeding, revisions to a service availability policy or charges, miscellaneous service charges, customer deposits, or a utility name change must be completed within eight months. See Section 367.091, F.S., *Rates, tariffs; new class of service.*



Remember!

- A utility may only charge rates and charges that have been approved by the Commission.
- A change may not be made to a tariff without Commission approval.



Miscellaneous Service Charges



Miscellaneous Service Charges

Miscellaneous service charges are charges to individual customers for discrete services that are not recovered from the general body of ratepayers. In addition, they are:

- Designed to place the direct cost on the causer of the cost.
- Not typically “marked up” to include profit.



Miscellaneous Service Charges

- Initial reconnection charges are levied for service initiation at a location where service did not previously exist.
- Normal reconnection charges are levied for transfer of service to a new customer account at a previously served location or reconnection of service subsequent to a customer requested disconnection.



Miscellaneous Service Charges

- Violation reconnection charges are levied prior to reconnection of an existing customer after discontinuance of service for cause pursuant to Rule 25-30.320, F.A.C., *Refusal or Discontinuance of Service*, including a delinquent bill payment.
- Premises visit charges are levied when a service representative visits a premises at the customer's request for complaint resolution and the problem is found to be the customer's responsibility.



Miscellaneous Service Charges

- Premises visit charges in lieu of disconnection are levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.



Miscellaneous Service Charges

- A request for miscellaneous service charges should be accompanied by cost justification for each charge pursuant to Section 367.091(6), F.S., *Rates, tariffs; new class of service*.
- Customers should be noticed prior to the implementation of miscellaneous service charges.



Nonsufficient Funds and Late Payment Charges

- Nonsufficient funds charges are levied when checks are returned as unpaid from a financial institution. Nonsufficient funds charges are approved consistent with Sections 68.065, F.S., *Actions to collect worthless payment instruments; attorney fees and collection costs* and 832.08(5), F.S., *State attorney bad check diversion program; fees for collections*.
- Late payment charges are levied if the customer bill is not paid within 20 days after the utility has mailed or presented the bill for payment. A request for late payment charges should be accompanied by a cost justification.



Consumer Assistance Complaint Handling Process



Consumer Contact Information

For help solving regulated utility issues, consumers can reach PSC Consumer Assistance via one of the following methods:

- Toll-Free Phone
1-800-342-3552
- U.S. Mail
2540 Shumard Oak Blvd
Tallahassee, FL 32399

- Internet/Email

Contact@psc.state.fl.us

- Toll-Free Fax
1-800-511-0803



Consumer Contacts

- During 2014, the Florida Public Service Commission received approximately 1,000 inquiries/complaints regarding water and wastewater issues.
- The majority of inquiries/complaints involved rates, meter and billing accuracy, and quality of service.



Customer Complaint Rule

Rule 25-22.032, F.A.C., *Customer Complaints*

“It is the Commission’s intent that disputes between regulated companies and their customers be resolved as quickly, effectively, and inexpensively as possible.”



Customer Complaint Rule (cont.)

Rule 25-22.032, F.A.C, *Customer Complaints*:

- Establishes informal customer complaint procedures.
- Provides expedited processes for complaints that can be resolved quickly.
- Provides a process for informal Commission staff resolution of complaints that cannot be resolved by the utility and the customer.



Complaint Processing

Any customer of a utility regulated by the Commission may file a complaint with the Commission. Once a complaint is filed, the following actions occur:

- Customer contacts the Commission to file a complaint
- Complaint is forwarded to the utility
- Collection action is suspended on the disputed amount
- Utility has 15 working days to respond to the Commission
- Utility's response is received



Complaint Processing (cont.)

Staff reviews the utility's action on the complaint to determine if it is consistent with the following:

- Florida Administrative Code (Commission Rules)
- Commission Orders
- Utility Tariffs
- State Law



Proposed Resolution

- At the conclusion of staff's investigation, the customer and utility will be provided a proposed resolution to the complaint.
- The proposed resolution may be either oral or written.
- The customer and/or the utility may request that staff provide the proposed resolution in writing.
- The customer and/or the utility can object to staff's proposed resolution.



Process Review

- If the customer or the utility disagrees with staff's initial proposed resolution, the complaint will be referred to the Process Review Team.
- New staff is assigned to review the complaint.
- The customer and/or utility may be required to provide additional information.
- Staff may attempt to negotiate a settlement between the customer and the utility in an effort to resolve the complaint.
- If a settlement cannot be reached, staff will present a recommendation, regarding the complaint, to the Commissioners.



Process Review (cont.)

The customer will be sent a letter closing the complaint if any of the following are true:

- The complaint issue falls outside of Commission jurisdiction
- The relief sought can not be granted by the Commission
- The complaint objects to current statutes, rules, tariffs, or Commission orders
- No violation of statutes, rules, tariffs, or Commission orders occurred



Complaint Tracking

The Commission will send status reports to the utility via email and/or fax detailing complaint activity including the following:

- A weekly report of complaints received, complaints closed, and utility responses received
- A bi-monthly report of past due utility responses
- A monthly report summarizing all complaint activity



Company Information

- The utility should provide the following information for complaint processing purposes:
 - Consumer liaison
 - Mailing address and phone number
 - Email address
 - Fax number
- The Commission Clerk's Office should be notified of any changes to this information. All changes will be noted in the Master Commission Directory.



Commission Information

Questions regarding complaints from the utility should be directed to the PSC's Bureau of Consumer Assistance.

- Phone: (850) 413-6482
- Email: Contact@psc.state.fl.us
- U.S. Mail: 2540 Shumard Oak Blvd.
Tallahassee, FL 32399



Staff Assisted Rate Cases (SARCs)



Types of Rate Relief

There are multiple mechanisms of rate relief available to Class C water and wastewater utilities. These types of rate relief are discussed in separate sections of this manual and include the following:

- Staff Assisted Rate Case (SARC) - procedure whereby a utility qualifying for staff assistance petitions for approval to increase rates based on based on financial and operating data determined by staff
- Limited Proceeding - a procedure whereby a utility can seek an increase in rates for specifically identified costs



Types of Rate Relief (cont.)

There are multiple mechanisms of rate relief available to Class C water and wastewater utilities. These types of rate relief are discussed in separate sections of this manual and include the following (cont.):

- File & Suspend Rate Case – a procedure whereby the utility petitions for approval to increase rates and files detailed financial and operating data to support its proposed rates.
- Annual Price Index – an annual application that allows a utility to adjust rates based on current specific expenses without applying for a rate case



Types of Rate Relief (cont.)

There are multiple mechanisms of rate relief available to Class C water and wastewater utilities. These types of rate relief are discussed in separate sections of this manual and include the following (cont.):

- Pass Through Rate Adjustment – a process that allows a utility to recover increases or decreases in certain eligible expenses within a 45-day time frame
- Alternate Rate Setting – procedure whereby a utility qualifying for staff assistance can obtain a rate increase, limited to 50 percent of test year revenues, in an expedited manner to recover specifically identified costs



The SARC Application

- The SARC Application requires a utility to provide general, accounting, engineering, and rate data, as well as an affirmation that the data provided is true and correct.
- The SARC application can be accessed at the following link:
<http://www.floridapsc.com/utilities/waterwastewater/>



Notice to County for New Rates

Section 367.091(2), F.S., *Rates, tariffs; new class of service*, sets forth the following noticing requirements:

- Upon filing an application for new rates, the utility shall mail a copy of the application to the chief executive officer of the governing body of each county within the service areas included in the rate request
- The governing body may petition the Commission for leave to intervene in the rate change proceeding and the Commission shall grant intervener status to any governing body that files a petition



Staff Assignments

Once a SARC application is received by the Commission, the following staff assignments are made:

- Accountant
- Engineer
- Attorney
- Economic Analyst
- Auditor



Eligibility

- To be eligible for staff assistance, gross annual operating revenue must be less than:
 - \$275,000 for water service.
 - \$275,000 for wastewater service.
 - \$550,000 on a combined basis.
- In determining eligibility, the Commission will also consider:
 - Whether the utility is current with annual reports and regulatory assessment fees (RAFs). Calendar year RAFs are due the following March 31.



Eligibility (cont.)

- In determining eligibility, the Commission will also consider (cont.):
 - Whether the utility's application includes all relevant information and reasons for its requested increase.
 - Whether the utility was granted a rate case increase within the 2-year period prior to receipt of the application under review.
- If denied eligibility, the utility may request reconsideration by the full Commission.



