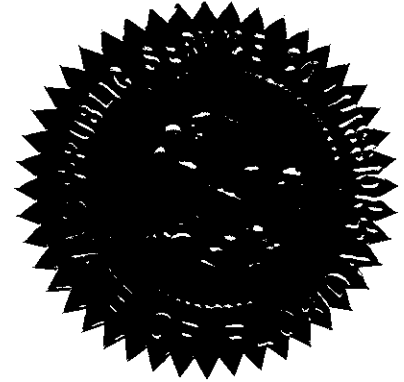


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 070592-GU

In the Matter of:

PETITION FOR RATE INCREASE BY ST. JOE
NATURAL GAS COMPANY, INC.



PROCEEDINGS: AGENDA CONFERENCE
ITEM NO. 7

BEFORE: CHAIRMAN MATTHEW M. CARTER, II
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER KATRINA J. McMURRIAN
COMMISSIONER NANCY ARGENZIANO
COMMISSIONER NATHAN A. SKOP

DATE: Tuesday, June 17, 2008

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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1 PARTICIPATING:

2 STUART L. SHOAF, representing St. Joe Natural Gas
3 Company, Inc.

4 MARTHA BROWN, ESQUIRE, JOHN SLEMKEWICZ, and MICHAEL
5 SPRINGER, representing the Florida Public Service Commission
6 staff.

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P R O C E E D I N G S

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2 **CHAIRMAN CARTER:** We are back on the record and we
3 will ask staff to introduce Item 7.

4 Staff, you're recognized.

5 **MR. SLEMKEWICZ:** I'm John Slemkewicz. Item 7 is
6 Docket Number 070592-GU, petition for rate increase by St. Joe
7 Natural Gas Company, Inc. This is a proposed agency action.

8 Staff is recommending that the company be allowed to
9 increase its rates and charges by \$543,868 annually. This
10 represents an overall rate of return of 5.44 percent using an
11 11 percent return on equity. Representatives from the company
12 are present and available to answer questions from the
13 Commissioners, and staff is also prepared to go issue-by-issue
14 or respond to questions, whichever is the Commission's
15 pleasure.

16 **CHAIRMAN CARTER:** Let's do this. We'll give the
17 company an opportunity to be heard. Do you want to make an
18 opening statement?

19 You're, sir. Good morning.

20 **MR. SHOAF:** Good morning. My name is Stuart Shoaf.
21 I'm president of St. Joe Natural Gas. We are happy to be here
22 and are looking forward to the resolution of our request for a
23 rate increase. We're in agreement with staff.

24 **CHAIRMAN CARTER:** Thank you, sir. Thank you, sir.

25 Commissioners? Commissioner Argenziano, you're

1 recognized.

2 **COMMISSIONER ARGENZIANO:** I don't have any questions.
3 If it is the proper time, just to comment.

4 **CHAIRMAN CARTER:** You're recognized for comment.

5 **COMMISSIONER ARGENZIANO:** I agree with staff, and I
6 understand that companies, you know, have a right to rate
7 increases. I just have to express that I just don't know where
8 it ends. And the people, I don't want them to be discouraged
9 to use natural gas, and I think what I'm hearing from people is
10 that they are just at wits end.

11 And I just, you know, I understand there are certain
12 things we are mandated to do and certain things we have to do
13 to keep companies whole in the state of Florida, but it's
14 almost getting to the point where I don't know how much people
15 can take any more. And they are getting discouraged about
16 trying to go to natural gas and other places. Not just natural
17 gas, I mean, fuel is up everywhere. And I just wanted to make
18 sure I put those comments on the record, because I'm really
19 feeling a great deal of heartburn because I just am really not
20 sure how much our families and our people can take anymore in
21 the state of Florida.

22 And with that said, I understand we have things we
23 are mandated to do, and companies need to be here in Florida
24 doing business, because we need them here. I just hope that we
25 can find some type of way out of all this soon.

1 **CHAIRMAN CARTER:** Okay. Commissioners, there will be
2 a comment section and then we will get into our question
3 section.

