By Senator Hays

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A bill to be entitled An act relating to water and wastewater utility systems; creating s. 159.810, F.S.; requiring that the Division of Bond Finance of the State Board of Administration review the allocation of private activity bonds to determine the availability of additional allocation or reallocation of bonds for water and wastewater infrastructure projects; amending s. 212.08, F.S.; extending tax exemptions to certain investor-owned water and wastewater utilities; amending s. 367.022, F.S.; exempting from regulation by the Florida Public Service Commission any person who resells water service to certain tenants or residents up to a specified cost; amending s. 367.081, F.S.; establishing criteria for the commission to consider in determining the quality of water and wastewater services provided by a utility; establishing a procedure for the commission to follow if it determines that a utility has failed to provide water and wastewater services that meet certain standards; authorizing rules adopted by the commission to include fines; authorizing the commission to create a utility reserve fund to establish rates for a utility; providing reasons to automatically increase or decrease approved rates of a utility; establishing criteria for such adjusted rates; providing specified expense items that are eligible for automatic increase or decrease of utility rates; providing standards for the commission to establish, by rule, additional

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specific expense items that are eligible to automatically increase or decrease utility rates; deleting certain requirements for approved utility rates that are automatically increased or decreased, upon notice to the commission, because of an increase or decrease in the fees imposed upon such utility; deleting a prohibition on a utility from using such procedure to increase its rates under certain circumstances; prohibiting the commission from awarding rate case expense under certain circumstances; amending s. 367.0814, F.S.; describing the circumstances under which the commission may and may not award rate case expense to cover attorney fees or fees for other outside consultants; providing that the commission may adopt related rules; amending s. 367.0816, F.S.; requiring the commission to determine that the amount of rate case expense is reasonable before such rate case expense can be apportioned for a 4-year recovery period; providing limitations on and rules for the 4-year amortized rate case expense recovery; amending s. 403.8532, F.S.; allowing the Department of Environmental Protection to make, or request that the Florida Water Pollution Control Financing Corporation make, loans, grants, and deposits to for-profit privately owned or investorowned systems, and deleting restrictions that provide otherwise; providing an effective date.

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Be It Enacted by the Legislature of the State of Florida:

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Section 1. Section 159.810, Florida Statutes, is created to read:

159.810 Allocation bonds for water and wastewater infrastructure projects.—The division shall review the allocation of private activity bonds to determine the availability of additional allocation or reallocation of bonds for water and wastewater infrastructure projects.

Section 2. Paragraph (kkk) is added to subsection (7) of section 212.08, Florida Statutes, to read:

212.08 Sales, rental, use, consumption, distribution, and storage tax; specified exemptions.—The sale at retail, the rental, the use, the consumption, the distribution, and the storage to be used or consumed in this state of the following are hereby specifically exempt from the tax imposed by this chapter.

(7) MISCELLANEOUS EXEMPTIONS.—Exemptions provided to any entity by this chapter do not inure to any transaction that is otherwise taxable under this chapter when payment is made by a representative or employee of the entity by any means, including, but not limited to, cash, check, or credit card, even when that representative or employee is subsequently reimbursed by the entity. In addition, exemptions provided to any entity by this subsection do not inure to any transaction that is otherwise taxable under this chapter unless the entity has obtained a sales tax exemption certificate from the department or the entity obtains or provides other documentation as required by the department. Eligible purchases or leases made with such a certificate must be in strict compliance with this

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subsection and departmental rules, and any person who makes an exempt purchase with a certificate that is not in strict compliance with this subsection and the rules is liable for and shall pay the tax. The department may adopt rules to administer this subsection.

(kkk) Investor-owned water and wastewater utilities.—Sales or leases to an investor-owned water or wastewater utility operated by a Florida corporation are exempt from the tax imposed by this chapter if the sole or primary function of the corporation is to construct, maintain, or operate a water or wastewater system in this state and if the goods or services purchased or leased are used in this state.

Section 3. Present subsections (9) through (12) of section 367.022, Florida Statutes, are renumbered as subsections (10) through (13), respectively, and a new subsection (9) is added to that section, to read:

367.022 Exemptions.—The following are not subject to regulation by the commission as a utility nor are they subject to the provisions of this chapter, except as expressly provided:

- (9) Any person who resells water service to his or her tenants or to individually metered residents for a fee that does not exceed the actual purchase price plus:
 - (a) Nine percent of the actual purchase price; or
 - (b) The actual cost of meter reading and billing.

