

Staff Assisted Rate Cases (SARCs)



Types of Rate Relief

There are multiple mechanisms of rate relief available to Class C water and wastewater utilities. These types of rate relief are discussed in separate sections of this manual and include the following:

- Staff Assisted Rate Case (SARC) - procedure whereby a utility qualifying for staff assistance petitions for approval to increase rates based on based on financial and operating data determined by staff
- Limited Proceeding - a procedure whereby a utility can seek an increase in rates for specifically identified costs



Types of Rate Relief (cont.)

There are multiple mechanisms of rate relief available to Class C water and wastewater utilities. These types of rate relief are discussed in separate sections of this manual and include the following (cont.):

- File & Suspend Rate Case – a procedure whereby the utility petitions for approval to increase rates and files detailed financial and operating data to support its proposed rates.
- Annual Price Index – an annual application that allows a utility to adjust rates based on current specific expenses without applying for a rate case



Types of Rate Relief (cont.)

There are multiple mechanisms of rate relief available to Class C water and wastewater utilities. These types of rate relief are discussed in separate sections of this manual and include the following (cont.):

- Pass Through Rate Adjustment – a process that allows a utility to recover increases or decreases in certain eligible expenses within a 45-day time frame
- Alternate Rate Setting – procedure whereby a utility qualifying for staff assistance can obtain a rate increase, limited to 50 percent of test year revenues, in an expedited manner to recover specifically identified costs



The SARC Application

- The SARC Application requires a utility to provide general, accounting, engineering, and rate data, as well as an affirmation that the data provided is true and correct.
- The SARC application can be accessed at the following link:
<http://www.floridapsc.com/Files/PDF/Utilities/WaterAndWastewater/SARC.doc>



Notice to County for New Rates

Section 367.091(2), F.S., *Rates, tariffs; new class of service*, sets forth the following noticing requirements:

- Upon filing an application for new rates, the utility shall mail a copy of the application to the chief executive officer of the governing body of each county within the service areas included in the rate request
- The governing body may petition the Commission for leave to intervene in the rate change proceeding and the Commission shall grant intervener status to any governing body that files a petition



Staff Assignments

Once a SARC application is received by the Commission, the following staff assignments are made:

- Accountant
- Engineer
- Attorney
- Economic Analyst
- Auditor



Eligibility

- To be eligible for staff assistance, gross annual operating revenue must be less than:
 - \$275,000 for water service.
 - \$275,000 for wastewater service.
 - \$550,000 on a combined basis.
- In determining eligibility, the Commission will also consider:
 - Whether the utility is current with annual reports and regulatory assessment fees (RAFs). Calendar year RAFs are due the following March 31.



Eligibility (cont.)

- In determining eligibility, the Commission will also consider (cont.):
 - Whether the utility's application includes all relevant information and reasons for its requested increase.
 - Whether the utility was granted a rate case increase within the 2-year period prior to receipt of the application under review.
- If denied eligibility, the utility may request reconsideration by the full Commission.



Processing of Application

- Once the application review has been completed, the utility will receive a letter from the staff which indicates: (1) whether the SARC application has been approved, (2) what the appropriate filing fee is, and (3) when the filing fee is due.
- If the SARC application has been approved, the utility will receive another letter from audit staff indicating when the audit will occur and information to have available.
- The utility will receive another letter from the engineer indicating when the engineer inspection will occur and information to have available.



Filing Fees

SARC Filing Fees, per Rule 25-30.020, F.A.C., *Fees Required to be Paid by Water and Wastewater Utilities*, are based upon the equivalent residential connections (ERCs) capacity of the system.

Up to 100 ERCs	\$200
From 101-200 ERCs	\$500
More than 200 ERCs	\$1,000



Interim Rates 367.0814(4), F.S.

- The Commission may, upon its own motion, or upon petition from the regulated utility, authorize the collection of interim rates until the effective date of the final order.
- Such interim rates may be based upon a test period different from the test period used in the request for permanent rate relief.



Interim Rates 367.0814(4), F.S. (cont.)