4 Commissioner Skop, you're recognized, sir.

5 **COMMISSIONER SKOP:** Thank you, Mr. Chair. I didn't
6 hear you, again. I apologize. You said we were going to do
7 comments now and then discussion.

8 **CHAIRMAN CARTER:** Just comments now and then we will
9 get into our questions, into our questioning phase. You are
10 recognized for comments.

11 Commissioner Edgar, you're recognized for comments.

12 **COMMISSIONER EDGAR:** I just appreciate the comments
13 that my colleague, Commissioner Argenziano, has shared with us,
14 and I could not agree more. And as the mother of two young
15 children, I drive back and forth across town all the time and
16 try very much to conserve, but it is difficult to do so
17 sometimes to meet the needs of a family. And I know that at
18 our home we are seeing the costs with everything, and I know
19 that's true for everyone statewide. So thank you for your
20 comments. And I don't know where it ends. I wish I had the
21 answer to that. Thank you.

22 **CHAIRMAN CARTER:** Commissioner Skop.

23 **COMMISSIONER SKOP:** Thank you. And now that I have
24 collected my thoughts, I would like to jump in there, also. I
25 do think that both Commissioner Argenziano and Edgar have

1 raised some good points, and all we can do is hope that natural
2 gas prices moderate, because they have been up almost
3 70 percent year-to-date. So hopefully those prices will be
4 more stable and that will translate into less utility bills for
5 the consumers that are affected in the state.

6 **CHAIRMAN CARTER:** Commissioner McMurrian.

7 **COMMISSIONER McMURRIAN:** I don't want to be left out.
8 I guess I was thinking, and hopefully this is constructive, but
9 I agree with all the comments that you all have made, and I
10 think that we are all worried about affordability. And I just
11 wanted to add in response to a question that was floating
12 around on some NARUC e-mails, staff had put together something
13 for me on an affordability type question. I think the question
14 was something about did we have programs in Florida targeted at
15 low income with respect to electric, and it might have even
16 been natural gas rates, I don't know. And staff put together
17 some good information about some things that I wasn't even
18 aware of that they were following.

19 And I think that -- and I just sort of say this to
20 them, I think Ms. Kummer helped me, and she might have some
21 information that she could share with you all, too. I was
22 unaware, and I was glad to see some of the things that we were
23 doing to sort of look at that issue, and I know that they keep
24 looking for ways that we can address affordability, so I just
25 wanted to say that.

1 **CHAIRMAN CARTER:** Commissioner Argenziano.

2 **COMMISSIONER ARGENZIANO:** And you are 100 percent
3 correct, and when I was in the legislative process the
4 Legislature created a lot of those programs because we saw the
5 need out there. The problem being is that they are really
6 directed for low income, and justifiably so, but you have
7 middle income now who just can't afford it anymore. And some
8 of them are just middle income just by a small amount of
9 financial matter, I guess.

10 But there are many people in the middle income
11 bracket who just don't meet the low income eligibility, but
12 still are now, you know, faced with foreclosures, and
13 everything else going on, it has even hit them even more. But
14 you're right, there are some good programs out there.
15 Unfortunately, there is a whole bunch of people that don't meet
16 the eligibility. And when you look at it, I even have state
17 firefighters out there who hardly get paid anything by the
18 state that just are a bump above that low-income eligibility,
19 but really can't afford it. And, you know, it's hard. But,
20 you're right, there are programs out there and we need to get
21 that out to the public who can -- at least to help some of the
22 people. It's a good point.

23 **CHAIRMAN CARTER:** And also, as we do that, there is
24 kind of like an unsung group of citizens out there sometimes we
25 just kind of take for granted, because they are always there,

1 is our military. A lot of our people in the military that are
2 in harms way, particularly the enlisted people, their families
3 are suffering because, I mean, sometimes it's mom and sometimes
4 it's dad that are over in the war theater, and the rest of the
5 family are left here, and they are missing the major income
6 stream, and it is very difficult. And, Commissioners, I share
7 your empathy in terms of where does it end is the question.

