By Senator Hays

	11-00730B-13 20131386
1	A bill to be entitled
2	An act relating to water and wastewater utility
3	systems; creating s. 159.810, F.S.; requiring that the
4	Division of Bond Finance of the State Board of
5	Administration review the allocation of private
6	activity bonds to determine the availability of
7	additional allocation or reallocation of bonds for
8	water and wastewater infrastructure projects; amending
9	s. 212.08, F.S.; extending tax exemptions to certain
10	investor-owned water and wastewater utilities;
11	amending s. 367.022, F.S.; exempting from regulation
12	by the Florida Public Service Commission any person
13	who resells water service to certain tenants or
14	residents up to a specified cost; amending s. 367.081,
15	F.S.; establishing criteria for the commission to
16	consider in determining the quality of water and
17	wastewater services provided by a utility;
18	establishing a procedure for the commission to follow
19	if it determines that a utility has failed to provide
20	water and wastewater services that meet certain
21	standards; authorizing rules adopted by the commission
22	to include fines; authorizing the commission to create
23	a utility reserve fund to establish rates for a
24	utility; providing reasons to automatically increase
25	or decrease approved rates of a utility; establishing
26	criteria for such adjusted rates; providing specified
27	expense items that are eligible for automatic increase
28	or decrease of utility rates; providing standards for
29	the commission to establish, by rule, additional

Page 1 of 18

11-00730B-13 20131386 30 specific expense items that are eligible to 31 automatically increase or decrease utility rates; 32 deleting certain requirements for approved utility 33 rates that are automatically increased or decreased, 34 upon notice to the commission, because of an increase 35 or decrease in the fees imposed upon such utility; 36 deleting a prohibition on a utility from using such 37 procedure to increase its rates under certain 38 circumstances; prohibiting the commission from 39 awarding rate case expense under certain 40 circumstances; amending s. 367.0814, F.S.; describing 41 the circumstances under which the commission may and 42 may not award rate case expense to cover attorney fees 43 or fees for other outside consultants; providing that 44 the commission may adopt related rules; amending s. 45 367.0816, F.S.; requiring the commission to determine 46 that the amount of rate case expense is reasonable 47 before such rate case expense can be apportioned for a 48 4-year recovery period; providing limitations on and rules for the 4-year amortized rate case expense 49 50 recovery; amending s. 403.8532, F.S.; allowing the 51 Department of Environmental Protection to make, or 52 request that the Florida Water Pollution Control 53 Financing Corporation make, loans, grants, and 54 deposits to for-profit privately owned or investor-55 owned systems, and deleting restrictions that provide 56 otherwise; providing an effective date. 57

58 Be It Enacted by the Legislature of the State of Florida:

Page 2 of 18

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11-00730B-13
                                                             20131386
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         Section 1. Section 159.810, Florida Statutes, is created to
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    read:
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         159.810 Allocation bonds for water and wastewater
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    infrastructure projects.-The division shall review the
    allocation of private activity bonds to determine the
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65
    availability of additional allocation or reallocation of bonds
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    for water and wastewater infrastructure projects.
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         Section 2. Paragraph (kkk) is added to subsection (7) of
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    section 212.08, Florida Statutes, to read:
         212.08 Sales, rental, use, consumption, distribution, and
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    storage tax; specified exemptions.-The sale at retail, the
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    rental, the use, the consumption, the distribution, and the
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    storage to be used or consumed in this state of the following
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    are hereby specifically exempt from the tax imposed by this
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    chapter.
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          (7) MISCELLANEOUS EXEMPTIONS.-Exemptions provided to any
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    entity by this chapter do not inure to any transaction that is
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    otherwise taxable under this chapter when payment is made by a
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    representative or employee of the entity by any means,
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    including, but not limited to, cash, check, or credit card, even
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    when that representative or employee is subsequently reimbursed
    by the entity. In addition, exemptions provided to any entity by
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    this subsection do not inure to any transaction that is
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    otherwise taxable under this chapter unless the entity has
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    obtained a sales tax exemption certificate from the department
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    or the entity obtains or provides other documentation as
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    required by the department. Eligible purchases or leases made
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    with such a certificate must be in strict compliance with this
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Page 3 of 18

CODING: Words stricken are deletions; words underlined are additions.

