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Subject:

FW: Attached Image

Attachments: PSC MEMO OF LAW_001.pdf

Refiling to correct PSC address.

Cindy Paxton on behalf of Henry Gillman

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From: Scan (CAO)

Sent: Friday, April 16, 2010 4:46 PM

To: Paxton, Lucinda (CAO) **Subject:** Attached Image

COUNTY ATTORNEY MIAMI-DADE COUNTY, FLORIDA



April 16, 2010

Ms. Ann Cole Commission Clerk Office of the Commission Clerk Florida Public Service Commission Capital Circle Office Center 2540 Shumard Oak Blvd. Tallahassee, FL 32399-0850

Docket No. 090539-GU -

Miami-Dade County's Memorandum of Law On the

Public Service Commission's Lack of Jurisdiction Over Special

Gas Transportation Agreement

Dear Ms. Cole:

Attached for filing is Miami-Dade County's Memorandum of Law on the Public Service Commission's Lack of Jurisdiction Over Special Gas Transportation Agreement.

If you have any questions, please do not hesitate to contact me.

Sincerely

Herry N. Gillman

Assistant County Attorney

All Parties of Record and c: **Interested Persons**

DOCUMENT NUMBER - BATE

03002 APR 199

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition of Miami-Dade County through The Miami-Dade Water and Sewer Department for Approval of Special Gas Transportation Transportation Service Agreement with Florida FCG

Docket No. 090539-GU

MIAMI-DADE COUNTY'S MEMORANDUM OF LAW ON THE PUBLIC SERVICE COMMISSION'S LACK OF JURISDICTION OVER SPECIAL GAS TRANSPORTATION AGREEMENT

Petitioner, Miami-Dade County ("Miami-Dade"), by and through its counsel, submits this memorandum of law concerning the lack of Public Service Commission ("Commission" or "PSC") jurisdiction over a special gas transportation agreement between Miami-Dade and Florida City Gas ("City Gas").

I. Summary of Argument

Section 366.11, Florida Statutes, exempts utilities owned and operated by municipalities from Commission jurisdiction. Section 366.02(1) expressly provides that the term "public utility," as used in Chapter 366, does not include "a municipality or agency thereof." Consistent with these statutes, the Commission's rule on special contracts (the "Exemption Rule") exempts from Commission jurisdiction agreements between a regulated utility and a municipality. The Florida Constitution, Miami-Dade's Home Rule Amendment and Charter and Florida Supreme Court precedent provide

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that Miami-Dade possesses all of the powers and privileges of municipalities, including the right to municipal exemptions. Therefore, the agreement between City Gas, a regulated utility, and Miami-Dade County, is exempt from Commission jurisdiction.

II. Rule 25-9.034, F.A.C. exempts special contracts between a regulated utility and a municipality

The Commission's administrative rule on special contracts expressly exempts from the Commission's jurisdiction agreements between a regulated utility and a municipality. The Commission's Exemption Rule provides, in pertinent part:

(1) Wherever a special contract is entered into by a utility for the sale of its product or services in a manner or subject to the provisions not specifically covered by its filed regulations and standard approved rate schedules, such contract must be approved by the Commission prior to its execution.

The provisions of this rule shall not apply to contracts or agreements governing the sale or interchange of commodity or product by or between a public utility and a municipality or R.E.A. cooperative, but shall otherwise have application.

Rule 25-9.034, F.A.C.

III. Factual Background

Miami-Dade's Water and Sewer Department supplies utility services to more than 2 million people every day. Since Miami-Dade annually uses more than 6,000,000 therms of gas for its water and sewer plants, it seeks to obtain the lowest cost of transportation. In 1998, City Gas' predecessor agreed to a 10-year natural gas transportation contract with Miami-Dade that included discounted transportation rates (the "1998 Agreement"). City Gas did not submit the 1998 Agreement to the Commission for approval.

