

STORAGE NAME: h0329.uco

DATE: February 4, 2000

**HOUSE OF REPRESENTATIVES
COMMITTEE ON
UTILITIES AND COMMUNICATIONS
ANALYSIS**

BILL #: HB 329

RELATING TO: Public Utility Rate Case Expenses

SPONSOR(S): Representative Fiorentino

TIED BILL(S):

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:

(1) UTILITIES AND COMMUNICATIONS

(2)

(3)

(4)

(5)

I. SUMMARY:

Current law provides any local county government with the option to provide economic regulation of the privately owned water and wastewater utilities operating in its county, or to cede regulatory jurisdiction over to the Public Service Commission (PSC).

There are three classes of utilities, Classes A, B, and C. These utilities' range of revenue is \$1,000,000 and over to \$150,000 and under.

Current law also provides that the amount of utility rate case expense allowed by the PSC could be amortized over a four-year recovery period. Prior to 1999, it also provided that at the end of the recovery period, the utility would be required to reduce its rates by the amount of rate case expense included in its rates. This requirement of utilities to reduce their rates as expenses were recovered was stricken in 1999 by s. 6 of chapter 99-319, Laws of Florida.

The bill provides that a utility's rates shall be immediately reduced by the amount of the rate case expense that has been allowed to be recovered through a public utility's rate over a four-year amortized recovery period.

The bill does not appear to have a fiscal impact on state government.

The bill does not appear to have a fiscal impact on local government.

The bill shall take effect upon becoming a law and shall operate retroactively to June 11, 1999.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- | | | | |
|-----------------------------------|------------------------------|-----------------------------|---|
| 1. <u>Less Government</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 2. <u>Lower Taxes</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 3. <u>Individual Freedom</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. <u>Family Empowerment</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

For any principle that received a "no" above, please explain:

B. PRESENT SITUATION:

Under s. 367.171, Florida Statutes, any local county government has the option to provide economic regulation of the privately owned water and wastewater utilities operating in its county, or to cede jurisdiction of these utilities over to the Public Service Commission (PSC). Of Florida's 67 counties, thirty-six counties have elected to transfer jurisdiction of water and wastewater utilities to the PSC. Thirty-one have not ceded regulatory jurisdiction over to the PSC.

There are three classes of utilities. Class A utilities are those having annual water or wastewater operating revenues of \$1,000,000 or more. Class B utilities are those having annual water or wastewater operating revenues of \$200,000 or more but less than \$1,000,000. Class C utilities are those having annual water or wastewater or operating revenues of under \$150,000.

Section 367.0816, Florida Statutes, provides that the amount of utility rate case expense allowed by the PSC shall be amortized over a four-year recovery period. Prior to 1999, it also provided that at the end of the recovery period, the utility would be required to reduce its rates by the amount of rate case expense included in its rates. This requirement was stricken in 1999 by s. 6 of chapter 99-319, Laws of Florida.

C. EFFECT OF PROPOSED CHANGES:

The bill amends s. 367.0816, Florida Statutes, to provide that a utility's rates shall be immediately reduced by the amount of the rate case expenses that have been allowed to be recovered through a public utility's rate over a four-year amortized recovery period.

The act is effective upon becoming a law and retroactive to June 11, 1999, the effective date of chapter 99-319, Laws of Florida.

D. SECTION-BY-SECTION ANALYSIS:

N/A

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

There is no impact on state government revenues.

2. Expenditures:

There is no impact on state government expenditures.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

There is no impact on local government revenues.

2. Expenditures:

There is no impact on local government expenditures.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

The PSC prepared an analysis using data from rate cases completed over the last few years for Class A and B utilities. The utilities reviewed included the Ferncrest Utilities' 1995 rate case; the Betmar Utilities, Inc.'s 1995 rate case; the Rotonda West Utility Corp.'s 1996 rate case; the Hobe Sound Water Company's 1996 rate case; the Florida Cities Water Co.'s 1996 rate case; the Rainbow Springs Utilities' 1996 rate case; the United Water Florida, Inc.'s 1997 rate case; the Florida Cities Water Co.'s 1997 rate case; the Betmar Utilities' 1997 rate case; and the United Water Florida, Inc.'s 1999 rate case. The total rate case expense in the completed cases ranged from a low of \$17,605 for the Betmar Utilities' 1997 completed case, to a high of \$555,057 for the United Water Florida's (UWF) 1997 completed case. Rate case expense exceeded \$500,000 for two of the cases listed, and seven of the ten utilities listed incurred rate case expenses under \$120,000.

The UWF's 1997 rate case expense added \$0.01, per 1,000 gallons, to the water charge and \$0.01, per 1,000 gallons, to the wastewater charge, and \$0.08 and \$0.15, respectively, to the base facility charge (BFC). There are two parts to a rate. One part is called a base facility charge or BFC. The BFC is a fixed charge paid by a customer to cover a utility's fixed expenses. The other part is a gallonage charge which is based on variable expenses (i.e. chemicals, power).

Assuming UWF's residential customers use 6,000 gallons per month, the amount of their monthly water and wastewater bill going towards rate case expense recovery would be \$0.14 and \$0.21, respectively. At the end of four years, the average customer's bill would be reduced by \$0.35 ($\$0.14 + \$0.21 = \0.35). Using the same usage assumption for customers of Betmar Utilities, Inc., the amount of their monthly water and wastewater bill going towards rate case expense recovery would be \$0.70 and \$1.36, respectively. At the end of four years, the average customer's bill would be reduced by \$2.06.

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The PSC conducted a separate analysis of the Florida Water Services' (FWS) 1996 rate case expense because the rate structure approved was complicated. The rate case expense in the this case exceeded \$1.3 million.

In the FWS rate case, the PSC approved eight rate bands for water and six rate bands for wastewater. A rate band is a group of systems or multi-systems with similar costs. This approach establishes a representative rate for these similar cost utilities. For the highest rate band, the rate case expense added \$0.03 to the gallonage charge and \$0.13 to the BFC for water, and for wastewater, the expense added was \$0.03 to the gallonage charge and \$0.12 to the BFC. The resulting impact on a customer's average monthly bill for the highest rate band, assuming usage of 6,000 gallons, is \$0.31 for water and \$0.30 for wastewater. The resulting impact on a customer's average monthly bill for the lowest rate band, assuming usage of 6,000 gallons, is \$0.10 for water and \$0.11 for wastewater.

Florida Water Services and United Water Florida are the two largest investor owned water and wastewater utilities operating in Florida.

The PSC also performed an analysis on 37 rate cases for the Class C utilities. These utilities comprise the majority of investor owned utilities under PSC jurisdiction. These smaller utilities typically file for staff assisted rate cases (SARC). Staff assisted rate cases are prepared by the PSC staff on behalf of the utility. The PSC processes far more SARCs for Class C utilities than rate cases for the larger Class A and B utilities. Rate cases for large, multi-system utilities are costly to file and more costly to litigate, if driven by protesting parties into a formal hearing process. The rate case expense for SARCs average \$625.00 for water and \$610.00 for wastewater and result in an increase of a monthly bill that averages \$0.11 for water and \$0.07 for wastewater.

D. FISCAL COMMENTS:

None.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds or to take action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the authority that municipalities or counties have to raise revenues in the aggregate.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

This bill does not reduce the percentage of a state tax shared with counties or municipalities.

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V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

N/A

B. RULE-MAKING AUTHORITY:

N/A

C. OTHER COMMENTS:

N/A

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

N/A

VII. SIGNATURES:

COMMITTEE ON UTILITIES AND COMMUNICATIONS:

Prepared by:

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Wendy G. Holt

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