

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.

DOCKET NO. 050005-WS
ORDER NO. PSC-05-0080-PAA-WS
ISSUED: January 21, 2005

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON
LISA POLAK EDGAR

NOTICE OF PROPOSED AGENCY ACTION
ORDER ESTABLISHING 2005 PRICE INDEX
FOR WATER AND WASTEWATER UTILITIES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

CASE BACKGROUND

Since March 31, 1981, pursuant to the guidelines established by Section 367.081(4)(a), Florida Statutes, and Rule 25-30.420, Florida Administrative Code, 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 Order calculates the 2005 price index by comparing the average Gross Domestic Product Implicit Price Deflator Index for the fiscal year ending September 30, 2003, and the same index for the fiscal year ending September 30, 2004. This same calculation of the price index has been used each year since 1995. The U.S. Department of Commerce, Bureau of Economic Analysis, released its final third quarter figures on December 22, 2004.

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FPSC-COMMISSION CLERK

Subsequent to March 31, 1981, the Commission has received and processed approximately 2,814 index applications. We have jurisdiction pursuant to Section 367.081, Florida Statutes.

APPROPRIATE INDEX

Order No. PSC-04-0119-PAA-WS, issued February 3, 2004, in Docket No. 040005-WS, In Re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S., established the Gross Domestic Product Implicit Price Deflator Index as the appropriate method of determining the 2004 water and wastewater price index and established the four quarter fiscal year comparison as the means to accomplish it. The Gross Domestic Product Implicit Price Deflator Index is prepared by the U.S. Department of Commerce and has been used by this Commission to determine the price index since 1993. Pursuant to Order No. PSC-93-0195-FOF-WS, issued February 9, 1993, in Docket No. 930005-WS, In Re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S., the Commission determined that the Gross Domestic Product Implicit Price Deflator Index (GDP) was the most appropriate for use in determining the water and wastewater index. Prior to that time, the Gross National Product Implicit Price Deflator Index (GNP) was used as the indexing factor for water and wastewater utilities. The Department of Commerce switched its emphasis from the GNP to the GDP as the primary measure of U.S. production.

Pursuant to Section 367.081(4)(a), Florida Statutes, 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. Prior to 1995, the price index was determined by using a four quarter comparison of the Implicit Price Deflator Index ending with the fourth quarter ending December 31. Pursuant to Order No. PSC-95-0202-FOF-WS, issued February 10, 1995, in Docket No. 950005-WS; In Re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S., the price index was determined by comparing the change in the GDP using the four quarter fiscal year comparison ending with September 30. This method has been used consistently since 1995 to determine the price index.

We have previously explored a number of alternatives which could be used to calculate the indexing of utility revenues. The major utility concerns, as summarized from utility input in previous hearings, were:

- 1) Inflation should be a major factor in determining the index;
- 2) Nationally published indices should be vital to this determination;
- 3) Major categories of expenses are labor, chemicals, sludge-hauling, materials and supplies, maintenance, transportation, and treatment expense;

- 4) An area wage survey, Dodge Building Cost Index, Consumers Price Index, and the GDP should be considered;
- 5) A broad measure index should be used; and
- 6) The index procedure should be easy to administer.

Based upon this information, we have previously explored a number of alternatives to indexing:

- 1) Survey of Regulated Water and Wastewater Utilities;
- 2) Consumer Price Index;
- 3) Florida Price Index;
- 4) Producer's Price Index - previously the Wholesale Price Index; and
- 5) Gross Domestic Product Implicit Price Deflator (replacing the Gross National Product Implicit Price Deflator).