- To establish interim relief, there must be a demonstration that the operation and maintenance expenses exceed the revenues of the regulated utility. Interim rates shall not exceed the level necessary to cover operation and maintenance expenses as defined by the Uniform System of Accounts for Class C Water and Wastewater Utilities (1996) of the National Association of Regulatory Utility Commissioners.



SARC Interim Rates

The Commission may require that the difference between the interim rates and the previously authorized rates be collected under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission.



Staff Assistance Statute - 367.0814(8), F.S.

If a utility becomes exempt from Commission regulation or jurisdiction during pendency of a staff assisted rate case:

- The request for rate relief is deemed to have been withdrawn.
- Interim rates, if previously approved, shall become final.
- Temporary rates, if previously approved, must be discontinued, and any money collected pursuant to the temporary rates, or the difference between temporary and interim rates, if previously approved, must be refunded to the customers of the utility with interest.



Case Assignment & Scheduling Record (CASR)

- The CASR lists actions to be undertaken in a filed case along with the due date for each action.
- A CASR can be accessed from the Commission's website as follows:
 - (1) Follow the link below:
<http://www.floridapsc.com/ClerkOffice/Docket>
 - (2) Search "By Docket Number" using only the first six digits of the docket number
- The table on this page details the actions to be taken in the case and the due date for each action.



Timeline

- The official filing date for a SARC is 30 days after official acceptance of the application.
- A SARC has a 15-month statutory deadline.
- It takes approximately six to seven months for a SARC application to be considered by the Commission at a regularly scheduled Commission Conference.



Approximate Timeline

From Receipt of Application

- Approval or Denial 1 month
- Filing Fee Due 2 months
- Audit 1-2 months
- Engineering Inspection 1-3 months
- Staff Report Finished 4 months
- Customer Meeting 5 months
- Initial Commission Vote 6-7 months
- Rates Effective 8-9 months
- Hearing (if necessary) 12 months
- Final Vote (if necessary) 15 months



Audit

- As part of the SARC process, technical staff requests that an audit be conducted. The appropriate field office will send an auditor to conduct a preliminary evaluation. The audit is usually completed two months after the SARC application is filed.
- The auditor sends a letter outlining information to have available and proposed dates of field work. The auditor will contact the utility one week before the audit commences.
- The field audit work may last up to three weeks depending on the condition of the utility's records.
- After the field audit work is completed, the auditor prepares the Audit Report.



The Audit Report

- The Audit Report contains findings that can include, but are not limit to, the following:
 - Assessment of whether the utility's book conform with the National Association of Regulatory Utility Commissioners Uniform System of Accounts
 - Identification of misclassified capital plant investments or operating expenses
 - Identification of unallocated costs from affiliated entities
- The utility is given a copy and may respond in writing to the Audit Report.



Books and Records

Water and wastewater utilities should:

- Use the 1996 NARUC Uniform System of Accounts.
- Keep all receipts, check stubs, and cancelled checks for all expenses.
- Keep all contracts.
- Keep all documentation of cost and work done for all capital expenditures.
- Properly record all allocated expenses.



25-30.433(10), F.A.C. - Water Treatment and Storage Used and Useful Calculations

- A utility is required to own the land upon which the utility treatment facilities are located, or possess the right to the continued use of the land, such as a 99-year lease.
- The Commission may consider a written easement or other cost-effective alternative.



The Engineering Analysis

As part of the SARC, an engineering analysis is undertaken. The engineering analysis can include an examination of plant in service, used and usefulness of water and wastewater facilities, quality of service, original cost study, pro forma improvements, and operational and maintenance expenses.



Field Inspection

- As applicable, the staff engineer's inspection will include an on-site review of the utility's water treatment facilities, wastewater treatment facilities, reuse facilities, and general service area.
- The staff engineer also reviews the utility's operation and maintenance records, plant monthly operator reports (MORs), customer complaint records, and customer consumption data.



Plant in Service

- Plant in service is the utility's plant investment devoted to public use for the provisions of water and wastewater service.
- Plant in service includes any of the following:
 - Water treatment plant
 - Wastewater treatment plant
 - Water transmission and distribution system
 - Wastewater collection system
 - Reuse facilities



Original Cost Study

- An original cost study is necessary when sufficient records are not available to support utility rate base and/or total system cost.
- The utility should provide the staff engineer anything that would help orient him/her to area-specific pricing and construction cost to the utility, as well as in-service dates.