8 You know, low income, and now middle income, and I'm
9 hopeful, though, that we can, you know, be deliberate in our
10 processes to where we don't aggravate a situation. So I share
11 your empathy, and we all feel that because those are our
12 neighbors, they are our family, they are our friends, and we
13 see them and we see the family and we see what people are going
14 through.

15 I was looking at the community action agencies, some
16 of those agencies, they are tapped out in terms of their
17 resources. A lot of the churches are tapped out in terms of
18 our benevolent funds and all, so it is very difficult. So we
19 will just have to continually do our best to not aggravate the
20 situation, and do the best that we can.

21 Thank you for your comments, Commissioners. With
22 that, Staff, let's introduce the issue and we will go with our
23 questions. Did I catch you all flat-footed?

24 **MR. SLEMKEWICZ:** Do you want to go issue-by-issue or
25 do you want just general questions?

1 **CHAIRMAN CARTER:** Let's do this. Commissioners,
2 there are 36 -- or is it 37? No, it's actually 40, 40 issues.
3 Is there anything in particular you would like to have staff
4 elaborate on, or do you want to take them issue-by-issue? In
5 fact, 41 is just closing the docket. But we can have them
6 focus on the issues. Commissioner Skop, you're recognized,
7 sir.

8 **COMMISSIONER SKOP:** Thank you, Mr. Chairman. I just
9 have an issue or some discussion with respect to Issue 10.

10 **CHAIRMAN CARTER:** Issue 10. You're recognized.

11 **COMMISSIONER SKOP:** Thank you, Mr. Chairman.

12 And, again, I would like to commend staff for all of
13 its hard work. You guys have done a great job in terms of
14 scrubbing all the numbers and doing the appropriate adjustments
15 and the ROE range and the calculations that went into that is
16 also reasonable, in my mind.

17 I think that, again, I didn't bring Frank Luntz's
18 book "Words that Work" today, but I'm going to try my best
19 nevertheless. I guess I had ask staff to provide another --
20 like a sensitivity analysis for the company in terms of the
21 return on equity ranges from the current range of 11.5 percent
22 to the staff recommendation, and 11.25 is a variation. And, I
23 guess, you know, on Page 13 of the staff recommendation, staff
24 cites to the most recent case, which was the FPUC case, and I
25 guess I was the lone dissent on that, and I was okay with where

1 my position was.

2 In terms of what we did before and where we are
3 today, I mean, I think that each case should stand on a
4 stand-alone basis based on its individual merits, and I think
5 what concerns me is in relation to what the Commission
6 previously did, you know, I could distinguish this company from
7 that by the size of the company. It's a very small company, a
8 very small number of customers. The capitalization of the
9 company and the fact that it is not publicly traded, it's
10 closely held. And all of those factors, you know, I think,
11 would indicate higher risk in today's environment.

12 I guess that, you know, also looking at the
13 benchmarking that was done on Page 13. The ranges of the
14 current utilities within the state and some that may be
15 multi-state are significantly higher. And I know that the
16 trend has seemed to have gone downward lately, but, again, I
17 remain concerned, I think, for the reasons I articulated in my
18 prior opinion that I wrote.

19 But, more recently, even the Chairman of the Federal
20 Reserve just came out late last week and basically indicated
21 that he thought, in his opinion, that inflation was one of the
22 greatest threats to the economy on a forward-going basis. And,
23 you know, I remember when I was an undergraduate in college
24 when I had no money, I think \$100 in my bank account, so I
25 wasn't getting the benefit of the great interest rates. But

1 interest in an inflationary economy went up substantially. I
2 mean, I think it was like 18 percent at one time. And, I
3 guess, you know, my concern is that, you know, we have enjoyed
4 a period of low interest rates and the economy has not been the
5 greatest, and I do appreciate the pain that all consumers are
6 feeling in terms of the commodity price of natural gas going
7 up.

