



How water and wastewater companies keep up with rising costs

# Price Index and Pass Through Rate Adjustments for Water and Wastewater Utilities

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*Florida Public Service Commission*

If you have questions, you may call the Florida Public Service Commission's Office of Consumer Assistance & Outreach at **1-800-342-3552**,

fax your questions to 1-800-511-0809, or contact the PSC via the following e-mail address: [contact@psc.state.fl.us](mailto:contact@psc.state.fl.us).

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## Why are price index and pass through increases helpful?

The narrow scope of these increases enables the PSC staff to review the rate applications without requiring a general rate proceeding, an expensive and time-consuming process. Also, these rate increases are smaller than those resulting from a general rate case, reducing the financial impact on customers. In fact, a price index increase is often only a few cents. Utilities that regularly take advantage of these two options are often able to delay

applying for a full rate review. The price index and pass through rate adjustments are authorized by Section 367.081(4), Florida Statutes, and the filing procedures are detailed in Rule 25-30.420 & 425, Florida Administrative Code.

*A general rate increase costs the customer more than a price index increase.*

## What is a Price Index?

Since 1981, the Florida Public Service Commission (PSC) has established an annual price index increase or decrease for major categories of operating costs in the water and wastewater industry. The price index rate adjustment process is designed to help utilities maintain financial stability by gradually keeping up with rising industry costs. The cost categories include labor, chemicals, sludge-hauling, materials and supplies, maintenance, transportation, and treatment expense. The price index is established by March 31 each year and is calculated using a comparison of the U.S. Department of Commerce's average Gross Domestic Product Implicit Price Deflator Index for the preceding two years. Between 1998 and 2012, the PSC's annual price index ranged from .56 percent to 3.09 percent.

The utility can charge the price index 60 days after filing a notice of intention with the PSC.

Utilities may apply for each year's price index between April 1 and March 31 of the following year. A utility may automatically implement, or begin charging, the price index rate increase 60 days after providing its notice of intention to the PSC if all requirements have been met. Customer meetings and hearings are not used with this process, but utilities are required to notify customers before charging the higher rates. About 32 percent of the water and wastewater companies regulated by the PSC use the price index rate adjustment each year.

## What is a Pass Through?

A pass through rate adjustment enables a utility to adjust its rates to reflect an increase or decrease in the rates or fees that it is charged for certain expenses such as electric power, ad valorem taxes, and water or wastewater testing required by the Florida Department of Environmental Protection. A utility may implement a pass through rate increase 45 days after providing verified notice to the PSC.

The water or wastewater utility can charge the pass through 45 days after notifying the PSC.

No customer meetings or hearings are required. A shorter time period is allowed so the utility will have the necessary funds to cover the increased rates or fees that it will be charged.

## What are the Limitations?

Utilities are limited to a total of two price index and/or pass through rate adjustments within any given 12-month period but are allowed to combine a price index and pass through into a single rate adjustment. For example, a utility could implement a pass through rate adjustment during one part of the year, then implement a second pass through rate adjustment combined with a price index rate adjustment some time during the next 12 months. The allowed combination of a price index and pass through enables a utility to keep up with its current financial needs without subjecting its customers to numerous rate adjustments. Also, a utility may not implement a price index or pass through rate adjustment within one year of filing for a

general rate proceeding, unless the rate proceeding has been completed or terminated.

No additional profit is included in either the price index or pass through increase. However, if a utility exceeds its authorized rate of return after implementing a price index increase, the PSC may order the utility to reduce the rates and issue a refund with interest to the customers. The PSC's authority to require a refund extends to 15 months after a utility files its annual report.

The price index and pass through may be combined into a single rate adjustment.