

ORIGINAL

STATE OF FLORIDA

COMMISSIONERS:
LISA POLAK EDGAR, CHAIRMAN
MATTHEW M. CARTER II
KATRINA J. MCMURRIAN



RECEIVED FPSC
TIMOTHY DEVLIN, DIRECTOR
DIVISION OF ECONOMIC REGULATION
(850) 413-6900
FEB 16 PM 2:31

COMMISSION
CLERK

Public Service Commission

February 15, 2007

All Florida Public Service Commission
Regulated Water & Wastewater Utilities

Re: Docket No. 070005-WS - 2007 Price Index

Dear Utility Owner:

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 (F.A.C.), the Commission has established a price index increase or decrease for major categories of operating costs. The intent of this rule is to insure that inflationary pressures are not detrimental to utility owners, and that any possible deflationary pressures are not adverse to rate payers. By keeping up with index and pass-through adjustments, utility operations can be maintained at a level sufficient to insure quality of service for the rate payers.

Pursuant to Rule 25-30.420 (1)(a), F.A.C., all operation and maintenance expenses shall be indexed with the exception of:

- a) Pass-through items pursuant to Section 367.081(4)(b);
- b) Any amortization of rate case expense; and
- c) Disallowances or adjustments made in an applicant's most recent rate proceeding.

Upon the filing of a request for an index and/or pass-through increase, staff will review the application and modify existing rates accordingly. If for no other reason than to keep up with escalating costs, utilities throughout Florida should file for this rate relief on an annual basis. Utilities may apply for a 2007 Price Index anytime between April 1, 2007, through March 31, 2008. The attached package will answer questions regarding what the index and pass-through rate adjustments are, how to apply for an adjustment, and what needs to be filed in order to meet the filing requirements. While this increase for any given year may be minor, (see chart below), the long-run effect of keeping current with rising costs can be substantial.

DOCUMENT NUMBER-DATE

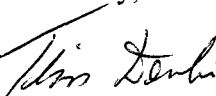
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FPSC-COMMISSION CLERK

ANNUAL COMMISSION		ANNUAL COMMISSION	
YEAR	APPROVED INDEX	YEAR	APPROVED INDEX
1981	8.99%	1994	2.56%
1982	9.02%	1995	1.95%
1983	5.99%	1996	2.49%
1984	4.25%	1997	2.13%
1985	3.76%	1998	2.10%
1986	3.33%	1999	1.21%
1987	2.69%	2000	1.36%
1988	2.89%	2001	2.50%
1989	4.35%	2002	2.33%
1990	4.12%	2003	1.31%
1991	4.12%	2004	1.60%
1992	3.63%	2005	2.17%
1993	3.33%	2006	2.74%

Please be aware that Pursuant to Section 837.06, Florida Statutes, whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree.

Our staff is available should you need assistance with your filing. If you have any questions, please do not hesitate to call us at (850) 413-6900.

Sincerely,

 Timothy J. Devlin
 Director

TJD
 Enclosures

FLORIDA PUBLIC SERVICE COMMISSION
2007 PRICE INDEX APPLICATION
TEST YEAR ENDED DECEMBER 31, 2006

DEP PWS ID NO. _____	WATER	WASTEWATER
DEP WWTP ID NO. _____		
*2006 Operation and Maintenance Expenses	\$	\$
LESS:		
(a) Pass-through Items:		
(1) Purchased Power		
(2) Purchased Water		
(3) Purchased Wastewater Treatment		
** (4) New DEP Required Water Testing		
** (5) New DEP Required Wastewater Testing		
(6) NPDES Fees		
(b) Rate Case Expense Included in 2006 Expenses		
(c) Adjustments to O & M Expenses from last rate case, if applicable:		
(1)		
(2)		
Costs to be Indexed	\$	\$
Multiply by change in GDP Implicit Price Deflator Index	<u>.0309</u>	<u>.0309</u>
Indexed Costs	\$	\$
*** Add Change in Pass-Through Items:		
(1)		
(2)		
Divide Index and Pass-Through Sum by Expansion Factor for Regulatory Assessment Fees	<u>.955</u>	<u>.955</u>
Increase in Revenue	\$	\$
**** Divide by 2006 Revenue	<u> </u>	<u> </u>
Percentage Increase in Rates	<u> %</u>	<u> %</u>