SB 1386

	11-00730B-13 20131386
88	subsection and departmental rules, and any person who makes an
89	exempt purchase with a certificate that is not in strict
90	compliance with this subsection and the rules is liable for and
91	shall pay the tax. The department may adopt rules to administer
92	this subsection.
93	(kkk) Investor-owned water and wastewater utilitiesSales
94	or leases to an investor-owned water or wastewater utility
95	operated by a Florida corporation are exempt from the tax
96	imposed by this chapter if the sole or primary function of the
97	corporation is to construct, maintain, or operate a water or
98	wastewater system in this state and if the goods or services
99	purchased or leased are used in this state.
100	Section 3. Present subsections (9) through (12) of section
101	367.022, Florida Statutes, are renumbered as subsections (10)
102	through (13), respectively, and a new subsection (9) is added to
103	that section, to read:
104	367.022 ExemptionsThe following are not subject to
105	regulation by the commission as a utility nor are they subject
106	to the provisions of this chapter, except as expressly provided:
107	(9) Any person who resells water service to his or her
108	tenants or to individually metered residents for a fee that does
109	not exceed the actual purchase price plus:
110	(a) Nine percent of the actual purchase price; or
111	(b) The actual cost of meter reading and billing.
112	Section 4. Subsections (2), (4), and (7) of section
113	367.081, Florida Statutes, are amended to read:
114	367.081 Rates; procedure for fixing and changing
115	(2)(a)1. The commission shall, cither upon request or upon
116	its own motion, fix rates <u>that</u> which are just, reasonable,

Page 4 of 18

11-00730B-13

20131386

117 compensatory, and not unfairly discriminatory. In every such 118 proceeding, the commission shall consider the value and quality of the service and the cost of providing the service, which must 119 120 shall include, but need not be limited to, debt interest; the 121 requirements of the utility for working capital; maintenance, 122 depreciation, tax, and operating expenses incurred in the 123 operation of all property used and useful in the public service; 124 and a fair return on the investment of the utility in property 125 used and useful in the public service. However, the commission 126 may shall not allow the inclusion of contributions-in-aid-of-127 construction in the rate base of any utility during a rate 128 proceeding, nor shall the commission impute prospective future 129 contributions-in-aid-of-construction against the utility's 130 investment in property used and useful in the public service; 131 and accumulated depreciation on such contributions-in-aid-of-132 construction may shall not be used to reduce the rate base, nor 133 shall depreciation on such contributed assets be considered a 134 cost of providing utility service.

2. For purposes of such proceedings, the commission shall consider utility property, including land acquired or facilities constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates unless a longer period is approved by the commission, to be used and useful in the public service, if:

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a. Such property is needed to serve current customers;

b. Such property is needed to serve customers 5 years after the end of the test year used in the commission's final order on a rate request as provided in subsection (6) at a growth rate

Page 5 of 18

	11-00730B-13 20131386
146	for equivalent residential connections not to exceed 5 percent
147	per year; or
148	c. Such property is needed to serve customers more than 5
149	full years after the end of the test year used in the
150	commission's final order on a rate request as provided in
151	subsection (6) only to the extent that the utility presents
152	clear and convincing evidence to justify such consideration.
153	3. In determining the value and quality of water service
154	provided by a utility and whether such utility has satisfied its
155	obligation to provide water service to its customers, the
156	commission must consider the extent to which the utility meets
157	secondary drinking water standards regarding the taste, odor,
158	color, or corrosiveness which are established by the Department
159	of Environmental Protection and the local government. The
160	commission must consider:
161	a. Testimony and evidence provided by customers and the
162	utility.
163	b. Complaints customers have filed over the past 5 years
164	with the commission, the Department of Environmental Protection,
165	the county health departments, or the local government which
166	relate to the taste, odor, color, or corrosiveness.
167	c. The results of past tests required by the Department of
168	Environmental Protection or county health departments which
169	measure the utility's compliance with the applicable secondary
170	drinking water standards relating to the taste, odor, color, or
171	corrosiveness.
172	d. Other tests that the commission deems necessary.
173	4. In determining the value and quality of wastewater
174	service provided by a utility, the commission must consider the