Processing of Application

- Once the application review has been completed, the utility will receive a letter from the staff which indicates: (1) whether the SARC application has been approved, (2) what the appropriate filing fee is, and (3) when the filing fee is due.
- If the SARC application has been approved, the utility will receive another letter from audit staff indicating when the audit will occur and information to have available.
- The utility will receive another letter from the engineer indicating when the engineer inspection will occur and information to have available.



Filing Fees

SARC Filing Fees, per Rule 25-30.020, F.A.C., *Fees Required to be Paid by Water and Wastewater Utilities*, are based upon the equivalent residential connections (ERCs) capacity of the system.

Up to 100 ERCs	\$200
From 101-200 ERCs	\$500
More than 200 ERCs	\$1,000



Interim Rates 367.0814(4), F.S.

- The Commission may, upon its own motion, or upon petition from the regulated utility, authorize the collection of interim rates until the effective date of the final order.
- Such interim rates may be based upon a test period different from the test period used in the request for permanent rate relief.



Interim Rates 367.0814(4), F.S. (cont.)

- To establish interim relief, there must be a demonstration that the operation and maintenance expenses exceed the revenues of the regulated utility. Interim rates shall not exceed the level necessary to cover operation and maintenance expenses as defined by the Uniform System of Accounts for Class C Water and Wastewater Utilities (1996) of the National Association of Regulatory Utility Commissioners.



SARC Interim Rates

The Commission may require that the difference between the interim rates and the previously authorized rates be collected under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission.



Staff Assistance Statute - 367.0814(8), F.S.

If a utility becomes exempt from Commission regulation or jurisdiction during pendency of a staff assisted rate case:

- The request for rate relief is deemed to have been withdrawn.
- Interim rates, if previously approved, shall become final.
- Temporary rates, if previously approved, must be discontinued, and any money collected pursuant to the temporary rates, or the difference between temporary and interim rates, if previously approved, must be refunded to the customers of the utility with interest.



Case Assignment & Scheduling Record (CASR)

- The CASR lists actions to be undertaken in a filed case along with the due date for each action.
- A CASR can be accessed from the Commission's website as follows:
 - (1) Follow the link below:
<http://www.floridapsc.com/dockets/cms/>
 - (2) Search "By Docket Number" using only the first six digits of the docket number
- The table on this page details the actions to be taken in the case and the due date for each action.



Timeline

- The official filing date for a SARC is 30 days after official acceptance of the application.
- A SARC has a 15-month statutory deadline.
- It takes approximately six to seven months for a SARC application to be considered by the Commission at a regularly scheduled Commission Conference.



Approximate Timeline

From Receipt of Application

- Approval or Denial 1 month
- Filing Fee Due 2 months
- Audit 1-2 months
- Engineering Inspection 1-3 months
- Staff Report Finished 4 months
- Customer Meeting 5 months
- Initial Commission Vote 6-7 months
- Rates Effective 8-9 months
- Hearing (if necessary) 12 months
- Final Vote (if necessary) 15 months



Audit

- As part of the SARC process, technical staff requests that an audit be conducted. The appropriate field office will send an auditor to conduct a preliminary evaluation. The audit is usually completed two months after the SARC application is filed.
- The auditor sends a letter outlining information to have available and proposed dates of field work. The auditor will contact the utility one week before the audit commences.
- The field audit work may last up to three weeks depending on the condition of the utility's records.
- After the field audit work is completed, the auditor prepares the Audit Report.



The Audit Report

- The Audit Report contains findings that can include, but are not limit to, the following:
 - Assessment of whether the utility's book conform with the National Association of Regulatory Utility Commissioners Uniform System of Accounts
 - Identification of misclassified capital plant investments or operating expenses
 - Identification of unallocated costs from affiliated entities
- The utility is given a copy and may respond in writing to the Audit Report.



Books and Records

Water and wastewater utilities should:

- Use the 1996 NARUC Uniform System of Accounts.
- Keep all receipts, check stubs, and cancelled checks for all expenses.
- Keep all contracts.
- Keep all documentation of cost and work done for all capital expenditures.
- Properly record all allocated expenses.



25-30.433(10), F.A.C. - Water Treatment and Storage Used and Useful Calculations

- A utility is required to own the land upon which the utility treatment facilities are located, or possess the right to the continued use of the land, such as a 99-year lease.
- The Commission may consider a written easement or other cost-effective alternative.



The Engineering Analysis

As part of the SARC, an engineering analysis is undertaken. The engineering analysis can include an examination of plant in service, used and usefulness of water and wastewater facilities, quality of service, original cost study, pro forma improvements, and operational and maintenance expenses.



Field Inspection

- As applicable, the staff engineer's inspection will include an on-site review of the utility's water treatment facilities, wastewater treatment facilities, reuse facilities, and general service area.
- The staff engineer also reviews the utility's operation and maintenance records, plant monthly operator reports (MORs), customer complaint records, and customer consumption data.



Plant in Service

- Plant in service is the utility's plant investment devoted to public use for the provisions of water and wastewater service.
- Plant in service includes any of the following:
 - Water treatment plant
 - Wastewater treatment plant
 - Water transmission and distribution system
 - Wastewater collection system
 - Reuse facilities



Original Cost Study

- An original cost study is necessary when sufficient records are not available to support utility rate base and/or total system cost.
- The utility should provide the staff engineer anything that would help orient him/her to area-specific pricing and construction cost to the utility, as well as in-service dates.



Used & Useful Definition

Section 367.081, F.S.

- A utility is only allowed a rate of return on used and useful plant in service.
- The Commission shall consider property constructed or to be constructed to serve current customers.
- The Commission shall consider property constructed (or to be constructed) that is needed to serve customers five years after the end of test year at a growth rate not to exceed five percent per year.
- The Commission shall consider property constructed (or which needs to be constructed) to serve customers more than five years after the end of test year only to extent the utility provides clear and convincing evidence.



Used & Useful

Section 367.081, F.S. (cont.)

- All environmental compliance costs shall be considered 100 percent used and useful.
- Environmental compliance costs shall include all reasonable expenses and fair return on any prudent investment incurred in complying with the requirements or conditions contained in any permitting, enforcement, or similar decisions of the US Environmental Protection Agency (EPA), Florida Department of Environmental Protection (DEP), Water Management Districts (WMDs), or any other similar governmental entity.



Used & Useful Methodology

- Water Treatment Plant

Max Flow + Fire Flow +
Growth Factor – Unaccounted for Water
Plant Capacity



Used & Useful Methodology (cont.)

- Wastewater Treatment Plant

$$\frac{\text{Average Daily Flow}^* + \text{Growth Factor} - \text{Infiltration}}{\text{Plant Capacity}^*}$$

* Based upon permitted capacity



Used & Useful Methodology (cont.)

- Water Distribution/Wastewater Collection

$$\frac{\text{Connections in ERCs} + \text{Growth Factor}}{\text{Total Connections in ERCs}}$$



Water – Fire Flow Capacity

- Fire flow capacity is a recognition of the utility's ability to furnish fire protection.
- The minimum standard is 500 gallons per minute(gpm) for two hours.
- Higher standards may prevail in higher population density conditions or through special Fire Marshall specifications.



Unaccounted for Water

- Unaccounted for water is water is taken from a source into a distribution system which is not delivered to the customers or otherwise accounted. The Commission practice is to recognize an acceptable threshold of 10 percent unaccounted for water.
- Examples of accounted for water include water used for plant operations, line flushing, hydrant testing, hydrant use, sewer cleaning, and street cleaning.



Wastewater Infiltration/Inflow

- Infiltration is defined as extraneous flows (usually from ground water) that enter the wastewater system through openings in pipes.
- Inflow is defined as extraneous flows from sources other than infiltration, such as surface water run-off into manholes or from unauthorized connections.
- An acceptable level of infiltration and inflow is 500 gpm/inch diameter pipe/mile.
- Indications of possible infiltration/inflow include biological strength of the wastewater, chloride content, and wet weather flow fluctuations.



Quality of Service

- Pursuant to Rule 25-30.433(1), F.A.C., *Rate Case Proceedings*, the Commission in every rate case shall make a determination of the quality of service provided by the utility.
- The Commission's determination shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of utility's product (water and wastewater), operational conditions of utility's plant and facilities, and the utility's attempt to address customer satisfaction.



Determining Quality of Utility's Product

Water System

Chemical Analysis and Test Results

- Does the product meet DEP standards for safe drinking water?
- What do the secondary test results look like?
- Has the utility completed all testing parameters?
- Does the utility monitor all unregulated standards?
- Is disinfection maintained throughout the system?
- Is pressure in the system maintained above the minimum?