EXPLANATORY NOTES APPEAR ON THE FOLLOWING PAGE

PAGE 1 NOTES

- * This amount must match 2006 annual report.
- ** Daily, weekly, or monthly testing required by the Department of Environmental Protection (DEP) not currently included in the utility's rates. Or additional tests required by the DEP during the 12 month period prior to filing by the utility and/or changes to the frequency of existing test(s) required by the DEP during the 12 month period prior to filing by the utility.
- *** This may include an increase in purchased power, purchased water, purchased wastewater treatment, required DEP testing, and ad valorem taxes, providing that those increases have been incurred within the 12 month period prior to the submission of the pass-through application. Pass-through NPDES fees and increases in regulatory assessment fees are eligible as pass-through costs but not subject to the twelve month rule. DEP water and wastewater testing pass-throughs require invoices. See Rule 25-30.425, F.A.C. for more information.
- **** If rates changed after January 1, 2006, the book revenues must be adjusted to show the changes and an explanation of the calculation should be attached to this form. See Annualized Revenue Worksheet for instructions and a sample format.

ANNUALIZED REVENUE WORKSHEET

Have the rates charged for customer services changed since January 1, 2006?

- () If no, the utility should use actual revenues. This form may be disregarded.
- () If yes, the utility must annualize its revenues. Read the remainder of this form.

Annualizing calculates the revenues the utility would have earned based upon 2006 customer consumption at the most current rates in effect. To complete this calculation, the utility will need consumption data for 2006 to apply to the existing rate schedule. Below is a sample format which may be used.

CALCULATION OF ANNUALIZED REVENUES*

Consumption Data for 2006

	Number of Bill/Gal. Sold	x	Current Rates	Annualized Revenues
Residential Service:				
Bills: 5/8"x3/4" meters	_____		_____	_____
1" meters	_____		_____	_____
1 1/2" meters	_____		_____	_____
2" meters	_____		_____	_____
Gallons Sold	_____		_____	_____
General Service:				
Bills: 5/8"x3/4" meters	_____		_____	_____
1" meters	_____		_____	_____
1 1/2" meters	_____		_____	_____
2" meters	_____		_____	_____
3" meters	_____		_____	_____
4" meters	_____		_____	_____
6" meters	_____		_____	_____
Gallons Sold	_____		_____	_____
Total Annualized Revenues for 2006				\$ _____

* Annualized revenues must be calculated separately if the utility consists of both a water system and a wastewater system. This form is designed specifically for utilities using a base facility charge rate structure. If annualized revenues must be calculated and further assistance is needed, contact the Commission Staff at (850)413-6900.

Appendix A

PRICE INDEX ADJUSTMENTS IN RATES

Section 367.081(4)(a), (c), (d), and (e), Florida Statutes
Rule 25-30.420, Florida Administrative Code
Sample Affirmation Affidavit
Notice to Customers

Sections 367.081(4)(a), (c), (d), (e), and (f), Florida Statutes

(4)(a) On or before March 31 of each year, 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. The commission by rule shall establish the procedure to be used in determining such indices and a procedure by which a utility, without further action by the commission, or the commission on its own motion, may implement an increase or decrease in its rates based upon the application of the indices to the amount of the major categories of operating costs incurred by the utility during the immediately preceding calendar year, except to the extent of any disallowances or adjustments for those expenses of that utility in its most recent rate proceeding before the commission. The rules shall provide that, upon a finding of good cause, including inadequate service, the commission may order a utility to refrain from implementing a rate increase hereunder unless implemented under a bond or corporate undertaking in the same manner as interim rates may be implemented under s. 367.082. A utility may not use this procedure between the official filing date of the rate proceeding and 1 year thereafter, unless the case is completed or terminated at an earlier date. A utility may not use this procedure to increase any operating cost for which an adjustment has been or could be made under paragraph (b), or to increase its rates by application of a price index other than the most recent price index authorized by the commission at the time of filing.

(c) Before implementing a change in rates under this subsection, the utility shall file an affirmation under oath as to the accuracy of the figures and calculations upon which the change in rates is based, stating that the change will not cause the utility to exceed the range of its last authorized rate of return on equity. Whoever makes a false statement in the affirmation required hereunder, which statement he or she does not believe to be true in regard to any material matter, is guilty of a felony of the third degree, punishable as provided in s. 775.082, s. 775.083, or s. 775.084.

