

Limited Proceedings



Initiation of a Limited Proceeding

- A Limited Proceeding is a procedure whereby a utility can seek an increase in rates for specifically identified costs.
- Limited Proceedings can be initiated by a utility or the Commission.



Scope of Limited Proceeding

- A Limited Proceeding is typically narrow in scope and not a substitute for a full rate case.
- Unlike a rate case, it is usually not a full make-whole proceeding.
- A Limited Proceeding has no statutory time frame limitation to process the request.



Scope of Limited Proceeding

- A Limited Proceeding may be an appropriate course to take if the utility had a recent rate case.
- A utility may need to file a rate case if the change(s) are broad in scope and the utility has not had a recent rate case.



Limited Proceeding Considerations

When evaluating the utility's request for a Limited Proceeding, the Commission will consider:

- Whether the filing includes more than four separate projects for which recovery is sought and the requested rate increase exceeds 30 percent.
- If the utility has not had a rate case in the last seven years and the requested rate increase exceeds 30 percent.
- Whether the filing is the result of the complete elimination of the water or wastewater treatment process and the requested rate increase exceeds 30 percent.



Common Uses

A Limited Proceeding is used to address issues such as the following:

- Plant improvements (e.g. storage tanks, percolation pond, replacement or relocation of lines, major plant damage, construction or relocation of wells)
- Material increases to expenses (e.g. new chemical costs, additional operator, major maintenance costs)
- Rate restructuring (e.g. flat to measured service, conservation rates).



Pertinent Rules

- Rule 25-30.445, F.A.C., *General Information and Instructions Required of Water and Wastewater Utilities in an Application for a Limited Proceeding.*
- Rule 25-30.446, F.A.C., *Notice of and Publication Information for Application for Limited Proceeding Rate Increase.*



Filing Requirements

The utility must include the following in its filing:

- Rate base components
- Plant in service, accumulated depreciation, depreciation expense, and supporting detail shall be provided by primary account
- Calculation of the weighted average cost of capital
- Reason(s) why the Limited Proceeding has been requested
- Detailed description of the expense(s) requested



Filing Requirements (cont.)

The utility must include the following in its filing (cont.):

- Calculations of all items that will create cost savings or revenue impacts
- Supporting documentation of calculations or assumptions made
- Revenue increase requested, including regulatory assessment fees and income taxes, if appropriate, and annualized revenues
- Current and proposed rates
- If the utility is requesting a change in rate structure, it must provide a copy of all work papers and calculations



Filing Requirements (cont.)

The utility must include the following in its filing (cont.):

- The rule or order from the governmental or regulatory agency mandating the investment or increased expense
- An estimate by a professional engineer supporting the projected cost and the construction time of any improvements
- Adjustments to rate base, net operating income, and cost of capital schedules that reflect adjustments consistent with the utility's last rate proceeding



Achieved Rate of Return

The utility must show that for the most recent 12-month period, without increased rates, it will earn below its authorized rate of return in accordance with Section 367.082, F.S., *Interim rates; procedure*.



Rate of Return

- Rate of return is not changed unless it is specifically addressed.
- The Commission may update the return on equity to the most recent leverage formula.



Additional Requirements

The utility must provide a statement as to whether rate base has declined or whether any expense recovery sought is offset by one of the following:

- Customer growth since last rate proceeding
- Future customer growth expected to occur within one year of the date new rates are implemented



Limited Proceeding Filing Fees

<u>Fee</u>	<u>Equivalent residential connections (ERCs) capacity of the system</u>
\$100	up to 100 ERCs
\$200	from 101 to 200 ERCs
\$300	from 201 to 500 ERCs
\$1,000	from 501 to 2,000 ERCs
\$1,750	from 2,001 to 4,000 ERCs
\$2,250	more than 4,000 ERCs



Notice Requirements

Rule 25-30.446, F.A.C., *Notice of and Public Information for Application for Limited Proceeding Rate Increase* sets forth the noticing requirements.