In 2007, Miami-Dade provided notice to City Gas that it intended to renew the 1998 Agreement for an additional 10 years. Following a year of negotiations, City Gas agreed to renew the agreement for an additional 10 years with the same transportation rates (the "2008 Agreement").

The only change in the 2008 Agreement relevant to this memorandum is a provision, which City Gas inserted, requiring that the 2008 Agreement be submitted for PSC approval. Since the 1998 Agreement was not approved by the PSC and Miami-Dade is not regulated by the PSC, Miami-Dade inquired as to City Gas' desire to submit the 2008 Agreement to the

Commission. City Gas represented to Miami-Dade that PSC approval would be merely procedural and ministerial in nature.¹

On August 28, 2008, the 2008 Agreement was signed by City Gas' president, Hank Lingenfelter. In October 2008, the 2008 Agreement was approved by Miami-Dade County's Board of County Commissioners.

City Gas filed a petition seeking PSC approval of the 2008 Agreement on November 13, 2008, without notifying Miami-Dade nor seeking Miami-Dade's concurrence with the petition's terms. In footnote 2 of the petition, City Gas informed the Commission that it "does not oppose the interpretation [of the Exemption Rule] that would obviate the need for the instant petition." City Gas subsequently presented PSC Staff with information suggesting that the transportation rates it had established in the 2008 Agreement were too low. City Gas then withdrew the petition prior to any ruling from the Commission, and without notice to or acquiescence of Miami-Dade.

City Gas now asserts that Miami-Dade should have intervened in such proceeding if it wished to enforce the terms of the 2008 Agreement. See ¶ 20, Answer of City Gas to Miami-Dade Petition. City Gas further has changed its position and now opposes an interpretation of the Exemption

¹ After the petition was filed, Commission Staff confirmed that the petition was procedural and further advised Miami-Dade that representation was not necessary.

Rule which would exempt the 2008 Agreement from Commission jurisdiction. City Gas' intent to coax the Commission to improperly use its rules to permit City Gas to renege on its contractual obligations is both obvious and unbecoming of a regulated utility.

Miami-Dade wishes to be clear. City Gas and Miami-Dade engaged in a year-long, arms-length transaction during which the transportation rate never was placed in issue by City Gas. Yet, City Gas now wishes to use the Commission to renege on its agreement.

For the reasons stated in this memorandum, the 2008 Agreement is exempt from Commission jurisdiction. City Gas is bound by the terms of the 2008 Agreement and the Commission should in no way permit its regulatory function to be used by City Gas to breach the 2008 Agreement. It is presumed that City Gas' stockholders, not ratepayers, must absorb a shortfall, if any, between the cost of providing service to Miami-Dade and the transportation rates City Gas agreed to in the 2008 Agreement (although Miami-Dade does not concede that any shortfall exists).

IV. The Florida Constitution and Florida Supreme Court Precedent Recognize Miami-Dade's Entitlement to all rights available to a Municipality, including Exemption Rights

Miami-Dade's home rule powers are unique because they stem not from legislative authorization, but from the Florida Constitution itself.

Article VIII, section 6(f), Florida Constitution, provides:

(f) DADE COUNTY; POWERS CONFERRED UPON MUNICIPALITIES. To the extent not inconsistent with the powers of existing municipalities or general law, the Metropolitan Government of Dade County may exercise all the powers conferred now or hereafter by general law upon municipalities.

The Exemption Rule was adopted by the Commission pursuant to powers provided under general law, namely sections 366.05(1) and 367.121, Florida Statutes (see rule history). Exemption of the 2008 Agreement from Commission jurisdiction is consistent with "general law" and "the powers of existing municipalities," not inconsistent with them.

