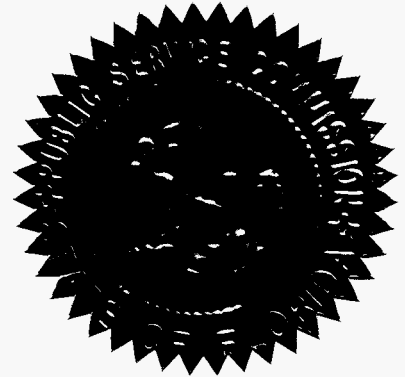


BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 110006-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.



PROCEEDINGS:           AGENDA CONFERENCE  
                              ITEM NO. 8

COMMISSIONERS  
PARTICIPATING:       CHAIRMAN ART GRAHAM  
                              COMMISSIONER LISA POLAK EDGAR  
                              COMMISSIONER RONALD A. BRISÉ  
                              COMMISSIONER EDUARDO E. BALBIS  
                              COMMISSIONER JULIE I. BROWN

DATE:                    Tuesday, June 14, 2011

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

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

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## P R O C E E D I N G S

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2           **CHAIRMAN GRAHAM:** We are on Item Number 8.

3           **MS. SALNOVA:** Good morning, Commissioners.  
4           Natalia Salnova on behalf of Commission Staff.

5           Item 8 is staff's recommended water and  
6           wastewater utility leverage formula for 2011. Staff  
7           would like to make an oral recommendation to reflect  
8           that the matter is a proposed agency action.

9           The Commission has used a water and  
10          wastewater leverage formula for determining the  
11          reasonable range of returns on equity for over 29  
12          years. Staff has used the same methodology approved by  
13          the Commission in 2008 and updated the leverage formula  
14          to reflect current financial information.

15          Staff is available to answer your questions.

16          **CHAIRMAN GRAHAM:** Thank you, Staff.

17          Commissioner Brisé.

18          **COMMISSIONER BRISÉ:** Thank you, Mr. Chairman.

19          I just brought this item to the forefront  
20          just so that we can discuss the methodology a little  
21          bit, especially since we are discussing over a long  
22          period of time, and I think we will continue to discuss  
23          these water and wastewater cases so that those who may  
24          be interested who are watching at home may have a sense  
25          of how we get to these numbers.

1           So if staff could walk us through that  
2 process so that not only us, as Commissioners, can have  
3 an understanding, but those who are paying attention to  
4 these type of cases may have an understanding of how we  
5 get to where we get to.

6           **MS. SALNOVA:** The water and wastewater  
7 leverage formula is a formulistic approach. This is a  
8 substantial amount of money for small water and  
9 wastewater utilities and their respective customers of  
10 the expense of return on equity testimony from the rate  
11 case expense.

12           **MR. CICCHETTI:** Commissioner, what we do is  
13 we look at the index of natural gas utilities that have  
14 the same risk characteristics, similar characteristics  
15 to water and wastewater utilities. We determine the  
16 cost of equity for that index, and we develop an  
17 overall rate of return based on the capital structure  
18 of that index. We then can use a formula for a  
19 straight line, essentially, to determine for changes in  
20 financial leverage what the change in the cost of  
21 equity is, and those are based on the works of  
22 Madigliani & Miller that state that for changes in your  
23 debt ratio, you will still have the same overall cost  
24 of capital.

25           So we can develop a leverage formula that

1 shows us if there is a little difference in the amount  
2 of leverage between water and wastewater utilities,  
3 what the change will be in their cost of equity. And  
4 by doing this we can save the smaller companies the  
5 expense of hiring an expert witness to address this  
6 issue.

7 **CHAIRMAN GRAHAM:** Commissioner Brisé.

8 **COMMISSIONER BRISÉ:** So what you are saying  
9 is that by us moving forward and adopting the leverage  
10 formula we are, in essence, putting customers in a  
11 position so that they would not pay more through rate  
12 cases and so forth.

13 **MR. CICHETTI:** Exactly. If the company  
14 would like to submit testimony, they can. The leverage  
15 formula is just available for them to use if they would  
16 like to.

17 **COMMISSIONER BRISÉ:** Thank you.

18 **CHAIRMAN GRAHAM:** Commissioner Brown.

19 **COMMISSIONER BROWN:** I would like to comment  
20 about our leverage formula. Discussing it with staff,  
21 our leverage formula has been cited in academic manuals  
22 for being at the forefront and has been commended by  
23 other like commissions, as well, is that correct?

24 **MR. CICHETTI:** Yes, it has. And I attend  
25 various conference across the country, and I hear

1 various folks speak very favorably, and they have  
2 looked towards it for guidance.

3 **COMMISSIONER BROWN:** Thank you.

4 **CHAIRMAN GRAHAM:** Commissioner Edgar.

5 **COMMISSIONER EDGAR:** Thank you.

6 And along that same line, I would just point  
7 out that the recommendation before us is based on an  
8 equity ratio. And as has been stated, the witness  
9 testimony on this can be very, very costly. But by  
10 adopting the formula for the rule and what is before  
11 us, we are not removing any discretion that we would  
12 have for individual circumstances in an individual case  
13 before us.

14 **CHAIRMAN GRAHAM:** Is that in the form of a  
15 motion?

16 **COMMISSIONER BRISÉ:** So I move staff  
17 recommendation.

18 **COMMISSIONER BROWN:** Second.

19 **CHAIRMAN GRAHAM:** It has been moved and  
20 seconded, staff recommendation on Item Number 8. Any  
21 further discussion? Seeing none, all in favor say aye.

22 (Vote taken.)

23 **CHAIRMAN GRAHAM:** Any opposed? By your  
24 action, you have approved staff recommendation on Item  
25 Number 8.

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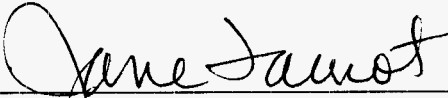
STATE OF FLORIDA     )  
  :  
  :     CERTIFICATE OF REPORTER  
COUNTY OF LEON     )

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 16th day of June, 2011.

  
\_\_\_\_\_  
JANE FAUROT, RPR  
Official FPSC Hearings Reporter  
(850) 413-6732