Used & Useful Definition

Section 367.081, F.S.

- A utility is only allowed a rate of return on used and useful plant in service.
- The Commission shall consider property constructed or to be constructed to serve current customers.
- The Commission shall consider property constructed (or to be constructed) that is needed to serve customers five years after the end of test year at a growth rate not to exceed five percent per year.
- The Commission shall consider property constructed (or which needs to be constructed) to serve customers more than five years after the end of test year only to extent the utility provides clear and convincing evidence.



Used & Useful

Section 367.081, F.S. (cont.)

- All environmental compliance costs shall be considered 100 percent used and useful.
- Environmental compliance costs shall include all reasonable expenses and fair return on any prudent investment incurred in complying with the requirements or conditions contained in any permitting, enforcement, or similar decisions of the US Environmental Protection Agency (EPA), Florida Department of Environmental Protection (DEP), Water Management Districts (WMDs), or any other similar governmental entity.



Used & Useful Methodology

- Water Treatment Plant

Max Flow + Fire Flow +
Growth Factor – Unaccounted for Water
Plant Capacity



Used & Useful Methodology (cont.)

- Wastewater Treatment Plant

$$\frac{\text{Average Daily Flow}^* + \text{Growth Factor} - \text{Infiltration}}{\text{Plant Capacity}^*}$$

* Based upon permitted capacity



Used & Useful Methodology (cont.)

- Water Distribution/Wastewater Collection

$$\frac{\text{Connections in ERCs} + \text{Growth Factor}}{\text{Total Connections in ERCs}}$$



Water – Fire Flow Capacity

- Fire flow capacity is a recognition of the utility's ability to furnish fire protection.
- The minimum standard is 500 gallons per minute(gpm) for two hours.
- Higher standards may prevail in higher population density conditions or through special Fire Marshall specifications.



Unaccounted for Water

- Unaccounted for water is water is taken from a source into a distribution system which is not delivered to the customers or otherwise accounted. The Commission practice is to recognize an acceptable threshold of 10 percent unaccounted for water.
- Examples of accounted for water include water used for plant operations, line flushing, hydrant testing, hydrant use, sewer cleaning, and street cleaning.



Wastewater Infiltration/Inflow

- Infiltration is defined as extraneous flows (usually from ground water) that enter the wastewater system through openings in pipes.
- Inflow is defined as extraneous flows from sources other than infiltration, such as surface water run-off into manholes or from unauthorized connections.
- An acceptable level of infiltration and inflow is 500 gpm/inch diameter pipe/mile.
- Indications of possible infiltration/inflow include biological strength of the wastewater, chloride content, and wet weather flow fluctuations.



Quality of Service

- Pursuant to Rule 25-30.433(1), F.A.C., *Rate Case Proceedings*, the Commission in every rate case shall make a determination of the quality of service provided by the utility.
- The Commission's determination shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of utility's product (water and wastewater), operational conditions of utility's plant and facilities, and the utility's attempt to address customer satisfaction.



Determining Quality of Utility's Product

Water System

Chemical Analysis and Test Results

- Does the product meet DEP standards for safe drinking water?
- What do the secondary test results look like?
- Has the utility completed all testing parameters?
- Does the utility monitor all unregulated standards?
- Is disinfection maintained throughout the system?
- Is pressure in the system maintained above the minimum?



Determining Quality of Utility's Product (cont.)

Wastewater System

Chemical Analysis and Test Results

- Does the utility meet DEP standards for effluent discharge?
- Does the utility meet standards of treatment levels?
- What do the monitoring test results look like?
- Has the utility completed all testing parameters?
- Does the utility maintain proper levels of pH?
- Is proper retention maintained in Cl₂ contact chamber?
- Does the utility reach surface water, ocean alcohol levels?
- How are boil water notices handled?



Determining Quality of Utility's Product (cont.)

Wastewater System

Chemical Analysis and Test Results (cont.)

