

FLORIDA PUBLIC SERVICE COMMISSION

VOTE SHEET

DECEMBER 7, 2004

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

Issue 1: Is the quality of service provided by Labrador Utilities, Inc. satisfactory?

Recommendation: Yes. The utility's overall quality of service is satisfactory. However, staff recommends that Labrador develop a plan and test all of its meters by June 30, 2005, and make any necessary meter repairs or adjustments. Pursuant to Rule 25-30.267, Florida Administrative Code, the utility shall maintain a log of all meters tested. Further, staff also requests that the utility provide a copy of the meter log and a status report that reflects the number of meters tested by month, including the number that were repaired or replaced as a result of the tests. The log and updated reports should be filed with the Commission by April 15, July 15, and October 15, 2005.

**APPROVED**

COMMISSIONERS ASSIGNED: All Commissioners

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

*Charles M. Daub*  
*Marta S.*  
*J. Terry*  
*Ruby Bradley*

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REMARKS/DISSENTING COMMENTS:

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Issue 2: Are any adjustments necessary to plant?

Recommendation: Yes. The following adjustments should be made:

	<u>Plant</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>
Misc. Plant (AE 1 & 2) - Water	(\$16,684)	(\$1,628)	(\$3,680)
Misc. Plant (AE 1 & 2) - Wastewater	(\$6,654)	\$11,954	(\$559)
Remove Averaging Adjustment & Correct 2003 year end balance - Water	(\$41,566)	(\$32,563)	\$0
Remove Averaging Adjustment & Correct 2003 year end balance - Wastewater.	\$18,676	(\$22,324)	\$0
Reflect 2004 Pro forma Expense - Water	\$0	\$600	(\$1,200)
Reflect 2004 Pro forma Exp. - Wastewater	\$0	(\$1,479)	\$2,959

**APPROVED**

Issue 3: Should any adjustments be made to the utility's common plant allocations?

Recommendation: Yes. To properly reflect Labrador's portion of Water Services Corporation's (WSC) allocated rate base, plant should be decreased by \$895 and \$860 for water and wastewater, respectively. Additionally, Utilities, Inc. of Florida's (UIF) allocated common plant should be decreased by \$2,841 for water and \$3,341 for wastewater, and accumulated depreciation should be decreased by \$791 and \$922 for water and wastewater, respectively. WSC's common operation and maintenance (O&M) expenses should be reduced by \$3,940 and \$3,785 for water and wastewater, respectively.

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Issue 4: What are the used and useful percentages of the utility's water and wastewater facilities?

Recommendation: Labrador's used and useful percentages should be as follows:

Water Treatment Plant	100.00%
Wastewater Treatment Plant	79.94%
Reuse Facilities	100.00%
Water Distribution and Wastewater Collection Systems	100.00%

Wastewater rate base should be reduced by \$146,215 to reflect that 20.06% of treatment and disposal equipment should be considered non-used and useful. Corresponding adjustments should also be made to reduce wastewater depreciation expense and property tax expense by \$10,985 and \$2,292, respectively.

**APPROVED**

Issue 5: What is the appropriate working capital allowance?

Recommendation: The appropriate amount of working capital is \$9,968 for water and \$16,321 for wastewater.

**APPROVED**

Issue 6: What is the appropriate rate base?

Recommendation: Consistent with staff's recommended adjustments in other issues, the appropriate simple average rate base for the test year ended December 31, 2003, is \$379,797 for water and \$939,190 for wastewater.

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Issue 7: Are any adjustments necessary to Labrador's capital structure and what is the appropriate return on equity and weighted cost of capital for the test year ended December 31, 2003?

Recommendation: Total UI short-term debt of \$1,047,000 at a cost rate of 4.95% should be included in Labrador's capital structure at its prorated share. Deferred taxes should be increased by \$30,746 to reflect the special tax depreciation allowance on historical and recommended pro forma plant. The appropriate cost of equity should be 11.35%, with a range of 10.35% to 12.35%, and the overall cost of capital should be 8.63%, with a range of 8.24% to 9.02%.

**APPROVED**

Issue 8: Should an adjustment be made to employee salaries and benefits?

Recommendation: Yes. Employee salaries should be decreased by \$4,197 for water and \$4,032 for wastewater. Corresponding adjustments should also be made to reduce pensions and benefits by \$122 for water and \$117 for wastewater and employee insurance costs by \$625 and \$600 for water and wastewater, respectively. Corresponding reductions of \$255 and \$245 should also be made to payroll taxes for water and wastewater, respectively.

**APPROVED**

Issue 9: Should adjustments be made to purchased power expense?

Recommendation: Yes. To remove out-of-period costs from test year expenses, the utility should reduce purchased power expense by \$514 for water and \$1,471 for wastewater. Wastewater purchased power should also be reduced by \$4,045 to reflect the cost savings associated with combining two electric meters into one service meter for the wastewater treatment plant.

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Issue 10: Should an adjustment be made for excessive unaccounted water?

Recommendation: Yes. Labrador has 6.33% excessive unaccounted water. Therefore, purchased power and chemicals should be reduced by \$814.

