

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: The Professional Staff of the Committee on Community Affairs

BILL: CS/SB 272

INTRODUCER: Communications, Energy, and Public Utilities Committee and Senator Simpson

SUBJECT: Water and Wastewater Utilities

DATE: February 4, 2014 **REVISED:** _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Caldwell</u>	<u>Caldwell</u>	<u>CU</u>	Fav/CS
2.	<u>White</u>	<u>Yeatman</u>	<u>CA</u>	Pre-meeting

Please see Section IX. for Additional Information:

COMMITTEE SUBSTITUTE - Substantial Changes

I. Summary:

CS/SB 272 creates a process whereby customers may petition the commission to require compliance with secondary water quality standards and, if the utility fails to comply with the commission orders, the utility's certificate of authority may be revoked. The bill provides petition criteria and factors the commission must consider in its review of the petition and the action it may take to dispose of the petition.

The bill adds secondary water standards to the criteria the Florida Public Service Commission (FPSC, PSC, or commission) must consider when setting rates for water or wastewater service. The bill provides guidelines for the secondary water standards. The bill authorizes the commission to deny all or part of a rate increase for a utility's system or part of a system if it determines that the quality of water or wastewater service is less than satisfactory. The bill requires a utility to provide an estimate of the costs and benefits of plausible solutions for each concern that the commission finds, meet with the customers to discuss the costs and solutions, and to periodically report on the progress of implementation. The commission may require the utility to resolve certain problems and require benchmarks and periodic progress reporting. The bill authorizes the commission to adopt rules to assess and enforce compliance with the secondary water standards and proscribe penalties for a utility's failure to adequately address each concern.

II. Present Situation:

Regulatory Compact

Utilities subject to economic regulation have what is called a “regulatory compact” with their customers and the regulators, which is a method of balancing rights and obligations of a utility and its ratepayers. The regulatory compact has been described as follows:

The utility business represents a compact of sorts; a monopoly on service in a particular geographic area (coupled with state-conferred rights of eminent domain or condemnation) is granted the utility in exchange for a regime of intensive regulation, including price regulation, quite alien to the free market. . . . Each party to the compact gets something in the bargain. As a general rule, utility investors are provided a level of stability in earnings and value less likely to be attained in the unregulated or moderately regulated sector; in turn, ratepayers are afforded universal, non-discriminatory service and protection from monopoly profits through political control over an economic enterprise.¹

Public Service Commission jurisdiction over water and wastewater utilities

Chapter 367, F.S., is the Water and Wastewater System Regulatory Law. Section 367.011, F.S., grants the commission exclusive jurisdiction over each utility with respect to its authority, service, and rates. It also declares the regulation of utilities to be in the public interest, and the chapter to be an exercise of the police power of the state for the protection of the public health, safety, and welfare.

Despite this broad grant of authority, the PSC does not have authority over all water and wastewater utilities. Section 367.022(2), F.S., exempts from PSC regulation or application of this chapter those water or wastewater systems owned, operated, managed, or controlled by governmental authorities,² including water or wastewater facilities operated by private firms under water or wastewater facility privatization contracts.

Section 367.171, F.S., provides that, after 10 continuous years under the jurisdiction of the commission, a county can opt-out of commission jurisdiction by resolution or ordinance. In such a case, the county regulates the rates of all utilities in that county. However, the commission has exclusive jurisdiction over all utility systems whose services transverse county boundaries, whether the counties involved are jurisdictional or nonjurisdictional. The commission does not have jurisdiction over utility systems that are subject to, and remain subject to, interlocal utility agreements in effect as of January 1, 1991, that create a single governmental authority to regulate the utility systems whose service transverses county boundaries. According to the PSC webpage, the commission has jurisdiction over 143 investor-owned utilities in 37 counties that serve

¹ Tomain and Cudahy, *Energy Law*, 121-122 (quoting *Jersey Cent. Power and Light Co. v. F.E.R.C.*, 810 F.2d 1168 (D.C. Cir. 1987)).

² In this context, the term “governmental authority” means a political subdivision, a regional water supply authority, or a nonprofit corporation formed for the purpose of acting on behalf of a political subdivision with respect to a water or wastewater facility. See Section 367.021(7), F.S.