- Does the utility discharge wastewater through spray irrigation or wetland discharge?



Determining Quality of Utility's Plant

Operational Conditions at the Water & Wastewater Treatment Plant

- What is the general condition of the facilities?
- Does repair and maintenance occur on a regular basis?
- Are there any plant in service citations?
- Are there any violations or corrective orders?



Determining Quality of Utility's Public Relations

Customer Satisfaction

- Are there any customer complaints?
- Does the utility keep a complaint log?
- How quickly do complaints get resolved?
- How many billing and service complaints are there?
- Are there frequent service interruptions?
- Are there frequent sewer backups?
- Is the company testing meter accuracy upon request?
- Is the company proactively monitoring meter accuracy?



Pro Forma Adjustments

- Pro Forma Plant is defined as plant improvements to be completed after the end of the test year.
- Pro Forma Expense is defined as an expense increase/decrease to be incurred after the end of the test year.



Factors Analyst Considers

Factors staff analysts consider include the following:

- The engineer's recommendations on plant, related operation expenses, and used and useful
- Reasonableness of hours spent by the utility's employees performing their tasks (considerations include size, condition of plant, location, etc.)
- Comparison to previous cases and other utilities
- Adequate documentation of plant in service since last applicable Commission Order balance



Factors Analyst Considers (cont.)

Factors staff analysts consider include the following (cont.):

- Depreciation maintained in accordance with Rule 25-30.140, F.A.C. after March 1, 1984
- Balance of contributions-in-aid-of-construction (CIAC) and amortization of CIAC using composite rate
- Imputation of CIAC
- Application of used and useful percentage to depreciation and CIAC



Factors Analyst Considers (cont.)

Factors staff analysts consider include the following (cont.):

- Calculation of working capital allowance
- Capital structure issues such as return on equity (ROE) determination using the leverage graph, the cost of debt, and the weighted average rate on return
- Miscellaneous Service Charges
- Customer deposits
- Service Availability Charges



2016 Return on Equity Leverage Formula (PSC-16-0254-PAA-WS)

The Commission annually establishes by order a leverage formula that reasonably reflect the range of returns on common equity for an average water or wastewater utility.

$$\text{2016 Return on Common Equity} = 7.13\% + (1.610/\text{Equity Ratio})$$

Range: 8.74 @ 100% equity

To 11.16 @ 40% equity



The Staff Report

- The Staff Report comprises staff's preliminary recommendation of the revenue requirement designed to afford the utility an opportunity to earn a fair return on its prudent, used and useful plant investment and recover its reasonable operating expenses.
- The Staff Report also reflects staff's preliminary fall-out rates.
- The Staff Report forms the basis for conducting the customer meeting.
- Very often, the rates and requirements in the final recommendation to the Commissioners are different than those in the preliminary Staff Report.



Schedules in the Staff Report

The following schedules are included in each Staff Report:

- Rate Base
- Adjustments to Rate Base
- Capital Structure
- Net Operating Income (NOI) – including Revenue Requirement
- Adjustments to NOI (Revenues, Expenses, etc.)
- Operation & Maintenance (O&M)
- Four-year Rate Reduction
- Used & Useful



Rule 25-22.0407(9), F.A.C.

Customer Access

- A copy of the Staff Report must be made available for review by all interested persons at a convenient accessible site.
- Upon receiving staff reports, the utility shall place two copies of its application and Staff Report at its business offices in service area.
- Copies shall be available for inspection during regular business hours.
- If no office is available, copies should be placed at the main county library, local community center or other appropriate location willing to accept and provide to copies.



The Customer Meeting Notice

- The customer meeting notice will be mailed from Commission staff to the utility for customer distribution approximately 30 days prior to the customer meeting.
- A copy of the customer notice, as reproduced at the time, as it is distributed to customers, together with a cover letter indicating the exact date on which the notice was mailed or otherwise delivered to customers, must be sent to the Commission staff.



Notice of Customer Meeting

Utility shall provide Commission-approved written notice of customer meeting conducted by Commission staff no less than 14 days and no sooner than 30 days prior to the meeting date. The customer notice should be:

- Provided to all customers in service area.
- Provided to all persons who have been provided a written estimate for service within 12 calendar months prior to month application was filed.
- Mailed to out-of-town customers who have provided address to the utility.



