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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: 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.	DOCKET NO. 20260006-WS ORDER NO. PSC-2026-0223-PAA-WS ISSUED: June 22, 2026

The following Commissioners participated in the disposition of this matter:

GABRIELLA PASSIDOMO SMITH, Chairman
GARY F. CLARK
MIKE LA ROSA
BOBBY PAYNE
ANA ORTEGA

NOTICE OF PROPOSED AGENCY ACTION
ORDER ESTABLISHING AUTHORIZED RANGE OF RETURN ON
COMMON EQUITY FOR WATER AND WASTE WATER UTILITIES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

Background

Section 367.081(4)(f), Florida Statutes (F.S.), authorizes us to establish, not less than once each year, a leverage formula to calculate a reasonable range of returns on equity (ROE) for water and wastewater (WAW) utilities. The original leverage formula methodology was established by Order No. PSC-2001-2514-FOF-WS.[1] On October 23, 2008, we held a formal hearing in Docket No. 20080006-WS to allow interested parties to provide testimony regarding the validity of the original leverage formula.[2] Based on the record in that proceeding, we

[1] Order No. PSC-2001-2514-FOF-WS, issued December 24, 2001, in Docket No. 20010006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity of water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*
[2] At the May 20, 2008, Commission Conference, upon request of the Office of Public Counsel, we voted to set the establishment of the appropriate leverage formula directly for hearing.

approved the 2008 leverage formula by Order No. PSC-2008-0846-FOF-WS.[3] In that order, we reaffirmed the methodology that was previously approved by Order No. PSC-2001-2514-FOF-WS.[4]

On November 8, 2017, our staff held a workshop to solicit input from interested persons regarding potential changes to the then-current leverage formula methodology. The only stakeholders that filed comments in the docket were the Office of Public Counsel (OPC) and Sunshine Water Services Company (formerly Utilities, Inc. of Florida). OPC also filed post-workshop comments on January 31, 2018. On June 26, 2018, we approved the current leverage formula by Order No. PSC-2018-0327-PAA-WS (2018 Order).[5] The 2018 Order approving the current leverage formula provided necessary and timely updates to the leverage formula methodology.

We have jurisdiction pursuant to Section 367.081, F.S.

Decision

Methodology

In the instant docket, we updated the current leverage formula using the most recent financial data applied to the methodology approved by Order No. PSC-2001-2514-FOF-WS, reaffirmed by Order No. PSC-2008-0846-FOF-WS, and modified by the 2018 Order. The methodology uses ROEs derived from widely accepted financial models applied to a proxy group of natural gas and WAW companies that have actively traded stock and forecasted financial data. To establish the proxy group, we selected six natural gas companies and six WAW companies that: (1) are followed by Value Line, (2) pay a dividend, (3) derive at least 50 percent of their total revenue from regulated operations, and (4) have an investment grade Standard & Poor's (S&P) credit rating. The selected proxy group companies have market power, are influenced significantly by economic regulation, and have an average S&P bond rating of "A-."

Consistent with the approved methodology, we used a market-capitalization-weighted average for: (1) the Discounted Cash Flow (DCF) model results, (2) the Beta values in the Capital Asset Pricing Model (CAPM), and (3) the equity ratio of the proxy group.

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[3] Order No. PSC-2008-0846-FOF-WS, issued December 31, 2008, in Docket No. 20080006-WS, *In re: 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.*
[4] Order No. PSC-2001-2514-FOF-WS.
[5] Order No. PSC-2018-0327-PAA-WS, issued June 26, 2018, in Docket No. 20180006-WS, *In re: 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.*

Assumed Cost of Debt

We used a projected yield on corporate Baa bonds to estimate the bond yield of an average Florida WAW utility in the calculation of the weighted average cost of capital of the proxy group. A projected yield is used because required returns are forward-looking and based on projections.

Consistent with the methodology approved by the 2018 Order, we used the average of the projected corporate Baa-rated bond yield of 6.350 percent for the upcoming four quarters as published in the May 1, 2026, *Blue Chip Financial Forecasts* (Blue Chip). We then added the 120-month historical average spread of 0.115 percent between the Baa and A Corporate Utility Bond yields to the projected corporate Baa-rated bond yield of 6.350 percent to estimate a projected Baa3-rated utility bond yield of 6.46 percent.[6]

We added a 50-basis-point adjustment for small-company risk and a 50-basis-point adjustment for a private placement premium to the projected Baa3-rated utility bond yield of 6.46 percent to reflect the risk for a typical Florida WAW utility. Consistent with the methodology approved by the 2018 Order, these adjustments resulted in a projected assumed debt cost rate of 7.46 percent.

$$6.350\% + 0.115\% + 0.50\% + 0.50\% = 7.46\%$$

Estimated Cost of Equity

The current leverage formula relies on two ROE models described below. We adjusted the results of these models to reflect differences in risk and debt cost between the proxy group and the average Florida WAW utility. Both ROE models include an adjustment of approximately four percent for flotation costs. The ROE models are as follows:

1) A multi-stage DCF model applied to an index of natural gas and WAW utilities that have publicly traded stock and are followed by Value Line. This DCF model is annually compounded and uses prospective dividend growth rates published by Value Line.