Notice to County

- Upon filing for a Limited Proceeding, the utility must mail a copy of application to CEO of governing body of each county within service areas.
- The governing body may intervene in the rate change proceeding.



Other Notice Requirements

The utility must adhere to the following noticing requirements:

- Petition and MFRs at business offices in service area
- Newspaper notice in the service area
- Initial customer notice 50 days after the official date of filing
- Customer meeting notice – no less than 14 days and no more than 30 days prior
- PAA and other order notices required by a rate change



Example No.1

Change in Rate Base

Assumption:

Cost of Additional Plant	\$100,000
Life of Asset	40 Years
Income Tax	15%
Depreciation Rate	2.5%
Rate of Return	10.65%
Regulatory Assessment Fee	4.5%
Annualized Revenue	\$150,000



Computation

\$100,000	Cost of Additional Plant
<u>(1,250)</u>	Accum. Depreciation(1/2 yr)
98,750	Net Effect on Rate Base
<u>x 10.65%</u>	Rate of Return
<u>\$ 10,517</u>	Revenue Effect of Additional Plant (Net Operating Income)

Other Adjustments:

\$ 2,500	Depreciation Expense
<u>1,577</u>	Income Tax Expense
\$ 14,594	Total Revenue Effect
<u>÷ .955</u>	Gross-up for RAFs
\$ 15,282	Additional Revenue Requirement
<u>÷ 150,000</u>	Annualized Revenue
<u>10.19%</u>	Percentage Increase



Example No. 2

Effect of a Change to Operating Expenses

Assumption:

Increase in Sludge Hauling Expense	\$10,000
Regulatory Assessment Fee (RAF)	4.5%
Income Tax	15%
Rate of Return	10.65%
Annualized Revenue	\$150,000



Computation

\$ 10,000	Increase in the Expense
÷ <u>.955</u>	Gross-up for RAFs
\$ 10,471	Additional Revenue Requirement
÷ <u>150,000</u>	Annualized Revenue
<u><u>6.98%</u></u>	Percentage Increase

** Note: There is no income tax adjustment because there is no effect on revenue net operating income.*



Example No. 3

A Change That Effects Rate Base and Operating Expenses

Assumptions:

Net Plant Addition	\$100,000
Life of an Asset	40 Years
Income Tax	15%
Additional Sludge Hauling Fee	\$10,000
Depreciation Rate	2.5%
Rate of Return	10.65%
Regulatory Assessment Fee (RAF)	4.5%
Annualized Revenue	\$150,000



Computation

\$100,000	Net Plant Addition
<u>(1,250)</u>	½ Year Depreciation
<u>\$98,750</u>	Rate Base Effect of Additional Plant
<u>X 10.65%</u>	Rate of Return
<u>\$10,517</u>	

Other Adjustments:

\$ 2,500	Depreciation Expense
<u>1,577</u>	Income Tax Expense
\$14,594	Total Revenue Effect
<u>+ 10,000</u>	Net Sludge Hauling Expense
\$ 24,594	Revenue Requirement
<u>÷ .955</u>	Gross-up for RAFs
\$25,753	Revenue Requirement
<u>÷ 150,000</u>	Annualized Revenue
<u>17.17%</u>	Percentage Increase

Months to Process Case

The amount of time it takes to process a case varies, but generally takes five to seven months, depending on the following:

- Complexity of issues
- How well the case is documented
- Whether an audit is required



Emergency Rate Relief?

- The interim statute does not apply to Limited Proceedings.
- Emergency or temporary rates have been allowed in certain circumstances, depending on how long the case will take, but the emergency must be documented.



Audit of Utility

An audit may be needed depending on the following:

- Date of last rate proceeding
- Number of issues in current case
- Overall earnings of utility



Common Problems

Common problems faced in Limited Proceedings include the following:

- Lack of sufficient documentation
- Requesting additional items in the middle of case
- Case evolves into an earnings evaluation
- Lack of identification of offsetting decreases in costs