(d) If, within 15 months after the filing of a utility's annual report required by s. 367.121, the commission finds that the utility exceeded the range of its last authorized rate of return on equity after an adjustment in rates as authorized by this subsection was implemented within the year for which the report was filed or was implemented in the preceding year, the commission may order the utility to refund, with interest, the difference to the ratepayers and adjust rates accordingly. This provision shall not be construed to require a bond or corporate undertaking not otherwise required.

(e) Notwithstanding anything herein to the contrary, a utility may not adjust its rates under this subsection more than two times in any 12-month period. For the purpose of this paragraph, a combined application or simultaneously filed applications that were filed under the provisions of paragraphs (a) and (b) shall be considered one rate adjustment.

(f) The commission may regularly, not less often than once each year, establish by order a leverage formula or formulae that reasonably reflect the range of returns on common equity for an average water or wastewater utility and which, for purposes of this section, shall be used to calculate the last Docket No. 070005-WS authorized rate of return on equity for any utility which otherwise would have no established rate of return on equity. In any other proceeding in which an authorized rate of return on equity is to be established, a utility, in lieu of presenting evidence on its rate of return on common equity, may move the commission to adopt the range of rates of return on common equity that has been established under this paragraph.

25-30.420 Establishment of Price Index, Adjustment of Rates; Requirement of Bond; Filings After Adjustment; Notice to Customers.

(1) The Commission shall, on or before March 31 of each year, establish a price increase or decrease index as required by section 367.081(4)(a), F.S. The Division of the Commission Clerk and Administrative Services shall mail each regulated water and wastewater utility a copy of the proposed agency action order establishing the index for the year and a copy of the application. Form PSC/ECR 15 (04/99), entitled "Index Application", is incorporated into this rule by reference and may be obtained from the Commission's Division of Economic Regulation. Applications for the newly established price index will be accepted from April 1 of the year the index is established through March 31 of the following year.

(a) The index shall be applied to all operation and maintenance expenses, except for amortization of rate case expense, costs subject to pass-through adjustments pursuant to section 367.081(4)(b), F.S., and adjustments or disallowances made in a utility's most recent rate proceeding.

(b) In establishing the price index, the Commission will consider cost statistics compiled by government agencies or bodies, cost data supplied by utility companies or other interested parties, and applicable wage and price guidelines.

(2) Any utility seeking to increase or decrease its rates based upon the application of the index established pursuant to subsection (1) and as authorized by section 367.081(4)(a), F.S., shall file an original and five copies of a notice of intention and the materials listed in (a) through (i) below with the Commission's Division of Economic Regulation at least 60 days prior to the effective date of the increase or decrease. The adjustment in rates shall take effect on the date specified in the notice of intention unless the Commission finds that the notice of intention or accompanying materials do not comply with the law, or the rules or orders of the Commission. The notice shall be accompanied by:

(a) Revised tariff sheets;

(b) A computation schedule showing the increase or decrease in annual revenue that will result when the index is applied;

(c) The affirmation required by section 367.081(4)(c), F.S.;

(d) A copy of the notice to customers required by subsection (6);

(e) The rate of return on equity that the utility is affirming it will not exceed pursuant to section 367.081(4)(c), F.S.;

(f) An annualized revenue figure for the test year used in the index calculation reflecting the rate change, along with an explanation of the calculation, if there has been any change in the utility's rates during or subsequent to the test year;

(g) The utility's Department of Environmental Protection Public Water System identification number and Wastewater Treatment Plant Operating Permit number.

(h) A statement that the utility does not have any active written complaints, corrective orders, consent orders, or outstanding citations with the Department of Environmental Protection (DEP) or the County Health Department(s) or that the utility does have active written complaints, corrective orders, consent orders, or outstanding citations with the DEP or the County Health Department(s).

(i) A copy of any active written complaints, corrective orders, consent orders, or outstanding citations with the Department of Environmental Protection (DEP) or the County Health Department(s).

- (3) If the Commission, upon its own motion, implements an increase or decrease in the rates of a utility based upon the application of the index established pursuant to subsection (1) and as authorized by section 367.081(4)(a), F.S., the Commission will require a utility to file the information required in subsection (2).
- (4) Upon a finding of good cause, the Commission may require that a rate increase pursuant to section 367.081(4)(a), F.S., be implemented under a bond or corporate undertaking in the same manner as interim rates. For purposes of this subsection, "good cause" shall include:
- (a) Inadequate service by the utility;
 - (b) Inadequate record-keeping by the utility such that the Commission is unable to determine whether the utility is entitled to implement the rate increase or decrease under this rule.
- (5) Prior to the time a customer begins consumption at the rates established by application of the index, the utility shall notify each customer of the increase or decrease authorized and explain the reasons therefore.
- (6) No utility shall file a notice of intention pursuant to this rule unless the utility has on file with the Commission an annual report as required by Rule 25-30.110(3), F.A.C., for the test year specified in the order establishing the index for the year.
- (7) No utility shall implement a rate increase pursuant to this rule within one year of the official date that it filed a rate proceeding, unless the rate proceeding has been completed or terminated.