8 But also, too, I appreciate the fact that we need to
9 try to do the right things to ensure the integrity and the
10 level of service that the utilities in Florida strive to
11 provide which make their customers, I think, very happy. And I
12 just think my concern is more general in nature. You know, I
13 am concerned that the Commission in terms of trending downward
14 may be heading down, for lack of a better word, a slippery
15 slope, and perhaps even benchmarking ourselves into a corner
16 that, you know, we don't have any flexibility.

17 And, you know, I think that if the Commission is
18 going to head down a path of downward trending ROEs, and
19 certainly that's the Commission's prerogative, but I think that
20 the notions of fairness would also suggest that this trend
21 cannot be strictly limited to small companies. I mean, we need
22 to be fair across the board. And I think that my concern is,
23 and I had the same concern with FPUC, is that if we can trend
24 downward do we need to do so so dramatically? Because the last
25 thing I want to see is a company underearn or have to come back

1 in and file for a rate case if we go into a period of great
2 inflation where, you know, you can't borrow at today rates or
3 do other things that attract capital at today's rates, and then
4 you are suddenly, in some instances, stuck with another cost of
5 a rate case which is substantially higher than the incremental
6 amount that would be incurred had you trended downward more
7 gradually than more dramatically.

8 And I think it's for these reasons, I think, that
9 maybe the Commission as a matter of policy should perhaps
10 consider, you know, perhaps receding from the drastic method
11 under which we in our prior decision and maybe adopt a more, I
12 guess -- I am trying to think of the right word -- more
13 incremental approach to doing things to the extent that, you
14 know, there is -- certainly I don't think there would be
15 overearning, but I am worried about underearning. You know,
16 all it takes is inflation to go through the roof, as history
17 has shown us in the past, and we could be in a case where we
18 are incurring, you know, hundreds of thousand of dollars, or in
19 this case 60 or \$70,000 for another rate case.

20 So that is important to the consumer, too, because we
21 don't want them to earn pay twice for something. I would
22 rather it be basic and stable trending downward slightly, if
23 necessary, than to have to go through multiple cases of rate
24 case expense. And that was just my suggestion.

25 I mean, certainly I think that the staff

1 recommendation is certainly, you know, proper. I don't think
2 staff would necessarily disagree that 11.25 would be equal -- I
3 lose my train of thought -- an equally acceptable return on
4 equity, but my concern is that trending downward significantly
5 instead of more gradually, I think, does put the Commission in
6 a little bit of a predicament.

7 And, you know, if that is the way that the Commission
8 is going to go, so be it, and I'm fine with that. I may choose
9 to maintain my own opinions and be consistent. But the last
10 thing I would want to do is see that trend be applied
11 inconsistently on a forward-going basis. Thank you.

12 **CHAIRMAN CARTER:** Thank you.

13 Commissioner Edgar.

14 **COMMISSIONER EDGAR:** Thank you, Mr. Chairman. And I
15 appreciate the comments that Commissioner Skop has made and the
16 thoughtful analysis and discussion. I guess just a couple of
17 thoughts. I am not sure that we have enough data points to
18 call it a trend at this point. I absolutely agree with your
19 comments that the same type of thorough and thoughtful analysis
20 should be applied to larger companies as is smaller companies.
21 Sometimes just by the nature of a smaller company being a
22 smaller company, there can be more detail given to the
23 write-up. But for the thorough and thoughtful analysis for
24 larger company when those come before us, I certainly agree
25 with your comments on that point.

1 I would not agree, however, with your
2 characterization of this Commission having made a drastic
3 decision. That is just not how I would term it. In fact, I
4 agree with your comments about an incremental approach, and
5 that's how I think that we are approaching it is incremental.
6 So I am in agreement with many of your thoughts.

7 I will support the staff recommendation, and I note
8 that Mr. Shoaf from the company said that the company also
9 supported the staff recommendation, but these sorts of issues
10 we know will be coming before us again, and again, and again,
11 and I think the discussion is good. So thank you, Mr.
12 Chairman.

13 **CHAIRMAN CARTER:** Commissioner McMurrian, you're
14 recognized.