Section 4. Subsections (2), (4), and (7) of section 367.081, Florida Statutes, are amended to read:

367.081 Rates; procedure for fixing and changing.-

(2) (a) 1. The commission shall, either upon request or upon its own motion, fix rates that which are just, reasonable,

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compensatory, and not unfairly discriminatory. In every such proceeding, the commission shall consider the value and quality of the service and the cost of providing the service, which must shall include, but need not be limited to, debt interest; the requirements of the utility for working capital; maintenance, depreciation, tax, and operating expenses incurred in the operation of all property used and useful in the public service; and a fair return on the investment of the utility in property used and useful in the public service. However, the commission may shall not allow the inclusion of contributions-in-aid-ofconstruction in the rate base of any utility during a rate proceeding, nor shall the commission impute prospective future contributions-in-aid-of-construction against the utility's investment in property used and useful in the public service; and accumulated depreciation on such contributions-in-aid-ofconstruction may shall not be used to reduce the rate base, nor shall depreciation on such contributed assets be considered a cost of providing utility service.

- 2. For purposes of such proceedings, the commission shall consider utility property, including land acquired or facilities constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates unless a longer period is approved by the commission, to be used and useful in the public service, if:
 - a. Such property is needed to serve current customers;
- b. Such property is needed to serve customers 5 years after the end of the test year used in the commission's final order on a rate request as provided in subsection (6) at a growth rate

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for equivalent residential connections not to exceed 5 percent per year; or

- c. Such property is needed to serve customers more than 5 full years after the end of the test year used in the commission's final order on a rate request as provided in subsection (6) only to the extent that the utility presents clear and convincing evidence to justify such consideration.
- 3. In determining the value and quality of water service provided by a utility and whether such utility has satisfied its obligation to provide water service to its customers, the commission must consider the extent to which the utility meets secondary drinking water standards regarding the taste, odor, color, or corrosiveness which are established by the Department of Environmental Protection and the local government. The commission must consider:
- $\underline{\text{a. Testimony and evidence provided by customers and the}}$ utility.
- b. Complaints customers have filed over the past 5 years with the commission, the Department of Environmental Protection, the county health departments, or the local government which relate to the taste, odor, color, or corrosiveness.
- c. The results of past tests required by the Department of Environmental Protection or county health departments which measure the utility's compliance with the applicable secondary drinking water standards relating to the taste, odor, color, or corrosiveness.
 - d. Other tests that the commission deems necessary.
- 4. In determining the value and quality of wastewater service provided by a utility, the commission must consider the

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extent to which the utility provides wastewater service to its

customers which does not cause odor, noise, aerosol drift, or

lighting that adversely affects customers. The commission must

consider:

- a. Testimony and evidence provided by customers and the utility.
- b. Complaints customers have filed over the past 5 years with the commission, the Department of Environmental Protection, the county health departments, or the local government which relate to the alleged odor, noise, aerosol drift, or lighting problem.
- 5. If the commission determines that a utility provides water service that does not meet the secondary water quality standards of the Department of Environmental Protection and the local government regarding taste, odor, color, or corrosiveness, or that a utility provides wastewater service that adversely affects customers due to odor, noise, aerosol drift, or lighting, the utility must provide estimates of the costs and benefits of various solutions to the problems. The utility must meet with its customers to discuss the costs and benefits of the various solutions and report to the commission the conclusions of the meetings. The commission shall adopt rules to assess and enforce as necessary the utility's compliance with this section. The rules must prescribe penalties, including fines and reduction of return on equity of up to 100 basis points, if a utility fails to adequately address or offer solutions to the water or wastewater problems.

Notwithstanding the provisions of this paragraph, the commission

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shall approve rates for service which allow a utility to recover from customers the full amount of environmental compliance costs. Such rates may not include charges for allowances for funds prudently invested or similar charges. For purposes of this requirement, the term "environmental compliance costs" includes all reasonable expenses and fair return on any prudent investment incurred by a utility in complying with the requirements or conditions contained in any permitting, enforcement, or similar decisions of the United States Environmental Protection Agency, the Department of Environmental Protection, a water management district, or any other governmental entity with similar regulatory jurisdiction.

