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| State of Florida  pscSEAL | | 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: | November 26, 2019 | | |
| TO: | Office of Commission Clerk (Teitzman) | | |
| FROM: | Division of Accounting and Finance (Thurmond, Norris)  Office of the General Counsel (J. Crawford) | | |
| RE: | Docket No. 20190005-WS – 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. | | |
| AGENDA: | 12/10/19 – Regular Agenda – Interested Persons May Participate | | |
| COMMISSIONERS ASSIGNED: | | | All Commissioners |
| PREHEARING OFFICER: | | | Administrative |
| CRITICAL DATES: | | | 03/31/20 (Statutory Reestablishment Deadline) |
| SPECIAL INSTRUCTIONS: | | | None |

Case Background

Since March 31, 1981, pursuant to the guidelines established by Section 367.081(4)(a), Florida Statutes (F.S.), 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 on or before March 31 of each year. This process allows water and wastewater utilities to adjust rates based on current specific expenses without applying for a rate case.

Staff has calculated its proposed 2020 price index by comparing the Gross Domestic Product Implicit Price Deflator Index for the fiscal year ended September 30, 2019. 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 most recent third quarter figures on October 30, 2019.

Since March 31, 1981, the Commission has received and processed approximately 3,741 index and pass through applications. The Commission has jurisdiction over this matter pursuant to Section 367.081, F.S.

Discussion of Issues

Issue :

 Which index should be used to determine price level adjustments?

Recommendation:

 The Gross Domestic Product Implicit Price Deflator Index is recommended for use in calculating price level adjustments. Staff recommends calculating the 2020 Price Index by using a fiscal year, four quarter comparison of the Implicit Price Deflator Index ending with the third quarter of 2019. (Thurmond)

Staff Analysis:

 In 1993, the Gross Domestic Product Implicit Deflator (GDP) was established as the appropriate measure for determining the water and wastewater price index. At the same time, the convention of using a four quarter fiscal year comparison was also established and this practice has been used every year since then.[[1]](#footnote-1) The GDP 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), F.S., 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. Since 1995, the price index was determined by using a four quarter comparison, ending September 30, of the Implicit Price Deflator Index in order to meet the statutory deadline. The updated price index was determined by comparing the change in the GDP using the four quarter fiscal year comparison ending September 30, 2019. This method has been used consistently since 1995 to determine the price index.[[2]](#footnote-2)

In Order No. PSC-2018-0612-PAA-WS, issued December 27, 2018, in Docket No. 20180005-WS, the Commission, in keeping with the practice started in 1993, reiterated the alternatives which could be used to calculate the indexing of utility revenues. Past concerns expressed by utilities, 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;

4) An area wage survey, Dodge Building Cost Index, Consumer 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, the Commission has previously explored the following alternatives:

1) Survey of Regulated Water and Wastewater Utilities;

2) Consumer Price Index;

3) Florida Price Level Index;

4) Producer Price Index – previously the Wholesale Price Index; and

5) GDP (replacing the GNP).

Over the years, the Commission 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. The Commission has 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.

The Commission further found that the Producer Price Index (PPI) is a family of indices that measure 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. The bases for these indices have not changed, and staff believes that the conclusions reached in Order No. PSC-2018-0612-PAA-WS should continue to apply in this case. Since 1993, the Commission has found that the GDP has a greater degree of applicability to the water and wastewater industry. Therefore, staff recommends that the Commission continue to use the GDP to calculate water and wastewater price level adjustments.

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

**Table 1-1**

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

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Commission**  **Approved Index** | **Year** | **Commission**  **Approved Index** |
| 2008 | 2.39% | 2014 | 1.41% |
| 2009 | 2.55% | 2015 | 1.57% |
| 2010 | 0.56% | 2016 | 1.29% |
| 2011 | 1.18% | 2017 | 1.51% |
| 2012 | 2.41% | 2018 | 1.76% |
| 2013 | 1.63% | 2019 | 2.36% |

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

**Table 1-2**

**Percentage of Jurisdictional Water and Wastewater Utilities Filing for Indexes and**

**Pass-Throughs**

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Percentage | Year | Percentage |
| 2008 | 42% | 2014 | 39% |
| 2009 | 53% | 2015 | 49% |
| 2010 | 29% | 2016 | 38% |
| 2011 | 43% | 2017 | 37% |
| 2012 | 30% | 2018 | 42% |
| 2013 | 41% | 2019 | 60% |

***Issue 2:***  What rate should be used by water and wastewater utilities for the 2020 Price Index?

Recommendation:

  The 2020 Price Index for water and wastewater utilities should be 1.79 percent. (Thurmond)

Staff Analysis:

 The U.S. Department of Commerce, Bureau of Economic Analysis, released the most recent third quarter 2019 figures on October 30, 2019. Consistent with the Commission’s establishment of the 2019 Price Index last year, staff is using the third quarter 2019 amounts to calculate staff’s recommended 2020 Price Index. Using the third quarter amounts allows time for a hearing if there is a protest, in order for the Commission to establish the 2020 Price Index by March 31, 2020, in accordance with Section 367.081(4)(a), F.S. The percentage change in the GDP using the fiscal year comparison ending with the third quarter is 1.79 percent. This number was calculated as follows.

|  |  |
| --- | --- |
| GDP Index for the fiscal year ended 9/30/19 | 112.627 |
| GDP Index for the fiscal year ended 9/30/18 | 110.645 |
| Difference | 1.98 |
| Divided by 9/30/18 GDP Index | 110.645 |
| 2020 Price Index | 1.79% |

Issue :

 How should the utilities be informed of the indexing requirements?