15 **COMMISSIONER McMURRIAN:** I just wanted to ask the
16 staff maybe if they could walk us through the decision to go
17 from the company's 11.5 that was previously approved, or set in
18 2001 by the Commission, to 11 now. And I know there was
19 specifically a paragraph at the end of Page 13 that talked
20 about, you know, sort of the lay of the land right now. And I
21 think that was similar to some of the discussion we had in the
22 FPUC case, as well. But could you walk us through that a
23 little bit, that would help me? Thank you.

24 **MR. SPRINGER:** Okay. Good morning, Commissioners.
25 I'm Michael Springer. If you look at Page 13 of the

1 recommendation, we looked at the last FPUC decision as our
2 starting point, and then we saw that interest rates really --
3 ROE is really time sensitive, so we look at May 2001, from the
4 last time we have looked at this, to May 2008. And interest
5 rates have declined by 120 to 250 basis points, and that really
6 implies a lower required return.

7 And then we also looked here at this table on Page
8 13, and since FPUC Electric had the same ROE as St. Joe before
9 this decision and they just recently came in, it just seemed
10 appropriate that they should have it afterwards along with all
11 the benchmarking that we did with interest rates. And since
12 this is a PAA proceeding and not a hearing, like the FPUC
13 electric rate case, the Commission has more discretion, but we
14 really had a lot in the record in that hearing, and we also
15 looked at individual risk ratings.

16 Certainly, if you look at electric, FPUC electric is
17 a T&D, but also St. Joe has less financial risk because of the
18 higher equity ratio. So we look at all of those different
19 things, and we just made a decision to go with 11 percent ROE.

20 **CHAIRMAN CARTER:** Commissioner Skop.

21 **COMMISSIONER SKOP:** Thank you, Mr. Chair. Just some
22 follow-up questions to staff.

23 I think in the staff recommendation they mentioned --
24 and, again, this gets back to some sort of quantification of
25 the inherent risk. Again, I think, you know, you can

1 distinguish between the different companies and the
2 characteristics of the companies and whether gas versus T&D,
3 but at least from my perspective, you know, St. Joe, although
4 having a higher equity ratio, and that's their choice because
5 they assume their capital structure, that may warrant perhaps a
6 lit bit less risk, but there are other factors, I think, that
7 have come into consideration that have been elaborated upon.
8 One of which is the potential loss of their large commercial
9 customer, which would, again, if you lose that revenue base,
10 then suddenly the overhead and all the costs are incurred by
11 the residential customers.

12 Can you elaborate upon that a little bit?

13 **MR. SPRINGER:** That type of risk, I don't think we
14 can really put a premium inside the return on equity to
15 compensate for that risk. I think that's something that if
16 scenario takes place, we would have to address it then, and
17 that would be something that we would look at, but certainly
18 there are different risks and mitigation of risks by both of
19 these individual companies that we looked at. And you are
20 correct, there are certain risks like this risk that you just
21 mentioned, we just have no way of compensating for that risk in
22 the ROE.

23 **COMMISSIONER SKOP:** And then with respect to the
24 staff analysis on the declining interest rates, staff would
25 agree that, you know, interest rates have been historically low

1 and have trended lower. But also, too, that in terms of
2 regulatory purposes for rate setting, it's really not
3 appropriate to set the rate in a period of interest rate
4 trough, is that correct?

5 **MR. SPRINGER:** We certainly look at that, and
6 although through this time historically it does seem like
7 interest rates are low, and as you mentioned the Federal
8 Reserve and the Wall Street Journal, I think I looked at it
9 today, and I think inflation is certainly something that they
10 are talking about and they are looking at expecting an interest
11 rate hike in the fall, possibly keeping the interest rate
12 steady at the next meeting. But certainly we can just only
13 look at this time period right now and make that decision. And
14 I can't really anticipate what interest rates are going to do
15 based on geopolitical risks or other things. So just looking
16 at the record right now, I could only tell you honestly that
17 that is how we based this decision is right now in this period
18 of time.