The Supreme Court of Florida has recognized Miami-Dade's unique character in a number of cases. As the Supreme Court stated simply and forcefully, "[w]hen the electors of Dade County adopted the home rule charter on May 21, 1957, the authority of the Legislature on affairs of local government in Dade County ceased to exist." Chase v. Cowart, 102 So. 2d 147, 150 (Fla. 1958) (emphasis added). The PSC, as a creature of the

Legislature, similarly lacks jurisdiction over Miami-Dade's governmental actions.

In State v. Dickinson, 230 So. 2d 130, 131 (Fla. 1970), the Supreme Court stated "[w]e think it is well-settled that Dade County can provide both county-wide and municipal functions and services as provided for in its Charter and in accord with general law...Further, in the recent case of State ex rel. Dade County v. Brautigam (citation omitted), we declared that the County is vested with the rights and prerogatives of a regular municipality."²

In State v. Dade County, 127 So. 2d 881 (Fla. 1961), the Supreme Court held that Miami-Dade, by virtue of the Florida Constitution and its home rule charter, had the powers granted municipalities to borrow money regardless of the fact that the pertinent statutory provision gave this power explicitly to only "municipalities." The Supreme Court further explained:

The Dade County Home Rule Amendment to the Florida Constitution, Section 11, Article VIII, F.S.A., authorized the electors of Dade County to adopt a Home Rule Charter which would empower

² The Court also cites to a variety of its prior decisions recognizing Miami-Dade's unique character as both a county and city, entitled to the rights, powers and exemptions of both types of government. 230 So. 2d at 136. See e.g., State ex rel. Dade County v. Brautigam, 224 So. 2d 688 (Fla. 1969); Dressel v. Dade County, 219 So. 2d 716 (3rd DCA Fla. 1969); City of Coral Gables v. Burgin, 143 So. 2d 859 (Fla. 1962); State v. Dade County, 142 So. 2d 79 (Fla. 1962); State v. Dade County, 127 So. 2d 881 (Fla. 1961); State v. City of Miami, 119 So. 2d 785 (Fla. 1960); City of Miami v. Keton, 115 So. 2d 547 (Fla. 1959); Miami Shores Village v. Cowart, 108 So. 2d 468 (Fla. 1958); Dade County v. Young Democratic Club of Dade County, 104 So. 2d 636 (Fla. 1958); and Dade County v. Kelly, 99 So. 2d 856 (Fla. 1957).

the Board of County Commissioners of such County to 'do everything necessary to carry on a central metropolitan government in Dade County.' By such constitutional amendment it was also provided, among others, that such Charter 'may provide a method by which any and all of the functions or powers of any municipal corporation * * * may be transferred to the Board of County Commissioners of Dade County.'

'Pursuant to such constitutional authority, the Home Rule Charter adopted by the electors of Dade County authorized the Board of County Commissioners to 'provide and regulate * * * waste and sewage collection and disposal and water supply and conservation programs,' Section 1.01A(9), and to have 'all implied powers necessary and proper to carrying out such powers * * *.' Section 1.01B. In addition, the Board is expressly authorized to 'exercise all powers and privileges granted to municipalities, counties and county officers by the Constitution and laws of the state, and all powers not prohibited by the Constitution or by this Charter.' Section 1.01A(21). (emphasis added).

The Supreme Court's decision in *Dade County v. Brautigam*, 224 So. 2d 688 (Fla. 1969) should lay to rest any issue as to whether Miami-Dade and the 2008 Agreement are entitled to exemption under the Commission's Exemption Rule. In *Brautigam*, the Supreme Court, citing and discussing at length its decision in *State v. Dade County*, held that "Dade County is included in the class described as 'all municipalities' in statutes relating to

the powers conferred now or hereafter by general law upon municipalities."

<u>Id.</u> at 693.

