

FLORIDA PUBLIC SERVICE COMMISSION

Item 6

VOTE SHEET

June 5, 2018

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FPSC - COMMISSION CLERK

Docket No. 20180006-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.

Issue 1: Should the leverage formula methodology be modified?

Recommendation: Yes. Several refinements should be made to the leverage formula methodology to reflect newly available information and to reflect best practices. The leverage formula methodology should be modified to include a combined proxy group of natural gas and WAW utilities with updated financial data based on market-capitalization based weighted averages. Also, the cost of debt used in determining the leverage formula should be based on the projected cost of debt.

APPROVED

Staff given administrative authority to remove PSEC from proxy group.

COMMISSIONERS ASSIGNED: All Commissioners

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

[Handwritten signatures in blue ink over four horizontal lines]

REMARKS/DISSENTING COMMENTS:

Docket No. 20180006-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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Issue 2: What is the appropriate range of returns on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), Florida Statutes?

Recommendation: The leverage formula methodology described in Issue 1 should be applied using a proxy group comprised of natural gas and WAW utilities and updated financial data. Accordingly, the following leverage formula should be used until the leverage formula is addressed again in 2019:

$$\text{ROE} = 6.24\% + (1.94 \div \text{Equity Ratio})$$

Where the Equity Ratio = Common Equity ÷ (Common Equity + Preferred Equity + Long-Term and Short-Term Debt)

Range: 8.18% at 100% equity to 11.08% at 40% equity

Additionally, the Commission should cap returns on common equity at 11.08 percent for all WAW utilities with equity ratios less than 40 percent. This is in an effort to discourage imprudent financial risk. This cap is consistent with the methodology in Order No. PSC-2008-0846-FOF-WS.

APPROVED

Issue 3: Should this docket be closed?

Recommendation: No. Upon expiration of the protest period, if a timely protest is not received from a substantially affected person, the decision should become final and effective upon the issuance of a Consummating Order. However, this docket should remain open to allow staff to monitor changes in capital market conditions and to readdress the reasonableness of the leverage formula as conditions warrant.

APPROVED