Recommendation:

 Pursuant to Rule 25-30.420(1), F.A.C., the Office of Commission Clerk, after the expiration of the Proposed Agency Action (PAA) protest period, should mail each regulated water and wastewater utility a copy of the PAA order establishing the index containing the information presented in Attachment 1. A cover letter from the Director of the Division of Accounting and Finance should be included with the mailing of the order (Attachment 2). The entire package should also be made available on the Commission’s website. (Thurmond)

Staff Analysis:

 Staff recommends that the package presented in Attachment 1 be mailed to every regulated water and wastewater utility after the expiration of the PAA protest period, along with a copy of the PAA order once final. The entire package should also be made available on the Commission’s website.

In an effort to increase the number of water and wastewater utilities taking advantage of the annual price index and pass-through programs, staff is recommending that the attached cover letter (Attachment 2) from the Director of the Division of Accounting and Finance be included with the mailing of the PAA Order in order to explain the purpose of the index and pass-through applications and to communicate that Commission staff is available to assist them.

Issue :

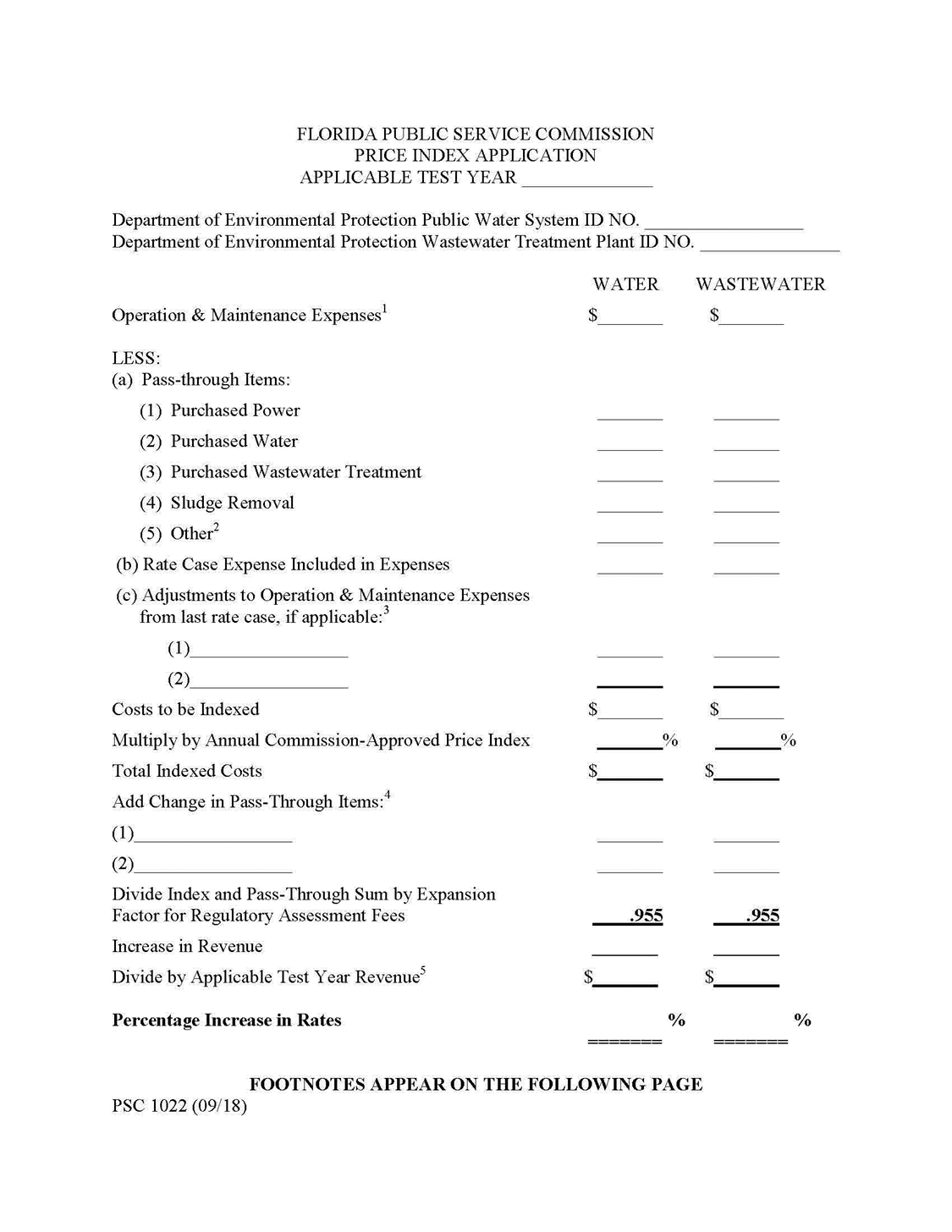
 Should this docket be closed?