Determining Quality of Utility's Product (cont.)

Wastewater System

Chemical Analysis and Test Results

- Does the utility meet DEP standards for effluent discharge?
- Does the utility meet standards of treatment levels?
- What does the monitoring test results look like?
- Has the utility completed all testing parameters?
- Does the utility maintain proper levels of pH?
- Is proper retention maintained in Cl₂ contact chamber?
- Does the utility reach surface water, ocean alcohol levels?



Determining Quality of Utility's Product (cont.)

Wastewater System

Chemical Analysis and Test Results (cont.)

- Does the utility discharge wastewater through spray irrigation or wetland discharge?



Determining Quality of Utility's Plant

Operational Conditions at the Water & Wastewater Treatment Plant

- What is the general condition of the facilities?
- Does repair and maintenance occur on a regular basis?
- Are there any plant in service citations?
- Are there any violations or corrective orders?



Determining Quality of Utility's Public Relations

Customer Satisfaction

- Are there any customer complaints?
- Does the utility keep a complaint log?
- How quickly do complaints get resolved?
- How many billing and service complaints are there?
- Are there frequent service interruptions?
- Are there frequent sewer backups?
- Is the company testing meter accuracy upon request?
- Is the company proactively monitoring meter accuracy?



Pro Forma Adjustments

- Pro Forma Plant is defined as plant improvements to be completed after the end of the test year.
- Pro Forma Expense is defined as an expense increase/decrease to be incurred after the end of the test year.



Factors Analyst Considers

Factors staff analysts consider include the following:

- The engineer's recommendations on plant, related operation expenses, and used and useful
- Reasonableness of hours spent by the utility's employees performing their tasks (considerations include size, condition of plant, location, etc.)
- Comparison to previous cases and other utilities
- Adequate documentation of plant in service since last applicable Commission Order balance



Factors Analyst Considers (cont.)

Factors staff analysts consider include the following (cont.):

- Depreciation maintained in accordance with Rule 25-30.140, F.A.C. after March 1, 1984
- Balance of contributions-in-aid-of-construction (CIAC) and amortization of CIAC using composite rate
- Imputation of CIAC
- Application of used and useful percentage to depreciation and CIAC



Factors Analyst Considers (cont.)

Factors staff analysts consider include the following (cont.):

- Calculation of working capital allowance
- Capital structure issues such as return on equity (ROE) determination using the leverage graph, the cost of debt, and the weighted average rate on return
- Miscellaneous Service Charges
- Customer deposits
- Service Availability Charges



2014 Return on Equity Leverage Formula (PSC-14-0272-PAA-WS)

The Commission annually establishes by order a leverage formula that reasonably reflect the range of returns on common equity for an average water or wastewater utility.

$$2014 \text{ Return on Common Equity} = 7.13\% + (1.610/\text{Equity Ratio})$$

Range: 8.74 @ 100% equity
To 11.16 @ 40% equity

2015 Return on Equity Leverage Formula should be revised in Summer 2015. The Order will be found on the Commission's website under Docket No. 150006-WS.



The Staff Report

- The Staff Report comprises staff's preliminary recommendation of the revenue requirement designed to afford the utility an opportunity to earn a fair return on its prudent, used and useful plant investment and recover its reasonable operating expenses.
- The Staff Report also reflects staff's preliminary fall-out rates.
- The Staff Report forms the basis for conducting the customer meeting.
- Very often, the rates and requirements in the final recommendation to the Commissioners are different than those in the preliminary Staff Report.



Schedules in the Staff Report

The following schedules are included in each Staff Report:

- Rate Base
- Adjustments to Rate Base
- Capital Structure
- Net Operating Income (NOI) – including Revenue Requirement
- Adjustments to NOI (Revenues, Expenses, etc.)
- Operation & Maintenance (O&M)
- Four-year Rate Reduction
- Used & Useful



Rule 25-22.0407(9), F.A.C.

Customer Access

- A copy of the Staff Report must be made available for review by all interested persons at a convenient accessible site.
- Upon receiving staff reports, the utility shall place two copies of its application and Staff Report at its business offices in service area.
- Copies shall be available for inspection during regular business hours.
- If no office is available, copies should be placed at the main county library, local community center or other appropriate location willing to accept and provide to copies.



The Customer Meeting Notice

- The customer meeting notice will be mailed from Commission staff to the utility for customer distribution approximately 30 days prior to the customer meeting.
- A copy of the customer notice, as reproduced at the time, as it is distributed to customers, together with a cover letter indicating the exact date on which the notice was mailed or otherwise delivered to customers, must be sent to the Commission staff.



Notice of Customer Meeting

Utility shall provide Commission-approved written notice of customer meeting conducted by Commission staff no less than 14 days and no sooner than 30 days prior to the meeting date. The customer notice should be:

- Provided to all customers in service area.
- Provided to all persons who have been provided a written estimate for service within 12 calendar months prior to month application was filed.
- Mailed to out-of-town customers who have provided address to the utility.



Contents on Customer Notice

The customer notice must contain the following:

- Date notice issued
- Time, date, location, and purpose of the meeting
- A statement that the utility has applied for a staff assisted rate case, the docket number of the case, and general reasons for applying
- Location of the application and Staff Report available for public inspection and times when inspection can be made
- A comparison of current and proposed rates and charges
- The utility's address, telephone number, and business hours



Contents on Customer Notice (cont.)

The customer notice must contain the following (cont.):

- A statement that written comments regarding utility service or proposed rates and charges should be addressed to the Office of Commission Clerk and should reference docket number (include Commission address)
- A statement that service complaints may be made to Office of Consumer Assistance and Outreach at 1-800-342-3552 or website contact@psc.state.fl.us
- A statement that the Commission will be reviewing utility's service availability in the pending case and may adjust those charges



The Customer Meeting

- The purpose of the customer meeting is to receive customer comments regarding quality of service and to answer customer questions about the preliminary rates.
- The utility should coordinate with Commission staff for booking an appropriate site. The Commission will pay a fee if required.
- The utility is invited to attend but Commission staff will run the meeting.
- One or more Commissioners may attend.
- It's the customer's night, not the utility's.



Proposed Agency Action Process

- Proposed agency action (PAA) is a process in which a utility's request for a rate increase is voted on by the Commission and an order issued without holding a formal hearing.
- Staff will use the most current information in preparing its PAA recommendation which is completed about five to six weeks after the customer meeting.
- Staff files its PAA recommendations approximately 12 days prior to a regularly-scheduled Commission Conference where the Commissioners will either approve, deny or modify staff's recommendation.
- The utility and customers may speak at the Commission Conference.



After Commission Conference

- After the Commission vote at Commission Conference, a Commission PAA Order is issued within 20 days. The PAA Order memorializes the Commission's decision.
- A 21-day protest period then begins where any substantially affected party may protest the PAA Order and request a hearing pursuant to Section 120.57, F.S., *Additional procedures for particular cases*.
- The utility must agree to accept the final rates and charges set by the Commission unless they produce less revenue than the existing rates and charges.



After Commission Conference (cont.)

- The utility can put the new rates in effect after the vote if the Commission approves staff's recommendation; however, the approved increase is subject to refund and security would have to be provided. The alternative would be for the utility to wait until the expiration of the protest period.
- If no substantially affected party files a protest, the new rates will be effective upon issuance of a consummating order (usually three to five days after the expiration of the protest period).



PAA Protests

- Pursuant to Rule 25-22.0407(9)(e), F.A.C., *Notice of and Public Information for General Rate Increase Requests by Water and Wastewater Utilities*, if the Commission's PAA order is protested and hearings are scheduled, the utility shall give notice of hearings in accordance with subsections (6) and (7) of this rule.
- The hearing process could cost \$20,000 to \$40,000 or more, depending on the size and complexity of the case. Only that rate case expense judged to be prudent is recoverable by the utility through the rates.



If a Protest is Filed

- If a protest is filed, the utility may implement temporary rates, subject to refund with interest.
- The utility shall sponsor a witness to provide direct testimony regarding the appropriate rate base, capital structure, and revenue requirement, as well as its the fall-out rates. The utility witness may include factual testimony on any issues which the utility takes a different position on in the case.
- The utility must meet all requirements of the order establishing procedure.



If a Protest is Filed (cont.)

- Commission staff also may file pre-filed direct testimony to explain the analysis in its PAA recommendation, meet all requirements of the order establishing procedure, and provide utility materials to assist in the preparation of testimony and exhibits.