Specific Authority: 350.127(2), 367.081(4)(a), 367.121(1)(c), 367.121(1)(f), F.S.

Law Implemented: 367.081(4), 367.121(1)(c), 367.121(1)(g), F.S. History: New 04/05/81, Amended 09/16/82, Formerly 25-10.185, Amended 11/10/86, 06/05/91, 04/18/99, 12/12/03.

AFFIRMATION

I, _____, hereby affirm that the figures and calculations upon which the change in rates is based are accurate and that the change will not cause

_____ (Utility Name)
to exceed the range of its last authorized rate of return on equity, which is _____.

I, the undersigned/officer of the above-named utility, have read the foregoing and declare that, to the best of my knowledge and belief, the information contained in this application is true and correct.

This affirmation is made pursuant to my request for a 2007 price index and/or pass-through rate increase, in conformance with Section 367.081(4)(c), Florida Statutes.

Further, I am aware that pursuant to Section 837.06, Florida Statutes, whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree.

Signature: _____
Title: _____
Telephone Number: _____
Fax Number: _____

Sworn to and subscribed before me this _____ day of _____, 20__.

My Commission expires:

(SEAL)

Notary Public
State of Florida

STATEMENT OF QUALITY OF SERVICE

Pursuant to Rule 25-30.420(2)(h) and (i), Florida Administrative Code,

(Utility Name)

[] does not have any active written complaints, corrective orders, consent orders, or outstanding citations with the Department of Environmental Protection (DEP) or the County Health Departments.

[] does have the attached active written complaint(s), corrective order(s), consent order(s), or outstanding citation(s) with the DEP or the County Health Department(s). The attachment(s) includes the specific system(s) involved with DEP permit number and the nature of the active complaint, corrective order, consent order, or outstanding citation.

This statement is intended such that the Florida Public Service Commission can make a determination of quality of service pursuant to Section 367.081(4)(a), Florida Statutes, and Rule 25-30.420(4)(a), Florida Administrative Code.

Name: _____
Title: _____
Telephone Number: _____
Fax Number: _____
Date: _____

NOTICE TO CUSTOMERS

Pursuant to Section 367.081 (4) (a), Florida Statutes, water and wastewater utilities are permitted to adjust the rates and charges to its customers without those customers bearing the additional expense of a public hearing. These adjustments in rates would depend on increases or decreases in noncontrollable expenses subject to inflationary pressures such as chemicals, and other general operation and maintenance costs.

On _____, _____
(date) (name of company)

filed its notice of intention with the Florida Public Service Commission to increase water and wastewater rates in County pursuant to this Statute. The filing is subject to review by the Commission Staff for accuracy and completeness. Water rates will increase by approximately _____% and wastewater rates by _____%. These rates should be reflected for service rendered on or after _____. (date)

PASS-THROUGH RATE ADJUSTMENTS

Section 367.081(4)(b), Florida Statutes
Rule 25-30.425, Florida Administrative Code
Waiver Form
Sample Affirmation Affidavit
Notice to Customers

