



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: September 8, 2004
TO: Denise Greene, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief, Bureau of Auditing *DNV*
Division of Regulatory Compliance and Consumer Assistance
RE: **Docket No.:** 030443-WS; **Company Name:** Labrador Utilities, Inc.;
Audit Purpose: Rate Case Audit **Audit Control No.:** 04-173-3-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

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DOCUMENT NUMBER-DATE

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FLORIDA PUBLIC SERVICE COMMISSION

***DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING***

Orlando District Office

LABRADOR UTILITIES, INC.

FILE AND SUSPEND PETITION FOR RATE RELIEF

PASCO COUNTY

HISTORICAL PERIOD ENDED DECEMBER 31, 2003

**DOCKET NO. 030443 - WS
AUDIT CONTROL NO. 04-173-3-1**

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Jeffery A. Small, Audit Manager

Handwritten signature of Intesar Terkawi in black ink.

Intesar Terkawi, Audit Staff

Handwritten signature of Charleston J. Winston in black ink.

Charleston J. Winston, District Audit Supervisor



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Jeffery A. Small, Audit Manager

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Intesar Terkawi, Audit Staff

A handwritten signature in black ink, appearing to read "Charleston J. Winston".

Charleston J. Winston, District Audit Supervisor

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**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
AUDITOR'S REPORT**

AUGUST 30, 2004

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED
PARTIES**

We have applied the procedures described later in this report to audit the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure for the historical 12-month period ended December 31, 2003, for Labrador Utilities, Inc.'s water and wastewater operations located in Pasco County, Florida. These schedules were prepared by the utility as part of its petition for rate relief in Docket No. 030443-WS.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

SUMMARY OF SIGNIFICANT FINDINGS

The utility's water and wastewater utility-plant-in-service (UPIS) are overstated by \$25,482 and \$2,500, respectively, as of December 31, 2003, because of the improper recording of invoiced additions.

The utility's water and wastewater UPIS are overstated by \$5,364 and understated by 5,364, respectively, as of December 31, 2003, because of the improper recording of a capital project addition.

The utility's water and wastewater working capital balance are overstated by \$979 and understated by \$690, respectively, as of December 31, 2003, because of the audit staff adjustments to operation and maintenance expenses (O&M) in this report.

The utility's weighted average cost of capital is 8.86 percent as of December 31, 2003.

The utility's water and wastewater O&M expenses for Accounts Nos. 618 and 718, Chemicals are overstated by \$4,494 and understated by \$4,494, respectively, for the 12-month period ended December 31, 2003, because of the improper allocation of said chemical expenses.

The utility's water and wastewater O&M expenses for Accounts Nos. 615 and 715, Purchased Power are overstated by \$514 and \$1,471, respectively, for the 12-month period ended December 31, 2003, because they include out-of-period amounts.

The utility's O&M expenses for Accounts Nos. 620 and 720, Materials and Supplies are overstated by \$2,799 and understated by \$2,499, respectively, for the 12-month period ended December 31, 2003, because of the improper allocation of said material and supply expenses.

The utility's water and wastewater taxes other than income are understated by \$2,961 and \$7,563, respectively, for the 12-month period ended December 31, 2003, because they include out-of-period amounts.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report.

Scanned - The documents or accounts were read quickly looking for obvious errors.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Reviewed - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Examined - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied, and account balances were tested to the extent further described.

Verified - The item was tested for accuracy and compared to substantiating documentation.

RATE BASE: Examined account balances for UPIS, accumulated depreciation (AD), and working capital (WC) for Labrador Utilities, Inc., as of December 31, 2003. Reconciled rate base balances authorized in Commission Order No. PSC-03-0638-PAA-WS, issued May 27, 2003, to the utility's general ledger. Examined selected additions to plant accounts using auditor judgment. Tested additions to accumulated depreciation for proper rates and calculations. Recalculated working capital balances.

NET OPERATING INCOME: Compiled utility revenue and operating and maintenance accounts for the year ended December 31, 2003. Recalculated utility revenues using customer information and FPSC-approved rates. Chose a judgmental sample of operation and maintenance expenses and examined the invoices and other supporting documentation. Reviewed the allocation of O&M expenses from Water Service Corporation (WSC) and Utilities, Inc. of Florida (UIF) cost centers to Labrador Utilities, Inc. and verified the accuracy of company allocations based on company-provided allocation schedules. Tested the calculation of depreciation expense. Examined support for taxes other than income and income taxes.

CAPITAL STRUCTURE: Reviewed the components of the capital structures for the year ended December 31, 2003. Agreed interest expense to the terms of the notes. Verified note balances at December 31, 2003.

OTHER: Read external audit work papers and Board of Directors' Minutes as of July 31, 2004, for items related to the audit and other regulatory issues.

Exception No. 1

Subject: Additions to Utility-Plant-in-Service (UPIS)

Statement of Fact: The utility's filing reflects the following additions to its water and wastewater UPIS as of December 31, 2003.