Financial Security

- Security protects both the customer and the utility.
- The following are acceptable forms of security:
 - Escrow account
 - Letter of credit
 - Bond
 - Corporate undertaking
- The security will be released, if no refunds are required or once Commission staff verifies the any required refunds have been completed.



Escrow Agreement

- An escrow account is where funds are deposited on behalf of a particular party but the funds are restricted from the general use of the party until certain conditions are met.
- For the Commission's purpose, an escrow agreement is an agreement between the utility, the Commission, and a bank where funds collected by the utility are deposited in the bank and earn interest but are not available for general use by the utility.
- If the Commission determines that the utility is entitled to the funds, the account reverts to the utility.
- If the Commission orders a refund, the funds will be used to make the refund.



Escrow Agreement (cont.)

- The advantages of an escrow agreement are as follows:
 - Easy to obtain
 - Should pay interest
 - Exact and readily available if a refund is required
- The disadvantages of an escrow agreement are as follows:
 - May involve fees not recoverable from ratepayers
 - Require an initial deposit
 - Funds are not accessible until the account is released with Commission approval



Letter of Credit

- A letter of credit is a legal obligation on the part of a bank to make good on payment of a fixed amount of money on behalf of its customers.
- For the Commission's purposes, a letter of credit insures that if the utility is unable to make a refund ordered by the Commission, the bank will step forward and lend the money to the utility to make the refund.



Letter of Credit (cont.)

- The advantage of a letter of credit is that rate funds are not tied up.
- The disadvantages of a letter of credit are as follows:
 - It involves a fee not recoverable from ratepayers (typically .5 percent - 2 percent of the loan amount)
 - It may be more difficult to obtain than an escrow account
 - In the event of a refund, there is not necessarily an “account” sitting ready to cover it



Corporate Undertaking

- A corporate undertaking is a guarantee or promise by the utility that it will refund interim rates or overcharges with interest to its customers if the Commission requires a refund.
- The level of security is based on the financial health of the utility.
- Assuming that the utility could support a corporate undertaking, the utility would simply refund the money from cash on hand or borrow funds in the short-term market.
- If the utility is unable to raise funds, the refund ordered on behalf of the ratepayers would become an unsecured debt obligation of the utility and collection would then be subject to litigation.



Corporate Undertaking (cont.)

- The advantages of a corporate undertaking are as follows:
 - It is lowest cost security
 - Rate funds are not tied up
- The disadvantages of a corporate undertaking are as follows:
 - It must have Commission approval
 - It typically requires a large, financially stable parent company



The Case is Over – Now What?

- Staff will send a letter with a proposed customer notice.
- Staff will assist the utility in revising its tariffs.
- Staff will assist in making sure language, revision levels, and rates in tariffs are revised appropriately.



Information Provided to Utility

- Staff will send a schedule detailing the appropriate plant in service, accumulated depreciation, contributions in aid of construction, and accumulated amortization.
- The utility is required to reconcile its books and records to the schedules provided by staff.



Notice Following Rate Change

- After the Commission issues an order granting or denying a rate change, the utility shall notify customers of the order and any revised rates.
- Notifications of revised rates shall be approved by Commission staff and be distributed by the utility no later than with first bill containing such rates.



Compliance

- The utility is required to make the plant improvements, etc., that the Commission has authorized and ordered.
- The Order is a legal document
- Pursuant to Section 367.121, F.S., *Powers of commission*, the Commission has the power to exercise all judicial powers necessary for enforcement of orders and requirements.



Compliance (cont.)

- If the utility does not comply with a Commission order and/or rules, and cannot provide support to justify why it could or did not comply, the Commission can Show Cause the utility.
- A Show Cause proceeding is initiated when a utility does not comply with a Commission order in a timely manner and does not have an acceptable explanation for the delay.



Show Cause Process

- Even if the utility does have an acceptable reason for non-compliance, a recommendation will need to be filed to be voted on by the Commissioners.
- Staff presents the case at Commission Conference and recommends that the utility be ordered to show cause why it should not be fined up to \$5,000 a day for violating Commission order (Section 367.161, F.S.).



If Pro Forma Plant NOT Installed

- If pro forma plant is not installed, at a minimum, staff will go back to a Commission Conference and recommend that rates be reduced on a going forward basis.
- If the situation changes after the case goes to a Commission Conference, the utility should notify staff immediately.
- Staff can work with the utility to discuss the most appropriate action to undertake.
- Notification may alleviate need for a show cause.



Staff Assistance In Alternate Rate Setting



Staff Assistance In Alternate Rate Setting

- Rule 25-30-456, F.A.C., *Staff Assistance in Alternative Rate Setting*, covers the timeframe, eligibility, rate increase limit, and the Proposed Agency Action (PAA) procedure for this type of case.
- Staff Assistance In Alternate Rate Setting is a procedure whereby a utility qualifying for staff assistance can obtain a rate increase in an expedited manner to recover operation and maintenance expense.



Advantages

The advantages include the following:

- Quick turnaround
- Minimized time and cost of processing an increase
- Reduced likelihood of a protest
- Reduced likelihood of rate shock between Staff Assisted Rate Cases (SARCs)
- Opportunity to recover increased operation and maintenance costs to remain a viable utility



Staff Assistance Eligibility

To be eligible for staff assistance, gross annual operating revenue must be less than:

- \$275,000 for water service.
- \$275,000 for wastewater service.
- \$550,000 on a combined basis.

In determining eligibility, the Commission will also consider:

- Whether the utility is current with annual reports.
- Whether the utility is current with regulatory assessment fees (RAFs). Calendar year RAFs are due the following March 31.



Filing Fees

Filing Fees per Rule 25-30.020, F.A.C., *Fees Required to be Paid by Water and Wastewater Utilities*, are based upon the equivalent residential connections (ERCs) capacity of the system:

Up to 100 ERCs	\$200
From 101-200 ERCs	\$500
More than 200 ERCs	\$1,000



Staff Assistance In Alternate Rate Setting

Section 367.091(2), F.S., *Rates, tariffs; new class of service*, sets forth certain noticing requirements.

- Upon filing an application for new rates, the utility shall mail a copy of the application to the chief executive officer of the governing body of each county within the service areas included in the rate request.
- The governing body may petition the Commission for leave to intervene in the rate change proceeding and the Commission shall grant intervener status to any governing body that files a petition.



Rate Increase

- Commission staff will compare operation and maintenance expenses to test year operating revenues.
- The maximum increase is 50 percent of test year revenues.
- There is no review of the utility's rate base.
- Allowance for return on working capital is determined using the one-eighth of operation and maintenance expense formula approach.



Timeframe

- The official date of filing will be 30 days after official acceptance of the application.
- Commission shall vote on a PAA Recommendation establishing rates no later than 90 days from the official filing date. A Commission order will be issued within 20 days of the vote followed by a 21-day protest period.



Protest Situation

If a protest is filed:

- The utility may implement temporary rates, subject to refund with interest.
- The utility shall provide direct testimony, through the sponsor of a witness, regarding the appropriate rate base, capital structure, and revenue requirement, as well as its fall-out rates. The utility witness may include factual testimony on any issues which the utility may take a different position on in the case.
- The utility must meet all requirements of the order establishing procedure.
- The maximum 50 percent increase no longer applies.



Annual Reports



Annual Reports

An Annual Report is a document that details the financial and operational data of the utility.

- Chapter 367.121, F.S., *Powers of commission*, authorizes the PSC to require an Annual Report and to specify a uniform system of accounts.
- The PSC requires the use of the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA), as specified in Rule 25-30.115, F.A.C., *Uniform System of Accounts for Water and Wastewater Utilities*.
- Without current Annual Reports on file, a utility cannot have a price index or pass through rate increase.



The Main Rules Governing Annual Reports

Rule 25-30.110, F.A.C.

Rule 25-30.110, F.A.C., *Records and Reports; Annual Reports*, addresses the following:

- Books & records – NARUC USOA
- Location of books and records
- Reconciliation of books and records with the Annual Report
- Filing extensions
- Determination of Class A, B, or C report



The Main Rules Governing Annual Reports

Rule 25-30.110, F.A.C. (cont.)

Rule 25-30.110, F.A.C., *Records and Reports; Annual Reports*, addresses the following (cont.):

- Certification of the Annual Report
- Penalty for non-compliance
- Delinquent reports
- Incomplete reports
- Incorrect filings
- Insufficient copies (1 original, 2 copies; Fine: \$1 per page)



Who Has to File an Annual Report?