Page 6 of 18

	11-00730B-13 20131386
175	extent to which the utility provides wastewater service to its
176	customers which does not cause odor, noise, aerosol drift, or
177	lighting that adversely affects customers. The commission must
178	consider:
179	a. Testimony and evidence provided by customers and the
180	utility.
181	b. Complaints customers have filed over the past 5 years
182	with the commission, the Department of Environmental Protection,
183	the county health departments, or the local government which
184	relate to the alleged odor, noise, aerosol drift, or lighting
185	problem.
186	5. If the commission determines that a utility provides
187	water service that does not meet the secondary water quality
188	standards of the Department of Environmental Protection and the
189	local government regarding taste, odor, color, or corrosiveness,
190	or that a utility provides wastewater service that adversely
191	affects customers due to odor, noise, aerosol drift, or
192	lighting, the utility must provide estimates of the costs and
193	benefits of various solutions to the problems. The utility must
194	meet with its customers to discuss the costs and benefits of the
195	various solutions and report to the commission the conclusions
196	of the meetings. The commission shall adopt rules to assess and
197	enforce as necessary the utility's compliance with this section.
198	The rules must prescribe penalties, including fines and
199	reduction of return on equity of up to 100 basis points, if a
200	utility fails to adequately address or offer solutions to the
201	water or wastewater problems.
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203	Notwithstanding the provisions of this paragraph, the commission

Page 7 of 18

SB 1386

11-00730B-13 20131386 204 shall approve rates for service which allow a utility to recover 205 from customers the full amount of environmental compliance 206 costs. Such rates may not include charges for allowances for 207 funds prudently invested or similar charges. For purposes of 208 this requirement, the term "environmental compliance costs" 209 includes all reasonable expenses and fair return on any prudent 210 investment incurred by a utility in complying with the 211 requirements or conditions contained in any permitting, enforcement, or similar decisions of the United States 212 213 Environmental Protection Agency, the Department of Environmental 214 Protection, a water management district, or any other 215 governmental entity with similar regulatory jurisdiction.

(b) In establishing initial rates for a utility, the commission may project the financial and operational data as set out in paragraph (a) to a point in time when the utility is expected to be operating at a reasonable level of capacity.

(c) In establishing rates for a utility, the commission may authorize the creation of a utility reserve fund. The commission shall adopt rules to govern the fund, including, but not limited to, rules relating to expenses for which the fund may be used, segregation of reserve account funds, requirements for a capital improvement plan, and requirements for commission authorization before disbursements from the reserve fund.

(4) (a) On or before March 31 of each year, the commission
by order shall establish a price increase or decrease index for
major categories of operating costs incurred by utilities
subject to its jurisdiction reflecting the percentage of
increase or decrease in such costs from the most recent 12-month
historical data available. The commission by rule shall

Page 8 of 18

SB 1386

11-00730B-13 20131386 233 establish the procedure to be used in determining such indices 234 and a procedure by which a utility, without further action by 235 the commission, or the commission on its own motion, may 236 implement an increase or decrease in its rates based upon the 237 application of the indices to the amount of the major categories of operating costs incurred by the utility during the 238 239 immediately preceding calendar year, except to the extent of any 240 disallowances or adjustments for those expenses of that utility in its most recent rate proceeding before the commission. The 241 242 rules shall provide that, upon a finding of good cause, including inadequate service, the commission may order a utility 243 244 to refrain from implementing a rate increase hereunder unless 245 implemented under a bond or corporate undertaking in the same 246 manner as interim rates may be implemented under s. 367.082. A 247 utility may not use this procedure between the official filing 248 date of the rate proceeding and 1 year thereafter, unless the 249 case is completed or terminated at an earlier date. A utility 250 may not use this procedure to increase any operating cost for 251 which an adjustment has been or could be made under paragraph 252 (b), or to increase its rates by application of a price index 253 other than the most recent price index authorized by the 254 commission at the time of filing. 255 (b)1. The approved rates of a utility must automatically 256