V. Authorities relied upon by Commission Staff are inapplicable

During an informal meeting held on March 3, 2010, between representatives of Miami-Dade, City Gas and Commission Staff, Commission Staff suggested that, preliminarily and subject to consideration of Miami-Dade's legal arguments to the contrary, the Commission possesses jurisdiction over the 2008 Agreement. Commission Staff based this preliminary opinion on Florida case law which it revealed to Miami-Dade subsequent to the informal meeting. While Miami-Dade is rather certain that Commission Staff has re-considered its reliance upon such precedent to support its preliminary position, we distinguish the Staff-cited case law below in the event that City Gas attempts to adopt the arguments preliminarily made by Commission Staff.

First, Staff cited City of Homestead v. Beard, 600 So. 2d 450 (Fla. 1992). Homestead involved a city's request that an electric territorial agreement between a city and a regulated utility which previously had been submitted to and approved by the Commission be terminated. The court held that the PSC had jurisdiction over the agreement because the city submitted itself to the PSC's regulatory authority. Id.

Homestead is inapplicable to the instant proceeding as the facts in Homestead are clearly distinguishable from the instant case as follows:

- (1) at the time of the city's request to terminate the agreement, territorial agreements were expressly subject to PSC jurisdiction and no exemption of territorial agreements was provided by Commission rule;
- (2) the city, together with the regulated utility, had presented the territorial agreement when originally signed to the Commission for Commission approval;
- (3) the Commission issued an order approving the territorial agreement; and
- (4) the city sought and received Commission approval to provide electric service outside of its municipal boundaries, a benefit which the city required Commission approval to obtain.

In contrast to *Homestead*, (1) the 2008 Agreement between Miami-Dade and City Gas is exempt from the Commission's jurisdiction pursuant to the Exemption Rule; (2) the 1998 Agreement between Miami-Dade and City Gas was never presented for Commission approval; (3) Miami-Dade never joined City Gas in presenting the 2008 Agreement to the Commission for approval; (4) City Gas, having initially presented the 2008 Agreement to

the Commission for its approval withdrew the 2008 Agreement from the Commission's consideration prior to the Commission ever having the opportunity to address it; (5) neither the 1998 Agreement nor the 2008 Agreement confers upon Miami-Dade any benefit or authority to serve which Miami-Dade does not already possess through the Florida Constitution, its Home Rule Charter³ and the Supreme Court precedent cited herein; and (6) Miami-Dade's Petition does not invoke the Commission's jurisdiction but rather requests the Commission's acknowledgment that the 2008 Agreement is exempt from its jurisdiction. Commission consideration of the terms of the 2008 Agreement only is invoked if the Commission does not find the 2008 Agreement to be exempt under the Exemption Rule, a finding which if made, would be subject to Miami-Dade's appeal.

Thus, no Commission order, approval or action of any kind with respect to the 2008 Agreement (or even its predecessor, the 1998 Agreement) ever has been issued nor been taken. Commission recognition of Miami-Dade's right to an exemption will forever lay this issue to rest.

Commission Staff's preliminary reliance upon H. Miller & Sons, Inc. v. Hawkins, 373 So. 2d 913 (Fla. 1979) is similarly misplaced. Hawkins involved a contract between a private developer and a regulated utility. In

³ In addition to the constitutional and case law recitations of Miami-Dade powers and rights identified previously in this memorandum, the rights of Miami-Dade pursuant to the Metropolitan Dade County Home Rule Charter also are expressly recognized in Article VIII, Section 6(e) of the Constitution.

Hawkins, the court held that a Commission order requiring a developer to pay additional service availability charges was a valid exercise of police power and did not unconstitutionally impair the contract. <u>Id.</u>

Like *Homestead*, the *Hawkins* facts are clearly distinguishable from the instant case. There was no exemption issue of any kind in *Hawkins*. The developer in *Hawkins* was not a government with constitutionally recognized municipal rights and privileges, including exemptions, akin to Miami-Dade's rights. The utility customer in *Hawkins* was a developer which could identify no Florida Supreme Court precedent confirming the rights and privileges akin to those available to Miami-Dade. Thus, the Commission had jurisdiction over the developer agreement and the utility's service availability charges.