<u>UPIS Addition</u>	<u>Water</u>	<u>Wastewater</u>
For the period ended December 31, 2002 (a)	\$70,130	\$17,522
For the period ended December 31, 2003 (b)	<u>72,792</u>	<u>157,104</u>
Total UPIS additions	<u>\$142,922</u>	<u>\$174,626</u>

- a) Net of \$405 and \$3,939 in retirements, respectively
- b) Net of \$23,592 and \$12,012 in retirements, respectively

NARUC Accounting Instruction 2.A. states that each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information as to any item included in any account.

NARUC Accounting Instruction 27.B (2) states that if the retirement unit is of a depreciable class, the book cost of the unit retired and credited to utility plant shall be charged to accumulated depreciation applicable to such property. The cost of removal and salvage shall be charged or credited, as appropriate, to such depreciation account.

NARUC Operation and Expense Account, Account No. 736, Contractual Services – Other states “This account includes those operation costs contracted for which are not included in accounts 730, 731, 732, 733 and 734.”

The utility maintains the following policy concerning the retirement of capitalized assets.

- a) The retirement amount is the cost of the retired equipment if known.
- b) If the amount of the retired equipment is known and is less than \$250, and the year that it was placed in service is between 1990 and 1996, do not retire.
- c) If the amount of the retired equipment is known and is greater than \$100, and the year it was placed in service is prior to 1990, retire the known amount.
- d) If the amount of the retired equipment is not given, but the year it was placed in service is known, use the *Handy Whitman* index to determine its retirement. Multiply the percentage from the index times the total invoice cost to determine the amount of retirement. If neither the retirement amount is known nor the year it was placed in service is given, retire 75 percent of the invoice amount.

Exception No. 1, continued

Recommendation: The utility's water and wastewater UPIS are overstated by \$25,482 and \$2,500, respectively, as of December 31, 2003, because of the following audit staff determinations. See the audit staff's calculations in Schedule A that follows.

- 1) The utility's records indicate invoiced additions of \$534 and \$18,519 to Account No. 341, Transportation Equipment and \$2,140 to Account No. 343, Tools, Shop and Garage Equipment as of December 31, 2002. The utility could not provide any supporting documentation for these additions. UPIS Accounts Nos. 341 and 343 should be reduced accordingly.
- 2) The utility's records indicate an invoice addition of \$557 to Account No. 311, Pumping Equipment for a pump installed at Cypress Lakes Utilities, Inc. (CLU), a subsidiary utility system in Polk County. UPIS Account No. 311 should be reduced by \$557, and the invoice should be reclassified to CLU.
- 3) The utility's records indicate an invoice addition of \$4,977 to Account No. 343 for a new maintenance cart. The invoice states that the new maintenance cart replaced an old golf cart that was traded in at the time of purchase. The new maintenance cart was discounted \$1,604 from its original retail price. No records exist that show the original cost for the old golf cart that was replaced. UPIS Account No. 341 should be reduced by \$3,733 to retire the old golf cart which is calculated to be 75 percent of the invoiced price for the new maintenance cart per the utility's retirement policy stated above.
- 4) The utility's records indicate an invoiced addition of \$2,500 to Account No. 354, Structures and Improvements for monthly maintenance fees to have a contractor trim and bush-hog the utility's wastewater sprayfield disposal site. Recurring operational costs of this nature should be recorded in Operation and Maintenance Expense Account No. 736, Contractual Services – Other per the NARUC rule cited above.

The above audit staff adjustments will also require corresponding adjustments that reduce the utility's water and wastewater accumulated depreciation balances by \$6,512 and \$39, respectively, as of December 31, 2003, and its depreciation expense by \$3,440 and \$39, respectively, for the 12-month period ended December 31, 2003. See the audit staff's calculations on Schedule A that follows.

Schedule A for Exception No. 1

<u>Year</u>	<u>Acct. No.</u>	<u>Acct. Description</u>	<u>UPIS Adjustment</u>	<u>Rule Dep. Rate</u>	<u>Acc. Dep. Adjustment</u>	<u>Dep. Exp. Adjustment</u>	<u>Note</u>
2003	311	Pumping Equip.	(\$556.78)	5.00%	(\$13.92)	(\$13.92)	A
2002	341	Transportation Equip.	(19,053.10)	16.67%	(4,102.00)	(3,175.52)	B
2002	343	Tools, Shop & Garage Equip.	(2,140.00)	6.25%	(267.50)	(133.75)	C
2003	343	Tools, Shop & Garage Equip.	<u>(3,732.53)</u>	6.25%	<u>(2,128.53)</u>	<u>(116.64)</u>	D
Total Water Adjustments			<u>(\$25,482.41)</u>		<u>(\$6,511.95)</u>	<u>(\$3,439.83)</u>	
2003	354	Structure & Improvements	<u>(\$2,500.00)</u>	3.13%	<u>(\$39.06)</u>	<u>(\$39.06)</u>	E
Total Wastewater Adjustments			<u>(\$2,500.00)</u>		<u>(\$39.06)</u>	<u>(\$39.06)</u>	