- Rule 25-30.110(3), F.A.C., *Records and Reports; Annual Reports*, addresses the obligation of a utility under the Commission's jurisdiction to file an Annual Report for any given year on or before December 31 of that year whether or not the utility has applied for or been issued a certificate.
- If a utility is sold during the year, the buyer must make sure that the Annual Report data is completed for the whole year, including the portion of the year under prior ownership.



Preservation of Records

- Rule 25-30.115, F.A.C., *Uniform System of Accounts for Water and Wastewater Utilities*, requires compliance with the NARUC USOA. The cost for by utility class and service are listed below.

	Water	Wastewater
Class A	\$28	\$27
Class B	\$23	\$25
Class C	\$18	\$19

- Further, *Regulations to Govern the Preservation of Records of Electric, Gas and Water Utilities* is issued by NARUC, last revised in 2007 at a cost of \$20.



NARUC Address

To obtain a copy of the *Uniform System of Accounts for Water and Wastewater Utilities* and/or *Regulations to Govern the Preservation of Records of Electric, Gas and Water Utilities*, contact NARUC at:

1101 Vermont Ave, NW, Suite 200
Washington, DC 20004

Telephone: (202) 898-2200

Facsimile: (202) 898-2213

Website: naruc.org



Location of Books and Records

- The utility must maintain its books inside Florida, unless it is authorized by the PSC to locate its books outside Florida.
- If the utility's books are located out of state, and cannot be made available in Florida, the utility must reimburse the travel costs of Commission representatives.



Other Information Required

The following shall be furnished to the Commission as required for determining rates or judging utility practices, and shall be consistent with and reconcilable with the Annual Report:

- Any required tests
- Any information on utility facilities or operations (including Minimum Filing Requirements)



Distribution of Annual Report Forms

- The Commission mails a copy of a blank Annual Report to all jurisdictional water and wastewater utilities by January 15.
- The utility should contact the Division of Accounting and Finance if it does not receive the form by early February or if the utility receives the wrong class report.
- Blank Annual Report forms are available through the PSC website:
<http://www.floridapsc.com/utilities/waterwastewater/annualreport/index.aspx>.
- Failure to receive the form or receiving the wrong class report does not excuse the utility from timely filing the appropriate report.



Due Dates and Extensions

- The original and two copies are due no later than March 31 for the preceding year.
- One automatic 30 day extension will be granted upon written request.
- A request for a longer extension shall be accompanied by a statement of good cause and shall specify the date by which the report shall be filed.



Penalties, Interest & Fines

- Delinquent Reports (per Rule 25-30.110, F.A.C., *Records and Reports; Annual Reports*)
 - \$25.00 per day for Class A
 - \$13.50 per day for Class B
 - \$3.00 per day for Class C
 - This is levied and enforced.
- Insufficient Copies
 - \$1 per missing page per copy.



Penalties, Interest & Fines (cont.)

- Failure to File
 - Commission may impose penalties depending on flagrant disregard or repeated violations.
- Interest
 - Failure to pay penalty shall be subject to interest.



Class A/B Annual Reports

The executive summary section of the Annual Report only applies to Class A and B utilities, and it contains the following information:

- Certification of Annual Report
- General information
- Directory of personnel
- Company profile
- Parent/affiliate organization chart
- Compensation of officers & directors



Class A/B Annual Reports (cont.)

The executive summary section of the Annual Report only applies to Class A and B utilities, and it contains the following information (cont.):

- Business contracts with officers, directors & affiliates
- Affiliation of officers & directors
- Businesses that result from providing water & wastewater services
- Business transactions with related parties



Financial Section

- Comparative Balance Sheet
 - $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$.
- Income Statement
 - Net Operating Income is derived from Operating Revenues less Operating Expenses.



Cost of Capital Section

- The methodology of cost of capital must be calculated using the same methodology used in the last rate proceeding using current Annual Report year-end amounts and cost rates.
- The mid-point of the last authorized Commission approved return on equity (ROE) should be used. The current leverage formula should be used if an ROE has not been established.
- The Commission-approved allowance for funds used during construction (AFUDC) rate should be used.



Water & Wastewater Operating Sections

A separate set of operating schedules must be included for each water & wastewater system.



Year-End Rate Base Section

Rate base includes the following components:

- Plant in service and land
- Accumulated depreciation
- Contribution in aid of construction (CIAC)
- Accumulated amortization of CIAC
- Construction work in progress
- Acquisition adjustment
- Working capital



Plant In Service

Plant in service does not include the following:

- Plant leased to others
- Property held for future use
- Utility plant purchased or sold
- Construction work in progress (CWIP)
- Completed construction – but not classified



Non-Used & Useful Plant

Non-used and useful plant should be estimated based on the methodology used in the utility's last rate proceeding and excluded from rate base.



Contribution in Aid of Construction (CIAC)

CIAC is defined as any amount or value of money, services, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility, and which is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public.



CIAC (cont.)

Pursuant to Rule 25-30.515, F.A.C., *Definitions*, CIAC includes the following:

- Plant capacity charges - a charge made by the utility for the purpose of covering all or part of the utility's capital costs in construction or expansion of treatment facilities
- Main extension charges - a charge made by the utility for the purpose of covering all or part of the utility's capital costs in extending its off-site water or wastewater facilities to provide service to specified property. The charge is determined on the "hydraulic share" basis or other acceptable method reasonably related to the cost of providing the service



CIAC (cont.)

Pursuant to Rule 25-30.515, F.A.C., *Definitions*, CIAC includes the following (cont.):

- Customer connection charges - any payment made to the utility for the cost of installing a connection from the utility's water or wastewater lines, including but not limited to the cost of piping and the meter installation fee
- Meter installation charges - the amount authorized by the Commission which is designed to recover the cost of installing the water measuring device at the point of delivery including materials and labor required



CIAC (cont.)

- These charges, generically called Service Availability Charges, if approved in the utility's tariff, are paid by each new customer connecting to the utility's system.
- The accumulated balance of CIAC is used to offset the amount of plant included in rate base.
- The intended use of CIAC funds is not to pay for day-to-day operations, but rather to fund improvements and expansions.
- The PSC's maximum guideline is to set service availability charges such that no more than 75 percent of gross plant in service is contributed.
- "Over-contribution" may result in a negative rate base.



Amortization of CIAC

- If CIAC were not amortized, the utility could eventually end up with a negative rate base as the plant in service becomes fully depreciated.
- Net plant would get smaller and smaller, while CIAC, as an offsetting item, would stay the same size.
- Just as the gross CIAC balance offsets gross plant in service, the accumulated amortization of CIAC offsets accumulated depreciation.
- Each year's amortization expense offsets each year's depreciation expense.



Amortization of CIAC (cont.)

- The depreciation rate set forth in Rule 25-30.140, F.A.C., *Depreciation* should be applied to the contributions directly related to a particular asset.
- For all other CIAC, the composite depreciation rate should be used.



Acquisition Adjustments

- An acquisition adjustment results when the purchase price differs from the net book value of the assets at the time of the acquisition.
- A positive acquisition is the result of the purchase price being greater than the net book value of the assets.
- A negative acquisition is the result of the purchase price being less than the net book value of the assets.
- Only those acquisition adjustments that have been approved by the Commission should be included in rate base.
- Unapproved acquisition adjustments are reflected on the utility's balance sheet but not rate base.



Working Capital

- Class A utilities must use the balance sheet method which basically is current assets less current liabilities.
- Class B and C utilities must use the formula method, which is calculated as one-eighth of a utility's operation & maintenance expenses.



Operating Revenue

Operating revenue includes the following:

- Revenue collected directly from service rates
- Guaranteed revenue
- Fire protection revenue
- Irrigation revenue
- Resale revenue
- Miscellaneous service charges



Operating Revenue Does Not Include:

Revenue does not include the following:

- Revenue from related companies
- Loans or cash advances
- AFPI (“below the line”) revenue
- Contributions in aid of construction (service availability charges)
 - Tap-in or main extension charges
 - Plant or system capacity charges
 - Meter installation charges



NARUC Account Definitions

- **Contractual Services – Billing:** These accounts shall include the costs associated with billing customers for water/wastewater service if such work is not performed by employees of the utility.
- **Contractual Services – Professional:** These accounts shall include the cost of accounting, legal, and engineering if such work is not performed by employees of the utility.
- **Contractual Services – Testing:** These accounts shall include the costs paid to outside laboratories for testing.



NARUC Account Definitions (cont.)

Contractual Services – Other: These accounts shall include the cost of operation and maintenance work not performed by utility employees. These accounts shall also include the cost of management and data processing if such work is not performed by employees of the utility.