120,567 water and 74,317 wastewater customers³ and counties have jurisdiction in 30 counties, as listed in the following table.⁴

Jurisdictional Counties (37)	Non-Jurisdictional Counties (30)
Alachua	Baker
Bradford	Bay
Brevard	Calhoun
Broward	Citrus
Charlotte	Collier
Clay	Columbia
Duval	Dade
Escambia	Desoto
Franklin	Dixie
Gadsden	Flagler
Gulf	Gilchrist
Hardee	Glades
Highlands	Hamilton
Jackson	Hendry
Lake	Hernando
Lee	Hillsborough
Levy	Holmes
Manatee	Indian River
Marion	Jefferson
Martin	Lafayette
Monroe	Leon
Nassau	Liberty
Okaloosa	Madison
Okeechobee	Santa Rosa
Orange	Santa Rosa
Osceola	Suwanee
Palm Beach	Taylor
Pasco	Union
Pinellas	Wakulla
Polk	Walton
Putnam	
Seminole	
St. Johns	
St. Lucie	
Sumter	
Volusia	
Washington	

³ Florida Public Service Commission, *Facts and Figures of the Florida Utility Industry* (April 2013), at 29-33, <http://www.psc.state.fl.us/publications/pdf/general/factsandfigures2013.pdf> (last visited Jan. 31, 2014).

⁴FPSC, *Jurisdictional and Non-Jurisdictional Counties*, <http://www.psc.state.fl.us/utilities/waterwastewater/wawtextchart.pdf> (last visited Jan. 31, 2014).

Public Service Commission rate-making and water quality

Pursuant to s. 367.081, F.S., the PSC establishes rates which are just, reasonable, compensatory, and not unfairly discriminatory. In doing so, the commission must consider the value and quality of the service and the cost of providing the service, which includes, but is not limited to: debt interest; the requirements of the utility for working capital; maintenance, depreciation, tax, and operating expenses incurred in the operation of all property used and useful in the public service; and a fair return on the investment of the utility in property used and useful in the public service.

According to the PSC staff:

The FPSC establishes rates for investor-owned water and wastewater utilities on an individualized, prospective basis. In the rate-setting process, a utility submits investments it believes are appropriate for inclusion into its rate base, and expenses that it considers appropriate for recovery in rates. The role of the FPSC is to determine the extent to which such investments and expenses submitted are reasonable and prudent. Once the PSC determines which items are allowable for the purpose of recovery, rates are established that allow the utility an opportunity to earn a fair rate of return on its investment and to recover all prudently incurred expenses associated with the provision of utility service. The FPSC does not set rates for government-owned utilities.

The FPSC establishes rates for investor-owned water and wastewater utilities pursuant to Chapter 367, Florida Statutes, in those counties that have elected to place utilities under FPSC jurisdiction. The objective of regulation under the statute is to provide safe potable water and wastewater services at fair and reasonable rates. The FPSC sets rates through an evidentiary administrative proceeding, or through a process known as a Staff Assisted Rate Case (SARC). The Commission holds customer service hearings in the investor-owned utility's service area to accept customer testimony as part of the record of the proceeding. The FPSC reviews the utility's costs to determine if they are prudently incurred. The FPSC also reviews the utility's earnings to determine a fair rate of return on investment.

When setting rates, the FPSC takes into account customer concerns and issues with water and wastewater utilities, including the value and the quality of the service. The Commission has the flexibility to adjust rates based on the evidence on record in a rate case. Current law, however, does not give the FPSC specific authority to consider secondary drinking water standards or wastewater standards.⁵

As noted, although the statute requires the commission to consider quality of service in setting rates, the focus is on the quality of the service provided; that is, the focus is primarily on how well the utility provides water, not the quality of the water itself. The quality of the water and

⁵ FPSC, *Senate Bill 272 Agency Analysis* (Nov. 13, 2013).

compliance with secondary water quality standards are recurrent issues at both the PSC and the Legislature.⁶ In 2012, the Legislature created the Study Committee on Investor-Owned Water & Wastewater Utility Systems (Study Committee) and directed it to study a list of issues, including water quality.⁷ The Study Committee recommended amending s. 367.081, F.S., to establish a mechanism within a rate case proceeding to require the PSC to consider the extent to which a utility meets secondary water and wastewater standards.⁸

Penalties

Section 367.161, F.S., provides penalties. If a utility knowingly refuses to comply with or willfully violates any provision of ch. 367, F.S., or any commission rule or order, the utility is subject to a penalty for each such offense of not more than \$5,000, to be fixed, imposed, and collected by the commission. Each day that the refusal or violation continues constitutes a separate offense. Each penalty is a lien upon the real and personal property of the utility, enforceable by the commission as a statutory lien under ch. 85, F.S. The proceeds from the enforcement of a lien are deposited into the General Revenue Fund.