- (b) In establishing initial rates for a utility, the commission may project the financial and operational data as set out in paragraph (a) to a point in time when the utility is expected to be operating at a reasonable level of capacity.
- (c) In establishing rates for a utility, the commission may authorize the creation of a utility reserve fund. The commission shall adopt rules to govern the fund, including, but not limited to, rules relating to expenses for which the fund may be used, segregation of reserve account funds, requirements for a capital improvement plan, and requirements for commission authorization before disbursements from the reserve fund.
- (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

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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.

(b) 1. The approved rates of a utility must automatically increase or decrease, without hearing, upon verified notice to the commission 45 days before implementation of the increase or decrease, informing the commission that its costs for a specified expense item have changed. The new rates authorized must reflect, on an amortized or annual basis, as appropriate, the cost or amount of change in the cost of the specified

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expense item. The new rates may not reflect the costs of a

specified expense item already included in the rates of a

utility. Specified expense items eligible for automatic increase

or decrease of a utility's rates include, but are not limited

to:

- a. The rates charged by a governmental authority or other water or wastewater utility regulated by the commission which provides utility service to the utility.
- b. The rates or fees that the utility is charged for electric power.
- c. The amount of ad valorem taxes assessed against the utility's used and useful property.
- d. The fees charged by the Department of Environmental Protection in connection with the National Pollutant Discharge Elimination System Program permit.
- <u>e. The regulatory assessment fees imposed upon the utility</u> by the commission.
- f. Costs incurred for water quality or wastewater quality testing required by the Department of Environmental Protection.
 - g. The fees charged for wastewater sludge disposal.
- h. A loan service fee or loan origination fee associated with a loan related to an eligible project. The commission shall adopt rules to determine eligible projects, which must be limited to projects associated with new infrastructure or improvements to existing infrastructure needed to achieve or maintain compliance with federal, state, and local governmental primary or secondary drinking water standards or wastewater treatment standards that relate to:
 - (I) The provision of water or wastewater service for

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291 existing customers;

(II) The violation or prevention of a violation of federal, state, and local governmental primary or secondary health standards;

- (III) The replacement or upgrade of aging water or wastewater infrastructure if needed to achieve or maintain compliance with federal, state, and local governmental primary or secondary regulations; or
- (IV) Projects consistent with the most recent long-range plan of the utility on file with the commission. Eligible projects do not include projects primarily intended to serve future growth.
- <u>i. Costs incurred for a tank inspection required by the Department of Environmental Protection or a local governmental authority.</u>
- j. Operator and distribution license fees required by the Department of Environmental Protection or a local governmental authority.
- k. Water or wastewater operating permit fees charged by the Department of Environmental Protection or a local governmental authority.
- 1. Consumptive or water use permit fees charged by a water management district.
- 2. A utility may not use this procedure to increase or decrease its rates as a result of an increase or decrease in a specific expense item for which a cost increase or decrease occurred more than 12 months before the filing by the utility.
- 3. The commission may establish by rule additional specific expense items that are eligible to automatically increase or

11-00730B-13 20131386 320 decrease a utility's rates as provided in this paragraph. To be 321 eligible for such treatment, any additional expense items must 322 be imposed upon the utility by a local, state, or federal law, 323 rule, order, or notice, and must be outside the control of the 324 utility. If the commission exercises its authority to establish 325 such rule, at least once every 5 years the commission must 326 review the rule and determine if each expense item should 327 continue to be eligible for automatic increase or decrease of a 328 utility's rates, or if any additional items should become eligible for automatic increase or decrease of a utility's rates 329 330 as provided in this paragraph The approved rates of any utility 331 which receives all or any portion of its utility service from a 332 governmental authority or from a water or wastewater utility regulated by the commission and which redistributes that service 333 334 to its utility customers shall be automatically increased or 335 decreased without hearing, upon verified notice to the 336 commission 45 days prior to its implementation of the increase 337 or decrease that the rates charged by the governmental authority 338 or other utility have changed. The approved rates of any utility which is subject to an increase or decrease in the rates or fees 339 340 that it is charged for electric power, the amount of ad valorem 341 taxes assessed against its used and useful property, the fees charged by the Department of Environmental Protection in 342 343 connection with the National Pollutant Discharge Elimination 344 System Program, or the regulatory assessment fees imposed upon it by the commission shall be increased or decreased by the 345 346 utility, without action by the commission, upon verified notice 347 to the commission 45 days prior to its implementation of the 348 increase or decrease that the rates charged by the supplier of

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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.