The audit staff's notes to explain accumulated depreciation and depreciation expense calculations above

- A. Calculated as $\{(\$556.78 \times 5.00\%)/2\}$ to remove one half-year of accumulated depreciation and depreciation expense accrued for the period ended December 31, 2003.
- B. Remove entire accumulated depreciation balance of \$4,102 and remove \$3,175.52 of depreciation expense calculated as $\{\$19,053.10 \times 16.67\%\}$, respectively, for the period ended December 31, 2003.
- C. Calculated as $\{(\$2,140 \times 6.25\%) \times 2\}$ and $\{\$2,140 \times 6.25\%\}$ to remove two years of accumulated depreciation accruals and to remove test year depreciation expense, respectively, for the period ended December 31, 2003.
- D. Calculated as $\{\$3,732.53 - \$1,604.00\}$ and $\{(\$3,732.53 \times 6.25\%)/2\}$ to retire the old golf cart net of its \$1,604.00 salvage value at trade-in and to remove one-half of the test year depreciation expense, respectively, for the period ended December 31, 2003.
- E. Calculated as $\{(\$2,500.00 \times 3.13\%)/2\}$ to remove one-half year of accumulated depreciation and depreciation expense accrued for the period ended December 31, 2003.

Exception No. 2

Subject: Construction Project Addition to UPIS

Statement of Fact: The utility's records reflect that Construction Project No. 106-0693-115-02-01 was recorded in 2003 to water utility Account No. 304, Structures and Improvements for \$28,877 with a corresponding retirement of \$21,658.

The above project involved replacing all fences that enclose the utility's water and wastewater plant sites.

Recommendation: The utility's water and wastewater UPIS are overstated by \$5,364 and understated by \$5,364, respectively, as of December 31, 2003, because of the following audit staff determinations.

- 1) The utility recorded the entire amount of \$28,877 for the fence replacements to Account No. 304. The utility should have recorded \$7,422 and \$21,455 to Accounts Nos. 304 and 354, respectively, which are the actual costs for each fence installed and its allocated proportion of the capitalized operator's time and the capitalized interest accruals for the fence construction project.
- 2) The utility properly retired \$21,658 from accumulated depreciation for the old fences that were replaced. However, the utility retired the entire balance from Account No. 304, Accumulated Depreciation of Structures & Improvements which only had a balance of \$198 before the fences were replaced. It would appear that the old fences were never recorded in Account No. 304, Structures & Improvements. The audit staff recommends retiring \$5,567 and \$16,091 from Accounts Nos. 331, Accumulated Depreciation of Transmission & Distribution and 380, Accumulated Depreciation of Treatment & Disposal Equipment for the old fences because these accounts contain enough of an accumulated depreciation balance to absorb the entire retirement amount. Additionally, prior Order No. PSC-03-0638-PAA-WS recognized the fact that the prior utility owner depreciated all UPIS accounts at a rate of 2.5 percent through May 31, 2002. Therefore, the retirement of accumulated depreciation from a differing sub-account will not adversely affect the overall accumulated depreciation balance for rate base purposes.

Additionally, the utility's water and wastewater accumulated depreciation are overstated by \$16,161 (\$16,091+\$70) and understated by \$16,237 (\$16,091+\$146), respectively, as of December 31, 2003, because of the audit staff's adjustments discussed above and a recalculation of the effect of the adjustments during the 12-month period ended December 31, 2003. Accordingly, the utility's water and wastewater depreciation expenses are overstated by \$70 and understated by \$146, respectively, for the 12-month period ended December 31, 2003. See the audit staff's calculations on Schedule B that follows.

