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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 160006-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.

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PROCEEDINGS: COMMISSION CONFERENCE AGENDA
ITEM NO. 4

COMMISSIONERS
PARTICIPATING: CHAIRMAN JULIE I. BROWN
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER ART GRAHAM
COMMISSIONER RONALD A. BRISÉ
COMMISSIONER JIMMY PATRONIS

DATE: Thursday, June 9, 2016

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

REPORTED BY: LINDA BOLES, CRR, RPR
Official FPSC Reporter
(850) 413-6734

P R O C E E D I N G S

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2 **CHAIRMAN BROWN:** Moving on to Item 4.

3 **MR. BUYS:** Good morning, Commissioners. I'm
4 Dale Buys with Commission staff. Chairman, if I may, I
5 would like to introduce Anwar Archer and Seth Yeazel
6 from the Commission staff, which this is the first time
7 they are appearing before the Commission at the
8 Commission Conference.

9 **COMMISSIONER EDGAR:** Welcome.

10 **CHAIRMAN BROWN:** Yes, welcome.

11 **MR. BUYS:** Mr. Yeazel has the pleasure of
12 introducing Item 4.

13 **CHAIRMAN BROWN:** Good morning.

14 **MR. YEAZEL:** Hey, good morning. Good morning,
15 Commissioners. I'm Seth Yeazel with Commission staff.

16 Item 4 is staff's recommendation in Docket No.
17 160006-WS regarding the annual reestablishment of the
18 authorized range of returns on equity for water and
19 wastewater utilities pursuant to Section 367.081 of the
20 *Florida Statutes*.

21 Staff recommends that the current leverage
22 formula approved by the Commission in 2015 continue to
23 be used until the leverage formula is readdressed next
24 year. The Commission has approved the same leverage
25 formula each of the past five years, and staff believes

1 that the range of returns on common equity currently in
2 place continues to be -- excuse me -- continues to be
3 more reasonable than the range of returns on common
4 equity derived from this year's leverage formula using
5 the most recent financial data.

6 Financial market conditions have remained
7 essentially the same since 2011 and are representative
8 of current conditions. No customer contact has been
9 made regarding this docket, and no one has requested to
10 speak on this item.

11 **CHAIRMAN BROWN:** Thank you.

12 Commissioners, you're being -- you're going
13 easy on him.

14 Commissioner Patronis.

15 **COMMISSIONER PATRONIS:** Thank you, Madam
16 Chairman. I'm just curious if there's any reason why
17 Mr. Archer is wearing orange and blue today.

18 **MR. ARCHER:** Go Gators.

19 **CHAIRMAN BROWN:** Yay. All right.

20 **COMMISSIONER EDGAR:** They're everywhere. I
21 told you, they're everywhere.

22 **CHAIRMAN BROWN:** We are.

23 I do actually have a question for Mr. Buys
24 regarding the continuity of this leverage formula.
25 We've been using it for five years. I just wanted a

1 little bit more of a rationale for why we're continuing
2 to use it without using the updated financial
3 information in setting the leverage formula.

4 **MR. BUYS:** Yes, Chairman. Based on the
5 results of the last five years' model that we used to
6 look at the range of returns, the results have had a
7 wide spread, a large spread, over 300 basis points, as
8 compared to the one we're using currently, which is only
9 242 basis points. What that would do is that increases
10 the upper end of the ROE and also lowers the lower end
11 of the ROE.

12 The reason we're doing that is because of the
13 Fed's policies that have been in place, the quantitative
14 easing policies, that have resulted in low, low bond
15 yields, historically low bond yields, which kind of
16 skews our results of the model. Now once the Fed starts
17 raising interest rates and the market would expectedly
18 come down, the return on the stock market, those ranges
19 should narrow, and we can go ahead and use more current
20 financial data. But so long as you kind of have an
21 artificial low bond rates that are used in the formula,
22 we get this large spread that's really not reasonable
23 for setting the rates for the water utilities.

24 **CHAIRMAN BROWN:** Thank you. I appreciate that
25 explanation.

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Commissioners, any other questions? Can I get
a motion on all items?

COMMISSIONER GRAHAM: Move staff.

COMMISSIONER EDGAR: Second.

CHAIRMAN BROWN: All those in favor, say aye.

(Vote taken.)

The motion passes.

(Agenda item concluded.)

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

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4 I, LINDA BOLES, CRR, RPR, Official Commission
5 Reporter, do hereby certify that the foregoing
6 proceeding was heard at the time and place herein
7 stated.

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

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

18 DATED THIS 13th day of June, 2016.

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LINDA BOLES, CRR, RPR
FPSC Official Hearings Reporter
(850) 413-6734