

Annual Price Index and Pass Throughs



Price Index Outline

- The Price Index, as established by the Commission, is a measure that reflects changes in operating costs for water and wastewater utilities. The Price Index mechanism allows water and wastewater utilities to increase rates without applying for a rate case.
- The Price Index is addressed in Section 367.081(4)(a), F.S. - *Rates; procedure for fixing and changing.*
- The Price Index is also addressed in Rule 25-30.420, F.A.C. - *Establishment of Price Index, Adjustment of Rates; Requirement of Bond; Filings After Adjustment; Notice to Customers.*



Purpose and History

- Since March 31, 1981, pursuant to the guidelines established by Section 367.081(4)(a), F.S., *Rates; procedure for fixing and changing*, and Rule 25-30.420, F.A.C., *Establishment of Price Index, Adjustment of Rates; Requirement of Bond; Filings After Adjustment; Notice to Customers*, 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.



Purpose and History

- The Index is calculated by comparing the Gross Domestic Product Implicit Price Deflator Index of the current and previous fiscal year. This same procedure has been used each year since 1995 to calculate the Price Index.



Price Index Statute - 367.081(4)(a), F.S.

In accordance with Section 367.081(4)(a), F.S.:

- The Commission must issue an order establishing a price increase or decrease index of major categories of operating costs, on or before March 31 of each year.
- The percentage increase or decrease must reflect the increase or decrease in such costs based on the most recent 12 months of historical data available.
- The Commission, by rule, shall establish the procedure to be used in determining such indices.



Price Index Statute - 367.081(4)(a), F.S.

In accordance with Section 367.081(4)(a), F.S. (cont.):

- The Commission must also establish the procedure by which a utility, without further action by the Commission, may implement an increase or decrease in rates based upon application of the indices.
- The utility may not apply the Index increase or decrease to expenses that the Commission has disallowed or adjusted in the utility's most recent rate proceeding before the Commission.



Price Index Statute - 367.081(4)(c), F.S.

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, and stating that the change will not cause the utility to exceed the range of its last authorized rate of return on equity.



Price Index Statute - 367.081(4)(d), F.S.

If, within 15 months after the filing of a utility's annual report required by Section 367.121, F.S. - *Powers of commission*, 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 report was filed or was implemented in the preceding year, the Commission may order the utility to refund with interest the Index increase.



Price Index Statute - 367.081(4)(e), F.S.

A utility may not adjust its rates under this subsection more than two times in any 12-month period.



Strategy for Filing

- As the statute indicates, a utility may not have more than two increases within any 12-month period.
- There is a strategy for combining Price Index and pass through adjustments into one filing.
- To the extent that a utility can, it should combine them because when a utility files them together, it counts as only one filing.
- A utility may not have more than one Index between April 1 of a specific year and March 31 of the following year.



Acceptable Combination Filings

- The following filing examples are appropriate:
 - Index and a pass through
 - Two pass throughs



Rule 25-30.420, F.A.C., Requirements

In accordance with Rule 25-30.420, F.A.C., *Establishment of Price Index, Adjustment of Rates; Requirement of Bond; Filings After Adjustment; Notice to Customers*, the Commission must:

- Establish a Price Index on or before March 31 of each year.
- Determine major categories of operating costs to which the Index will apply.
- Consider cost statistics compiled by government agencies. (i.e. Table 1.1.9. Implicit Price Deflators for Gross Domestic Product of the U.S. Department of Commerce's Bureau of Economic Analysis. Please see the following link:

<http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=3&isuri=1&903=13>)



Index Application

The utility must include the following in its Index Application:

- Company letter/Notice of Intent
- Index and Pass Through Adjustment
- Schedule of Annualized Revenue
- Schedule of Present & Proposed Rates
- Customer Notice
- Affirmation
- Statement on Quality of Service



Rule Requirements

In accordance with Rule 25-30.420, F.A.C., *Establishment of Price Index, Adjustment of Rates; Requirement of Bond; Filings After Adjustment; Notice to Customers*, the utility that seeks to increase its rates through the Index process must:

(1) File an Index Application.