256 <u>increase or decrease, without hearing, upon verified notice to</u> 257 <u>the commission 45 days before implementation of the increase or</u> 258 <u>decrease, informing the commission that its costs for a</u> 259 <u>specified expense item have changed. The new rates authorized</u> 260 <u>must reflect, on an amortized or annual basis, as appropriate,</u> 261 <u>the cost or amount of change in the cost of the specified</u>

Page 9 of 18

	11-00730B-13 20131386
262	expense item. The new rates may not reflect the costs of a
263	specified expense item already included in the rates of a
264	utility. Specified expense items eligible for automatic increase
265	or decrease of a utility's rates include, but are not limited
266	to:
267	a. The rates charged by a governmental authority or other
268	water or wastewater utility regulated by the commission which
269	provides utility service to the utility.
270	b. The rates or fees that the utility is charged for
271	electric power.
272	c. The amount of ad valorem taxes assessed against the
273	utility's used and useful property.
274	d. The fees charged by the Department of Environmental
275	Protection in connection with the National Pollutant Discharge
276	Elimination System Program permit.
277	e. The regulatory assessment fees imposed upon the utility
278	by the commission.
279	f. Costs incurred for water quality or wastewater quality
280	testing required by the Department of Environmental Protection.
281	g. The fees charged for wastewater sludge disposal.
282	h. A loan service fee or loan origination fee associated
283	with a loan related to an eligible project. The commission shall
284	adopt rules to determine eligible projects, which must be
285	limited to projects associated with new infrastructure or
286	improvements to existing infrastructure needed to achieve or
287	maintain compliance with federal, state, and local governmental
288	primary or secondary drinking water standards or wastewater
289	treatment standards that relate to:
290	(I) The provision of water or wastewater service for

Page 10 of 18

	11-00730B-13 20131386
291	existing customers;
292	(II) The violation or prevention of a violation of federal,
293	state, and local governmental primary or secondary health
294	standards;
295	(III) The replacement or upgrade of aging water or
296	wastewater infrastructure if needed to achieve or maintain
297	compliance with federal, state, and local governmental primary
298	or secondary regulations; or
299	(IV) Projects consistent with the most recent long-range
300	plan of the utility on file with the commission. Eligible
301	projects do not include projects primarily intended to serve
302	future growth.
303	i. Costs incurred for a tank inspection required by the
304	Department of Environmental Protection or a local governmental
305	authority.
306	j. Operator and distribution license fees required by the
307	Department of Environmental Protection or a local governmental
308	authority.
309	k. Water or wastewater operating permit fees charged by the
310	Department of Environmental Protection or a local governmental
311	authority.
312	1. Consumptive or water use permit fees charged by a water
313	management district.
314	2. A utility may not use this procedure to increase or
315	decrease its rates as a result of an increase or decrease in a
316	specific expense item for which a cost increase or decrease
317	occurred more than 12 months before the filing by the utility.
318	3. The commission may establish by rule additional specific
319	expense items that are eligible to automatically increase or

Page 11 of 18

11-00730B-13 20131386 320 decrease a utility's rates as provided in this paragraph. To be 321 eligible for such treatment, any additional expense items must 322 be imposed upon the utility by a local, state, or federal law, 323 rule, order, or notice, and must be outside the control of the 324 utility. If the commission exercises its authority to establish 325 such rule, at least once every 5 years the commission must 326 review the rule and determine if each expense item should 327 continue to be eligible for automatic increase or decrease of a 328 utility's rates, or if any additional items should become eligible for automatic increase or decrease of a utility's rates 329 330 as provided in this paragraph The approved rates of any utility 331 which receives all or any portion of its utility service from a governmental authority or from a water or wastewater utility 332 regulated by the commission and which redistributes that service 333 334 to its utility customers shall be automatically increased or 335 decreased without hearing, upon verified notice to the 336 commission 45 days prior to its implementation of the increase 337 or decrease that the rates charged by the governmental authority 338 or other utility have changed. The approved rates of any utility which is subject to an increase or decrease in the rates or fees 339 340 that it is charged for electric power, the amount of ad valorem 341 taxes assessed against its used and useful property, the fees charged by the Department of Environmental Protection in 342 343 connection with the National Pollutant Discharge Elimination 344 System Program, or the regulatory assessment fees imposed upon it by the commission shall be increased or decreased by the 345 346 utility, without action by the commission, upon verified notice 347 to the commission 45 days prior to its implementation of the 348 increase or decrease that the rates charged by the supplier of

