



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

RECEIVED-FPSC

JUL 16 PM 12:31

COMMISSION CLERK

DATE: July 16, 2003
TO: Chairman Jaber
FROM: Timothy J. Devlin, Director, Division of Economic Regulation
Cochran Keating, Attorney, Office of the General Counsel WCK
RE: Docket No. 030443-WS - Application for Rate Increase in Pasco County by Labrador Utilities, Inc. - Test Year Approval

JDJ For T.D.

Labrador Utilities, Inc. (Labrador or utility) is a Class C water and wastewater utility located approximately one mile east of the City of Zephyrhills in Pasco County. On April 2, 2002, Labrador entered into a Purchase and Sale Agreement with Utilities, Inc. (UI). The sales contract closed on May 31, 2002, contingent upon ultimate Commission approval. By Order No. PSC-03-0638-PAA-WS, issued May 27, 2003, in Docket No. 020484-WS, the Commission approved the transfer, established rate base and continued the utility's existing flat rate structure.

By letter dated May 14, 2003, Labrador requested approval of an historical test year ended December 31, 2002, to increase its rates for its water and wastewater systems. Staff believed that two factors made a 2002 test year unrepresentative for this utility and communicated them with the utility. First, UI purchased Labrador in May 2002 and as such did not have a full year of operation under UI's ownership for this test year. Secondly, meters were not installed until November 2002, which would have created a very burdensome task of measuring and matching billing determinants with the revenue requirement calculations for 2002 in order to establish consumption-based rates for a final test year. After several conversations with staff, the utility agreed to revise its test year. By letter dated June 16, 2003, the utility revised its request to include an historical test year ending June 30, 2003, for interim rate purposes, and an historical test year ended December 31, 2003, for final rate purposes.

The utility has indicated that the revised test year will be representative of a normal full year of operations and an appropriate period to measure the cost of service and establish new rates. Labrador states that during the final test year, it does not foresee any catastrophic events or occurrences will that affect operations, or any material alterations in its plant or system capacity. Further, since the acquisition in 2002, the utility has made major plant upgrades and modifications, safety and security improvements, and rehabilitative work to plant grounds and percolation ponds. Lastly, Labrador states that it expects that there will be no material growth in the system, the expenses incurred by the utility will be typical, and this test year will be the most current year for which financial information is available. The utility requested that it be allowed to file its interim application on or before October 30, 2003. Further, the utility has requested to file its minimum filing requirements (MFRs) for final rates on or before June 30, 2004. Lastly, the utility stated that it would file its application using the Proposed Agency Action (PAA) provision in Section 367.081(8), Florida Statutes.

Staff has reviewed the utility's request and we believe that it is reasonable. Based on our review of the 2002 Annual Report on file with the Commission, the utility reports that it incurred an operating loss of almost \$150,000. Staff agrees that an interim proceeding based on a June 30, 2003, test year is current and will include a full year of operating expenses under the UI umbrella

US
AF
MP
OM
TR
CR
CL
PC
MS
EC
TH

DOCUMENT NUMBER: 030443-WS

06322 JUL 16 03

REC'D - COMMISSION CLERK

of allocated expenses. Further, we believe that requesting interim rates based on a test year that is different from the test year for final rates and prior to an official date of filing in a rate case is permissible under the Interim Statute. Pursuant to Section 367.082(1), Florida Statutes:

The commission may, during any proceeding for a change of rates, upon its own motion, upon petition from any party, or by a tariff filing of a utility or a regulated company, authorize the collection of interim rates until the effective date of the final order. Such interim rates may be based upon a test period different from the test period used in the request for permanent rate relief. (Emphasis added)

Staff believes that the utility's request to file a tariff requesting interim rates is permissible if the utility waives the effective date of the final rates pursuant to the provisions established by Section 367.081(6) and (8), Florida Statutes, regarding the statutory deadlines required to process a rate case. This will allow the utility to receive interim rates, while allowing the passage of time to occur in order to use a test year that will be representative on a prospective basis and enable the Commission to obtain sufficient information to calculate consumption-based rates. Based on the above, staff believes that the utility's requested interim and final test years as revised should be approved. Receipt of the interim application by October 30, 2003, and the final application by June 30, 2004, will be acceptable.