- The utility's application should include the following:
 - Notice of intent 60 days prior to the effective date of the rate change
 - A computational schedule showing the increase or decrease in annual revenue that will result when the Index is applied



Rule Requirements (cont.)

(1) File an Index Application. (cont.)

- The utility's application should include the following (cont.):
 - An affirmation from utility that it will not exceed the range of its last authorized rate of return on equity, pursuant to Section 367.081(4)(c), F.S.
 - A copy of the proposed customer notice
 - An annualized revenue calculation
 - A Quality of Service Statement

(2) File revised tariff sheets.



Rule Requirements (cont.)

(3) Provide Additional Earnings Information, if requested.

- The Commission may require filing information to determine whether the utility has exceeded its last authorized rate of return.

(4) Notify customers of the increase/decrease.

- The utility must notify customers in advance of rate implementation and explain the reason for the rate increase.

(5) Be in compliance with filing requirements.

- The utility must have a current Annual Report on file with the Commission.



Rule Requirements (cont.)

(6) Secure a bond if required by the Commission.

- Where there is a history of inadequate service or record keeping, the Commission may require the utility to secure a bond.



Rule Requirements (cont.)

No utility shall implement a rate increase within one year of the official date that it filed a request for a rate increase, unless the rate proceeding has been completed or terminated.



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

Year	Commission Approved Index	Year	Commission Approved Index
2003	1.31%	2009	2.55%
2004	1.60%	2010	0.56%
2005	2.17%	2011	1.18%
2006	2.74%	2012	2.41%
2007	3.09%	2013	1.63%
2008	2.39%	2014	1.41%



Jurisdictional Water & Wastewater Utilities Filing for Indexes and/or Pass Throughs

Year	Percentage	Year	Percentage
2003	27%	2009	53%
2004	22%	2010	29%
2005	33%	2011	43%
2006	32%	2012	30%
2007	47%	2013	41%
2008	42%	2014	39%



Benefit to the Utility of Filing an Annual Index

The utility can more timely recover rising costs and lessen rate shock in subsequent rate cases.



Purpose of Filing a Pass Through

A pass through adjustment allows a utility to recover increases or decreases in certain eligible expenses within a 45-day time frame. A utility is eligible to file a pass through as long as it has a current annual report on file. Eligible expenses include the following:

- Purchased water or wastewater
- Electric service
- Ad valorem taxes against used and useful property
- Additional water and wastewater quality testing required by the Florida Department of Environmental Protection (DEP)



Purpose of Filing a Pass Through (cont.)

A pass through adjustment allows a utility to recover increases or decreases in certain eligible expenses within a 45-day time frame. A utility is eligible to file a pass through as long as it has a current annual report on file. Eligible expenses include the following (cont.):

- Fees charged by DEP in connection with the National Pollutant Discharge Elimination System (NPDES)
- Regulatory Assessment Fees (RAFs)



Pass Through Statute 367.081(4)(b), F.S.

If 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 the utility redistributes that service to its customers, the utility's current approved rates shall be automatically increased or decreased without a 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.



Pass Through Application

The utility must include the following in its Pass Through Application:

- (1) Statement, by class of customer and meter size, setting out by month the gallons of water and wastewater service sold by the utility for the most recent 12-month period*
- (2) Affirmation reflecting authorized rate of return on equity
- (3) Copy of proposed customer notice

*Note: Not required for pass through of increased ad valorem taxes or RAFs.



Pass Through Application

The utility must include the following in its Pass Through Application (cont):

- (4) Revised tariff sheets
- (5) Rate of return on equity the utility is affirming it will not exceed
- (6) Calculation of change in revenue
- (7) Annualized revenue calculation
- (8) Waiver of 45-day implementation (If combined with an Index)