19 **COMMISSIONER SKOP:** And to that point, also, if
20 interest rates were to rise significantly and access to capital
21 was restricted due to inflationary measures and interest rates,
22 you would agree that if the company had to come back in for a
23 rate case that would be a significant expense that could far
24 exceed, I guess, the numbers that are presented on the
25 supplemental calculation?

1 **MR. SPRINGER:** Yes. I think we are looking at 60 or
2 \$70,000 of rate case expense that would be amortized, I think,
3 over possibly four years. I don't know. But, I guess, you
4 know, really the only thing I could say is that we really can't
5 anticipate what those future conditions are going to occur, so
6 based on right now, this is the best that we could do is
7 looking at it right now.

8 **COMMISSIONER SKOP:** But staff would also agree,
9 though, that certainly an ROE of 11.25 percent, I guess that
10 would be a 25-basis-point reduction as opposed to a
11 50-basis-point reduction, would also be a reasonable ROE to
12 adopt?

13 **MR. SPRINGER:** Certainly this is subjective, but
14 certainly you have that discretion to go to 11.25. And looking
15 at all the other factors, certainly you could be reasonable in
16 saying 11.25 is just as good as 11 percent. But it is just
17 staff's humble opinion that 11 percent is what we recommend.

18 **COMMISSIONER SKOP:** Just to the Commissioners, I
19 guess my concern, again, as I have previously expressed, I
20 think staff has mentioned the fact that rate case costs are in
21 excess of \$60,000. And if we look at the supplemental data
22 that staff provided doing the sensitivity analysis for the
23 existing ROE at 11.5 percent versus the staff recommended ROE
24 versus the incremental approach of 11.25 percent ROE, the rate
25 increase change is less than \$4,000. And to me, if -- again,

1 no one can predict the future. If I could I would quit my day
2 job and trade natural gas futures.

3 But, again, my concern is trying to do what's in the
4 best interest of the consumers while ensuring the continued
5 health of the entity that provides that necessary service to
6 the consumers. And when I look at the cost of another rate
7 case, which a company can come in at any time and file for a
8 rate case should they have the justification to do so, that
9 cost is significant. And the rate increase experienced in
10 terms of 6 cents for taking a more incremental or gradual
11 approach towards setting the ROE in a period of uncertainty, I
12 think, at best, to me it just seems -- at least I feel the
13 Commission should probably, you know, go more gradual. I would
14 support an ROE of 11.25 percent.

15 But, like I say, certainly I do respect staff's
16 position and analysis, and I don't think there is anything
17 necessarily wrong with that. But, again, my concern is trying
18 to avoid additional cost on a forward-going basis and do what
19 is best to balance the interests of all the stakeholders. And,
20 like I say, I think for a lot of the same reasons that I had
21 before in the FPUC, but moreover on a small-sized company that
22 is, you know, thinly capitalized and not publicly traded,
23 again, it's just levels of risk. I would think that FPUC would
24 be inherently less risky than a smaller-sized company. And
25 that would at least translate, in my eyes, to an ROE premium or

1 return premium for a comparison of the size.

2 But I guess, Commissioners, that's where I'm at with
3 respect to the will of the majority, but I would support an ROE
4 of 11.25. And if there is any discussion that would be in
5 support of that I would be happy to listen to the views of my
6 colleagues.

7 **CHAIRMAN CARTER:** Thank you, Commissioner.

8 Commissioner Argenziano, you're recognized.

9 **COMMISSIONER ARGENZIANO:** Thank you, Mr. Chairman.

10 While I respect Commissioner Skop's comments, and
11 some of them may be, you know, dead on, I'm a little concerned
12 that what you would be doing is increasing the consumers' rates
13 based on speculation of what happens in the future. And that
14 really makes me a little nervous.

