



# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

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COMMISSION  
CLERK

**DATE:** DECEMBER 5, 2001

**TO:** DIRECTOR, DIVISION OF THE COMMISSION CLERK & ADMINISTRATIVE SERVICES (BAYÓ)

**FROM:** DIVISION OF APPEALS (CIBULA) *Jmc. DS*  
 DIVISION OF ECONOMIC REGULATION (WILLIS, HEWITT) *CBH*  
 DIVISION OF LEGAL SERVICES (HARRIS) *DMC*

**RE:** DOCKET NO. 011495-WS - PROPOSED ADOPTION OF RULE 25-30.4705, F.A.C., CALCULATION OF RATE REDUCTION AFTER RATE CASE EXPENSE IS AMORTIZED.

**AGENDA:** 12/17/01 - REGULAR AGENDA - RULE PROPOSAL - INTERESTED PERSONS MAY PARTICIPATE

**RULE STATUS:** PROPOSAL MAY BE DEFERRED

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\APP\WP\011495.RCM

### DISCUSSION OF ISSUES

**ISSUE 1:** Should the Commission propose the adoption of Rule 25-30.4705, Florida Administrative Code, titled Calculation of Rate Reduction After Rate Case Expense is Amortized, which sets forth the methodology used to remove rate case expense from rates after the four year amortization period expires, as required by Section 367.0816, Florida Statutes?

**RECOMMENDATION:** Yes. The Commission should propose the adoption of Rule 25-30.4705, Florida Administrative Code.

**STAFF ANALYSIS:** Section 367.0816, Florida Statutes, states that the amount of rate case expense allowed by the Commission to be recovered through a public utilities' rates shall be apportioned for recovery over a period of four years. Section 367.0816, Florida Statutes, further states that at the conclusion of the four

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year recovery period, the rates of the utility shall be reduced immediately by the amount of rate case expense previously included in rates. Proposed Rule 25-30.4705, Florida Administrative Code, sets forth the methodology used to remove rate case expense from rates after the four year amortization period has expired, as required by Section 367.0816, Florida Statutes.

During the 2000 Legislative Session, Section 367.0816, Florida Statutes, was repealed. Consequently, the rule that set forth the method to be used to remove rate case expense from rates after the four year amortization period expired, Rule 25-30.470, Florida Administrative Code, was also repealed.

Section 367.0816, Florida Statutes, was reenacted during the 2001 Legislative Session. The statute became effective on June 1, 2001. The statute that was reenacted in 2001 is identical to the statute that was repealed in 2000.

As stated above, the rule proposed for adoption sets forth the method to be used to remove rate case expense from rates after the four year amortization period has expired, as required by Section 367.0816, Florida Statutes. It is identical to the rule that was repealed when Section 367.0816, Florida Statutes, was repealed in 2000. Staff believes that Rule 25-30.4705, Florida Administrative Code, is necessary because it will let utilities, ratepayers, and other interested persons know how the Commission calculates the rate case expense reduction required by Section 367.0816, Florida Statutes.

**Statement of Estimated Regulatory Costs:**

The Florida Administrative Procedure Act encourages an agency to prepare a Statement of Estimated Regulatory Costs (SERC). A SERC was not prepared for this recommended rule adoption. Staff notes, however, that any applicable decrease in rates after rate case expense is amortized is unavoidable by statute and there should not be a significant negative impact on small businesses, small cities, or small counties.

Moreover, staff reviewed rate case expense generally. Staff found that during the period of time that the statute and rule were repealed, there were three Class A or B rate cases and eight Class C rate cases. The Class A and B rate case expense ranged from \$45,988 to \$432,726, with the latter a protracted case. As for

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Class C rate cases, the sums involved are usually rather small, with most rate case expense amounting to under \$350, except in one case where the cost was \$2,805. The annual cost would be one-quarter of the rate case expense times the gross-up factor.

Staff also notes that ratepayers would benefit by having rates reduced after paying for rate case expense. Nevertheless, in most cases, other cost increases, such as inflation adjustments, negate any rate reduction from rate case expense.

**ISSUE 2:** Should this docket be closed?

**RECOMMENDATION:** Yes. If no requests for hearing or comments are filed, the rule as proposed should be filed for adoption with the Secretary of State and the docket should be closed.

**STAFF ANALYSIS:** Unless requests for hearing or comments are filed, the rule as proposed may be filed with the Secretary of State without further Commission action. The docket may then be closed.

Attachments:

Rule  
SERC Memorandum

1 DOCKET NO. 011495-WS  
2 DATE: DECEMBER 5, 2001

3 25-30.4705 Calculation of Rate Reduction After Rate Case Expense is  
4 Amortized

5 To calculate the rate reduction to be made four years after a  
6 rate case as required by section 367.0816, F.S., the following  
7 methodology shall be used. The annual amount of rate case expense,  
8 which is equal to one-fourth of the total allowed rate case  
9 expense, shall be divided by the regulatory assessment fee gross up  
10 factor. The resulting number shall then be divided by the revenue  
11 requirement to determine the percentage of the rate reduction. The  
12 percentage is then multiplied against the new rates to determine  
13 the amount of the future rate reduction. Revised tariff sheets  
14 implementing the reduction shall be filed no later than one month  
15 before the end of the fourth year.

16 Specific Authority: 350.127(2), F.S.

17 Law Implemented: 367.0816, 367.121, F.S.

18 History: New / / .

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CODING: Words underlined are additions; words in ~~struck~~  
~~through~~ type are deletions from existing law.

MEMORANDUM

September 19, 2001

TO: DIVISION OF APPEALS (CIBULA)

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (HEWITT) *SA/C*

SUBJECT: STATEMENT OF ESTIMATED REGULATORY COSTS FOR PROPOSED  
RULE 25-30.470, F.A.C., CALCULATION OF RATE REDUCTION AFTER  
RATE CASE EXPENSE IS AMORTIZED

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Proposed Rule 25-30.470, F.A.C. contains the methodology for making a rate reduction after rate case expenses for a water or wastewater utility rate case are amortized. The proposed Rule 25-30.470, F.A.C., Calculation of Rate Reduction after Rate Case Expense Is Amortized, is necessary because the statute requiring the reduction, in section 367.0816, F.S., has been reinstated.

A utility that would not have otherwise lowered rates after amortizing rate case expenses would now be required to by the reinstated statute. During the time period the Statute was repealed, there were three Class A or B rate cases, and eight Class C rate cases. The annual cost would be one-quarter of the rate case expense times the gross-up factor. The sums involved are usually rather small for the Class C utilities, most rate case expense cost under \$350, except one case cost \$2,805. The Class A and B rate case expense ranged from \$45,988 to \$432,726, with the latter a protracted case. The ratepayers would benefit by having rates reduced after paying for rate case expenses. However, in most cases, other cost increases, including inflation adjustments, negate any rate reduction from rate case expense amortization.

The Administrative Procedures Act encourages an agency to prepare a Statement of Estimated Regulatory Costs (SERC). However, any applicable decreased rates after rate case amortization are unavoidable by statute and there should not be significant negative impacts on small businesses, small cities, or small counties. Therefore, a SERC will not be prepared for the proposed rule repeal at this time.

cc: Mary Andrews Bane  
Hurd Reeves

rtcsmem.cbh