Recommendation:

 No. Upon expiration of the 14-day protest period, if a timely protest is not received, the decision should become final and effective upon the issuance of a Consummating Order. Any party filing a protest should be required to prefile testimony with the protest. However, this docket should remain open through the end of the year and be closed upon the establishment of the new docket on January 2, 2020. (J. Crawford, Thurmond)

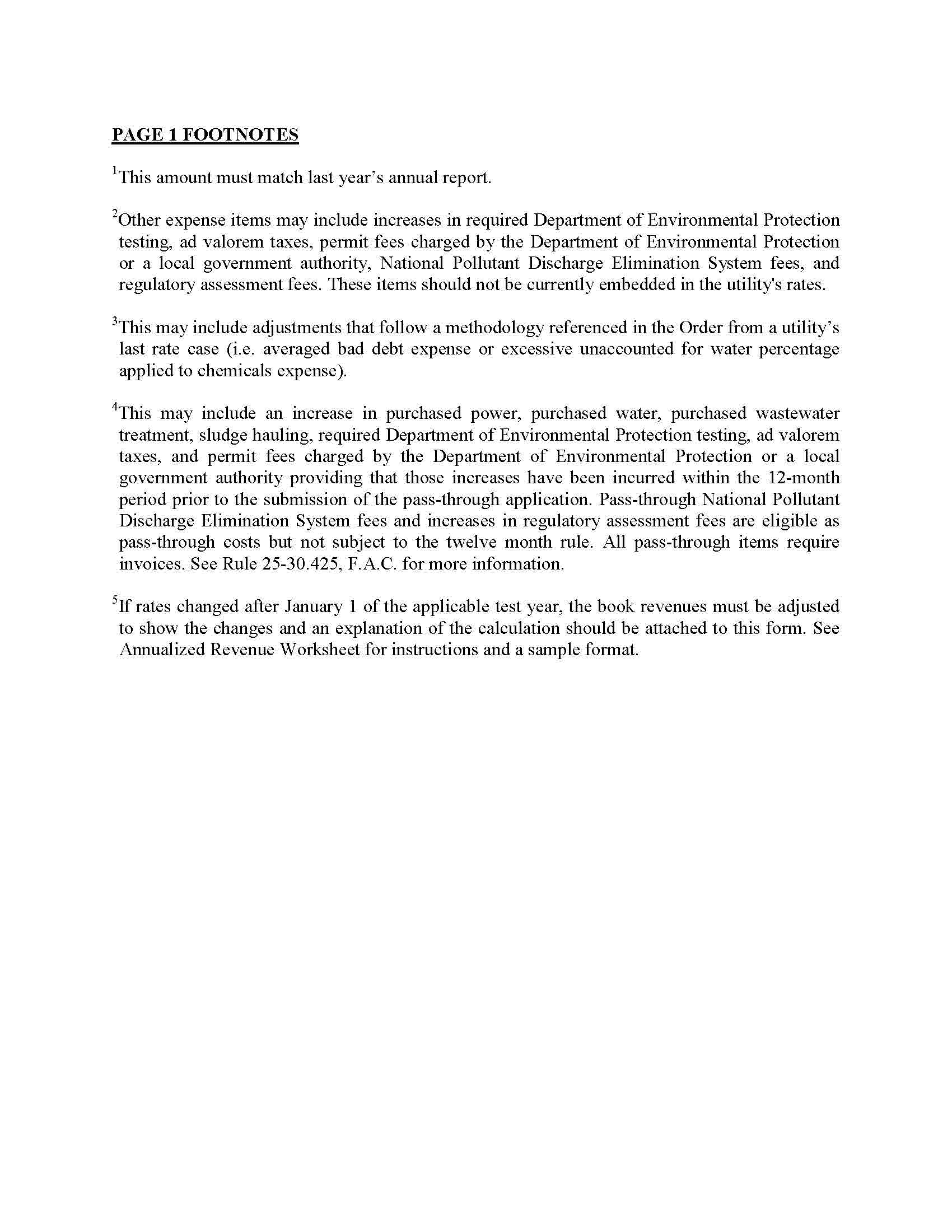
Staff Analysis:

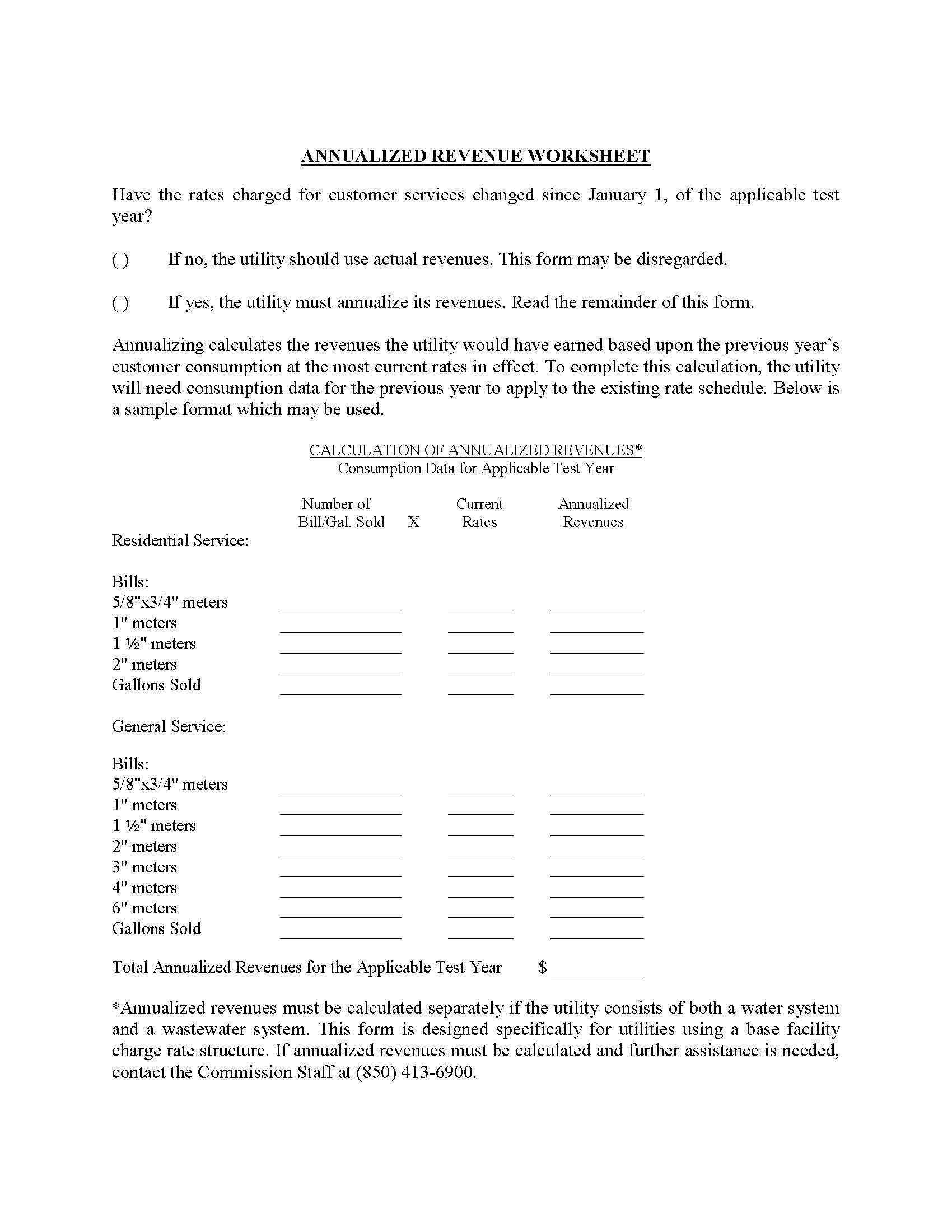
 Uniform Rule 25-22.029(1), F.A.C., contains an exception to the procedural requirements set forth in Uniform Rule 28-106.111, F.A.C., providing that “[t]he time for requesting a Section 120.569 or 120.57 hearing shall be 14 days from issuance of the notice for PAA orders establishing a price index pursuant to Section 367.081(4)(a), F.S.” Staff, therefore recommends that the Commission require any protest to the PAA Order in this docket be filed within 14 days of the issuance of the PAA Order, and that any party filing the protest should be required to prefile testimony with the protest. Upon expiration of the protest period, if a timely protest is not received, the decision should become final and effective upon the issuance of a Consummating Order. However, this docket should remain open through the end of the year and be closed upon the establishment of the new docket on January 2, 2020.

