



Public Service Commission

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RECORDS AND REPORTING

DATE: SEPTEMBER 24, 1998

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF LEGAL SERVICES (VACCARO, MCRAE) *sm*
 DIVISION OF AUDITING AND FINANCIAL ANALYSIS (LESTER, DRAPER) *DA*
 DIVISION OF WATER AND WASTEWATER (KYLE, MERCHANT) *col*

RE: DOCKET NO. 980006-WS - ANNUAL REESTABLISHMENT OF AUTHORIZED RANGE OF RETURNS ON COMMON EQUITY FOR WATER AND WASTEWATER UTILITIES, PURSUANT TO SECTION 367.081(4)(F), F.S.

AGENDA: OCTOBER 6, 1998 - REGULAR AGENDA - DECISION PRIOR TO HEARING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\LEG\WP\980006.RCM

ALM
[Handwritten signatures]

CASE BACKGROUND

Pursuant to Section 367.081 (4) (f), Florida Statutes, the Commission is authorized to establish, not less than once each year, a leverage formula to calculate a reasonable range of returns on equity for water and wastewater utilities. By Proposed Agency Action (PAA) Order No. PSC-98-0903-FOF-WS, issued July 6, 1998, the Commission established the most recent authorized range of returns on common equity. With minor modification, the Commission utilized the same leverage formula methodology established by Order No. PSC-95-0892-FOF-WS, issued August 10, 1995, in Docket No. 950006-WS.

On July 23, 1998, Florida Water Services Corporation (FWSC) filed a Petition on PAA, protesting PAA Order No. PSC-98-0903-FOF-WS and requesting a formal hearing on its petition. On September

DOCUMENT NUMBER-DATE

10565 SEP 24 98

FPSC-RECORDS/REPORTING

9, 1998, FWSC filed a Notice of Voluntary Dismissal of its Petition on Proposed Agency Action. This recommendation addresses FWSC's Notice of Voluntary Dismissal.

Further, staff has discovered that pages eight, nine and ten of Attachment 1 of the PAA Order contain minor errors which should be corrected. Page eight inadvertently contained the incorrect number for the estimated monthly risk premium for natural gas utilities. This did not affect the Commission's decision, because the correct number was used in the Commission's calculation. The correct number was included on page five of Attachment 1 of the PAA Order. Pages nine and ten contained a typographical error. A dollar sign was inadvertently placed in front of the numbers for common shares of outstanding stock in the equity ratios of water and natural gas index companies. Although none of the errors affected the outcome of the PAA Order, staff is bringing these matters to the Commission's attention so that the Final Order in this docket will contain the corrected information for Attachment 1.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission acknowledge the Notice of Voluntary Dismissal of Petition on Proposed Agency Action and make Order No. PSC-98-0903-FOF-WS final and effective October 6, 1998?

RECOMMENDATION: Yes. The Commission should acknowledge the Notice of Voluntary Dismissal of Petition on Proposed Agency Action and make Order No. PSC-98-0903-FOF-WS final and effective October 6, 1998. The Order should include revised pages eight through ten of Attachment 1 of the PAA Order. (VACCARO, MCRAE, LESTER, DRAPER)

STAFF ANALYSIS: As noted in the case background, by PAA Order No. PSC-98-0903-FOF-WS, issued July 6, 1998, the Commission established the most recent authorized range of returns on common equity for water and wastewater utilities under Commission jurisdiction. FWSC filed a timely protest to the PAA order on July 23, 1998. FWSC filed a Notice of Voluntary Dismissal of its protest on September 9, 1998. Therefore, staff recommends that the Commission acknowledge FWSC's Notice of Voluntary Dismissal of Petition on Proposed Agency Action and make Order No. PSC-98-0903-FOF-WS final and effective October 6, 1998.