Composite Depreciation Rate

To derive the composite depreciation rate, divide the yearly depreciation expense by the gross plant in service (less land).

- Example:
 - $\$35,148/\$1,252,156 = .028 = 2.8$ percent
 - Composite depreciation rate = 2.8 percent
 - Apply 2.8 percent to the CIAC balance at the first of the year, and add a half year of amortization for the year's additions.

OR

- Use 3.1 percent in lieu of calculating a composite rate. Apply it in the same manner.



Certification of Annual Report

Chief Executive Officer & Chief Financial Officer shall certify the following in writing:

- Compliance with NARUC USOA
- Compliance with rules & Commission orders
- Non-compliance with financial reporting requirements from regulatory agencies
- Financial statements fairly present financial condition and operations, and the Annual Report is true, correct & complete



Important Points

- All relevant utility expense should be recorded.
- Expense should be recorded even if the expense is not paid. (example – owner’s salary.)
- The accrual accounting method should be used – not a cash basis.



Common Errors

Common errors on Annual Reports include:

- Incomplete related party information.
- Cost of capital calculation errors.
- Information that does not match books and records.
- Support schedules that do not tie to summary schedules.
- Incorrect depreciation rates used or reported.



Annual Report Corrections

- If Annual Report corrections are required by the Commission, the utility will be notified to send corrected copies by a certain date.
- The penalty for late corrections is \$3 per day.



File & Suspend Rate Cases



Basics of a File & Suspend Rate Case

A file and suspend rate case is a process required to be used by Class A and Class B water and wastewater utilities. Under this process, the utility petitions for approval to increase rates and files detailed financial and operating data to support its proposed rates. Within 60 days of the filing date, the Commission must take action to suspend the proposed rates, or the rates as proposed by the utility will become effective upon filing revised tariffs.



Basics of a File & Suspend Rate Case (cont.)

- When and who should file a rate case?
- How should a utility choose a test year?
- What has to be filed?
- What customer notices are required?
- What are the common pitfalls in a rate case?



When to File a Rate Case

- Timing is a utility management decision.
- Utility management should evaluate whether the utility is losing money or earning less than a fair rate of return.
- Utility management should evaluate other processes available to increase rates, such as limited proceeding, or price index or pass through rate adjustments to determine if these alternatives will provide sufficient revenue recovery.



Who Files a Rate Case

- Generally, Class A and B utilities use the file and suspend rate case proceeding.
- Class C utilities can use this procedure but it is expensive.

Note: *Class A* (utilities that have annual water or wastewater operating revenues of \$1,000,000 or more); *Class B* (utilities that have annual water or wastewater revenues of \$200,000 or more but less than \$1,000,000); and *Class C* (utilities that have annual water or wastewater revenues less than \$200,000).



What Factors Drive the Need For a Rate Case

Factors that drive the need for a rate case include major plant expansions, major changes in operations, and government mandated projects.



Test Year Approval

Pursuant to Rule 25-30.430, F.A.C., *Test Year Approval*, a test year can be historic or projected but it should be representative of future operations.



Test Year Approval – Historic Test Year

A historic test year is applicable when a utility has the following:

- Relatively low growth in customers
- Few changes in operations or major expenses
- Pro forma adjustments can be applied easily



Test Year Approval – Projected Test Year with Historic Base Year

A projected test year is applicable when a utility has moderate to high customer growth, material operational changes that will occur outside of the historical base year, and major plant expansion for growth and/or non-growth.



Test Year Approval - Letter of Request to Chairman

In its Letter of Request to the Chairman, the utility must:

- Specify final and interim test year (if applicable), including requested base and intermediate years.
- Explain why the test year is representative.
- Identify any major operational changes.
- State whether Proposed Agency Action (PAA) process is being requested.



Test Year Approval - Letter of Approval From Chairman

The Letter of Test Year Approval states the following:

- Docket number
- Final and interim test year
- Minimum Filing Requirements (MFRs) due date
- Any information not submitted with application may not be considered by the Commission.
- Approval of the test year for filing purposes does not mean that an issue regarding the appropriateness of the test period could not be raised at any time during the proceeding.



Petition and Minimum Filing Requirements

- A Class A utility must complete Form PSC/ECR 19-W (11/93), titled “Class A Water and/or Wastewater Utilities Financial, Rate and Engineering Minimum Filing Requirements”.
- A Class B utility must complete Form PSC/ECR 20-W (11/93), titled “Class B Water and/or Wastewater Utilities Financial, Rate and Engineering Minimum Filing Requirements”.
- Once submitted, staff reviews the MFRs to ensure that they are complete and comply with MFR Rules.
- If complete, the date that the application was filed becomes the official filing date for a PAA rate case.



MFR Deficiencies

MFR deficiencies arise when a utility fails to include all required information as specified on each page of the minimum filing requirements or fails to comply with the following Commission rules:

- 25-30.436, F.A.C. - *General Information and Instructions Required of Class A and B Water and Wastewater Utilities in an Application for Rate Increase*
- 25-30.437, F.A.C. – *Financial, Rate and engineering Information Required of Class A and B Water and Wastewater Utilities in an Application for Rate Increase*
- 25-20,438, F.A.C. – *Information Require in Application for Rate Increase From Utilities with Related Parties*
- 25-30.4385, F.A.C. – *Additional Rate Information Required in Application for Rate Increase*



MFR Deficiencies (cont.)

MFR deficiencies arise when a utility fails to include all required information as specified on each page of the minimum filing requirements or fails to comply with the following Commission rules (cont.):

- 25-30.440, F.A.C. – *Additional Engineering Information Required of Class A and B Water and Wastewater Utilities in an Application for Rate Increase*
- 25-30.4415 F.A.C. – *Additional Information Required in Application for Rate Increase by Utilities Seeking to Recover the Cost of Investment in the Public Interest (if applicable)*



MFR Deficiencies (cont.)

- If the utility's MFRs are incomplete, staff sends out a deficiency letter identifying the deficiencies that must be cured.
- When staff has verified that all MFRs have been met, then the official date of filing is established as of the date that the completed information was submitted by the utility.



Noticing Requirements

Rule 25-22.0407, F.A.C., *Notice of and Public Information for General Rate Increase Requests by Water and Wastewater Utilities*, sets forth the noticing requirements for General Rate Increase Requests by Water and Wastewater Utilities.



Notice at Time of Filing

A copy of the minimum filing requirements (MFRs) and rate case synopsis must be sent to the CEO of the cities and counties in the service area.



Other Required Notices

- An initial customer notice is due no later than 50 days from the Official Filing Date in a Proposed Agency Action (PAA) case and the Filing Date in a Formal Hearing Case.
- A customer meeting or service hearing notice is due no sooner than 14 days and no later than 30 days prior to the date established for the meeting or service hearing.
- If applicable, an interim rate increase notice is required before interim rates can be effective.
- A PAA or formal rate increase notice is required before rates can be effective.



Section 367.082, F.S., Interim Rates; Procedure

- The Commission shall approve interim rates within 60 days of filing the petition, not the official date MFRs are completed, once prima facie entitlement is demonstrated. Prima facie entitlement is when a utility makes a showing of interim increase within the four corners of its filing.
- Interim adjustments should be consistent with the utility's last rate proceeding.
- No projected test year or pro forma adjustments are allowed.
- The minimum of the last authorized return on equity should be used.
- Utility must annualize only revenue changes during test the year.



Proposed Agency Action Process

- Proposed agency action (PAA) is a process in which a utility's request for a rate increase is voted on by the Commission and an order issued without holding a formal hearing.
- The utility must request the PAA process to be used at the time the utility requests the Commission approve its test period for its proposed rate case.
- The Commission's PAA order will become a final order if a protest to the order is not filed.
- A customer meeting is held prior to the Commission's vote on the utility's rate increase request.



Proposed Agency Action (PAA) Process (cont.)

What does the Commission do?

- Audit
- Staff Analyses
- Customer Meeting
- Staff PAA Recommendation
- Commission Conference



Audit

- Staff performs an audit of the utility's books and records.
- After staff issues an Audit Service Request (ASR), the audit of books and records is completed in 60 days from the issuance of the ASR.
- The utility is requested to provide a response to any findings in the audit report issued by staff.



Staff Analyses

The purpose of staff analyses is to verify the accuracy of the data included in the utility's MFRs. Staff analyses include the following:

- An engineering evaluation regarding used and useful analysis, quality of service and utility operations
- Accounting, rate and billing issues developed through the review of MFRs and utility responses to staff data requests
- Comparison of the prior test year to the current adjusted test year to identify potential anomalies



Staff Analyses (cont.)