2) A CAPM that relies on a market return for companies followed by Value Line, the average projected yield on 30-Year U.S. Treasury bonds as of May 1, 2026, as published by Blue Chip, and the weighted average beta for the index of natural gas and WAW utilities. The market return for the CAPM was calculated using a quarterly DCF model with stock prices as of May 4, 2026. Consistent with our approved methodology since 2001, the CAPM result was adjusted upward by 20 basis points to reflect flotation costs.

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[6] We relied on the A- and Baa/BBB-rated Corporate Utility Bond yields published by Value Line from April 2016 through October 2024 (103 months). On November 29, 2024, Value Line discontinued providing corporate utility bond yields in its *Selection & Opinion* publication. For November 2024 through March 2026 (17 months), we relied on the corporate Aaa and Baa bond yields published by Blue Chip for calculating the 120-month historical average spread.

Consistent with the 2018 Order, we averaged the results of the DCF and CAPM models and adjusted the result of 8.45 percent as follows:

1) A bond yield differential of 34 basis points was added to reflect the difference in yields between an A-/A3 rated bond, which is the median bond rating for the combined utility index, and a BBB-/Baa3 rated bond. Florida WAW utilities are assumed to be comparable to companies with the lowest investment grade bond rating, Baa3. This adjustment compensates for the difference between the credit quality of "A-" rated debt and the assumed lower credit quality of a typical Florida WAW utility.

2) A private placement premium of 50 basis points is added to reflect the difference in yields on publicly traded debt and privately placed debt, which is illiquid. Investors require a premium for the lack of liquidity associated with privately placed debt.

3) A small-utility risk premium of 50 basis points is added because the average Florida WAW utility is too small to qualify for privately placed debt, and investors consider smaller companies to be riskier than larger companies.

After the above adjustments, the resulting cost of equity estimate of 9.79 percent is included in the weighted average capital structure of the proxy group to derive the leverage formula. The derivation resulted in an adjustment of 46 basis points to reflect an estimated required return of 10.25 percent at an equity ratio of 40 percent. Table 1 shows the components that comprise the upper range of the leverage formula.

Table 1
Adjusted Return on Equity

DCF Model	7.43%
CAPM	9.47%
Average	8.45%
Bond Yield Differential	0.34%
Private Placement Premium	0.50%
Small-Utility Risk Premium	0.50%
Adjusted ROE Average	9.79%
Adjustment to Reflect Required Equity Return at 40% Equity Ratio	0.46%
Upper Range of ROE	10.25%

Source: Commission Staff Worksheets.

Leverage Formula

Using the most recent financial data in the leverage formula increases the lower end of the current allowed ROE range by 7 basis points and decreases the upper end of the range by 26 basis points. Overall, the spread between the ROE range based on the updated leverage formula is 167 basis points (8.58 percent to 10.25 percent). In comparison, the ROE range for the 2025 leverage formula is 200 basis points (8.51 percent to 10.51 percent). The change in the range from 2025 is due to a decrease of 15 basis points in the average result of the ROE models (8.60 percent to 8.45 percent), a decrease of 2 basis points in the bond differential (36 basis points to 34 basis points), and a decrease of 10 basis points in the adjustment reflecting the required return at a 40 percent equity ratio (56 basis points to 46 basis points).

The leverage formula depends on four basic assumptions:

1) Business risk is similar for all WAW utilities;

2) The cost of equity is an exponential function of the equity ratio but a linear function of the debt to equity ratio over the relevant range;

3) The marginal weighted average cost of investor capital is constant over the equity ratio range of 40 percent to 100 percent; and

4) The debt cost rate at an assumed Moody's Baa3 bond rating, plus a 50-basis-point private placement premium and a 50-basis-point small-utility risk premium, represents the average marginal cost of debt to an average Florida WAW utility over an equity ratio range of 40 percent to 100 percent.

For these reasons, the leverage formula is assumed to be appropriate for the average Florida WAW utility.