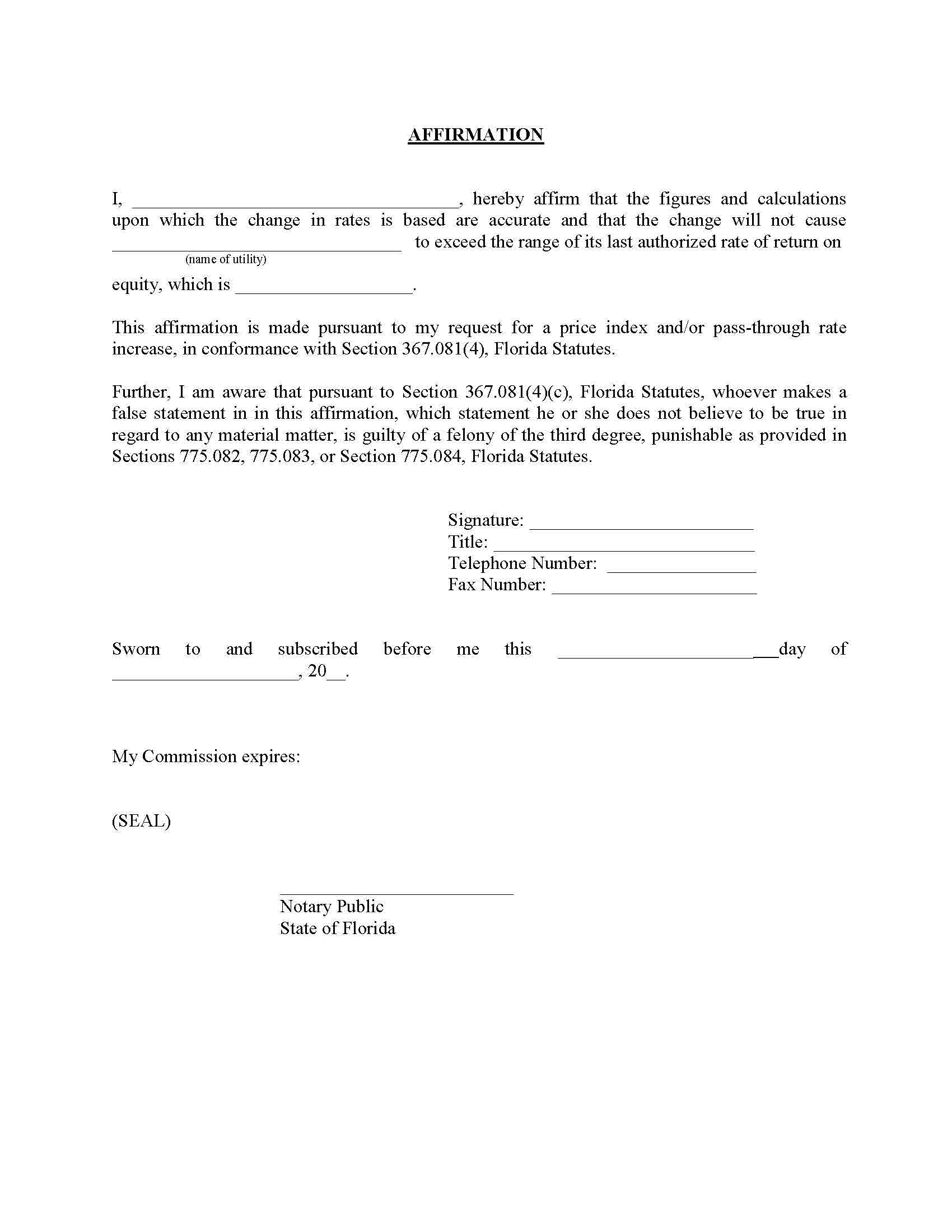


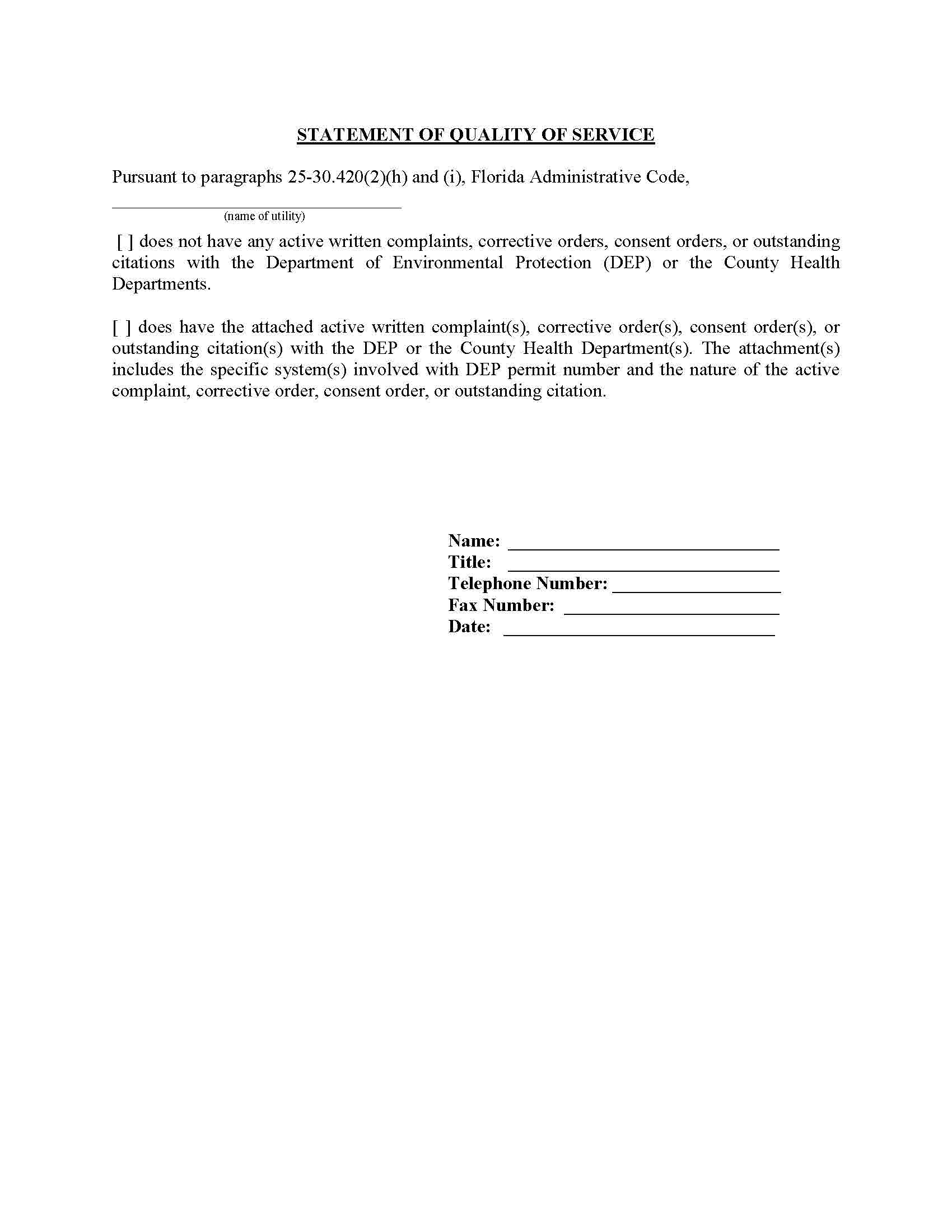