The purpose of staff analyses is to verify the accuracy of the data included in the utility's MFRs. Staff analyses include the following (cont.):

- Benchmarking customer growth, inflation, and operation and maintenance (O&M) expenses to justify any expense increase and evaluate reasonableness
 - Although staff utilizes benchmarking for analysis, it does not automatically recommend disallowance for amounts above the benchmark or prudence for amounts below the benchmark.



Staff Analyses (cont.)

The purpose of staff analyses is to verify the accuracy of the data included in the utility's MFRs. Staff analyses include the following (cont.):

- Reviewing all related party transactions and charges to determine if costs are equal to or below market value
 - Staff exercises greater scrutiny in examining related party transactions because of the influence that could be exerted.
 - Section 367.156(1), F.S., Public utility records; confidentiality, and Rule 25-30.436(4)(h), F.A.C., General Information and Instructions Required of Class A and B Water and Wastewater Utilities in an Application for Rate Increase are both applicable.



Customer Meeting

- The purpose of a customer meeting is to answer customer questions and receive customer comments regarding:
 - The quality of service provided by utility.
 - The utility's interaction with its customers.
 - The proposed rate increase.
- The utility and the Office of Public Counsel (OPC), the ratepayer's advocate, may attend.
- This meeting is held in the service area or as close as possible.



PAA Recommendation

- Staff's recommendation is a culmination of information from the utility's filing, the staff audit report, the utility's responses to the audit report and data requests, and the engineering evaluation.
- It contains a revenue requirement that staff recommends will afford the utility an opportunity to earn a fair rate of return on its investment and recover prudent and reasonable expenses.



PAA Commission Conference

- The utility, customers, and OPC may speak at the Commission Conference.
- The Commission will either approve, deny or modify staff's recommendation.



After Commission Conference

- A PAA Order, that memorializes the Commission's decision, is issued 20 days after its Conference.
- After a PAA Order is issued, a 21-day protest period commences where a substantially affected party can request a hearing.
- If a party other than the utility protests, the utility's final requested rates may be implemented, subject to refund.
- If no timely protest is filed, the PAA rates can become effective on the stamped approval date of the tariffs, provided adequate customer notice.



Protest

If a protest is filed:

- It must be completed in 8 months.
- A hearing in the service territory must be conducted.
- Customers can testify.
- Parties and staff will litigate issues.



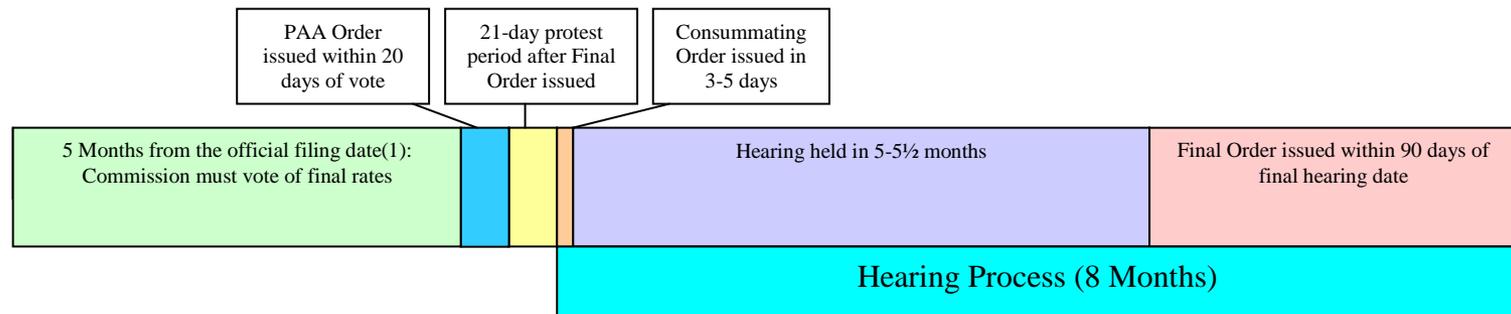
Hearing

Each party is responsible for:

- Filing witness testimony.
- Conducting discovery (including depositions).
- Preparing cross-examination.
- Attending the prehearing conference in Tallahassee.



PAA and Hearing Timeline



- (1) Official Filing Date occurs when all minimum filing requirements have been met.
(2) The hearing process will commence if there is a protest filed within the 21-day protest period.

The Audit Process



Initiating the Audit

- An audit is conducted to evaluate the books and records of the utility.
- To determine initial eligibility for a staff assisted rate case, an auditor will contact the utility to determine basic information such as location and availability of records.
- Once Commission staff determines that the utility is eligible for a staff assisted rate case, an auditor will contact the utility to initiate the audit.



During the Audit

- The auditor will obtain information and documentation from the utility needed for the audit.
- The auditor will ask for invoices, cancelled checks, billing registers, general ledgers, contracts, and tax returns.
- The auditor will tour the plant site and discuss pertinent matters with utility personnel.



The Audit Report

Commission auditors will issue a report that will:

- Explain the procedures used to meet stated objectives.
- Include a Rate Base Exhibit, a Net Operating Income Exhibit, and a Capital Structure Exhibit.
- Contain findings that will adjust the utility amounts on the exhibits for regulatory purposes or disclose information that may influence the decision process.



The Audit Report (cont.)

- Commission auditors will provide a copy of the report to the utility.
- The utility will have an opportunity to respond in writing to the report.



Limited Proceedings



Initiation of a Limited Proceeding

- A Limited Proceeding is a procedure whereby a utility can seek an increase in rates for specifically identified costs.
- Limited Proceedings can be initiated by a utility or the Commission.



Scope of Limited Proceeding

- A Limited Proceeding is typically narrow in scope and not a substitute for a full rate case.
- Unlike a rate case, it is usually not a full make-whole proceeding.
- A Limited Proceeding has no statutory time frame limitation to process the request.



Scope of Limited Proceeding

- A Limited Proceeding may be an appropriate course to take if the utility had a recent rate case.
- A utility may need to file a rate case if the change(s) are broad in scope and the utility has not had a recent rate case.



Limited Proceeding Considerations

When evaluating the utility's request for a Limited Proceeding, the Commission will consider:

- Whether the filing includes more than four separate projects for which recovery is sought and the requested rate increase exceeds 30 percent.
- If the utility has not had a rate case in the last seven years and the requested rate increase exceeds 30 percent.
- Whether the filing is the result of the complete elimination of the water or wastewater treatment process and the requested rate increase exceeds 30 percent.



Common Uses

A Limited Proceeding is used to address issues such as the following:

- Plant improvements (e.g. storage tanks, percolation pond, replacement or relocation of lines, major plant damage, construction or relocation of wells)
- Material increases to expenses (e.g. new chemical costs, additional operator, major maintenance costs)
- Rate restructuring (e.g. flat to measured service, conservation rates).



Pertinent Rules

- Rule 25-30.445, F.A.C., *General Information and Instructions Required of Water and Wastewater Utilities in an Application for a Limited Proceeding.*
- Rule 25-30.446, F.A.C., *Notice of and Publication Information for Application for Limited Proceeding Rate Increase.*



Filing Requirements

The utility must include the following in its filing:

- Rate base components
- Plant in service, accumulated depreciation, depreciation expense, and supporting detail shall be provided by primary account
- Calculation of the weighted average cost of capital
- Reason(s) why the Limited Proceeding has been requested
- Detailed description of the expense(s) requested



Filing Requirements (cont.)

The utility must include the following in its filing (cont.):

- Calculations of all items that will create cost savings or revenue impacts
- Supporting documentation of calculations or assumptions made
- Revenue increase requested, including regulatory assessment fees and income taxes, if appropriate, and annualized revenues
- Current and proposed rates
- If the utility is requesting a change in rate structure, it must provide a copy of all work papers and calculations



Filing Requirements (cont.)

The utility must include the following in its filing (cont.):

- The rule or order from the governmental or regulatory agency mandating the investment or increased expense
- An estimate by a professional engineer supporting the projected cost and the construction time of any improvements
- Adjustments to rate base, net operating income, and cost of capital schedules that reflect adjustments consistent with the utility's last rate proceeding



Achieved Rate of Return

The utility must show that for the most recent 12-month period, without increased rates, it will earn below its authorized rate of return in accordance with Section 367.082, F.S., *Interim rates; procedure*.