Contents on Customer Notice

The customer notice must contain the following:

- Date notice issued
- Time, date, location, and purpose of the meeting
- A statement that the utility has applied for a staff assisted rate case, the docket number of the case, and general reasons for applying
- Location of the application and Staff Report available for public inspection and times when inspection can be made
- A comparison of current and proposed rates and charges
- The utility's address, telephone number, and business hours



Contents on Customer Notice (cont.)

The customer notice must contain the following (cont.):

- A statement that written comments regarding utility service or proposed rates and charges should be addressed to the Office of Commission Clerk and should reference docket number (include Commission address)
- A statement that service complaints may be made to Office of Consumer Assistance and Outreach at 1-800-342-3552 or website contact@psc.state.fl.us
- A statement that the Commission will be reviewing utility's service availability in the pending case and may adjust those charges



The Customer Meeting

- The purpose of the customer meeting is to receive customer comments regarding quality of service and to answer customer questions about the preliminary rates.
- The utility should coordinate with Commission staff for booking an appropriate site. The Commission will pay a fee if required.
- The utility is invited to attend but Commission staff will run the meeting.
- One or more Commissioners may attend.
- It's the customer's night, not the utility's.



Proposed Agency Action Process

- Proposed agency action (PAA) is a process in which a utility's request for a rate increase is voted on by the Commission and an order issued without holding a formal hearing.
- Staff will use the most current information in preparing its PAA recommendation which is completed about five to six weeks after the customer meeting.
- Staff files its PAA recommendations approximately 12 days prior to a regularly-scheduled Commission Conference where the Commissioners will either approve, deny or modify staff's recommendation.
- The utility and customers may speak at the Commission Conference.



After Commission Conference

- After the Commission vote at Commission Conference, a Commission PAA Order is issued within 20 days. The PAA Order memorializes the Commission's decision.
- A 21-day protest period then begins where any substantially affected party may protest the PAA Order and request a hearing pursuant to Section 120.57, F.S., *Additional procedures for particular cases*.
- The utility must agree to accept the final rates and charges set by the Commission unless they produce less revenue than the existing rates and charges.



After Commission Conference (cont.)

- The utility can put the new rates in effect after the vote if the Commission approves staff's recommendation; however, the approved increase is subject to refund and security would have to be provided. The alternative would be for the utility to wait until the expiration of the protest period.
- If no substantially affected party files a protest, the new rates will be effective upon issuance of a consummating order (usually three to five days after the expiration of the protest period).



PAA Protests

- Pursuant to Rule 25-22.0407(9)(e), F.A.C., *Notice of and Public Information for General Rate Increase Requests by Water and Wastewater Utilities*, if the Commission's PAA order is protested and hearings are scheduled, the utility shall give notice of hearings in accordance with subsections (6) and (7) of this rule.
- The hearing process could cost \$20,000 to \$40,000 or more, depending on the size and complexity of the case. Only that rate case expense judged to be prudent is recoverable by the utility through the rates.



If a Protest is Filed

- If a protest is filed, the utility may implement temporary rates, subject to refund with interest.
- The utility shall sponsor a witness to provide direct testimony regarding the appropriate rate base, capital structure, and revenue requirement, as well as its the fall-out rates. The utility witness may include factual testimony on any issues which the utility takes a different position on in the case.
- The utility must meet all requirements of the order establishing procedure.



If a Protest is Filed (cont.)

- Commission staff also may file pre-filed direct testimony to explain the analysis in its PAA recommendation, meet all requirements of the order establishing procedure, and provide utility materials to assist in the preparation of testimony and exhibits.



Financial Security

- Security protects both the customer and the utility.
- The following are acceptable forms of security:
 - Escrow account
 - Letter of credit
 - Bond
 - Corporate undertaking
- The security will be released, if no refunds are required or once Commission staff verifies the any required refunds have been completed.