Schedule B for Exception No. 2

<i>Water UPIS</i>						
<u>Per Utility</u>	<u>Addition</u>	<u>Retire</u>	<u>Net</u>	<u>Dep. Rate</u>	<u>TY Dep. Exp</u>	<u>TY Acc. Dep.</u>
Acct. No. 101.304	\$28,877	(\$21,658)	\$7,219	3.70%	\$134	\$134
Acct. No. 101.331					0	0
					\$134	\$134
Acct. No. 108.304		\$21,658	\$1,658			
Acct. No. 108.331						
<u>Per Audit</u>	<u>Addition</u>	<u>Retire</u>	<u>Net</u>	<u>Dep. Rate</u>	<u>TY Dep. Exp</u>	<u>TY Acc. Dep.</u>
Acct. No. 101.304	\$7,422		\$7,422	3.70%	\$137	\$137
Acct. No. 101.331		(\$5,567)	<u>(5,567)</u>	2.63%	<u>(73)</u>	<u>(73)</u>
			\$1,855		\$64	\$64
Acct. No. 108.304						
Acct. No. 108.331		\$5,567	\$5,567			
<u>Audit Adjustment</u>	<u>Addition</u>	<u>Retire</u>	<u>Net</u>		<u>TY Dep. Exp</u>	<u>TY Acc. Dep.</u>
Acct. No. 101.304	\$(21,455)	\$21,658	\$203		\$3	\$3
Acct. No. 101.331		<u>(5,567)</u>	<u>(5,567)</u>		<u>(73)</u>	<u>(73)</u>
		\$16,091	(\$5,364)		\$(70)	\$(70)
Acct. No. 108.304		\$(21,658)	\$(21,658)			
Acct. No. 108.331		<u>5,567</u>	<u>5,567</u>			
		(\$16,091)	(\$16,091)			
<i>Wastewater UPIS</i>						
<u>Per Utility</u>	<u>Addition</u>	<u>Retire</u>	<u>Net</u>		<u>TY Dep. Exp</u>	<u>TY Acc. Dep.</u>
Acct. No. 101.354						
Acct. No. 101.380						
Acct. No. 108.380						
<u>Per Audit</u>	<u>Addition</u>	<u>Retire</u>	<u>Net</u>		<u>TY Dep. Exp</u>	<u>TY Acc. Dep.</u>
Acct. No. 101.354	\$21,455		\$21,455	3.70%	\$397	\$397
Acct. No. 101.380		(\$16,091)	<u>(16,091)</u>	3.13%	<u>(251)</u>	<u>(251)</u>
			\$5,364		\$146	\$146
Acct. No. 108.380		\$16,091	\$16,091			
<u>Audit Adjustment</u>	<u>Addition</u>	<u>Retire</u>	<u>Net</u>		<u>TY Dep. Exp</u>	<u>TY Acc. Dep.</u>
Acct. No. 101.354	\$21,455	\$0	\$21,455		\$397	\$397
Acct. No. 101.380		<u>(16,091)</u>	<u>(16,091)</u>		<u>(251)</u>	<u>(251)</u>
		(\$16,091)	\$5,364		\$146	\$146
Acct. No. 108.380		\$16,091	\$16,091			

<u>Audit staff's calculations above</u>	<u>Amount</u>	<u>Water</u>	<u>W/Water</u>
Capitalized operator time (COP)	\$3,680	\$946	\$ 2,734
Interest during construction (IDC)	297	76	221
Vendor invoice for water plant site fence	6,400	6,400	0
Vendor invoice for the wastewater plant site fence	<u>18,500</u>	<u>0</u>	<u>18,500</u>
Additions per audit staff	<u>\$28,877</u>	<u>\$7,422</u>	<u>\$21,455</u>
Retirement amount (75% of invoice per utility policy)	(\$21,658)	(\$5,567)	(\$16,091)

- 1) Retirements to UPIS and acc. dep. are calculated as discussed in Item No. 2 of audit staff's determinations.
- 2) Test year depreciation expense and accumulated depreciation are calculated using the half-year convention method.
- 3) COP, IDC and Acc. Dep. are allocated to water and wastewater based on the percentage of invoiced amounts.

Vendor invoice for water plant site fence	\$6,400	25.70%
Vendor invoice for the wastewater plant site fence	<u>18,500</u>	<u>74.30%</u>
	\$24,900	100.00%

Exception No. 3

Subject: Working Capital

Statement of Fact: The utility's filing reflects water and wastewater working capital balances of \$13,341 and \$20,226, respectively, as of December 31, 2003.

The above balances were calculated as one-eighth of the utility's water and wastewater operation and expense balances of \$106,727 and \$161,809, respectively, for the 12-month period ended December 31, 2003.

Recommendation: The utility's water and wastewater working capital balances are overstated by \$976 and understated by \$690 for the 12-month period ended December 31, 2003, because of specific audit staff adjustments in Exceptions Nos. 5 through 7 of this report. See the details that follow.

	<u>Water</u>	<u>Wastewater</u>
Working Capital per Utility	\$13,341	\$20,226
Audit Adjustment	<u>(976)</u>	<u>690</u>
Working Capital per Audit	\$12,365	\$20,916

	<u>Water</u>	<u>Wastewater</u>
O&M Expense per Utility	\$106,727	\$161,809
Exception No. 5	(4,494)	4,494
Exception No. 6	(514)	(1,471)
Exception No. 7	<u>(2,799)</u>	<u>2,499</u>
O&M Expense per Audit	\$98,920	\$167,331
Working Capital (1/8 of above)	\$12,365	\$20,916

Exception No. 4

Subject: Capital Structure

Statement of Fact: The utility's filing reflects a weighted average cost of capital of 9.11 percent as of December 31, 2003, with the following components and their respective weighted cost rates.