Rate of Return

- Rate of return is not changed unless it is specifically addressed.
- The Commission may update the return on equity to the most recent leverage formula.



Additional Requirements

The utility must provide a statement as to whether rate base has declined or whether any expense recovery sought is offset by one of the following:

- Customer growth since last rate proceeding
- Future customer growth expected to occur within one year of the date new rates are implemented



Limited Proceeding Filing Fees

<u>Fee</u>	<u>Equivalent residential connections (ERCs) capacity of the system</u>
\$100	up to 100 ERCs
\$200	from 101 to 200 ERCs
\$300	from 201 to 500 ERCs
\$1,000	from 501 to 2,000 ERCs
\$1,750	from 2,001 to 4,000 ERCs
\$2,250	more than 4,000 ERCs



Notice Requirements

Rule 25-30.446, F.A.C., *Notice of and Public Information for Application for Limited Proceeding Rate Increase* sets forth the noticing requirements.



Notice to County

- Upon filing for a Limited Proceeding, the utility must mail a copy of application to CEO of governing body of each county within service areas.
- The governing body may intervene in the rate change proceeding.



Other Notice Requirements

The utility must adhere to the following noticing requirements:

- Petition and MFRs at business offices in service area
- Newspaper notice in the service area
- Initial customer notice 50 days after the official date of filing
- Customer meeting notice – no less than 14 days and no more than 30 days prior
- PAA and other order notices required by a rate change



Example No.1

Change in Rate Base

Assumption:

Cost of Additional Plant	\$100,000
Life of Asset	40 Years
Income Tax	15%
Depreciation Rate	2.5%
Rate of Return	10.65%
Regulatory Assessment Fee	4.5%
Annualized Revenue	\$150,000



Computation

\$100,000	Cost of Additional Plant
<u>(1,250)</u>	Accum. Depreciation(1/2 yr)
98,750	Net Effect on Rate Base
<u>x 10.65%</u>	Rate of Return
<u>\$ 10,517</u>	Revenue Effect of Additional Plant (Net Operating Income)

Other Adjustments:

\$ 2,500	Depreciation Expense
<u>1,577</u>	Income Tax Expense
\$ 14,594	Total Revenue Effect
<u>÷ .955</u>	Gross-up for RAFs
\$ 15,282	Additional Revenue Requirement
<u>÷ 150,000</u>	Annualized Revenue
<u>10.19%</u>	Percentage Increase



Example No. 2

Effect of a Change to Operating Expenses

Assumption:

Increase in Sludge Hauling Expense	\$10,000
Regulatory Assessment Fee (RAF)	4.5%
Income Tax	15%
Rate of Return	10.65%
Annualized Revenue	\$150,000



Computation

\$ 10,000	Increase in the Expense
÷ <u>.955</u>	Gross-up for RAFs
\$ 10,471	Additional Revenue Requirement
÷ <u>150,000</u>	Annualized Revenue
<u><u>6.98%</u></u>	Percentage Increase

** Note: There is no income tax adjustment because there is no effect on revenue net operating income.*



Example No. 3

A Change That Effects Rate Base and Operating Expenses

Assumptions:

Net Plant Addition	\$100,000
Life of an Asset	40 Years
Income Tax	15%
Additional Sludge Hauling Fee	\$10,000
Depreciation Rate	2.5%
Rate of Return	10.65%
Regulatory Assessment Fee (RAF)	4.5%
Annualized Revenue	\$150,000



Computation

\$100,000	Net Plant Addition
<u>(1,250)</u>	½ Year Depreciation
<u>\$98,750</u>	Rate Base Effect of Additional Plant
<u>X 10.65%</u>	Rate of Return
<u>\$10,517</u>	

Other Adjustments:

\$ 2,500	Depreciation Expense
<u>1,577</u>	Income Tax Expense
\$14,594	Total Revenue Effect
<u>+ 10,000</u>	Net Sludge Hauling Expense
\$ 24,594	Revenue Requirement
<u>÷ .955</u>	Gross-up for RAFs
\$25,753	Revenue Requirement
<u>÷ 150,000</u>	Annualized Revenue
<u>17.17%</u>	Percentage Increase



Months to Process Case

The amount of time it takes to process a case varies, but generally takes five to seven months, depending on the following:

- Complexity of issues
- How well the case is documented
- Whether an audit is required



Emergency Rate Relief?

- The interim statute does not apply to Limited Proceedings.
- Emergency or temporary rates have been allowed in certain circumstances, depending on how long the case will take, but the emergency must be documented.



Audit of Utility

An audit may be needed depending on the following:

- Date of last rate proceeding
- Number of issues in current case
- Overall earnings of utility



Common Problems

Common problems faced in Limited Proceedings include the following:

- Lack of sufficient documentation
- Requesting additional items in the middle of case
- Case evolves into an earnings evaluation
- Lack of identification of offsetting decreases in costs



Service Availability Policy and Charges



Service Availability Policy and Charges

- Service availability charges are one-time charges collected by the utility when a property first connects to the utility system.
- They allow the utility to recover a portion of its investment as customers connect to the system.
- They reduce the long-run cost of service to the customer by reducing the amount of investment on which the utility may earn a return.
- Service availability charges are recorded on the utility's books as contributions in aid of construction (CIAC).



Types of Service Availability Charges

- Meter installation charges are designed to recover the cost of the meter and the installation.
- Tap-in charges are designed to recover the cost of the service line from the main to the water meter or point of connection for wastewater service.
- Main extension charges are designed to recover each customers' pro rata share of the cost of the transmission and distribution or collection lines.
- Plant capacity charges are designed to recover a portion of the utility's investment in land and treatment facilities.



Minimum Service Availability Guideline

- At a minimum, the utility's level of CIAC should allow the utility to recover the cost of the transmission and distribution or collection system. See Rule 25-30.580(2), F.A.C., *Guidelines for Designing Service Availability Policy*.

Example:

Transmission/Distribution System Cost	<u>\$750,000</u>	= 50% Minimum
Total Water System Cost	\$1,500,000	Contribution Level

Transmission/Distribution System Cost	<u>\$750,000</u>	= \$750/ERC*
Transmission/Distribution System Capacity	1,000	Main Extension Charge

* Equivalent Residential Connection



Maximum Service Availability Guideline

- The utility's CIAC net of amortization should not exceed 75 percent of the utility's investment net of depreciation at design capacity. See Rule 25-30.580(1), F.A.C, *Guidelines for Designing Service Availability Policy*.

Example:

CIAC net of amortization at design capacity* $\frac{\$900,000}{\$1,200,000} = \leq 75\%$
Water/wastewater system cost net of depreciation at design capacity \$1,200,000

* Includes meter installation, main extension, and plant capacity charges



Applications for Service Availability Policy and Charges

- Section 367.101, F.S., *Charges for service availability*, requires that a utility's service availability policy and charges be just and reasonable.
- Rule 25-30.565, F.A.C., *Application for Approval of New or Revised Service Availability Policy or Charges*, contains the filing requirements for new or revised service availability policy or charges.
- Rule 25-30.4345, F.A.C., *Notice of Requests for New or Revised Service Availability Charges or Policies and Notice of Requests for Allowance for Funds Prudently Invested (AFPI) Charges*, contains the noticing requirements for new or revised service availability policy or charges.



Water and Wastewater Utility Statutes and Rules



Water and Wastewater Utility Statutes

- Chapter 367, F.S., sets forth the Florida Public Service Commission's authority over water and wastewater utilities.
- Chapter 367, F.S., addresses, among other things, certificates of authorization, regulatory assessment fees, the fixing and changing of rates, and petitions to revoke certificates of authorization.



Water and Wastewater Utility Rules

- Chapter 25-30, F.A.C., *Water and Wastewater Utility Rules*, and portions of Chapter 25-9, F.A.C., *Construction and filing tariffs by public utilities*, are the rules that implement Chapter 367, F.S., *Water and wastewater systems*.



Administrative Procedure Act

- Chapter 120, F.S., is the Administrative Procedure Act and governs proceedings conducted by Florida agencies, including the Florida Public Service Commission.



Administrative Procedure Rules

- Chapter 25-22, F.A.C., *Rules governing practice and procedure*, and Chapter 28, F.A.C., *Administration Commission*, are the rules that implement Chapter 120, F.S., *Administrative Procedure Act*.



Compliance with the Statutes and Rules

- All water and wastewater utilities subject to the Florida Public Service Commission's jurisdiction must follow these statutes and rules.
- Failure to follow these statutes and rules may result in fines or other penalties being imposed by the Florida Public Service Commission.