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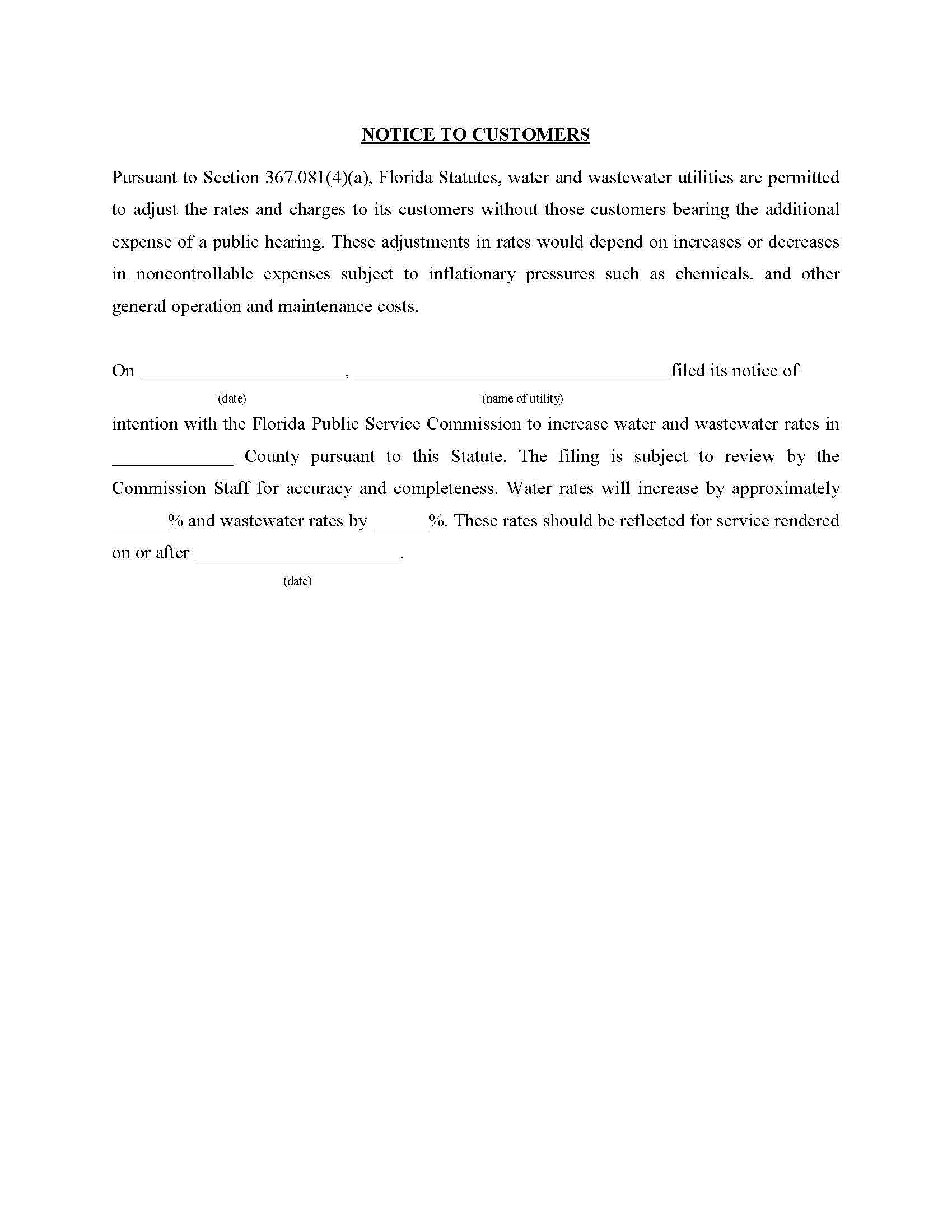
**1.79**