<u>Description</u>	<u>Total Capital</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Long-Term Debt	\$921,059	58.65%	7.32%	4.29%
Short-Term Debt	0			
Customer Deposits	0		6.00%	0.00%
Common Equity	634,521	40.41%	11.92%	<u>4.82%</u>
Accumulated Deferred Income tax	<u>14,791</u>	<u>0.94%</u>	0.00%	
Total	\$1,570,371	100.00%		9.11%

Rule 25-30.433 (11), F.A.C., states that a utility, in establishing an authorized rate of return on common equity, may use the current leverage formula adopted by Commission order. The equity return established shall be based on the equity leverage order in effect at the time the Commission decides the case.

Order No. PSC-04-0587-PAA-WS, issued June 10, 2004, established a minimum and maximum cost rate for common equity of 9.10 percent to 11.40 percent as of its issue date.

Recommendation: The utility's weighted average cost of capital is 8.86 percent as of December 31, 2003, based on the following audit staff determinations. See the audit staff's calculations on Schedule C that follows.

- 1) The utility failed to include an average short-term debt balance of \$8,229 as of December 31, 2003, in its cost of capital presentation above.
- 2) The utility used Commission Order No. PSC-03-0707-PAA-WS, issued June 13, 2003, to calculate a cost rate of 11.92 percent for its common equity rather than Order No. PSC-04-0587-PAA-WS cited above per the rule cited above.

Schedule C for Exception No. 4

Weighted Average Cost of Capital – Labrador Utilities, Inc.

<u>Class of Capital</u>	<u>Total Capital</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Long-Term Debt	\$916,249	58.35%	7.32%	4.27%
Short-Term Debt (a)	8,229	0.52%	4.95%	0.03%
Customer Deposits		0.00%	6.00%	0.00%
Common Equity (b)	631,101	40.19%	11.36%	4.57%
Accumulated Deferred Income tax	<u>14,791</u>	0.94%	0.00%	<u>0.00%</u>
Total	<u>\$1,570,370</u>			<u>8.86%</u>

Weighted Average Cost of Capital – Utilities, Inc. (Parent)

<u>Class of Capital</u>	<u>Average Balance as of 12/31/2003</u>	<u>Prorate Percent</u>	<u>Prorate Amount</u>	<u>Reconciled To Rate Base</u>
Long-Term Debt	\$116,577,077	58.90%	(\$115,660,827)	\$916,249
Short-Term Debt (a)	1,047,000	0.53%	(1,038,771)	8,229
Customer Deposits		0.00%		
Common Equity	80,296,821	40.57%	(79,665,720)	631,101
Accumulated Deferred Income tax	<u>14,791</u>			<u>14,791</u>
Total	<u>\$197,935,689</u>	<u>100.00%</u>	<u>(\$196,365,319)</u>	<u>\$1,570,370</u>

The rate base balance above does not include any of the audit staff's adjustments recommended in this report.

- a) The short-term debt balance of \$1,047,000 and cost rate of 4.95% were calculated using Utilities, Inc.'s general ledger balances and the interest rate requirements stated on the debt agreement. The overall interest cost rate was determined by dividing the total interest cost of \$51,871 by the average outstanding balance of \$1,047,000 as of December 31, 2003.
- b) The cost rate for common equity was determined using Order No. PSC-04-0587-WS mentioned above and calculated as 11.36 percent where the return on common equity is equal to 7.570 percent + 1.533 percent divided by an equity ratio of 40.410 percent.

Exception No. 5

Subject: Operation and Maintenance Expense (O&M) – Chemicals

Statement of Fact: The utility's filing reflects balances of \$4,984 and \$11,598 in Accounts Nos. 618, Chemicals and 718, Chemicals, respectively, for the 12-month period ended December 31, 2003.

The utility determined the above balances by allocating its total chemical cost of \$16,582 to water and wastewater operations based on the percentage of total revenues that each system recorded for the 12-month period ended December 31, 2003, as displayed below.

<u>System</u>	<u>Revenues</u>	<u>Ratio</u>	<u>Chemicals</u>
Water	\$53,512	30.06%	\$4,984
Wastewater	<u>124,514</u>	69.94%	<u>11,598</u>
Total	<u>\$178,026</u>		<u>\$16,582</u>

Recommendation: The utility's water and wastewater O&M expenses are overstated by \$4,494 and understated by \$4,494, respectively, for the 12-month period ended December 31, 2003, because it should have recorded its chemical expenses as direct charges to each specific operation.

The audit staff examined 100 percent of the utility's chemical expense invoices and determined the exact cost for each system as displayed on Schedule D that follows.

