

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. 070005-WS  
ORDER NO. PSC-07-0083-PAA-WS  
ISSUED: January 29, 2007

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman  
MATTHEW M. CARTER II  
KATRINA J. TEW

NOTICE OF PROPOSED AGENCY ACTION  
ORDER ESTABLISHING 2007 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.

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, this Commission has established a price index increase or decrease for major categories of operating costs on or before March 31 of each year. This process allows water and wastewater utilities to adjust rates based on current specific expenses without coming in for a rate case.

This Order calculates the 2007 price index by comparing the average Gross Domestic Product Implicit Price Deflator Index for the fiscal year ending September 30, 2005, to the same index for the fiscal year ending September 30, 2006. This same procedure has been used each year since 1995 to calculate the price index. The U.S. Department of Commerce, Bureau of Economic Analysis, released its final third quarter figures on December 21, 2006.

In 1993, the Gross Domestic Product Implicit Price Deflator Index (GPD) was established as the appropriate method of determining the water and wastewater price index and

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the four quarter fiscal year comparison was used as the means to accomplish it, and has been used every year since then.<sup>1</sup> The Gross Domestic Product Implicit Price Deflator Index is prepared by the U.S. Department of Commerce. 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, this Commission by order shall establish a price increase or decrease index for major categories of operating costs incurred by utilities subject to our 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, ending December 31, of the Implicit Price Deflator Index. The current price index was determined by comparing the change in the GDP using the four quarter fiscal year comparison ending with September 30.<sup>2</sup> This method has been used consistently since 1995 to determine the price index.

Subsequent to March 31, 1981, this Commission has received and processed approximately 2,929 index applications. We have jurisdiction pursuant to Section 367.081, Florida Statutes.

#### 2007 Price Index

In Order No. PSC-06-0075-PAA-WS, issued January 31, 2006, in Docket No. 060005-WS, this Commission, in keeping with our practice started in 1993, reiterated the alternatives which could be used to calculate the indexing of utility revenues. Past utility concerns, as summarized from utility input in previous hearings, are:

- 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;

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<sup>1</sup> See Order Nos. PSC-06-0075-PAA-WS, issued January 31, 2006, in Docket No. 060005-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.; and 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.

<sup>2</sup> 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.

- 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 these concerns, this Commission has previously explored the following alternatives:

- 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						
	2003	2004	2005	2006	2007	Average
GDP Implicit Price Deflator	2.33	1.31	2.17	2.74	3.09	2.33
Consumer Price Index	3.05	1.40	2.36	3.41	3.28	2.70
Producers Price Index	2.62	(3.66)	4.89	7.38	5.85	3.42
Producers Index for Chemical	2.03	(4.50)	10.81	17.43	14.45	8.04

We found in Order No. PSC-06-0075-PAA-WS, 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 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, shall be rejected. Because the basis for these indices have not changed, the conclusions reached in Order No. PSC-06-0075-PAA-WS, continue to apply in this case. Therefore, we shall continue to use the Gross Domestic Product Implicit Price Deflator Index to calculate water and wastewater price level adjustments.

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>Year</u>	<u>Commission Approved Index</u>	<u>Year</u>	<u>Commission Approved Index</u>
1995	1.95%	2001	2.50%
1996	2.49%	2002	2.33%
1997	2.13%	2003	1.31%
1998	2.10%	2004	1.60%
1999	1.21%	2005	2.17%
2000	1.36%	2006	2.74%

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>
1995	34%	2001	27%
1996	34%	2002	27%
1997	36%	2003	27%
1998	32%	2004	22%
1999	36%	2005	33%
2000	30%	2006	32%

(to date)

The U.S. Department of Commerce, Bureau of Economic Analysis, released the final third quarter 2006 figures on December 21, 2006. The percentage change in the Implicit Price Deflator Index using the four quarter fiscal year comparison ending with the third quarter is 3.09%. This number was calculated as follows:

Four quarter GDP Index average ending 9/30/05	111.87
Four quarter GDP Index average ending 9/30/06	115.323
Difference	3.453
Divided by 9/30/05 GDP Index average	<u>111.87</u>
2007 Price Index	<u>3.09%</u>

#### Noticing of Indexing Requirements

Pursuant to Rule 25-30.420(1), Florida Administrative Code, the Division of the Commission Clerk and Administrative Services, after the expiration of the Proposed Agency Action (PAA) protest period, shall mail each regulated water and wastewater utility a copy of this PAA Order establishing the index, Form PSC/WAW 15 (04/99), and a letter from the Director of the Division of Economic Regulation to explain the purpose of the index and pass-through applications, and that Commission staff is available to assist them.

If a protest is filed and a hearing is held, the Division of the Commission Clerk and Administrative Services shall mail each regulated water and wastewater utility a copy of the final order establishing the index.

#### Closure of Docket

Pursuant to an exception to Uniform Rule 28-106.111, Florida Administrative Code, "[t]he 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 the PAA Order, and any party filing the protest shall prefile testimony with the protest. If no timely protest is received within 14 days from the date of our PAA order, no further action will be required, and this docket shall be closed upon the issuance of the Consummating Order.

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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 2007 price index is 3.09% as set forth in the body of this Proposed Agency Action Order. It is further

ORDERED that regulated utilities shall continue to use the Price Index Application, Form PSC/WAW 15 (04/99), 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

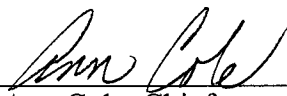
ORDERED that any substantially affected person filing a protest to this order shall prefile direct testimony with the protest. It is further

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

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By ORDER of the Florida Public Service Commission this 29th day of January, 2007.

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

By:   
Ann Cole, Chief  
Bureau of Records

( S E A L )

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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 12, 2007.

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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.