



March 10, 2016

VIA E-FILE

Carlotta S. Stauffer, Commission Clerk
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

RE: Docket No. 150269-WS; Application for limited proceeding water rate increase in Marion, Pasco, and Seminole Counties, by Utilities, Inc. of Florida.
Our File No. 30057.224

Dear Ms. Stauffer:

The following are some clarifications to responses of Utilities, Inc. of Florida, ("Utility") to the OPC's Issues and Concerns Request dated February 2, 2016:

PASCO COUNTY PHASE I

Schedule 11

8. The utility's calculation of cost of capital excludes Customer Deposits, Deferred Income Taxes, and Investment Tax Credits. Commission Rule 25-30.445(4)(e), Florida Administrative Code addresses the requirements for a limited proceeding. The rule requires the following be included in the cost of capital calculation:

(e) A calculation of the weighted average cost of capital shall be provided for the most recent 12-month period, using the mid-point of the range of the last authorized rate of return on equity, the current embedded cost of fixed-rate capital, the actual cost of short-term debt, the actual cost of variable-cost debt, **and the actual cost of other sources of capital which were used in the last individual rate proceeding of the utility.** If the utility does not have an authorized rate of return on equity, the utility shall use the current leverage formula pursuant to Section 367.081(4)(f), F.S. (emphasis added)

Supplemental Response: The Utility inadvertently stated the ROE in Schedule No. 11 for Marion and Seminole County as 9.38 percent. According to UIF's last rate case, the appropriate ROE is 10.38 percent. Only Pasco County was allowed a 9.38 percent ROE. Additionally, the Utility inadvertently left out the 2% cost associated with Customer Deposits. As a result the weighted average cost of capital for Marion and Seminole County should be 7.47 percent and the weighted average cost of capital for Pasco County should be 7.03 percent. We have attached revised Schedules No. 11 for Marion, Seminole, and Pasco Counties.

Schedule 16

11. We believe that this calculation of the amount of the Lost Revenue is flawed.
- a. First, staff should remove the duplicate February bills that the utility included in its calculation.
 - b. Second, the schedule compares the 2014 bills and consumption to the 2011 revenues plus an amount for a 2015 price index. However, it does not reflect the four-year reduction to rates for rate case expense made in 2014.
 - c. It also appears that the calculation is not attempting to adjust revenues for the specific irrigation customers that dropped off the system but for all reductions in 2014 consumption over the 2011 consumption used in the rate case. *We do not believe that this is an appropriate use of a limited proceeding.* Each year may have higher or lower consumption based on many factors such as weather patterns, customer consumption patterns, and economic trends. These changes should not be included in a limited proceeding as they may change from year to year. The revenue requirement philosophy is to design rates to allow a utility the opportunity to earn a reasonable rate of return. If a limited proceeding is used to adjust rates to **guarantee** a certain revenue level, it changes the entire ratemaking philosophy and does not encourage utilities to prudently manage the system.

Supplemental Response: - In the first revised Pasco County Phase I and Phase II MFRs, the Utility included an adjustment to remove the 4 year rate reduction from UIF's last rate case. On the surface, the Utility agrees that 4 year rate reductions should be taken into account. However, the rates from the last rate case were implemented in 2014 and therefore, the Utility is still in the process of recovering the rate case expense. To include the adjustment for the 4 year rate reduction would be premature at this point. Because of this, the Utility have previously provided revised Pasco County Phase I and Phase II MFRs that removes the adjustment for the 4 year rate reduction. .

Should you or Staff have any questions regarding this filing, please do not hesitate to give me a call.

Very truly yours,



MARTIN S. FRIEDMAN
For the Firm

MSF/
Enclosures

cc: John Hoy (via email, w/o enclosures)
Patrick Flynn (via email, w/o enclosures)
Danijela Janjic, Esquire (via email, w/o enclosures)
Erik Sayler, Esquire (via email, w/o enclosures)

UTILITIES INC. of FLORIDA - PASCO
WATER LIMITED PROCEEDING
SCHEDULE OF CAPITAL STRUCTURE AND WEIGHTED COST OF CAPITAL

Schedule No. 11

<u>Line No.</u>	<u>Description</u>	(a) <u>12/31/2014 (1)</u>	(b) <u>Annual Interest Expense</u>	(c) <u>Capital Structure</u>
1	Common Shareholders' Equity			
2	Common Stock Issued	\$0		
3	Paid-in-Capital	139,123,000		
4	Retained Earnings	48,321,000		
5	Total Common Shareholders' Equity	<u>\$187,444,000</u>		44.30%
6	Long Term Debt			
7	Advances from Associated Companies	<u>\$182,300,000</u>	\$12,122,950.00	
8	Total Long Term Debt	<u>\$182,300,000</u>		43.08%
9	Customer Deposits	1,393,000		0.3%
10	Tax Credits	-		0.0%
11	Deffered Income Taxes	51,992,000		12.3%
12	Capitalization	<u>\$423,129,000</u>	<u>\$12,122,950</u>	
11		<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
12	Long-Term Debt	43.08%	6.65%	2.87%
13	Common Equity	44.30%	9.38%	4.16%
14	Customer Deposits	0.33%	2.00%	0.01%
15	Deffered Income Taxes	12.29%	0.00%	0.00%
16		<u>100.00%</u>		<u>7.03%</u>

Notes:

(1) From 12/31/2014 Utilities, Inc. Audited Financials

UTILITIES INC. of FLORIDA - MARION and SEMINOLE
WATER LIMITED PROCEEDING
SCHEDULE OF CAPITAL STRUCTURE AND WEIGHTED COST OF CAPITAL

Schedule No. 11

<u>Line No.</u>	<u>Description</u>	(a) <u>12/31/2014 (1)</u>	(b) <u>Annual Interest Expense</u>	(c) <u>Capital Structure</u>
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11		<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
12	Long-Term Debt	43.08%	6.65%	2.87%
13	Common Equity	44.30%	10.38%	4.60%
14	Customer Deposits	0.33%	2.00%	0.01%
15	Defferred Income Taxes	12.29%	0.00%	0.00%
16		<u>100.00%</u>		<u>7.47%</u>

Notes:

(1) From 12/31/2014 Utilities, Inc. Audited Financials