

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 100149-WU

APPLICATION FOR INCREASE IN WATER
RATES IN LEE COUNTY BY NI FLORIDA,
LLC.



PROCEEDINGS: AGENDA CONFERENCE
ITEM NO. 14

COMMISSIONERS
PARTICIPATING: CHAIRMAN NANCY ARGENZIANO
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER NATHAN A. SKOP
COMMISSIONER ART GRAHAM
COMMISSIONER RONALD A. BRISÉ

DATE: Tuesday, August 31, 2010

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: JANE FAUROT, RPR
Official FPSC Reporter
(850) 413-6732

DOCUMENT NUMBER CASE

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FPSC-COMMISSION CLERK

P R O C E E D I N G S

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2 **CHAIRMAN ARGENZIANO:** So we are now on
3 Item 14.

4 Mr. Deason, you are recognized.

5 **MR. DEASON:** Commissioners, I'm Jared
6 Deason with Commission staff.

7 Item 14 concerns the interim increase in
8 water rates for Ni Florida, LLC. Ni Florida is a
9 Class A water utility located in Lee County. The
10 utility's rates were last established in 1992.
11 Staff believes the interim increase should be
12 approved, and staff is available to answer any
13 questions the Commissioners may have.

14 **CHAIRMAN ARGENZIANO:** Commissioners?
15 Commissioner Skop.

16 **COMMISSIONER SKOP:** Thank you, Madam
17 Chair.

18 I have a few questions regarding this
19 item. On Page 4 of the staff recommendation it
20 shows the percent increase for interim rates of --
21 for water revenue of, I believe, 53.31 percent, is
22 that correct?

23 **MR. DEASON:** Yes, Commissioner, that's
24 correct.

25 **COMMISSIONER SKOP:** All right. And then,

1 Mr. Deason, on Page 6, I see the same 53.31 percent,
2 but then following over to Page 7, I see two
3 different numbers, 53.55, and that's at Column 5,
4 the same number, but also I see the 53.31. I was
5 trying to get a better handle on whether that's just
6 maybe a typo or which number might be correct there.

7 **MR. DEASON:** Yes, Commissioner.

8 That number reflects the miscellaneous
9 revenues being taken out of the revenue requirement,
10 and then the subsequent revenue increase, staff's
11 recommended revenue increase divided into it, which
12 gives it a slightly different number. That's the
13 difference.

14 **COMMISSIONER SKOP:** Okay. And that's what
15 I suspected it might be. So you're saying Line Item
16 2 there, the miscellaneous revenues are being
17 stripped out which increases that percentage
18 incrementally, is that correct?

19 **MR. DEASON:** Yes, Commissioner.

20 **COMMISSIONER SKOP:** All right.

21 And then my final question is on Page 5 of
22 the staff recommendation. And on Page 5, it talks
23 about Ni Florida used a return on equity of
24 9.24 percent and overall cost of capital of 7.06
25 percent. So you had your ROE of 9.24 and your

1 weighted average cost of capital of 7.06.

2 Now, down at the bottom of that paragraph
3 it talks about the transfer, and that the ROE does
4 not survive a transfer. And staff used the
5 Commission's current leverage formula to determine
6 the appropriate ROE, and based on the Commission's
7 current leverage formula and equity ratio of
8 100 percent, the leverage formula indicated an ROE
9 of 8.82 percent. And taking the 100 basis points at
10 the bottom of the range pursuant to statute and the
11 Commission's rule, that would give you an ROE for
12 interim rates of 7.82 percent, is that correct?

13 **MR. DEASON:** Yes, Commissioner.

14 **COMMISSIONER SKOP:** Okay. And the
15 resulting overall cost of capital is 7.71 percent,
16 and I think the question I had is that if you had
17 100 percent equity, why would the overall cost of
18 capital not be the same as the ROE in this instance,
19 based on the leverage formula?

20 **MR. FLETCHER:** Commissioner, actually as
21 reflected on Page 13, the equity ratio, how that is
22 determined, you have to divide whatever the common
23 equity is divided by the total investor sources of
24 capital, which would be long-term debt, short-term
25 debt, preferred stock, and common equity.

1 In this instance, the reason why you
2 have -- it's not the same is outside of the investor
3 source of capital you have customer deposits is the
4 reason why it would be a little less.

5 **COMMISSIONER SKOP:** I see that, but I also
6 see the customer deposits are almost immaterial in
7 relation to the common equity. And I see that
8 basically it's about 11 basis point difference there
9 between those two numbers. And then the footnote
10 kind of, I guess, confused me the most at the bottom
11 of the page dealing with the 7.71 percent. It
12 represents a 151 basis point reduction of the
13 overall cost of capital, and so I was trying to
14 reconcile what was going on there.

15 **MR. FLETCHER:** Well, to speak a little bit
16 further to that, in the company's calculation in its
17 MFRs, there was an error. And where it talks on
18 that Footnote Number 8 on Page 5 that the correction
19 of the utility's error, it actually would have been
20 9.22 percent, and staff's calculation of the overall
21 cost of capital of 7.71 percent, that's the 150
22 basis point difference with correcting the utilities
23 error. It's a mathematical correction of their
24 error.

25 **COMMISSIONER SKOP:** Okay. All right.

1 Madam Chair, I just had a few questions on that, and
2 I won't belabor the point any further. So with
3 that, with respect to the disposition of Item 14, I
4 would move the staff recommendation for Issue 1
5 through 5.

6 **CHAIRMAN ARGENZIANO:** Do I have a second?

7 **COMMISSIONER EDGAR:** Second.

8 **CHAIRMAN ARGENZIANO:** I have a second.

9 All those in favor say aye.

10 (Vote taken.)

11 **CHAIRMAN ARGENZIANO:** Opposed?

12 Show that motion passes. And with that,
13 thank you very much, we're adjourned.

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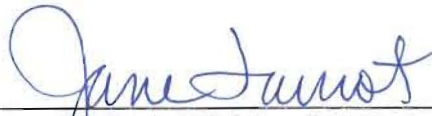
STATE OF FLORIDA)
 :
 : CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, Hearing Reporter Services Section, FPSC Division of Commission Clerk, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 6th day of September, 2010.



JANE FAUROT, RPR
Official FPSC Hearings Reporter
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