Schedule D for Exception No. 5

<u>NARUC</u>	<u>Company</u>	<u>Account Description</u>	<u>Invoice No.</u>	<u>Invoice Amt.</u>	<u>Water</u>	<u>W/Water</u>
618/718	6181010	11950*12315*Davis Su	503687	\$637.50	\$0.00	\$637.50
			504108	561.00	0.00	561.00
618/718	6181010	14322*12315*Davis Su	504362	880.80	0.00	880.80
			504574	749.70	0.00	749.70
			504735	426.70	0.00	426.70
			504979	583.95	0.00	583.95
			505143	348.50	0.00	348.50
618/718	6181010	17391*12315*Davis Su	505519	870.40	0.00	870.40
			505758	453.05	0.00	453.05
			505759	140.00	140.00	0.00
			505831	291.55	0.00	291.55
618/718	6181010	19803*12315*Davis Su	506168	882.30	0.00	882.30
			506470	717.40	0.00	717.40
			506514	140.00	140.00	0.00
618/718	6181010	22242*12315*Davis Su	506831	809.00	0.00	809.00
			507209	385.05	0.00	385.05
618/718	6181010	24126*12315*Davis Su	507501	416.50	0.00	416.50
			507747	268.60	0.00	268.60
			507931	310.25	0.00	310.25
			508104	300.05	0.00	300.05
618/718	6181010	26654*12315*Davis Su	508264	274.55	0.00	274.55
			508469	772.65	0.00	772.65
			508620	249.05	0.00	249.05
618/718	6181010	29548*12315*Davis Su	508971	488.75	0.00	488.75
			509322	517.65	0.00	517.65
			509704	454.75	0.00	454.75
618/718	6181010	31791*12315*Davis Su	510065	484.50	0.00	484.50
			510066	210.00	210.00	0.00
			510405	434.35	0.00	434.35
618/718	6181010	34056*12315*Davis Su	510857	212.50	0.00	212.50
			511010	166.60	0.00	166.60
618/718	6181010	37057*12315*Davis Su	511300	425.00	0.00	425.00
			511560	340.00	0.00	340.00
618/718	6181010	39503*12315*Davis Su	511878	399.50	0.00	399.50
			512118	373.15	0.00	373.15
618/718	6181050	24173*12668*Momar In	A87084	92.96	0.00	92.96
618/718	6181090	12000*15027*Organic	1645	<u>513.56</u>	<u>0.00</u>	<u>513.56</u>
		Per Audit		\$16,581.82	\$490.00	\$16,091.82
		Per Utility		<u>\$16,581.82</u>	<u>\$4,983.95</u>	<u>\$11,597.87</u>
		Audit Adjustment		\$0.00	(\$4,493.95)	\$4,493.95

Exception No. 6

Subject: Operation and Maintenance Expense (O&M) – Purchased Power

Statement of Fact: The utility’s filing reflects balances of \$8,389 and \$27,427 in Accounts Nos. 615, Purchased Power and 715, Purchased Power, respectively, for the 12-month period ended December 31, 2003.

Recommendation: The utility’s water and wastewater O&M expenses are overstated by \$514 and \$1,471, respectively, for the 12-month period ended December 31, 2003, because they included out-of-period invoice amounts for purchased power. See the details below.

Water Plant – Meter No. 18323546V

Utility Ref. No.	Period of Service From/To		Amount	
013434	11/19/02	12/19/02	Purchased Power per Utility	\$8,387.57
			Remove out-of-period invoice	<u>(514.04)</u>
			Purchased Power per Audit	<u>\$7,873.53</u>

Wastewater Plant #1 - Meter No. 18323542v
Wastewater Plant #2 - Meter No. 21774071v

Lift Station #1 - Meter No. 93038258v
Lift Station #2 - Meter No. 18323545v

Utility Ref. No.	Period of Service From/To		Amount	
013435 013436 013437 013439	11/19/02	12/19/02	Purchased Power per Utility	\$27,426.52
			Remove out-of-period invoice	(34.53)
			Remove out-of-period invoice	(577.96)
			Remove out-of-period invoice	(593.41)
			Remove out-of-period invoice	<u>(264.69)</u>
			Purchased Power per Audit	<u>\$25,955.93</u>

The sum of four purchased power invoices removed above is \$1,470.59.

Exception No. 7

Subject: Operation and Maintenance Expense (O&M) – Materials and Supplies

Statement of Fact: The utility's filing reflects balances of \$8,689 and \$35,880 in Accounts Nos. 620, Materials and Supplies and 720, Material and Supplies, respectively, for the 12-month period ended December 31, 2003.

The utility determined the above balances using a combination of the three allocation methods displayed below.

<u>System</u>	<u>Revenues</u>		<u>Gross Plant</u>		<u>Actual</u>
Water	\$53,512	30.06%	\$531,792	28.04%	100.00%
Wastewater	<u>124,514</u>	69.94%	<u>1,364,934</u>	71.95%	100.00%
Total	\$178,026		\$1,896,726		

Recommendation: The utility's water and wastewater O&M expenses are overstated by \$2,799 and understated by \$2,499, respectively, for the 12-month period ended December 31, 2003, because of the following audit staff determinations. See the audit staff's calculations on Schedule E that follows.

- 1) The utility misclassified an invoice totaling \$1,327 for repairs to wastewater service lines to water operations.
- 2) The utility included two invoices totaling \$150 each for lake management services at Eagle Ridge Utilities, Inc., a subsidiary utility system in Lee County, which should be removed from Labrador's O&M expenses.
- 3) The utility included six invoices totaling \$5,250 for maintenance services that were allocated to its water and wastewater O&M expense accounts based on the gross plant percentage referenced above. The invoices were for services to mow the wastewater percolation pond and sprayfield sites. The entire amount should have been charged directly to its wastewater operations.

