

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: December 12, 2017

TO: All Interested Persons; Office of Public Counsel; All Water and Wastewater

FROM: Adria Harper, Senior Attorney, Office of the General Counsel *A&H*

RE: Undocketed – December 14, 2017, Rulemaking Workshop (Materials Update for Rule 25-30.4575, F.A.C., Operating Ratio Methodology, and Rule 25-30.433, F.A.C., Rate Case Proceedings)

Staff has updated the drafts for Rules 25-30.4575, and 25-30.433, F.A.C., which are scheduled to be discussed at the rulemaking workshop on Thursday, December 14, 2017. The attached draft rules replace the versions of the rules that were sent out with the November 30, 2017, notice.

If you have any questions, please contact Adria Harper, Office of the General Counsel, 2540 Shumard Oak Blvd., Tallahassee, FL 32399-0850 at (850) 413-6082, aharper@psc.state.fl.us.

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25-30.4575 Operating Ratio Methodology.

(1) Under the operating ratio methodology, instead of calculating the utility's revenue requirement based on a rate of return on the utility's rate base, the revenue requirement includes the utility's operation and maintenance expenses plus a margin of 15 percent of the utility's operation and maintenance expenses. For utilities that are resellers, purchased water and purchased wastewater expenses will be removed from operation and maintenance expense before the 15 percent margin is applied.

(2) In rate cases processed under Section 367.0814, F.S., the Commission will use the operating ratio methodology to establish the utility's revenue requirement when:

(a) the utility's rate base is no greater than 125% of operation and maintenance expenses;
and

(b) the use of the operating ratio methodology does not change the utility's qualification for a staff assisted rate case under Rule 25-30.455(1), F.A.C.

Rulemaking Authority 367.0814(9) FS. Law Implemented 367.0814(9) FS. History-
New_____.

1 **25-30.433 Rate Case Proceedings.**

2 ~~In a rate case proceeding, the following provisions shall apply, unless the applicant or any~~
3 ~~intervenor demonstrates that these rules result in an unreasonable burden. In these instances,~~
4 ~~fully supported alternatives will be considered by the Commission. Any alternatives proposed~~
5 ~~by the utility must be filed with the minimum filing requirements.~~

6 (1) The Commission in every rate case shall make a determination of the quality of service
7 provided by the utility by evaluating the. ~~This shall be derived from an evaluation of three~~
8 ~~separate components of water and wastewater utility operations: quality of the utility's product~~
9 ~~(water) and wastewater); operational conditions of utility's plant and facilities; and the~~
10 ~~utility's attempt to address customer satisfaction (water and wastewater). In making this~~
11 ~~determination, the Commission shall consider:~~

12 (a) The most recent chemical analyses for each water system as described in Rule 25-
13 30.440(3), F.A.C.:

14 (b) Department of Environmental Protection (DEP) and county health department Sanitary
15 surveys, outstanding citations, violations and consent orders that address quality of service, on
16 file with the Department of Environmental Protection (DEP) and county health departments or
17 lack thereof, over the preceding 5 3-year period; shall also be considered.

18 (c) DEP and county health department officials' testimony concerning quality of service;
19 and as well as

20 (d) The testimony of the utility's customers and customer complaints, shall be considered.

21 (2) In order to ensure safe, efficient, and sufficient service to utility customers, the
22 Commission shall consider whether the infrastructure and operational conditions of the plant
23 and facilities are in compliance with Rule 25-30.225, F.A.C. Testimony of DEP and county
24 health department officials; inspections, including sanitary surveys for water systems and
25 compliance evaluation inspections for wastewater systems; and citations, violations and

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1 consent orders or lack thereof for the preceding 5-year period shall be considered for this
2 purpose.

3 ~~(3)~~(2) Working capital for Class A utilities shall be calculated using the balance sheet
4 approach. Working capital for Class B and C utilities shall be calculated using the formula
5 method (one-eighth of operation and maintenance expenses).