The following table includes analysis of all of the major indices selected for our review. All figures are based on the year ending third quarter consistent with our calculation of the price index:

Historical Results of U.S. Government Indicators						
	2000	2001	2002	2003	2004	Average
GDP Implicit Price Deflator	1.36	2.50	2.33	1.31	2.17	1.93
Consumer Price Index	1.98	3.41	3.05	1.40	2.36	2.44
Producers Price Index	0.04	5.72	2.62	(3.66)	4.89	1.92
Producers Index for Chemical	(3.59)	8.36	2.03	(4.50)	10.81	13.11

We have previously found that the Survey of Regulated Water and Wastewater Utilities should be rejected because using the results of a survey would allow utilities to pass on to

customers all cost increases, thereby reducing the incentives of promoting efficiency and productivity. We have also found that the Consumer Price Index and the Florida Price Level Index should be rejected because of their limited degree of applicability to the water and wastewater industry. Both of these price indices are based upon comparing the advance in prices of a limited number of general goods and, therefore, appear to have limited application to water and wastewater utilities. We further found that the Producers Price Index (PPI) is a family of indices that measures the average change over time in selling prices received by domestic producers of goods and services. PPI measures price change from the perspective of the seller, not the purchaser, and therefore, should be rejected. Because the basis for these indices have not changed, we agree with our previous conclusions. Therefore, we shall continue to use the Gross Domestic Product Implicit Price Deflator Index to calculate water and wastewater price level adjustments. The 2005 price index is calculated by using a fiscal year, four quarter comparison of the Implicit Price Deflator Index ending with the third quarter 2004.

The following information provides a historical perspective of the annual price index:

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

<u>ANNUAL COMMISSION</u>		<u>ANNUAL COMMISSION</u>	
<u>YEAR</u>	<u>APPROVED INDEX</u>	<u>YEAR</u>	<u>APPROVED INDEX</u>
1994	2.56%	1999	1.21%
1995	1.95%	2000	1.36%
1996	2.49%	2001	2.50%
1997	2.13%	2002	2.33%
1998	2.10%	2003	1.31%

The table shown below indicates historical participation in the Index and/or Pass-Through programs:

**Percentage of Jurisdictional Water and Wastewater Utilities
Filing for Indexes and/or Pass-Throughs**

<u>YEAR</u>	<u>PERCENTAGE</u>	<u>YEAR</u>	<u>PERCENTAGE</u>
1994	39%	1999	36%
1995	34%	2000	30%
1996	34%	2001	27%
1997	36%	2002	27%
1998	32%	2003	37%
		2004	22% to date

2005 PRICE INDEX

The U.S. Department of Commerce, Bureau of Economic Analysis, released the final third quarter 2004 figures on December 22, 2004. The percentage change in the Implicit Price

Deflator Index using the four quarter fiscal year comparison ending with the third quarter is 2.17%. This number was calculated as follows:

Four quarter GDP Index average ending 9/30/03	105.30
Four quarter GDP Index average ending 9/30/04	107.59
Difference	2.29
Divided by 9/30/03 GDP Index average	<u>105.30</u>
2005 Price Index	<u>2.17 %</u>

NOTICE OF INDEXING REQUIREMENTS

Once our decision becomes final, a cover letter and package will be mailed to every regulated water and wastewater utility that describes the process that utilities must follow when filing an application under Section 367.081(4)(a), Florida Statutes. Any utility seeking to use the price index or pass-through procedures must use Form PSC/WAW 15 (4/99) to calculate the annualized revenue for indexing purposes.

CLOSURE OF DOCKET

Pursuant to an exception to Uniform Rule 28-106.111, Florida Administrative Code, "the time for requesting a Section 120.569 or 120.57 hearing shall be 14 days from issuance of the notice for PAA orders establishing a price index pursuant to Section 367.081(4)(a), Florida Statutes." Rule 25-22.029(1), Florida Administrative Code. Therefore, any protest to the PAA Order in this docket must be filed within 14 days of the issuance of our PAA Order, and any substantially affected person filing a protest must prefile testimony with its protest.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Gross Domestic Product Implicit Price Deflator Index shall continue to be used to calculate water and wastewater price level adjustments. It is further

ORDERED that the 2005 price index is 2.17%, as set forth in the body of this order. It is further

ORDERED that the 2005 Price Index Application, Form PSC/WAW 15 (4/99) shall be used by Commission regulated water and wastewater utilities to calculate annualized revenue for indexing purposes. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that any substantially affected person filing a protest to this order shall do so within 14 days of the issuance date of this order. It is further

ORDERED that any substantially affected person filing a protest to this order shall prefile direct testimony with the protest. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed upon the issuance of a Consummating Order.

By ORDER of the Florida Public Service Commission this 21st day of January, 2005.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on February 4, 2005.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.