Standards for Secondary Water Quality Characteristics

Secondary water quality characteristics refer to those characteristics of drinking water that typically have no adverse health effects, but instead are generally associated with aesthetic concerns.⁹ The Department of Environmental Protection (DEP) has established maximum allowed levels for 14 criteria of secondary water quality characteristics. Based on EPA mandated standards, the DEP's list of secondary water quality characteristics includes: aluminum, chlorine, copper, fluoride, iron, manganese, silver, sulfate, zinc, color, odor, pH, total dissolved solids, and foaming agents.¹⁰

Water quality monitoring of secondary water quality characteristics by the DEP consists of a three year schedule of sampling of all water systems in the state serving more than 25 people per day.¹¹ Every three years a single sample¹² is taken from a plant or from the connected distribution system, but not from homes.¹³ Violations of the three year test result in quarterly sampling in accordance with a corrective action plan.¹⁴

⁶ Water quality of service problems, for which customers have provided testimony at PSC hearings, include black water, pressure, odor, and customer service. See PSC, Final Order No. PSC-97-0280-FOF-WS (Mar. 12, 1997).

⁷ The Study Committee was created by Chapter 2012-187, s. 2, Laws of Fla. (CS/HB 1389).

⁸ For the text of the recommended statutory change, see Study Committee on Investor-Owned Water & Wastewater Utility Systems, Study Committee Report (Feb. 15, 2013), Attachment IV.9-D, at 115 of 386, *available at* <http://www.psc.state.fl.us/utilities/waterwastewater/Water-Wastewater%20Sub%20Committee%20Report.pdf> (last visited Jan. 31, 2014).

⁹ Secondary drinking water contaminants, if found at considerably high concentrations, may result in health implications in addition to just aesthetic degradation.

¹⁰ DEP, *Secondary Drinking Water Standards*, http://www.dep.state.fl.us/water/drinkingwater/sec_con.htm (last visited Jan. 31, 2014).

¹¹ The schedule of sampling is based on system size. Systems serving large communities are being tested this year, and small communities will be tested next year. Telephone interview with Van Hoofnagle, DEP Division of Water Resource Management (Jan.23, 2014).

¹² A confirmation sample is allowed. *Id.*

¹³ See Rule 62-550.520, F.A.C.

¹⁴ Telephone interview with Van Hoofnagle, DEP Division of Water Resource Management (Jan.23, 2014).

Standards for Wastewater Treatment

There are many different levels of treatment required for domestic wastewater facilities permitted in Florida, depending primarily upon the location where the wastewater is being discharged.¹⁵ At a minimum, the DEP requires all facilities to provide treatment for carbonaceous biochemical oxygen demand, total suspended solids, and basic disinfection. As part of the disinfection requirement, facilities are required to meet certain fecal coliform limitations, pH control, and total residual chlorine limitations.

III. Effect of Proposed Changes:

Section 1 creates s. 367.072, F.S., to allow customers to petition the commission for relief when service and water quality standards are not met by a utility. The bill authorizes the commission to suspend or revoke a utility's certificate of authority if it finds that the water and wastewater service is not of good quality or does not meet the standards set forth in the section. The bill allows customers within a system of a water or wastewater utility to file a petition that must state with specificity the problem the customers have with the water or wastewater service. The bill requires at least 65 percent of the customers to sign the petition. Customers who sign the petition must be customers currently receiving service from the utility. If customers are served by a master meter, 65 percent of those customers must support the petition.

The commission must review the petition to determine if it complies with the requirements set forth in the section and to provide the utility with a copy. The utility must respond to each problem identified in the petition and explain if it meets federal, state, and local primary standards or secondary standards established in s. 367.0812, F.S. The utility must also give an explanation of its relationship with the customers, including each complaint received, length of time each customer has been complaining, the resolution of each complaint, and the time taken to address each complaint. The commission must evaluate the petition by considering the issues identified, the utility's response, the rates of the utility in comparison with other utilities of similar size and operational characteristics, and any other factors the commission deems relevant. Based upon its evaluation, the commission may dismiss the petition, suspend the utility's certificate and require the utility to correct the problems, or revoke the utility's certificate, whereby a receiver will be appointed. The commission must adopt rules relating to the requirements for the petition and may adopt other rules to implement the section.