Page 12 of 18

11-00730B-13 20131386 349 the electric power or the taxes imposed by the governmental 350 authority, or the regulatory assessment fees imposed upon it by 351 the commission have changed. The new rates authorized shall 352 reflect the amount of the change of the ad valorem taxes or 353 rates imposed upon the utility by the governmental authority, 354 other utility, or supplier of electric power, or the regulatory 355 assessment fees imposed upon it by the commission. The approved 356 rates of any utility shall be automatically increased, without 357 hearing, upon verified notice to the commission 45 days prior to implementation of the increase that costs have been incurred for 358 359 water quality or wastewater quality testing required by the 360 Department of Environmental Protection. The new rates authorized shall reflect, on an amortized basis, the cost of, or the amount 361 362 of change in the cost of, required water quality or wastewater 363 quality testing performed by laboratories approved by the 364 Department of Environmental Protection for that purpose. The new 365 rates, however, shall not reflect the costs of any required 366 water quality or wastewater quality testing already included in 367 a utility's rates. A utility may not use this procedure to 368 increase its rates as a result of water quality or wastewater 369 quality testing or an increase in the cost of purchased water 370 services, sewer services, or electric power or in assessed ad 371 valorem taxes, which increase was initiated more than 12 months 372 before the filing by the utility.

373 <u>4.</u> The provisions of this subsection do not prevent a
374 utility from seeking a change in rates pursuant to the
375 provisions of subsection (2).

376 (c) Before implementing a change in rates under this377 subsection, the utility shall file an affirmation under oath as

Page 13 of 18

11-00730B-13 20131386 378 to the accuracy of the figures and calculations upon which the 379 change in rates is based, stating that the change will not cause 380 the utility to exceed the range of its last authorized rate of 381 return on equity. Whoever makes a false statement in the affirmation required hereunder, which statement he or she does 382 383 not believe to be true in regard to any material matter, commits 384 is guilty of a felony of the third degree, punishable as provided in s. 775.082, s. 775.083, or s. 775.084. 385

386 (d) If, within 15 months after the filing of a utility's annual report required by s. 367.121, the commission finds that 387 388 the utility exceeded the range of its last authorized rate of 389 return on equity after an adjustment in rates as authorized by 390 this subsection was implemented within the year for which the 391 report was filed or was implemented in the preceding year, the 392 commission may order the utility to refund, with interest, the 393 difference to the ratepayers and adjust rates accordingly. This 394 provision does shall not be construed to require a bond or 395 corporate undertaking not otherwise required.

(e) Notwithstanding anything herein to the contrary, a utility may not adjust its rates under this subsection more than two times in any 12-month period. For the purpose of this paragraph, a combined application or simultaneously filed applications that were filed under the provisions of paragraphs (a) and (b) shall be considered one rate adjustment.

(f) The commission <u>shall</u>, at least <u>may regularly</u>, not less often than once each year, establish by order a leverage formula or formulae that reasonably reflect the range of returns on common equity for an average water or wastewater utility and which, for purposes of this section, shall be used to calculate

Page 14 of 18

SB 1386

	11-00730B-13 20131386
407	the last authorized rate of return on equity for any utility
408	which otherwise would have no established rate of return on
409	equity. In any other proceeding in which an authorized rate of
410	return on equity is to be established, a utility, in lieu of
411	presenting evidence on its rate of return on common equity, may
412	move the commission to adopt the range of rates of return on
413	common equity that has been established under this paragraph.
414	(7) The commission shall determine the reasonableness of
415	rate case expenses and shall disallow all rate case expenses
416	determined to be unreasonable. No rate case expense determined
417	to be unreasonable shall be paid by a consumer. In determining
418	the reasonable level of rate case expense the commission shall
419	consider the extent to which a utility has utilized or failed to
420	utilize the provisions of paragraph (4)(a) or paragraph (4)(b)
421	and such other criteria as it may establish by rule. The
422	commission may not award rate case expense that exceeds the
423	total rate increase approved by the commission, not including
424	any rate case expense, in a rate case filed pursuant to this
425	section.
426	Section 5. Subsection (3) of section 367.0814, Florida
427	Statutes, is amended to read:
428	367.0814 Staff assistance in changing rates and charges;
429	interim rates
430	(3) The provisions of s. 367.081(1), (2)(a), <u>(2)(c),</u> and
431	(3), and (7) shall apply in determining the utility's rates and
432	charges. However, the commission may not award rate case expense
433	to cover fees for attorneys or other outside consultants who are
434	engaged for purposes of preparing or filing the case if a
435	utility receives staff assistance in changing rates and charges