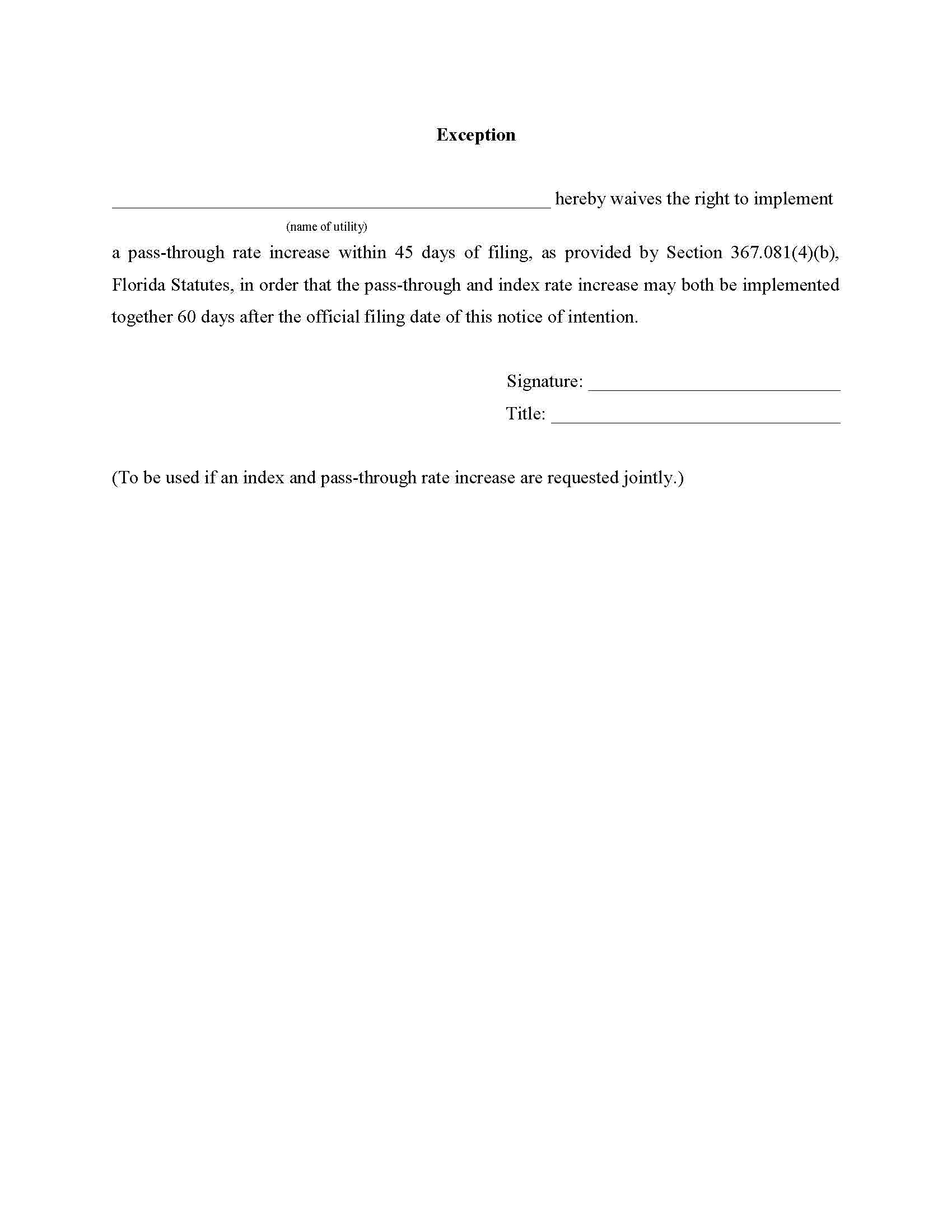


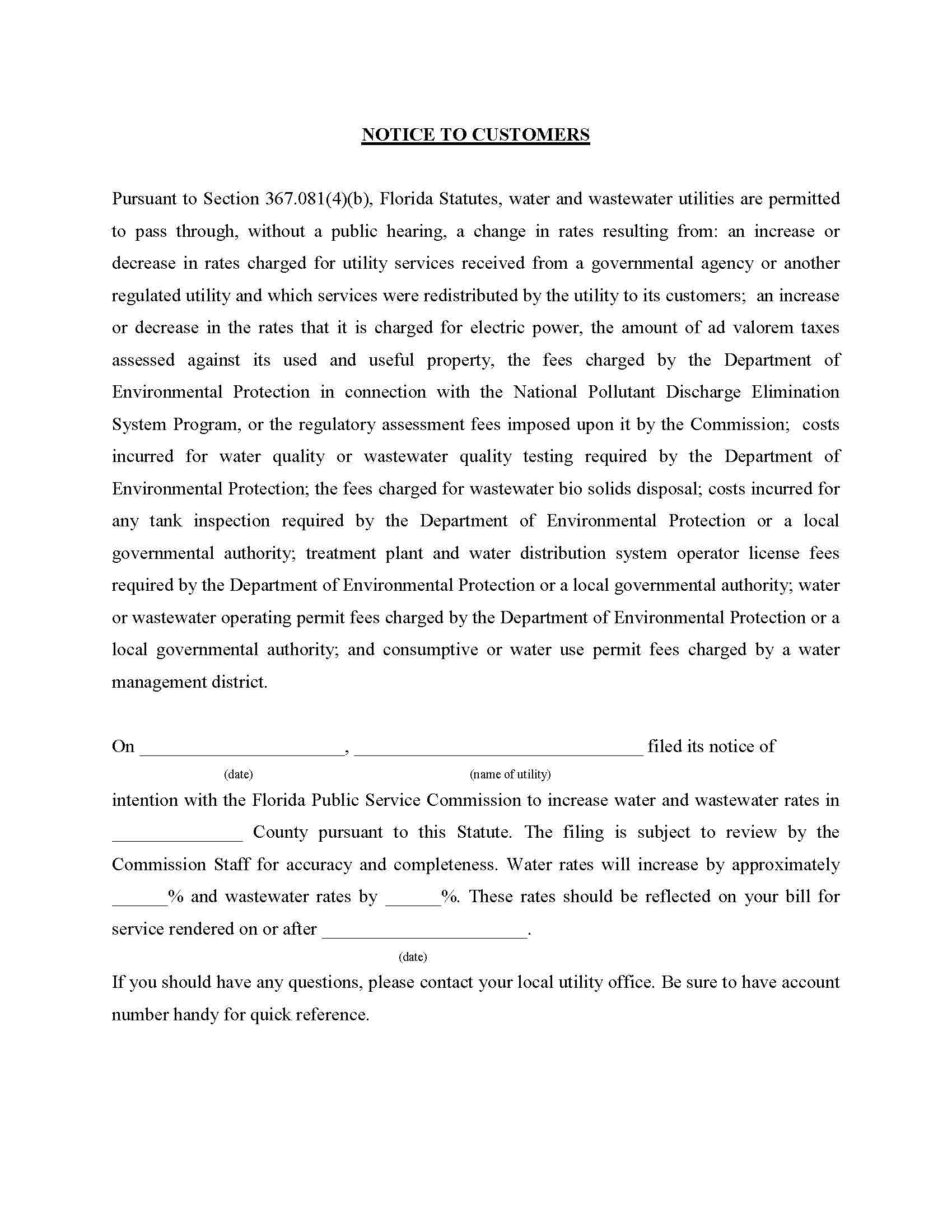












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| Commissioners:  Gary F. Clark, Chairman  Art graham  Julie i. brown  Donald J. Polmann  Andrew Giles Fay | **State of Florida**  pscSEAL | Division of  Accounting and Finance  Andrew L. Maurey  Director  (850) 413-6900 |
| Public Service Commission | | |

Month Day, 2020

All Florida Public Service Commission

Regulated Water & Wastewater Utilities

Re: Docket No. 20190005-WS - 2020 Price Index

Dear Utility Owner:

Since March 31, 1981, pursuant to the guidelines established by Section 367.081(4)(a), Florida Statutes (F.S.), 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. This process allows water and wastewater utilities to adjust rates based on current specific expenses without applying for a rate case. 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), F.S.;

b) Any amortization of rate case expense; and

c) Disallowances or adjustments made in an applicant's most recent rate proceeding.

Please note that all sludge removal expense should now be removed from operation and maintenance expenses for the purpose of indexing. Incremental increases in this category of expense may now be recovered using a pass-through request.