Further, staff has discovered that pages eight, nine and ten of Attachment 1 of the PAA Order contain minor errors which should be corrected. Page eight inadvertently contained the incorrect number for the estimated monthly risk premium for natural gas utilities. This did not affect the Commission's decision, because the correct number was used in the Commission's calculation. Pages nine and ten contained a typographical error. A dollar sign was inadvertently placed in front of the numbers for common shares of outstanding stock in the equity ratios of water and natural gas index companies. Staff has provided revised pages eight through ten of Attachment 1, which are included as Attachment A of this recommendation. Staff recommends that the Final Order include the revised pages eight through ten of Attachment 1 of the PAA Order.

Finally, as noted in the case background, the Commission established the current methodology for the leverage formula by Order No. PSC-95-0982-FOF-WS. At the June 16, 1998 Agenda Conference, the Commission noted that this methodology could be reviewed through a workshop process if staff or interested parties believed it necessary. Staff believes that the leverage formula methodology should be reviewed, and will schedule a workshop for this purpose.

DOCKET NO. 980006-WS
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ISSUE 2: Should this docket be closed?

RECOMMENDATION: No. This docket should remain open. (VACCARO, MCRAE, LESTER, DRAPER)

STAFF ANALYSIS: Order No. PSC-98-0903-WS ordered that the docket remain open in the event that a substantially affected person filed a protest within the protest period. A protest was filed and subsequently withdrawn. Since the protest was withdrawn, there are no remaining issues. However, this docket should remain open to allow staff to monitor the movement in capital costs and to readdress the reasonableness of the leverage formula.

ESTIMATED MONTHLY RISK PREMIUMS
 MOODY'S NAT'L GAS DISTRIBUTION INDEX
 1979 - 1998

YEAR	MONTH	Quarterly Cost of Equity Gas	Annual Cost of Equity Gas	Risk Free Rate	Risk Premium Quarterly	Risk Premium Annual
1994	JAN	8.133	8.980	6.24	2.853	2.720
	FEB	8.805	8.632	6.28	2.525	2.352
	MAR	8.885	8.721	6.48	2.395	2.231
	APR	9.128	8.965	6.90	2.228	2.085
	MAY	9.431	9.232	7.25	2.181	1.982
	JUN	9.550	9.361	7.40	2.180	1.981
	JUL	9.737	9.553	7.38	2.347	2.183
	AUG	9.723	9.514	7.57	2.153	1.944
	SEP	9.802	9.599	7.48	2.322	2.119
	OCT	9.921	9.727	7.69	2.231	2.037
	NOV	9.813	9.518	7.93	1.883	1.888
	DEC	10.198	9.972	8.07	2.128	1.902
1995	JAN	10.342	10.124	7.86	2.482	2.284
	FEB	10.071	9.831	7.83	2.241	2.001
	MAR	9.891	9.877	7.80	2.291	2.077
	APR	9.885	9.889	7.44	2.425	2.229
	MAY	9.228	9.036	7.38	1.878	1.888
	JUNE	9.888	9.679	6.93	2.858	2.749
	JULY	9.858	9.667	6.57	3.288	3.097
	AUGUST	9.885	9.656	6.71	3.175	2.946
	SEPT	9.958	9.738	6.85	3.105	2.888
	OCT	9.502	9.323	6.55	2.982	2.773
	NOV	9.573	9.393	6.37	3.203	3.023
	DEC	9.622	9.431	6.25	3.372	3.181
1996	JAN	9.788	9.603	6.08	3.728	3.543
	FEB	9.218	9.032	6.05	3.188	2.982
	MAR	9.285	9.085	6.24	3.015	2.845
	APR	9.389	9.227	6.60	2.789	2.827
	MAY	9.748	9.555	6.79	2.958	2.785
	JUN	9.818	9.636	6.92	2.898	2.718
	JUL	9.710	9.562	7.05	2.880	2.502
	AUG	10.188	9.857	7.03	3.128	2.827
	SEP	9.984	9.810	6.84	3.144	2.970
	OCT	10.241	10.072	7.02	3.221	3.052
	NOV	9.930	9.780	6.60	3.130	2.980
	DEC	9.781	9.618	6.48	3.301	3.136
1997	JAN	9.894	9.741	6.55	3.344	3.191
	FEB	9.788	9.575	6.82	2.948	2.755
	MAR	9.838	9.656	6.66	3.158	2.878
	APR	9.932	9.796	6.83	3.102	2.936
	MAY	10.357	10.148	7.08	3.277	3.088
	JUN	10.189	10.018	6.93	3.269	3.088
	JUL	10.088	9.901	6.77	3.288	3.131
	AUG	10.107	9.820	6.51	3.597	3.410
	SEP	10.124	9.955	6.57	3.554	3.385
	OCT	10.010	9.885	6.49	3.520	3.375
	NOV	10.032	9.889	6.32	3.712	3.549
	DEC	9.725	9.576	6.10	3.825	3.478
1998	JAN	9.893	9.563	5.98	3.713	3.583
	FEB	9.529	9.371	5.81	3.719	3.561
	MAR	9.638	9.493	5.88	3.759	3.613
	APR	9.682	9.533	5.95	3.712	3.583
	MAY	9.800	9.443	5.92	3.680	3.523
AVERAGE RISK PREMIUM					2.902	2.673