**APPROVED**

Issue 11: Should an adjustment be made to the utility's land lease expense?

Recommendation: Yes. For rate setting purposes, the utility's annual land lease expense should be \$25,920. The utility's test year land lease expense should be reduced by \$7,811 for water and \$8,419 for wastewater.

**APPROVED**

Issue 12: What is the appropriate amount of rate case expense?

Recommendation: The appropriate rate case expense for this docket is \$68,988. This expense is to be recovered over four years for an annual expense of \$17,247. Thus, rate case expense should be reduced by \$3,861 and \$4,260 for water and wastewater, respectively.

**APPROVED**

Issue 13: Are any adjustments necessary to taxes other than income?

Recommendation: Yes. Test year regulatory assessment fees should be increased by \$151 and \$350 for water and wastewater, respectively. Also, property taxes should be increased by \$2,810 for water and \$7,213 for wastewater.

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Issue 14: What is the test year water and wastewater operating income before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, staff recommends that test year water and wastewater operating income before any provision for increased revenues should be (\$27,725) and (\$35,010) for water and wastewater, respectively.

**APPROVED**

Issue 15: What is the appropriate revenue requirement?

Recommendation: The following revenue requirement should be approved.

	<u>Test Year</u> <u>Revenues</u>	<u>\$ Increase</u>	<u>Revenue</u> <u>Requirement</u>	<u>% Increase</u>
Water	\$55,451	\$101,594	\$157,075	183.12%
Wastewater	\$129,095	\$194,905	\$324,000	150.98%

**APPROVED**

Issue 16: What are the appropriate equivalent residential connections (ERCs) and gallons to be used for ratesetting for the water and wastewater systems?

Recommendation: The appropriate ERCs to be used for ratesetting purposes for the water and wastewater systems are 10,806 ERCs and 10,554 ERCs, respectively. The appropriate consumption, before repression, to be used for ratesetting purposes is 35,780.027 thousand gallons (kgals) for the water system and 26,252.130 kgals for the wastewater system.

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Issue 17: Should the utility's current rate structures for its water and wastewater systems be changed, and, if so, what are the appropriate rate structures for the respective systems?

Recommendation: The current flat rate structures for the water and wastewater systems should both be changed to the traditional base facility charge (BFC) / gallonage charge rate structure. The BFC cost recovery for the water system (pre-repression) should be set at 43%, while the BFC cost recovery for the wastewater system should be set at 40%. The water system should have uniform gallonage charges, while the wastewater system's General Service gallonage charges should be 20% greater than the corresponding rates for Residential Service.

**APPROVED**

Issue 18: Are adjustments to reflect repression of consumption appropriate, and, if so, what are the appropriate adjustments for the respective water and wastewater systems?

Recommendation: Yes. Adjustments to reflect repression of consumption are appropriate. For the water system, staff recommends a consumption reduction of approximately 7,684.4 kgals, resulting in total water consumption for ratesetting of 28,095.6 kgals. For the wastewater system, consumption should be reduced by 5,824.8 kgals; resulting in appropriate wastewater consumption to be used for ratesetting of 20,741.6 kgals. In order to monitor the effects of both the changes in rate structures and the revenue changes, the utility should prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning the first billing period after the approved rates go into effect.

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Issue 19: What are the appropriate monthly rates for service for this utility?

Recommendation: The appropriate monthly rates are shown on Schedules Nos. 4-A and 4-B of staff's November 23, 2004 memorandum. Staff's recommended rates are designed to produce revenues of \$155,928 for water and \$321,337 for wastewater, excluding miscellaneous service charge revenues. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

**APPROVED**

Issue 20: In determining whether any portion of the interim revenue increases granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding pro forma adjustments and rate case expense. This revised revenue requirements for the interim collection period should be compared to the amount of interim revenues granted. Based on this calculation, the utility should be required to refund 29.84% of water interim revenues. This results in a refund of \$4.87 for each MH Park customer and \$890.38 for the RV Resort per month for the period interim rates have been in effect. Since the revised wastewater revenues for the interim collection period are greater than the interim revenues, no interim refund is required for wastewater. The water refund should be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

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Issue 21: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

Recommendation: The rates should be reduced as shown on Schedule No. 4 of staff's November 23, 2004 memorandum to remove \$9,210 for water and \$8,849 for wastewater for rate case expense, grossed up for regulatory assessment fees (RAFs), which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction.

**APPROVED**

Issue 22: Should the utility be required to provide proof that it has adjusted its books for all Commission-approved adjustments?

Recommendation: Yes. To ensure that the utility adjusts its books in accordance with the Commission's decision, Labrador should provide proof, within 90 days of the issuance date of a final order in this docket, that the adjustments for all the applicable primary accounts have been made.

**APPROVED**

Issue 23: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action issues files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. Staff should be given administrative authority to verify that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and that the refund has been completed and verified by staff. Once these actions are complete, the corporate undertaking should be released. When the PAA issues are final and the refund, tariff, and notice actions are complete, this docket may be closed administratively.

**APPROVED**