Consistent with the Commission's order in the Cypress Lakes rate case (Order No. PSC-03-0647-PAA-WS, issued May 28, 2003), staff believes that the utility should be reminded in the test year approval letter that the final MFRs will not be accepted as complete until the utility complies with several of the continuing problems that the Cypress Lakes' order identified. Those items specifically related to meeting the MFRs for a rate case are as follows:

1. The MFRs are designed with a column titled "Balance Per Books." This column must reflect the balances on the General Ledger. The Annual Report must also reflect the same balances. This requirement is applicable to all accounts to the primary account level as required by the NARUC Uniform System of Accounts. Pursuant to Rule 25-30.110(2), Florida Administrative Code, all data that the Commission may request and require to be submitted in determining a utility's rates shall be consistent with and reconcilable with the utility's annual report to the Commission.
2. All adjustments to the utility balance sheet and income statement accounts that have been included in prior Commission orders relating to this system must be booked by the utility and reflected in the general ledger for the appropriate period up to and including the approved test year.

The test year letter filename is S:\psc\ecr\wp\labrador_tya.wpd.

cc: Dr. Mary Bane, Executive Director
Division of Economic Regulation (Willis, Merchant, Joyce)
Division of Auditing and Safety (Vandiver)
Division of the Commission Clerk and Administrative Services
Jackie Edwards

LILA A. JABER
CHAIRMAN

STATE OF FLORIDA



CAPITAL CIRCLE OFFICE CENTER
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850
(850) 413-6044

Public Service Commission

July 16, 2003

Mr. Martin S. Friedman
Rose, Sundstrom & Bentley LLP
600 S. North Lake Blvd., Suite 160
Altamonte Springs, Florida 32701

Re: Docket No. 030443-WS, Application for rate increase in Pasco County by Labrador Utilities, Inc.

Dear Mr. Friedman:

We have received your letter dated June 16, 2003, requesting test year approval for Labrador Utilities, Inc. (Labrador or utility). Labrador has requested an historical test year ending June 30, 2003, for interim rate purposes and December 31, 2003, for final rate purposes. The utility has asked that it be allowed to file its interim application on or before October 30, 2003, and its minimum filing requirements (MFRs) for final rate purposes on or before June 30, 2004. Further, you state that the utility will file its application using the Proposed Agency Action (PAA) provision in Section 367.081(8), Florida Statutes. Your test year request, as outlined above, is approved.

For administrative purposes only, Docket No. 030443-WS has been assigned to the forthcoming case. Your petition for final rates will be deemed filed on the date that the Division of the Commission Clerk and Administrative Services receives the complete petition, revised tariff sheets, the MFRs, and the filing fee. To minimize any regulatory lag that may occur, we request that you file the above by no later than June 30, 2004, for final rate purposes. Your request to file your interim petition by October 30, 2003, is also approved. Please note that the official date of filing for processing the final rate petition will not be established when the interim application is filed.

Under the file and suspend law, the time period for processing the request will begin on the date that all of the required data is filed. If not complete, the official filing date will be the date the complete corrections to the MFR deficiencies are filed. Please note that many schedules included in the MFRs are designed with a column titled "Balance Per Books." This column must reflect the balances on the General Ledger and be reconciled with the balances reported in the utility's Annual Report on file with the Commission. This requirement is applicable to all primary account balances as required by the NARUC Uniform System of Accounts. Pursuant to Rule 25-30.110(2), Florida Administrative Code, all data that the Commission requests and requires to be submitted in determining a utility's rates shall be consistent with and reconcilable with the utility's annual report

Mr. Martin S. Friedman
Page 2
July 16, 2003

to the Commission.

In addition, the utility should satisfactorily document that it has recorded all adjustments to the utility's general ledger and accounts that have been ordered by the Commission in any prior proceeding relating to this system. If adjustments were ordered for prior periods that have any impact on subsequent years, the related adjustments shall also be made to reflect the impact for the appropriate period up to and including the approved test year. Further, the utility should be prepared to justify its requested test year operation and maintenance expenses, particularly those which have increased above the level of customer growth and inflation for the year ended five years prior to the test year.

The utility is instructed to file all information it wishes the Commission to consider when arriving at a decision on its rate case application with its original filing. Because of the time limitations contained in Section 367.081, Florida Statutes, and the lengthy auditing and investigation required, there is a possibility that information filed at a later time will not be considered.

Sincerely,

Lila A. Jaber
Chairman

LAJ:tj

cc: Mary Andrews Bane, Executive Director
Division of the Commission Clerk and Administrative Services
Division of Economic Regulation (Willis, Merchant, Joyce)
Office of the General Counsel (Keating)
Division of Auditing and Safety (Vandiver)