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RICHARD CORCORAN
*Speaker of the House of
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March 6, 2018

Via email: amaurey@psc.state.fl.us
Mr. Andrew Maurey
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 20170166-WS - Application for limited proceeding rate increase in Orange County by Pluris Wedgefield, Inc.

Dear Mr. Maurey:

The Office of Public Counsel ("OPC") has reviewed the limited proceeding filing regarding Pluris Wedgefield, Inc. ("Pluris" or "Utility"). OPC requests the Commission, on its own motion, to make a finding regarding the appropriate return on equity for the Utility and, as a result, the appropriate overall rate of return to be used in setting rates in this docket.

In its application, on Schedule 13, Pluris requested a 9.24% overall rate of return on its incremental investment for this limited proceeding. In its August 31, 2017, response to Staff's deficiency letter, the Utility submitted a revised cost of capital. As reflected on Revised Schedule 11, the requested return was calculated by using a 5.73% cost rate for debt and a 10.88% cost rate for equity, along with the inclusion of customer deposits and deferred income taxes in its calculation. OPC asserts the Utility's requested cost of equity and resulting cost of capital is overstated and unreasonable.

Pluris' rate of return on equity was established in its last rate case by Order No. PSC-13-0187-PAA-WS, issued May 2, 2013, in Docket No. 20120152-WS. In that docket, the Commission approved an equity ratio of 42.97% and used the leverage formula in effect at that time from Order No. PSC-2012-0339-PAA-WS, issued June 28, 2012. The leverage formula in that docket is the same exact formula that is in effect today pursuant to Order No. PSC-17-0249-PAA-WS in Docket No. 170006-WS, issued June 26, 2017.

The Utility's equity ratio included in its current limited proceeding application is 68.11%, as opposed to the 42.97% equity ratio approved in its last rate case. OPC points out that the leverage formula has an inverse relationship to the equity ratio to a degree. The higher the equity ratio, the lower the calculated cost of equity. Conversely, the lower the equity ratio, the higher the cost of equity which is capped at 40%. The increase in the equity ratio of more than 25 basis points (68.11-42.97) is a material change in the Utility's capital structure. Because of the substantial increase in the equity ratio since that last rate case, OPC submits the cost of equity should be recalculated using the current equity ratio and leverage formula, and the Utility's cost of equity should be 9.49% instead of the Utility's requested 10.88%.

Rule 25-30.445, Florida Administrative Code, prescribes the information to be filed when a water and wastewater utility requests a rate increase in a limited proceeding. Rule 25-30.445(4)(e), Florida Administrative Code, prescribes the minimum filing requirements ("MFRs") for the cost of capital and requires the weighted average cost of capital be calculated on the most recent 12-month period and include all of the appropriate capital structure components. Additionally, Rule 25-30.445(5)(e), Florida Administrative Code, requires a utility to "[p]rovide a description of any known items that will create cost savings or revenue impacts from the implementation of the requested cost recovery items." Here, OPC submits the increase in the equity ratio clearly results in a known cost savings for which Pluris was required to include in its original petition or revised schedules. However, it did not do so.

There is past precedent where the Commission reduced the rate of return on equity in a limited proceeding to a rate different than the rate approved in the last rate proceeding for a given utility. See Order No. PSC-99-1917-PAA-WS ("the Aloha Order"), issued September 28, 1999, in Docket No. 970536-WS (In re: Application for limited proceeding increase in water and wastewater rates in Pasco County by Aloha Utilities, Inc.), and Docket No. 980245-WS (In re: Application for limited proceeding increase in water and wastewater rates in Pasco County by Aloha Utilities, Inc.). The Aloha Order, on page 29, states that Aloha's last authorized returns on equity were excessive based on the current leverage graph. Accordingly, the Commission used the current leverage formula in effect with Aloha's current average capital structure to establish a new return on equity for the limited proceeding and any future rate proceedings for Aloha.

While Rule 25-30.445, Florida Administrative Code, prescribes the MFR requirements for a utility, it neither limits nor prescribes Commission action in its review of a utility's request for a limited proceeding. In this docket, given the material impact of a 139 basis point reduction in the cost of equity, OPC requests the Commission to readdress the cost of equity using the current equity ratio of the Utility and the current leverage formula.

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If you have any questions regarding our request, please contact me.

Sincerely,

/s/ Virginia Ponder

Virginia Ponder
Associate Public Counsel

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