Based on the aforementioned, we find the leverage formula methodology approved by the 2018 Order applied to a proxy group of natural gas and WAW utilities with updated financial data based on market-capitalization-weighted averages, produces a reasonable range of ROEs for WAW utilities and reflects current financial conditions. As such, we find that the following leverage formula be used until a new leverage formula is determined in 2027:

Return on Common Equity = 7.46% + (1.115 ÷ Equity Ratio)

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

Range of Returns: 8.58% at 100% equity to 10.25% at 40% equity

The equity ratio shall be calculated using the averaging methods pursuant to Rule 25-30.433(5), F.A.C. Additionally, we shall cap returns on common equity at 10.25 percent for all WAW utilities with equity ratios less than 40 percent, which serves to discourage imprudent financial risk and is consistent with the methodology approved by the 2018 Order.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the appropriate range of returns on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S., is the leverage formula methodology approved by Order No. PSC-2018-0327-PAA-WS, using a proxy group comprised of natural gas and WAW utilities and updated financial data. Accordingly, the following leverage formula shall be used until the leverage formula is addressed again in 2027:

Return on Common Equity = 7.46% + (1.115 ÷ Equity Ratio)

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

Range of Returns: 8.58% at 100% equity to 10.25% at 40% equity

The equity ratio shall be calculated using the averaging methods pursuant to Rule 25-30.433(5), F.A.C. Returns on common equity shall be capped at 10.25 percent for all WAW utilities with equity ratios less than 40 percent. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the “Notice of Further Proceedings” attached hereto. It is further

ORDERED that this docket shall remain open to allow us to monitor changes in capital market conditions and to readdress the reasonableness of the leverage formula as conditions warrant.

By ORDER of the Florida Public Service Commission this 22nd day of June, 2026.

ADAM TEITZMAN
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 13, 2026.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Summary of Results
2026 Water and Wastewater Leverage Formula

	Updated Results
(1) DCF ROE for Proxy Group	7.43%
(2) CAPM ROE for Proxy Group	9.47%
Average	8.45%
Bond Yield Differential	0.34%
Private Placement Premium	0.50%
Small-Utility Risk Premium	0.50%
Adjustment to Reflect Required Equity Return at 40% Equity Ratio	0.46%
Cost of Equity for Average Florida WAW Utility at 40% Equity Ratio	10.25%

2026 Commission Approved Leverage Formula (Updated Results)

Return on Common Equity = 7.46% + (1.115 ÷ Equity Ratio)

Range of Returns on Equity = 8.58% to 10.25%

Marginal Cost of Investor Capital
Average Water and Wastewater Utility

Capital Component	Ratio	Marginal Cost Rate	Weighted Marginal Cost Rate
Common Equity	47.86%	9.79%	4.69%
Total Debt	52.14%	7.46%*	3.89%
	100.00%		8.58%

A 40% equity ratio is the floor for calculating the required return on common equity.
The return on equity at a 40% equity ratio: 7.46% + (1.115 ÷ 0.40) = 10.25%

Marginal Cost of Investor Capital
Average Water and Wastewater Utility at 40% Equity Ratio

Capital Component	Ratio	Marginal Cost Rate	Weighted Marginal Cost Rate
Common Equity	40.00%	10.25%	4.10%
Total Debt	60.00%	7.46%*	4.48%
	100.00%		8.58%

*Assumed Baa3 rate for May 2026 plus a 50-basis-point private placement premium and a 50-basis-point small-utility risk premium.

Sources:
Blue Chip Financial Forecasts
Company 10-K Filings
Value Line Selection & Opinion

Discounted Cash Flow Model Results
April 1, 2026 - April 30, 2026

Company	STOCK PRICE High	Low	Avg.	DCF Results	Weight	DCF Weighted Results
Atmos Energy Corporation	192.51	181.32	186.92	7.36%	24.97%	1.84%
NiSource Inc.	48.92	46.43	47.68	6.52%	18.66%	1.22%
Northwest Natural Holding	55.99	51.88	53.94	6.97%	1.75%	0.12%
ONE Gas, Inc.	90.78	85.06	87.92	8.47%	4.29%	0.36%
Southwest Gas Holdings	94.41	86.32	90.37	7.33%	5.26%	0.39%
Spire Inc.	95.31	88.40	91.86	8.86%	4.47%	0.40%
American States Water	81.24	74.26	77.75	8.20%	2.54%	0.21%
American Water Works	139.63	126.12	132.88	7.51%	23.22%	1.74%
California Water Service	48.08	41.93	45.01	6.87%	2.37%	0.16%
Essential Utilities, Inc.	41.23	37.54	39.39	8.19%	9.90%	0.81%
H20 America	61.87	55.82	58.85	6.72%	1.75%	0.12%
Middlesex Water	56.30	49.89	53.10	8.62%	0.83%	0.07%
					Average Weighted DCF Result:	**7.43%**

The ROE of 7.43% represents the expected cost of equity required to match the average stock price, less three percent for flotation costs, with the present value of expected cash flows.