An attempt to stretch the Court's holding in *Hawkins* to make it apply to the facts presented in Miami-Dade's Petition would reinforce Miami-Dade's concern that Commission Staff is inviting the Commission to work a severe injustice upon a duly constituted Florida government. As already recognized, Miami-Dade is vested with the authority to operate its municipal utility and possesses the concomitant obligation to deliver utility services to Miami-Dade residents at the lowest rate possible. Consistent with this

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obligation, Miami-Dade negotiated with City Gas for a year before the terms of the 2008 Agreement were found to be mutually acceptable.

City Gas never, during the course of a year of negotiations, raised even the possibility that the transportation rates could be changed by the Commission. The fact that the transportation rates negotiated by Miami-Dade represent a cost of Miami-Dade's utility service to its customers and, as such, undergo the scrutiny of Miami-Dade's elected Board before such costs are passed on to Miami-Dade's customers is the basis for the exemption of such transportation agreements with municipalities in the first place. The ultimate beneficiaries of the service rendered by the regulated utility, Miami-Dade's customers, have their rates established by their elected officials. These critical facts were not present in *Hawkins* and *Hawkins* does not provide the Commission with the power to foist higher rates on Miami-Dade.

City Gas, as a public utility admittedly subject to the Commission's rate jurisdiction, remains contractually bound by the transportation rates it agreed to in the exempt 2008 Agreement. If the Commission believes that the rates are too low, the Commission can review the rates and associated revenue in a City Gas rate proceeding, as it did in 2003. The Commission could then require that City Gas' shareholders absorb any identified revenue

shortfall, if such a shortfall is determined to exist (which Miami-Dade does not in any way concede). The Commission possesses no authority to deprive Miami-Dade of the benefits of its hard-fought bargain with City Gas following an arms-length negotiation and City Gas should not be permitted to manipulate the Commission's authority to escape its commitments to Miami-Dade under the 2008 Agreement.

VI. Commission's Jurisdiction is limited

It is important to note that while the law provides Miami-Dade with unique powers including the rights and privileges of a municipality, the law also limits the Commission's powers as an administrative body. In *City of Cape Coral v. GAC Utilities, Inc. of Florida*, 281 So. 2d 493 (Fla. 1973), the Florida Supreme Court recognized that the Commission is not a constitutional body but rather a creature of the Legislature. "As such, the Commission's powers, duties and authorities are only those that are conferred expressly or impliedly by statute of the State [citations omitted]. Any reasonable doubt as to the lawful existence of a particular power that is exercised by the Commission must be resolved against the exercise thereof."

Id. at 496. The Commission itself has acknowledged to the Florida Supreme County that any reasonable doubt regarding its regulatory power requires the PSC to resolve that doubt against the exercise of jurisdiction. See Lee

County Electric Cooperative v. Jacobs, 820 So. 2d 297 (Fla. 2002) (court affirmed PSC's order determining that it does not have rate structure jurisdiction over a rural cooperative's wholesale rate schedule established pursuant to contract).

Finally, City Gas, in its zeal to renege on the terms of the 2008 Agreement signed by its President, suggests that Miami-Dade waived application of the Exemption Rule when it agreed to City Gas' eleventh hour request to insert a term in the 2008 Agreement invoking Commission approval as a condition precedent.

This Commission has found that a term in a contract invoking Commission approval as a condition precedent does not overcome an otherwise applicable exemption from Commission jurisdiction. In fact, the Commission has issued several orders rejecting applications from utilities which requested that the Commission consider agreements which are exempt from the Commission's jurisdiction (the same fact pattern presented here). See "Order Declining to Rule upon Application for Approval of Bulk Wastewater Service Agreement," Order No. PSC-04-0199-FOF-SU, issued February 24, 2004 in Docket No. 030517-SU; Order Declining to Rule upon Application for approval of Tariff Sheets for Wholesale Water and Wastewater Service and Closing Docket, Order No. PSC-00-1238-FOF-WS,

Amendment of Certificate No. 226-S to add territory in Seminole County by Florida Water Services Corporation, Order No. 00-1902-AS-SU issued October 17, 2000 in Docket No. 971638. In each of these orders, the Public Service Commission declined to rule upon the respective utility applications (or otherwise consider the terms of the utility's agreements with government entities) on the basis that the specific entities and activities were exempt from Commission regulation.