Section 2 creates s. 367.0812, F.S., to provide that when the PSC is setting rates for a water or wastewater utility, it must consider the extent to which the utility provides water service that meets secondary water quality standards for taste, odor, color, or corrosiveness, as established by the DEP the respective water management district, or a local governmental entity. In determining whether a utility has met these standards, the PSC must consider:

- Testimony and evidence provided by customers and the utility;
- The results of past tests required by DEP or a county health department which measure the utility's compliance with the applicable secondary water quality standards;

¹⁵ See Chapter 62-600, 610, F.A.C.

- Complaints filed by customers with the relevant regulatory authority regarding the applicable secondary water quality standards during the past 5 years; and
- If the commission deems necessary, the results of any updated test.

The bill also requires that, in setting rates, the PSC must consider the extent to which the utility provides wastewater service to its customers without generating odor, noise, aerosol drift, or light that adversely affects customers. In determining whether the utility met these standards, the PSC must consider:

- Testimony and evidence provided by customers and the utility; and
- Complaints regarding the alleged odor, noise, aerosol drift, or light filed with the appropriate regulatory agency during the past 5 years.

If the commission determines that a utility has failed to meet either standard, the utility must:

- Estimate the costs and benefits of plausible solutions to each concern identified by the PSC;
- Meet with its customers to discuss these estimated costs and benefits of plausible solutions to each concern identified by the commission; and
- Report the conclusions of such meetings to the commission.

The utility is required to meet with its customers within a time prescribed by the commission to discuss estimated costs and benefits to implement plausible solutions and report to the commission if the customers and the utility agree on a solution for each quality of service issues identified or if the customers and the utility prefer a different solutions to at least one of the quality of service issues identified. The commission may require the utility to implement solutions that are in the best interest of the customers for each issue and establish benchmarks and interim reporting on the progress of implementation.

The commission is required to adopt rules to assess and enforce a utility's compliance with this section. The rules must prescribe penalties for a utility's failure to adequately address or resolve each concern, which may include fines as provided in s. 367.161, F.S., and a reduction of return on equity of up to 100 basis points (one percent).

The bill is based on the modified proposed legislation from the Study Committee on Investor-Owned Water & Wastewater Utility Systems Report discussed above.¹⁶

Section 3 provides an effective date of July 1, 2014.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

¹⁶ Report of the Study Committee on Investor-Owned Water & Wastewater Utility Systems, *supra* note 8, at 105-116.

C. Trust Funds Restrictions:

None.

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

Private water and wastewater utilities that do not satisfactorily address customer complaints regarding secondary water standards might lose their certificate of authority to provide service. Customers may realize an increase in the cost of water and wastewater services if certain services are improved, however, the customer will be fully informed of the costs and benefits and may participate in the decision to incur those costs before increases are incurred.

C. Government Sector Impact:

The government sector does not appear to be impacted by this bill.

VI. Technical Deficiencies:

None.

VII. Related Issues:

The PSC staff notes that given the subjective nature of secondary water quality standards such as color and odor, rule promulgation may pose threshold issues. However, because the DEP or other governmental entities set such water quality standards, the commission would only have to know whether the standards are met. As for the qualities associated with wastewater service (odor, noise, aerosol drift, and lighting), rulemaking may be required.

The PSC staff notes that consideration should be given to a later effective date to accommodate rule promulgation.

VIII. Statutes Affected:

This bill creates sections 367.072 and 367.0812 of the Florida Statutes.

IX. Additional Information:

A. Committee Substitute – Statement of Substantial Changes:

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

CS by Communications, Energy, and Public Utilities on January 14, 2014:

The CS removes the provisions that:

- Limit the rates that may be charged by a private water and wastewater utility; and
- Require adjustment of rates to that of government-owned water and wastewater utilities and that requires that any amount collected the previous 12 months that is greater than the adjusted rate must be refunded.

The bill creates a process whereby customers may petition the commission to require compliance with secondary water quality standards and, if the utility fails to comply with the commission orders, the utility's certificate of authority may be revoked. The bill provides criteria the petition must meet to be considered by the commission. The bill provides criteria the commission must consider in its review of the petition and the action it may take to dispose of the petition.

The bill authorizes the commission to deny all or part of a rate increase for a utility's system or part of a system if it determines that the quality of water or wastewater service is less than satisfactory.

The bill revises the ratemaking process the commission must follow when considering secondary water quality and wastewater service standards to include that the utility inform the commission of the issues and solutions on which the utility and the customers agree and disagree. The commission may require the utility to implement solutions that are in the best interest of the customer and establish benchmarks and require periodic reporting.

B. Amendments:

None.