Schedule E for Exception No. 7

NARUC Acct. No	Utility Acct. No	Description	Invoice Total	Allocation Method	Utility		Adjustment		Audit	
					Water	W/Water	Water	W/Water	Water	W/Water
620	6759507	31786*14878*Ken's Bu	\$1,326.60	Actual	\$1,326.60	-	(\$1,326.60)	\$1,326.60	-	\$1,326.60
720	7758490	30144*12630*Floridag	150.00	Actual		150.00	-	(150.00)	-	-
720	7758490	33220*12630*Floridag	150.00	Actual		150.00	-	(150.00)	-	-
620/720	6759415	Se 5 A/P Accrual	550.00	Gross Plt.	154.21	395.79	(154.21)	154.21	-	550.00
620/720	6759415	25756*14878*Ken's Bu	550.00	Gross Plt.	154.21	395.79	(154.21)	154.21	-	550.00
620/720	6759415	32450*14878*Ken's Bu	550.00	Gross Plt.	154.21	395.79	(154.21)	154.21	-	550.00
620/720	6759415	35652*14878*Ken's Bu	550.00	Gross Plt.	154.21	395.79	(154.21)	154.21	-	550.00
620/720	6759415	35652*14878*Ken's Bu	2,500.00	Gross Plt.	700.93	1,799.07	(700.93)	700.93	-	2,500.00
620/720	6759415	37977*14878*Ken's Bu	550.00	Gross Plt.	154.21	395.79	(154.21)	154.21	-	550.00
			<u>\$6,876.60</u>		<u>\$2,798.56</u>	<u>\$4,078.04</u>	<u>(\$2,798.56)</u>		-	<u>\$6,576.60</u>

Exception No. 8

Subject: Taxes Other Than Income

Statement of Fact: The utility's filing reflects balances of \$8,965 and \$18,003 for taxes other than income, respectively, for the 12-month period ended December 31, 2003, as displayed below.

<u>System</u>	<u>Regulatory Assessment Fees</u>	<u>Payroll Taxes</u>	<u>Real Estate and Personal Property</u>	<u>Adjustments</u>	<u>Total</u>
Water	\$2,309	\$2,651	\$3,790	\$215	\$8,965
Wastewater	<u>5,373</u>	<u>2,638</u>	<u>9,728</u>	<u>264</u>	<u>18,003</u>
Total	<u>\$7,682</u>	<u>\$5,289</u>	<u>\$13,518</u>	<u>\$479</u>	<u>\$26,968</u>

The utility's filing explains that the \$479 adjustment above consists of \$356, \$178 to water and wastewater each, to correct its payroll tax balance and \$123, \$37 to water and \$86 to wastewater, to accrue regulatory assessment fees on an adjustment that increased water and wastewater revenues for the 12-month period ended December 31, 2003.

Recommendation: The utility's water and wastewater taxes other than income balances are understated by \$2,961 and \$7,563, respectively, for the 12-month period ended December 31, 2003, because of the following audit staff determinations. See the audit staff's calculations that follow.

- 1) The utility's regulatory assessment fees identified above were based on its calendar year 2002 revenues instead of its calendar year 2003 revenues. The utility's 2003 regulatory assessment fee returns reflect balances of \$2,460 and \$5,723 for water and wastewater operations for the 12-month period ended December 31, 2003.
- 2) The utility's real estate and personal property tax identified above is understated by \$10,023 because it includes three prior period entries that offset the actual personal property tax balance of \$23,541 for the 12-month period ended December 31, 2003. The prior period entries should be removed for rate case purposes.

<u>System</u>	<u>Regulatory Assessment Fees</u>	<u>Payroll Taxes</u>	<u>Real Estate and Personal Property</u>	<u>Adjustments</u>	<u>Total</u>
Water	\$2,309	\$2,651	\$3,790	\$215	\$8,965
W/Water	<u>5,373</u>	<u>2,638</u>	<u>9,728</u>	<u>264</u>	<u>18,003</u>
Total per Utility	\$7,682	\$5,289	\$13,518	\$479	\$26,968
Water	\$151	\$0	\$2,810	\$0	\$2,961
W/Water	<u>350</u>	<u>0</u>	<u>7,213</u>	<u>0</u>	<u>7,563</u>
Total Adjustment	\$501	\$0	\$10,023	\$0	\$10,524
Water	\$2,460	\$2,651	\$6,600	\$215	\$11,926
W/Water	<u>5,723</u>	<u>2,638</u>	<u>16,941</u>	<u>264</u>	<u>25,566</u>
Total per Audit	\$8,183	\$5,289	\$23,541	\$479	\$37,492

Disclosure No. 1

Subject: Adjustments to Utility-Plant-in-Service (UPIS)

Statement of Fact: The utility's filing reflects the following adjustments to its average water and wastewater UPIS balances as of December 31, 2003.