Page 15 of 18

	11-00730B-13 20131386
436	pursuant to this section, unless the Office of Public Counsel or
437	interested parties have intervened. The commission may award
438	rate case expense for attorney fees or other outside consultant
439	fees if the fees are incurred for the purpose of providing
440	consulting or legal services to the utility after the initial
441	staff report is made available to customers and the utility. If
442	there is a protest or appeal by a party other than the utility,
443	the commission may award rate case expense to the utility for
444	attorney fees or other outside consultant fees for costs
445	incurred after the protest or appeal. The commission may adopt
446	rules to implement this subsection.
447	Section 6. Section 367.0816, Florida Statutes, is amended
448	to read:
449	367.0816 Recovery of rate case expenses
450	(1) The amount of rate case expense determined to be
451	<u>reasonable</u> by the commission pursuant to <u>s. 367.081</u> the
452	provisions of this chapter to be recovered through a public
453	utilities rate shall be apportioned for recovery over a period
454	of 4 years. At the conclusion of the recovery period, the rate
455	of the public utility shall be reduced immediately by the amount
456	of rate case expense previously included in rates.
457	(2) A utility may recover the 4-year amortized rate case
458	expense for only one rate case at a time. If the commission
459	approves and a utility implements a rate change from a
460	subsequent rate case pursuant to this section, the utility
461	forfeits any unamortized rate case expense from a prior rate
462	case. The unamortized portion of rate case expense for a prior
463	case must be removed from rates before the implementation of an
464	additional amortized rate case expense for the most recent rate

Page 16 of 18

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11-00730B-13 20131386 465 proceeding. This limitation does not apply to the recovery of 466 rate case expense for a limited proceeding filed pursuant to s. 467 367.0822. 468 Section 7. Subsection (3) of section 403.8532, Florida 469 Statutes, is amended to read: 470 403.8532 Drinking water state revolving loan fund; use; 471 rules.-472 (3) The department may make, or request that the corporation make, loans, grants, and deposits to community water 473 474 systems, for-profit privately owned or investor-owned systems, 475 nonprofit transient noncommunity water systems, and nonprofit 476 nontransient noncommunity water systems to assist them in 477 planning, designing, and constructing public water systems, 478 unless such public water systems are for-profit privately owned 479 or investor-owned systems that regularly serve 1,500 service 480 connections or more within a single certified or franchised 481 area. However, a for-profit privately owned or investor-owned 482 public water system that regularly serves 1,500 service 483 connections or more within a single certified or franchised area 484 may qualify for a loan only if the proposed project will result 485 in the consolidation of two or more public water systems. The 486 department may provide loan guarantees, purchase loan insurance, 487 and refinance local debt through the issue of new loans for 488 projects approved by the department. Public water systems may 489 borrow funds made available pursuant to this section and may 490 pledge any revenues or other adequate security available to them 491 to repay any funds borrowed. 492 (a) The department shall administer loans so that amounts

Page 17 of 18

credited to the Drinking Water Revolving Loan Trust Fund in any

	11-00730B-13 20131386
494	fiscal year are reserved for the following purposes:
495	1. At least 15 percent for qualifying small public water
496	systems.
497	2. Up to 15 percent for qualifying financially
498	disadvantaged communities.
499	(b) If an insufficient number of the projects for which
500	funds are reserved under this subsection have been submitted to
501	the department at the time the funding priority list authorized
502	under this section is adopted, the reservation of these funds no
503	longer applies. The department may award the unreserved funds as
504	otherwise provided in this section.
505	Section 8. This act shall take effect July 1, 2013.