The Commission's order in the North Ft. Myers Utility proceeding is particularly instructive. The utility filed a bulk wastewater agreement with the Commission, as such filing was required pursuant to the agreement's terms. The Commission declined to assert jurisdiction over the agreement as the agreement involved an exempt sale of wastewater service to a government authority. In declining to assert Commission jurisdiction over the terms of the agreement the Commission instead provided the following "guidelines," in pertinent part, to the utility:

First, for future ratemaking considerations, [the utility's] cost of providing bulk wastewater service to the City, including interconnection costs, shall not be subsidized by its jurisdictional customers. Second, the revenues generated from the provision of bulk wastewater service to the City shall not be considered in any proceedings before the Commission involving the [utility.]

As confirmed by these Commission orders, the fact that parties to a contract may attempt to invoke the Commission's jurisdiction through contract terms does not override the fact that the contract is exempt from such jurisdiction. As with exempt bulk water and wastewater agreements between a regulated utility and a government body, the rates provided in the 2008 Agreement are not subject to Commission jurisdiction and the Commission can take steps in City Gas' rate proceedings to insure that the utility's other customers do not subsidize the rates charged to Miami-Dade. Therefore, the Commission should find the 2008 Agreement exempt and decline to take further action with respect to Miami-Dade's Petition.

VII. City Gas has Recognized Miami-Dade as a Municipality

Prior to 1997, City Gas billed Miami-Dade the municipal services tax identified in section 166.231, Florida Statutes. Miami-Dade objected to City Gas applying the tax to the gas transportation services provided for Miami-Dade, citing Miami-Dade's exemption as a municipal government. City Gas recognized Miami-Dade as a municipality and not only stopped collecting the tax but also refunded previously collected taxes to Miami-Dade. City Gas' current opposition to the Commission's application of the Exemption Rule is nothing less than a demonstration of its bad faith. Miami-Dade is

exempt from Florida's municipal services tax, and the 2008 Agreement is exempt from PSC jurisdiction.

VII. Conclusion

Article VIII, Section 6(f) of the Florida Constitution expressly provides that Miami-Dade County "may exercise all the powers conferred now or hereafter by general law upon municipalities." Based on the Florida Constitution and Miami-Dade's Home Rule Amendment and Charter, the Florida Supreme Court has recognized that Miami-Dade County possesses all of the powers and privileges of municipalities. See State v. Dickinson, 230 So. 2d 130, 131 (Fla. 1970)("[Miami-Dade] County is vested with the rights and prerogatives of a regular municipality"); State v. Brautigam, 224 So. 2d 688, 693 (Fla. 1969) ("Dade County is included in the class described as all municipalities in statutes relating to the powers conferred now or hereafter by general law upon municipalities"); State v. Dade County, 142 So. 2d 79 (Fla. 1962)(court held Board of County Commissioners "exercises the powers formerly vested in the state legislature with respect to the affairs, property and government of Dade County and all the municipalities within its territorial limits").

Based on the foregoing authorities, including the Florida Constitution,

Miami-Dade Home Rule Amendment and Charter, Florida Supreme Court

Agreement is exempt from Commission jurisdiction. Therefore, the Commission should enter an order declining to rule on the 2008 Agreement between Miami-Dade County and Florida City Gas based on a finding that it has no jurisdiction over the Agreement pursuant to Rule 25-9.034, F.A.C.

Respectfully submitted,

R. A. CUEVAS, JR.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing

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