15 If the companies -- I mean, everybody has got to give
16 a little in these times. Keeping the company whole is, of
17 course, a very important thing, and we all need to keep that in
18 mind, and that's why I respect your comments in trying to -- if
19 the company is doing well, then we do well in Florida. But at
20 a time when we are raising rates and a time of such
21 uncertainty, I'm just afraid that you may be announcing that
22 you want to increase the rates based on speculation, and that
23 just concerns me a little bit. So I want you to maybe address
24 that.

25 **CHAIRMAN CARTER:** Commissioner Skop.

1 **COMMISSIONER SKOP:** Mr. Chairman.

2 And to Commissioner Argenziano's point, I'm not
3 trying to do anything to raise rates on speculation. I'm
4 trying to provide sound financial analysis, and then the theory
5 to the decision-making that at least I'm making, I think, that
6 staff stated that certainly while it is not their primary
7 recommendation that the 11.25 was not unreasonable.

8 But, again, I just -- I can see the irony or
9 anticipate the irony of what will happen, because it seems that
10 at least historically, since I have some discussion with staff,
11 that historically that the small companies seem to always get
12 scrutinized a little bit, and I can't say that -- what I'm
13 looking for as a Commissioner is fairness and equality of
14 treatment between all of our regulated entities. And, again, I
15 think that if we are going to go down on this trend that the
16 Commission is going to pursue, that's fine as long as it is
17 consistently applied.

18 And, you know, I just think that that's a valid
19 concern on a forward-going basis. And I just think that if
20 that is a consistent path then, great, it is being consistently
21 applied. But if there is going to be a substantial departure
22 when a large company comes in, then I'm not so sure that the
23 thought process is going to be sound. And at least
24 historically, at least from what staff has communicated to me,
25 that has been the case. So to me it is a valid concern.

1 But, again, I just raised that in passing. I just
2 want to -- you know, I'm consistent in my position and, you
3 know, I respect the will of the majority. But I'm not trying
4 to do anything on a speculative basis. I'm just trying to
5 provide and apply sound financial management principles to the
6 regulatory process to ensure that we are not causing additional
7 harm to the consumers when we predict wrong and suddenly we are
8 faced with passing through the extensive costs of another rate
9 case down to the consumers that would pay far more than they
10 would by taking a more gradual downward trend to ROE setting.
11 So thank you.

12 **CHAIRMAN CARTER:** Commissioner McMurrian.

13 **COMMISSIONER McMURRIAN:** Thank you. And I just
14 wanted to also respond to the points Commissioner Skop has
15 raised. I will say I don't think that 11.25 would be an
16 unreasonable ROE. However, I think that we are in that PAA
17 posture. We have heard from the company; they are in agreement
18 with the staff rec. It doesn't seem that they are suggesting
19 that they think that this would be an unfair ROE for them, and
20 I know that you weren't saying it was unfair, Commissioner
21 Skop. And, again, I think you raised some good points. I also
22 had some concerns about the likelihood of losing Arizona
23 Chemical in particular, and the fact that they are thinly
24 capitalized, not publicly traded, and they are a smaller
25 company.

1 I do think that they arguably have some of the risk
2 that FPUC does not have. It is always tough on these ROE
3 issues for me to compare one to another because the list just
4 keeps getting longer and longer about the things you can
5 compare, and it's very subjective, and I think it is really
6 tough for that reason. But I think given that it is PAA, given
7 that there are reasons at this time with interest rates to have
8 some reason to bump it down a bit, I don't think it's as
9 drastic to go from 11.5 to 11. However, I do share some of
10 your concerns. So I'm sort of thinking through my analysis.

11 I think I'm comfortable with approving 11 at this
12 point on a PAA basis, given the representation of the company
13 that they are in agreement with the staff rec. But, again, I
14 wanted to echo that some of your concerns, I have them, too,
15 and I don't think it is unreasonable to throw out 11.25, I'm
16 just comfortable with the 11 at this stage in the process.