6 ~~(4)~~(3) Used and useful debit deferred taxes shall be offset against used and useful credit
7 deferred taxes in the capital structure. Any resulting net debit deferred taxes shall be included
8 as a separate line item in the rate base calculation. Any resulting net credit deferred taxes shall
9 be included in the capital structure calculation. No other deferred debits shall be considered in
10 rate base when the formula method of working capital is used.

11 ~~(5)~~(4) The averaging method used by the Commission to calculate rate base and cost of
12 capital shall be a 13-month average for Class A utilities and the simple beginning and end-of-
13 year average for Class B and C utilities.

14 ~~(6)~~(5) Non-used and useful adjustments shall be applied to the applicable depreciation
15 expense. Property tax expense on non-used and useful plant shall not be allowed.

16 ~~(7)~~(6) Charitable contributions shall not be recovered through rates.

17 ~~(8)~~(7) Income tax expense shall not be allowed for subchapter S corporations, partnerships
18 or sole proprietorships.

19 ~~(9)~~(8) Non-recurring expenses shall be amortized over a 5-year period unless a shorter or
20 longer period of time can be justified.

21 ~~(10)~~(9) The amortization period for forced abandonment or the prudent retirement, in
22 accordance with the National Association of Regulatory Utility Commissioners Uniform
23 System of Accounts, of plant assets prior to the end of their depreciable life shall be calculated
24 by taking the ratio of the net loss (original cost less accumulated depreciation and
25 contributions-in-aid-of-construction (CIAC) plus accumulated amortization of CIAC plus any

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1 costs incurred to remove the asset less any salvage value) to the sum of the annual
2 depreciation expense, net of amortization of CIAC, plus an amount equal to the rate of return
3 that would have been allowed on the net invested plant that would have been included in rate
4 base before the abandonment or retirement. This formula shall be used unless the specific
5 circumstances surrounding the abandonment or retirement demonstrate a more appropriate
6 amortization period.

7 ~~(11)(10)~~ A utility is required to have the right of access and continued use of own the land
8 upon which the utility treatment facilities are located, ~~or possess the right to the continued use~~
9 ~~of the land, such as a 99-year lease.~~ Documentation of continued use shall be in the form of a
10 recorded warranty deed, recorded quit claim deed accompanied by title insurance, recorded
11 lease such as a 99-year lease, or recorded easement. ~~The Commission may consider a written~~
12 ~~easement or other cost-effective alternative.~~

13 ~~(12)(11)~~ In establishing an authorized rate of return on common equity, a utility, in lieu of
14 presenting evidence, may use the current leverage formula adopted by Commission order. The
15 equity return established shall be based on the equity leverage order in effect at the time the
16 Commission decides the case.

17 ~~(13)(12)~~ Nonutility investment should be removed directly from equity when reconciling
18 the capital structure to rate base unless the utility can show, through competent evidence, that
19 to do otherwise would result in a more equitable determination of the cost of capital for
20 regulatory purposes.

21 ~~(14)(13)~~ Interest expense to be included in the calculation of income tax expense shall be
22 the amount derived by multiplying the amount of the debt components of the reconciled
23 capital structure times the average weighted cost of the respective debt components. Interest
24 expense shall include an amount for the parent debt adjustment in those cases covered by Rule
25 25-14.004, F.A.C. Interest shall also be imputed on deferred investment tax credits in those

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1 cases covered by 26 CFR Part 1, s. 1.46-6(b)(2)(i), (3) and (4)(ii) issued May 22, 1986 and
2 effective for property constructed or acquired on or after August 15, 1971.

3 *Rulemaking Authority 350.127(2), 367.0812(5), 367.121, 367.1213 FS. Law Implemented*
4 *367.081, 367.0812(1), 367.1213, ~~376.1213~~ FS. History—New 11-30-93, Amended 12-14-93*

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