- $\underline{4.}$ The provisions of this subsection do not prevent a utility from seeking a change in rates pursuant to the provisions of subsection (2).
- (c) Before implementing a change in rates under this subsection, the utility shall file an affirmation under oath as

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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, commits 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 does 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 shall, at least 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

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the last 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.

(7) The commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. No rate case expense determined to be unreasonable shall be paid by a consumer. In determining the reasonable level of rate case expense the commission shall consider the extent to which a utility has utilized or failed to utilize the provisions of paragraph (4) (a) or paragraph (4) (b) and such other criteria as it may establish by rule. The commission may not award rate case expense that exceeds the total rate increase approved by the commission, not including any rate case expense, in a rate case filed pursuant to this section.

Section 5. Subsection (3) of section 367.0814, Florida Statutes, is amended to read:

367.0814 Staff assistance in changing rates and charges; interim rates.—

(3) The provisions of s. 367.081(1), (2)(a), (2)(c), and (3), and (7) shall apply in determining the utility's rates and charges. However, the commission may not award rate case expense to cover fees for attorneys or other outside consultants who are engaged for purposes of preparing or filing the case if a utility receives staff assistance in changing rates and charges

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pursuant to this section, unless the Office of Public Counsel or interested parties have intervened. The commission may award rate case expense for attorney fees or other outside consultant fees if the fees are incurred for the purpose of providing consulting or legal services to the utility after the initial staff report is made available to customers and the utility. If there is a protest or appeal by a party other than the utility, the commission may award rate case expense to the utility for attorney fees or other outside consultant fees for costs incurred after the protest or appeal. The commission may adopt rules to implement this subsection.

Section 6. Section 367.0816, Florida Statutes, is amended to read:

367.0816 Recovery of rate case expenses.-

- <u>(1)</u> The amount of rate case expense determined <u>to be</u> reasonable by the commission pursuant to <u>s. 367.081</u> the provisions of this chapter to be recovered through a public utilities rate shall be apportioned for recovery over a period of 4 years. At the conclusion of the recovery period, the rate of the public utility shall be reduced immediately by the amount of rate case expense previously included in rates.
- (2) A utility may recover the 4-year amortized rate case expense for only one rate case at a time. If the commission approves and a utility implements a rate change from a subsequent rate case pursuant to this section, the utility forfeits any unamortized rate case expense from a prior rate case. The unamortized portion of rate case expense for a prior case must be removed from rates before the implementation of an additional amortized rate case expense for the most recent rate

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proceeding. This limitation does not apply to the recovery of rate case expense for a limited proceeding filed pursuant to s. 367.0822.

Section 7. Subsection (3) of section 403.8532, Florida Statutes, is amended to read:

403.8532 Drinking water state revolving loan fund; use; rules.—

- (3) The department may make, or request that the corporation make, loans, grants, and deposits to community water systems, for-profit privately owned or investor-owned systems, nonprofit transient noncommunity water systems, and nonprofit nontransient noncommunity water systems to assist them in planning, designing, and constructing public water systems, unless such public water systems are for-profit privately owned or investor-owned systems that regularly serve 1,500 service connections or more within a single certified or franchised area. However, a for-profit privately owned or investor-owned public water system that regularly serves 1,500 service connections or more within a single certified or franchised area may qualify for a loan only if the proposed project will result in the consolidation of two or more public water systems. The department may provide loan guarantees, purchase loan insurance, and refinance local debt through the issue of new loans for projects approved by the department. Public water systems may borrow funds made available pursuant to this section and may pledge any revenues or other adequate security available to them to repay any funds borrowed.
- (a) The department shall administer loans so that amounts credited to the Drinking Water Revolving Loan Trust Fund in any

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494 fiscal year are reserved for the following purposes:

- 1. At least 15 percent for qualifying small public water systems.
- 2. Up to 15 percent for qualifying financially disadvantaged communities.
- (b) If an insufficient number of the projects for which funds are reserved under this subsection have been submitted to the department at the time the funding priority list authorized under this section is adopted, the reservation of these funds no longer applies. The department may award the unreserved funds as otherwise provided in this section.

Section 8. This act shall take effect July 1, 2013.