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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 2020 Price Index anytime between April 1, 2020, through March 31, 2021 by mail or by emailing Applications@psc.state.fl.us. 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.

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Annual**  **Commission**  **Approved Index** | **Year** | **Annual**  **Commission**  **Approved Index** |
| 1995 | 1.95% | 2008 | 2.39% |
| 1996 | 2.49% | 2009 | 2.55% |
| 1997 | 2.13% | 2010 | 0.56% |
| 1998 | 2.10% | 2011 | 1.18% |
| 1999 | 1.21% | 2012 | 2.41% |
| 2000 | 1.36% | 2013 | 1.63% |
| 2001 | 2.50% | 2014 | 1.41% |
| 2002 | 2.33% | 2015 | 1.57% |
| 2003 | 1.31% | 2016 | 1.29% |
| 2004 | 1.60% | 2017 | 1.51% |
| 2005 | 2.17% | 2018 | 1.76% |
| 2006 | 2.74% | 2019 | 2.36% |
| 2007 | 3.09% | 2020 | 1.79% |

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

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

Sincerely,

Andrew L. Maurey

Director

Enclosures

1. Order No. PSC-1993-0195-FOF-WS, issued February 9, 1993, in Docket No. 19930005-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.* [↑](#footnote-ref-1)
2. Order No. PSC-1995-0202-FOF-WS, issued February 10, 1995, in Docket No. 19950005-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.* [↑](#footnote-ref-2)