Section 367.081(4)(b), Florida Statutes

(b) The approved rates of any utility which receives all or any portion of its utility service from a governmental authority or from a water or wastewater utility regulated by the commission and which redistributes that service to its utility customers shall be automatically increased or decreased without hearing, upon verified notice to the commission 45 days prior to its implementation of the increase or decrease that the rates charged by the governmental authority or other utility have changed. The approved rates of any utility which is subject to an increase or decrease in the rates or fees that it is charged for electric power, the amount of ad valorem taxes assessed against its used and useful property, the fees charged by the Department of Environmental Protection in connection with the National Pollutant Discharge Elimination System Program, or the regulatory assessment fees imposed upon it by the commission shall be increased or decreased by the utility, without action by the commission, upon verified notice to the commission 45 days prior to its implementation of the increase or decrease that the rates charged by the supplier of the electric power or the taxes imposed by the governmental authority, or the regulatory assessment fees imposed upon it by the commission have changed. The new rates authorized shall reflect the amount of the change of the ad valorem taxes or rates imposed upon the utility by the governmental authority, other utility, or supplier of electric power, or the regulatory assessment fees imposed upon it by the commission. The approved rates of any utility shall be automatically increased, without hearing, upon verified notice to the commission 45 days prior to implementation of the increase that costs have been incurred for water quality or wastewater quality testing required by the Department of Environmental Protection. The new rates authorized shall reflect, on an amortized basis, the cost of, or the amount of change in the cost of, required water quality or wastewater quality testing performed by laboratories approved by the Department of Environmental Protection for that purpose. The new rates, however, shall not reflect the costs of any required water quality or wastewater quality testing already included in a utility's rates. A utility may not use this procedure to increase its rates as a result of water quality or wastewater quality testing or an increase in the cost of purchased water services, sewer services, or electric power or in assessed ad valorem taxes, which increase was initiated more than 12 months before the filing by the utility. The provisions of this subsection do not prevent a utility from seeking a change in rates pursuant to the provisions of subsection (2).

Supp. No. 199 WATER AND WASTEWATER CHAPTER 25-30

25-30.425 Pass Through Rate Adjustment.

The verified notice to the Commission of an adjustment of rates under the provisions of Section 367.081(4)(b), F.S., shall be made in the following manner:

(1) Prior to an adjustment in rates because of an increase or decrease in purchased utility service, the utility shall file:

(a) A certified copy of the order, ordinance or other evidence whereby the rates for utility service are increased or decreased by the governmental agency or by a water or wastewater utility regulated by the Commission, along with evidence of the utility service rates of that governmental agency or water or wastewater utility in effect on January 1 of each of the three preceding years.

(b) A statement setting out by month the charges for utility services purchased from the governmental agency or regulated utility for the most recent 12-month period.

(c) 1. A statement setting out by month the gallons of water or wastewater treatment purchased from the governmental agency or regulated utility for the most recent 12-month period. If wastewater treatment service is not based on a metered flow, the number of units by which the service is measured shall be stated.

2. A statement setting out by month gallons of water and units of wastewater service sold by the utility for the most recent 12-month period.

(d) A statement setting out by month the gallons of water or wastewater treatment purchased from any other government entity or utility company.

(e) A statement setting out by month the gallons of water pumped or wastewater treated by the utility filing the verified notice.

(f) If the total water available for sale is in excess of 110% of the water sold, a statement explaining the unaccounted for water.

(2) Prior to an adjustment in rates because of an increase or decrease in the charge for electric power the utility shall file with the Commission:

(a) A certified copy of the order, ordinance or other evidence which establishes that the rates for electric power have been increased or decreased by the supplier, along with evidence of the electric power rates of the supplier in effect on January 1 of each of the three preceding years.

(b) A schedule showing, by month, the charges for electric power and consumption for the most recent 12 month period, the charges that would have resulted had the new electric rates been applied, and the difference between the charges under the old rates and the charges under the new rates.

(c) A statement outlining the measures taken by the utility to conserve electricity.

(3) Prior to an adjustment in rates because of an increase or decrease in ad valorem taxes the utility shall file with the Commission:

(a) A copy of the ad valorem tax bills which increased or decreased and copies of the previous three years' bills; if copies have been submitted previously, a schedule showing the tax total only is acceptable; and

(b) A calculation of the amount of the ad valorem taxes related to that portion of the water or wastewater plant not used and useful in providing utility service.

(4) Prior to an adjustment in rates because of an increase or decrease in the costs of water quality or wastewater quality testing required by the Department of Environmental Protection (DEP), or because of an increase or decrease in the fees charged by DEP in connection with the National Pollutant Discharge Elimination System Program, the utility shall file with the Commission:

Supp. No. 199 WATER AND WASTEWATER CHAPTER 25-30

- (a) A copy of the invoice for testing;
- (b) Calculation of the amortized amount.
- (5) In addition to subsections (1), (2), (3), and (4) above, the utility shall also file:
 - (a) A schedule of proposed rates which will pass the increased or decreased costs on to the customers in a fair and nondiscriminatory manner and on the basis of current customers, and a calculation showing how the rates were determined;
 - (b) A statement, by class of customer and meter size, setting out by month the gallons of water and units of wastewater service sold by the utility for the most recent 12 month period. This statement shall not be required in filings for the pass through of increased regulatory assessment fees or ad valorem taxes;
 - (c) The affirmation reflecting the authorized rate of return on equity required by Section 367.081(4)(c), F.S.;
 - (d) A copy of the notice to customers required by subsection (7) of this rule;
 - (e) Revised tariff sheets reflecting the increased rates;
 - (f) The rate of return on equity that the utility is affirming it will not exceed pursuant to Section 367.081(4)(c), F.S.; and
 - (g) The utility's DEP Public Water System identification number and Wastewater Treatment Plant Operating Permit number;
- (6) The amount authorized for pass through rate adjustments shall not exceed the actual cost incurred and shall not exceed the incremental increase or decrease for the 12-month period. Foregone pass through decreases shall not be used to adjust a pass through increase below the actual cost incurred.
- (7) In order for the Commission to determine whether a utility which had adjusted its rates pursuant to Section 367.081(4)(b), F.S., has thereby exceeded the range of its last authorized rate of return, the Commission may require a utility to file the information required in Rule 25- 30.437, F. A. C., for the test year specified.
- (8) Prior to the time a customer begins consumption at the adjusted rates, the utility shall notify each customer of the increase authorized and explain the reasons for the increase.
- (9) The utility shall file an original and five copies of the verified notice and supporting documents with the Division of Economic Regulation. The rates shall become effective 45 days after the official date of filing. The official date of filing for the verified notice to the Commission of adjustment in rates shall be at least 45 days before the new rates are implemented.

Specific Authority 350.127(2), 367.121(1)(c), (f) FS. Law Implemented 367.081(4), 367.121(1)(c), (g) FS. History-New 6-10-75, Amended 4-5-79, 4-5-81, 10-21-82, Formerly 25-10.179, Amended 11-10-86, 6-5-91, 4-18-99.

WAIVER

_____ hereby waives the right to implement a pass-through rate increase within 45 days of filing, as provided by Section 367.081(4)(b), Florida Statutes, in order that the pass-through and index rate increase may both be implemented together 60 days after the official filing date of this notice of intention.

Signature: _____

Title: _____

(To be used if an index and pass-through rate increase are requested jointly.)

AFFIRMATION

I, _____, hereby affirm that the figures and calculations upon which the change in rates is based are accurate and that the change will not cause

_____ (Utility Name)
to exceed the range of its last authorized rate of return on equity, which is _____.

I, the undersigned/officer of the above-named utility, have read the foregoing and declare that, to the best of my knowledge and belief, the information contained in this application is true and correct.

This affirmation is made pursuant to my request for a 2007 price index and/or pass-through rate increase, in conformance with Section 367.081(4)(c), Florida Statutes.

Further, I am aware that pursuant to Section 837.06, Florida Statutes, whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree.

Signature: _____
Title: _____
Telephone Number: _____
Fax Number: _____

Sworn to and subscribed before me this _____ day of _____, 20__.

My Commission expires:

(SEAL)

Notary Public
State of Florida

NOTICE TO CUSTOMERS

Pursuant to Section 367.081 (4) (b), Florida Statutes, water and wastewater utilities are permitted to pass through, without a public hearing, a change in rates resulting from: an increase or decrease in rates charged for utility services received from a governmental agency or another regulated utility and which services were redistributed by the utility to its customers; an increase or decrease in the rates that it is charged for electric power, the amount of ad valorem taxes assessed against its used and useful property, the fees charged by the Department of Environmental Protection in connection with the National Pollutant Discharge Elimination System Program, or the regulatory assessment fees imposed upon it by the Commission; and costs incurred for water quality or wastewater quality testing required by the Department of Environmental Protection.

On _____, _____
(date) (name of company)

filed its notice of intention with the Florida Public Service Commission to increase water and wastewater rates in _____ County pursuant to this Statute. The filing is subject to review by the Commission Staff for accuracy and completeness. Water rates will increase by approximately _____% and wastewater rates by _____%. These rates should be reflected on your bill for service rendered on or after _____.(date)

If you should have any questions, please contact your local utility office. Be sure to have your account number handy for quick reference.

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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FPSO-COMMISSION

the four quarter fiscal year comparison was used as the means to accomplish it, and has been used every year since then.¹ 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 30.² 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;

¹ 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.

² 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

(SEAL)

RRJ

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.