

VOTE SHEET

December 16, 2008

Docket No. 080006-WS – Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

Issue 1: What is the most appropriate model or method to estimate a fair and reasonable return on a water and wastewater (WAW) utility's common equity capital?

Recommendation: The most appropriate models to estimate a fair and reasonable return on common equity capital for a WAW utility for inclusion in the leverage formula are the Discounted Cash Flow (DCF) model and the Capital Asset Pricing Model (CAPM).

APPROVED

Issue 1A: Should the leverage formula methodology take into account an individual utility's equity ratio in the determination of return on equity?

Recommendation: Yes.

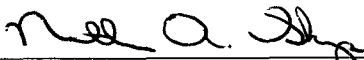
APPROVED


COMMISSIONERS ASSIGNED: All Commissioners

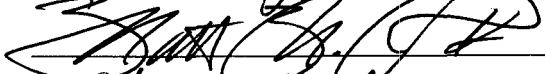
COMMISSIONERS' SIGNATURES


MAJORITY


DISSENTING











REMARKS/DISSENTING COMMENTS:

DOCUMENT NUMBER-DATE

11609 DEC 16 8

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Issue 1B: Should the leverage formula methodology take into account the change to the cost of debt in response to changes in the level of common equity in a utility's capital structure?

Recommendation: No.

APPROVED

Issue 1C: Should the determination of the leverage formula be based on a before-tax or after-tax cost of capital?

Recommendation: The determination of the leverage formula should be based on an after-tax cost of capital.

APPROVED

Issue 1D: Is it appropriate to make a Bond Yield Differential adjustment? If so, how should this adjustment be made?

Recommendation: Yes. Staff recommends the Commission continue to make a bond yield differential adjustment as reflected in Attachment A of staff's memorandum dated December 4, 2008.

APPROVED

Issue 1E: Is it appropriate to make a Private Placement Premium adjustment? If so, how should this adjustment be made?

Recommendation: Yes. Staff recommends the Commission continue to make a Private Placement Premium adjustment of 50 basis points as reflected in Attachment A of staff's memorandum dated December 4, 2008.

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Issue 1F: Is it appropriate to make a Small-Utility Risk Premium adjustment? If so, how should this adjustment be made?

Recommendation: Yes. Staff recommends it is appropriate for the Commission to continue to include a small utility risk premium of 50 basis points in the cost of common equity calculation in the leverage formula as reflected in Attachment A of staff's memorandum dated December 4, 2008.

APPROVED

Issue 2: Should the following leverage formula methodology be applied using updated financial data:

Return on Common Equity = 7.36% + 2.123/Equity Ratio

Where the Equity Ratio = Common Equity / (Common Equity + Preferred Equity + Long-Term and Short-Term Debt)

Range 9.48% @ 100% equity to 12.67% @ 40% equity

Recommendation: No, the recommended WAW ROE leverage formula should be approved without using updated financial information. The leverage formula identified above results in a reasonable range of common equity returns for the average WAW utility in Florida and should be approved.

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Issue 3: What is the appropriate range of returns on common equity for water and wastewater (WAW) utilities, pursuant to Section 367.081 (4)(f), Florida Statutes?

Recommendation: Staff recommends the following leverage formula:

$$\text{Return on Common Equity} = 7.36\% + 2.123/\text{Equity Ratio}$$

Where the Equity Ratio = Common Equity / (Common Equity + Preferred Stock + Long-term and Short-term Debt)

Range: 9.48% @ 100% equity to 12.67% @ 40% equity

In addition, staff recommends the Commission cap returns on common equity at 12.67% for all WAW utilities with equity ratios less than 40 percent to discourage imprudent financial risk.

APPROVED

Issue 4: Should this docket be closed?

Recommendation: No. This docket is a perpetual docket and should not be closed until next year's docket is opened.

APPROVED