17 **CHAIRMAN CARTER:** Commissioners, I'm with
18 Commissioner Argenziano in her opening statements. You know,
19 the company will be able to earn a decent rate of return, but,
20 also, you have got to put it in its proper context, is that
21 people are hurting out there. And even if you go back to Page
22 13 and look at this chart, the differential goes from 11.0 to
23 11.5. That's not a drastic difference by any stretch of the
24 imagination, so I don't think that's putting any business, per
25 se, at risk, but I do think that in this environment that we

1 find ourselves in.

2 And staff has made a reasonable recommendation, and
3 the company has accepted this, and taken it in the context of
4 where all of our Floridians are, and we do have to concern
5 ourselves with there is a mom and a dad, there is a parent out
6 there that has got to write the check every month to do this.
7 And I think that whatever may happen nobody in here can control
8 that. In fact, nobody in the country can control that. But
9 whatever happens either positive or negative is that we'll be
10 still in business to take care of those kinds of concerns.

11 So I just wanted to say that, Commissioner. I
12 appreciate your comments, and that's why I felt good about all
13 of us having an opportunity to make our comments beforehand.
14 Because there are a lot of people hurting out there, and we
15 don't make decisions in a vacuum. And I think that an
16 11 percent rate of return is reasonable based upon the facts
17 and circumstances of this case and with this company. And I
18 just don't see any great differential when you are only going
19 from -- if you go all the way back to 2000, you go 11.11
20 percent, and then you go all the way to 11.5 percent. That's
21 not a drastic difference or anything like that.

22 Commissioner Skop, you're recognized, sir.

23 **COMMISSIONER SKOP:** Thank you, Mr. Chairman.

24 I think in this case the point has been made that the
25 company is willing to accept the staff recommended ROE on Issue

1 10. I'm not necessarily opposed to that. I mean, I think that
2 each of my colleagues have raised very, very valid issues, and
3 I appreciate Commissioner McMurrian's concerns that she raised.

4 You know, I know people are hurting out there. I
5 know consumers are out there. I, of all people, try and do
6 what is right for consumers, as do all of us. You know, I'm
7 fine with moving forward with what the Commission determines to
8 do. I just would hope that for the same reasons that have been
9 articulated in terms of being -- looking out for the consumers
10 that that same reasoning holds true when a large utility comes
11 in, because, again, I'm looking for fairness and consistency,
12 and that's my position.

13 **CHAIRMAN CARTER:** Thank you, Commissioner.

14 And I'm sure that the companies will do the same.
15 They will remind us of that. There won't be any shortage of
16 reminders on that. Commissioners, any further discussion on
17 any of the issues in Item 7? Commissioner Argenziano, you're
18 recognized.

19 **COMMISSIONER ARGENZIANO:** I don't have anything.

20 **CHAIRMAN CARTER:** Commissioner Edgar, you're
21 recognized.

22 **COMMISSIONER EDGAR:** Mr. Chairman, if this is the
23 appropriate time, I would make a motion in support of the staff
24 recommendation for Issues 1 through 40, or is that 41?

25 **CHAIRMAN CARTER:** Moved and properly seconded.

1 **COMMISSIONER EDGAR:** All of the issues.

2 **CHAIRMAN CARTER:** All of the issues in Item 7. It
3 has been moved and properly seconded, Commissioners. Any
4 questions? We're in debate. We're in debate.

5 Hearing none, all those in favor let it be known by
6 the sign of aye.

7 (Unanimous affirmative vote.)

8 **CHAIRMAN CARTER:** All those opposed, like sign.

9 Show it done. Thank you, Commissioners. We are
10 adjourned.

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STATE OF FLORIDA)

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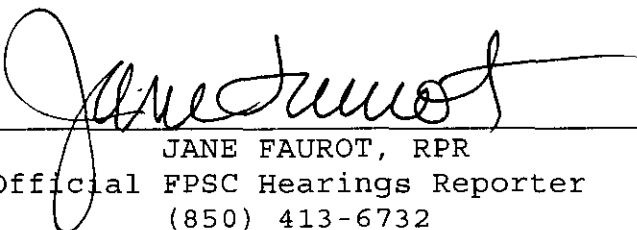
COUNTY OF LEON)

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 24th day of June, 2008.



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