Escrow Agreement

- An escrow account is where funds are deposited on behalf of a particular party but the funds are restricted from the general use of the party until certain conditions are met.
- For the Commission's purpose, an escrow agreement is an agreement between the utility, the Commission, and a bank where funds collected by the utility are deposited in the bank and earn interest but are not available for general use by the utility.
- If the Commission determines that the utility is entitled to the funds, the account reverts to the utility.
- If the Commission orders a refund, the funds will be used to make the refund.



Escrow Agreement (cont.)

- The advantages of an escrow agreement are as follows:
 - Easy to obtain
 - Should pay interest
 - Exact and readily available if a refund is required
- The disadvantages of an escrow agreement are as follows:
 - May involve fees not recoverable from ratepayers
 - Require an initial deposit
 - Funds are not accessible until the account is released with Commission approval



Letter of Credit

- A letter of credit is a legal obligation on the part of a bank to make good on payment of a fixed amount of money on behalf of its customers.
- For the Commission's purposes, a letter of credit insures that if the utility is unable to make a refund ordered by the Commission, the bank will step forward and lend the money to the utility to make the refund.



Letter of Credit (cont.)

- The advantage of a letter of credit is that rate funds are not tied up.
- The disadvantages of a letter of credit are as follows:
 - It involves a fee not recoverable from ratepayers (typically .5 percent - 2 percent of the loan amount)
 - It may be more difficult to obtain than an escrow account
 - In the event of a refund, there is not necessarily an “account” sitting ready to cover it



Corporate Undertaking

- A corporate undertaking is a guarantee or promise by the utility that it will refund interim rates or overcharges with interest to its customers if the Commission requires a refund.
- The level of security is based on the financial health of the utility.
- Assuming that the utility could support a corporate undertaking, the utility would simply refund the money from cash on hand or borrow funds in the short-term market.
- If the utility is unable to raise funds, the refund ordered on behalf of the ratepayers would become an unsecured debt obligation of the utility and collection would then be subject to litigation.



Corporate Undertaking (cont.)

- The advantages of a corporate undertaking are as follows:
 - It is lowest cost security
 - Rate funds are not tied up
- The disadvantages of a corporate undertaking are as follows:
 - It must have Commission approval
 - It typically requires a large, financially stable parent company



The Case is Over – Now What?

- Staff will send a letter with a proposed customer notice.
- Staff will assist the utility in revising its tariffs.
- Staff will assist in making sure language, revision levels, and rates in tariffs are revised appropriately.



Information Provided to Utility

- Staff will send a schedule detailing the appropriate plant in service, accumulated depreciation, contributions in aid of construction, and accumulated amortization.
- The utility is required to reconcile its books and records to the schedules provided by staff.



Notice Following Rate Change

- After the Commission issues an order granting or denying a rate change, the utility shall notify customers of the order and any revised rates.
- Notifications of revised rates shall be approved by Commission staff and be distributed by the utility no later than with first bill containing such rates.



Compliance

- The utility is required to make the plant improvements, etc., that the Commission has authorized and ordered.
- The Order is a legal document
- Pursuant to Section 367.121, F.S., *Powers of commission*, the Commission has the power to exercise all judicial powers necessary for enforcement of orders and requirements.



Compliance (cont.)

- If the utility does not comply with a Commission order and/or rules, and cannot provide support to justify why it could or did not comply, the Commission can Show Cause the utility.
- A Show Cause proceeding is initiated when a utility does not comply with a Commission order in a timely manner and does not have an acceptable explanation for the delay.



Show Cause Process

- Even if the utility does have an acceptable reason for non-compliance, a recommendation will need to be filed to be voted on by the Commissioners.
- Staff presents the case at Commission Conference and recommends that the utility be ordered to show cause why it should not be fined up to \$5,000 a day for violating Commission order (Section 367.161, F.S.).



If Pro Forma Plant NOT Installed

- If pro forma plant is not installed, at a minimum, staff will go back to a Commission Conference and recommend that rates be reduced on a going forward basis.
- If the situation changes after the case goes to a Commission Conference, the utility should notify staff immediately.
- Staff can work with the utility to discuss the most appropriate action to undertake.
- Notification may alleviate need for a show cause.