UPDATED: 08/12/98

SOURCE: Value Line 1979-1998
 Moody's Bond Survey
 U.S. Treasury - 20-Year Bond

Natural Gas Index

12/31/97 Equity Ratios of Water Index Companies

	Book Value Per Share	Common Shares Outstanding (millions)	Common Equity (millions)	Total Debt (millions)	Preferred Equity (millions)	Equity Ratio
American Water Works	\$14.31	79.99	\$1,144.70	\$2,030.70	\$98.00	34.97%
Aquarion Company	\$18.26	7.33	\$133.90	\$165.40	\$0.00	44.73%
California Water Service Co.	\$13.00	12.62	\$164.00	\$151.70	\$3.50	51.39%
Consumers Water Company	\$12.11	8.99	\$108.90	\$196.60	\$1.10	35.52%
Philadelphia Suburban Corp.	\$7.39	27.5	\$203.20	\$249.60	\$2.80	44.60%
United Water Resource	\$11.53	36.29	\$418.50	\$705.60	\$95.60	34.31%
					Average	40.92%

Data Common Shares Outstanding was determined by Value Line

American Water Works 03/08/98
 Consumers Water Company 03/11/98
 Philadelphia Suburban Corp 03/02/98
 All Others 12/31/97

Source: Value Line Investment Survey, Edition 9 - May 8, 1996

12/31/97 Equity Ratios of Natural Gas Index Companies

	Book Value Per Share	Common Share Outstanding (millions)	Common Equity (millions)	Total Debt (millions)	Preferred Equity (millions)	Equity Ratio
Atlanta Gas & Light	\$10.99	56.46	\$620.50	\$810.50	\$118.80	40.04%
Bay State Gas	\$17.35	13.52	\$234.00	\$329.00	\$4.90	41.27%
KeySpan Energy Corp.	\$19.09	51.16	\$976.60	\$00.40	\$0.00	54.96%
Indiana Energy	\$12.96	22.59	\$292.80	\$241.00	\$0.00	54.85%
Laclede Gas	\$14.26	17.59	\$250.90	\$306.60	\$2.00	44.84%
Northwest Natural Gas	\$16.00	22.78	\$364.50	\$401.30	\$37.40	45.38%
Peoples Energy	\$20.43	35.23	\$719.70	\$587.50	\$0.00	55.06%
Washington Gas & Light	\$13.48	43.64	\$588.20	\$574.20	\$28.40	49.40%
					Average	48.22%

Data Common Shares Outstanding was determined by Value Line

Laclede Gas	02/11/98
Northwest Natural Gas	11/07/97
Peoples Energy	01/31/98
All Others	12/31/97

Source: Value Line Investment Survey, Edition 9 - May 8, 1998