Sources:
Stock prices obtained from Yahoo Finance for the 30-day period April 1 through April 30, 2026.
Natural Gas company dividends, earnings, and ROE obtained from *Value Line Ratings & Reports*, issued February 20, 2026.
Water and Wastewater company dividends, earnings, and ROE obtained from *Value Line Ratings & Reports*, issued April 3, 2026.

Capital Asset Pricing Model Cost of Equity for
Water and Wastewater Industry

CAPM analysis formula

K = RF + Beta (MR - RF) + 0.20%

K = Investor's required rate of return

RF = Risk-free rate
(May 2026 Blue Chip forecast for 30-year U.S. Treasury bond yield)

3Q 2026	4Q 2026	1Q 2027	2Q 2027	3Q 2027
4.90%	4.80%	4.80%	4.80%	4.80%

Average = 4.82%

Beta = Measure of industry-specific risk (market-cap-weighted average for the proxy group of natural gas and WAW utilities)

MR = Market Return (Value Line Investment Analyzer Web Browser)

9.47% = 4.82% + 0.802 (10.37% - 4.82%) + 0.20%

Note:
We calculated the market return using a quarterly DCF model for a large number of dividend paying stocks followed by Value Line. As of May 4, 2026, the result was 10.37%. The market return is adjusted to reflect a flotation cost of three percent for the companies included in the DCF market return calculation. We added 20 basis points to the CAPM result to reflect flotation costs for the proxy group.

Bond Yield for Water and Wastewater Industry

Equity Bond Yield Differential Adjustment

Credit Rating	(A)	Spread	(A-)	Spread	(BBB+)	Spread	(BBB)	Spread	(BBB-)
		NA		0.115		0.115		0.115	

120-Month Avg. Spread: 0.115%

Total Equity Bond Yield Differential: 0.115% × 3 = 0.345%

Blue Chip Financial Forecasts - Corporate Baa Bond Rate

	2Q 2026	3Q 2026	4Q 2026	1Q 2027
Forecast Corporate Baa Bond Yield	6.30%	6.30%	6.40%	6.40%

Average Forecasted Corporate Baa Bond Rate: 6.350%

Assumed Bond Yield for Baa3 Utilities: 0.115% + 6.350% = 6.465%

	Currently in Effect	Updated Results
Private Placement Premium	0.50%	0.50%
Small-Utility Risk Premium	0.50%	0.50%
Assumed Bond Yield for Baa3 Utilities	6.17%	6.46%
Assumed Bond Yield for Florida WAW Utilities	7.17%	7.46%

Sources:
Value Line Selection & Opinion and *Blue Chip Financial Forecasts* (120-Month Avg. Spread)
Blue Chip Financial Forecasts issued May 1, 2026 (Forecast Corporate Baa Bond Yield)

2026 Leverage Formula Proxy Group

Company	S&P Bond Rating	Regulated Revenue	Value Line Market Capital (in millions)	Equity Ratio	Equity Ratio (Weighted)	Value Line Beta	Value Line Beta (Weighted)
Atmos Energy Corporation	A-	94.10%	$28,500	60.12%	15.01%	0.80	0.1997
NiSource Inc.	BBB+	98.65%	21,300	41.83%	7.81%	0.85	0.1586
Northwest Natural Holding	A-	88.82%	2,000	36.15%	0.63%	0.80	0.0140
ONE Gas, Inc.	A-	99.09%	4,900	50.49%	2.17%	0.75	0.0322
Southwest Gas Holdings	BBB+	100.00%	6,000	53.03%	2.79%	0.80	0.0420
Spire Inc.	BBB+	89.14%	5,100	39.58%	1.77%	0.75	0.0335
American States Water	A	70.53%	2,900	52.87%	1.34%	0.75	0.0191
American Water Works	A	91.52%	26,500	40.62%	9.43%	0.80	0.1857
California Water Service	A+	97.92%	2,700	51.33%	1.21%	0.75	0.0177
Essential Utilities, Inc.	A-	98.56%	11,300	45.29%	4.48%	0.80	0.0792
H20 America	A-	98.31%	2,000	43.80%	0.77%	0.75	0.0131
Middlesex Water	A	93.33%	950	54.27%	0.45%	0.80	0.0067
Average	**A-**	**93.33%**	**$9,513**	**47.45%**	**47.86%**	**0.783**	**0.802**

Sources:
Company 10-K Filings
Standard & Poor's (S&P)
Value Line Ratings & Reports