<u>UPIS Adjustment</u>	<u>Water</u>	<u>Wastewater</u>
UPIS – Pro Forma additions	\$135,800	\$164,158
Allocation of Water Service Corp. rate base	6,871	6,900
Removal of Labrador acquisition related cost	(15,288)	0
Allocation of Utilities, Inc. of Florida rate base	<u>(23,633)</u>	<u>23,633</u>
Total UPIS Adjustment	<u>\$103,750</u>	<u>\$194,691</u>

Recommendation: The utility's adjustments to its water and wastewater UPIS balances should be reduced by \$108,285 (\$5,007-\$113,292) for a total adjustment that reduces water UPIS by \$4,535 (\$103,750-\$108,285) and \$10,975 for a total adjustment that increases wastewater UPIS by \$183,716 (\$194,691-\$10,975), respectively, as of December 31, 2003, because of the following audit staff determinations. See the audit staff's calculations in Schedule F that follows.

- 1) The utility's adjustment above removes \$15,288 of acquisition-related costs from its books as of December 31, 2003. The adjustment should have removed the average 2003 acquisition cost balance of \$10,281 to be consistent with the average balance presentation for UPIS in its filing. The utility should reduce its UPIS adjustment by \$5,007 to reflect an average UPIS adjustment of \$10,281 to remove acquisition-related costs as of December 31, 2003. (\$15,288 - \$10,281 = \$5,007)
- 2) The utility's adjustment above includes pro forma additions of \$135,800 and \$164,158 to its water and wastewater UPIS for this rate proceeding. The utility's pro forma adjustment should be reduced by \$113,292 and \$10,975 based on the following audit staff findings
 - a) The audit staff requested supporting documentation for the utility's requested pro forma additions. Specifically, we requested copies of invoices, contractor estimates, third-party bids and utility designs.
 - b) The utility did not provide any supporting documentation for Construction Projects Nos. 106-0693-115-04-01, 106-0693-116-04-03 and 106-0693-116-04-04 which have estimated costs of \$83,566, \$10,674 and \$31,688, respectively. The utility provided one invoice for \$720 to support Construction Project No. 106-0693-115-04-02 which has an estimated cost of \$25,947. All unsupported construction project costs should be removed.
 - c) The three G/L additions to Accounts Nos. 311, 330 and 333 for \$4,662, \$2,076 and \$1,808, respectively, should have included retirement amounts of \$3,496, \$622 and \$381, respectively, based on the audit staff's review of utility records.
 - d) The actual cost for Construction Project 106-0693-116-04-01 was \$41,850 based on the audit staff's review of utility records, which is \$31,387 above the utility's estimated cost in the filing.

The corresponding effect of the audit staff's adjustments above on the utility's accumulated depreciation and depreciation expense balances is discussed in Disclosure No. 2 of this report.

Schedule F for Disclosure No. 1

<u>Acct. No.</u>	<u>Water Pro Forma Additions</u>	<u>Utility</u>	<u>Adjustment</u>	<u>Audit</u>
311	G/L Addition	\$4,662	(\$3,496)	\$1,166
330	G/L Addition	2,076	(622)	1,454
333	G/L Addition	1,808	(381)	1,428
334	G/L Addition	294	0	294
343	G/L Addition	169	0	169
310	106-0693-115-02-02	10,977	0	10,977
310	106-0693-115-03-01	6,302	0	6,302
311	106-0693-115-04-01	83,566	(83,566)	0
311	106-0693-115-04-02	<u>25,947</u>	<u>(25,227)</u>	<u>720</u>
Total Pro Forma Additions		<u>\$135,801</u>	<u>(\$113,292)</u>	<u>\$22,510</u>
<u>Acct. No.</u>	<u>Wastewater Pro Forma Additions</u>	<u>Utility</u>	<u>Adjustment</u>	<u>Audit</u>
343	G/L Addition	\$169	\$0	\$169
360	G/L Addition	3,806	0	3,806
361	G/L Addition (net of retirement)	1,510	0	1,510
380	G/L Addition (net of retirement)	14,624	0	14,624
355	106-0693-115-02-02	11,023	0	11,023
355	106-0693-116-03-02	72,982	0	72,982
380	106-0693-116-04-01	10,462	31,387	41,850
380	106-0693-116-04-02	7,220	0	7,220
380	106-0693-116-04-03	10,674	(10,674)	0
380	106-0693-116-04-04	<u>31,688</u>	<u>(31,688)</u>	<u>0</u>
Total Pro Forma Additions		<u>\$164,157</u>	<u>(\$10,975)</u>	<u>\$153,183</u>

Disclosure No. 2

Subject: Adjustments to Accumulated Depreciation (AD) and Depreciation Expense

Statement of Fact: The utility's filing reflects the following adjustments to its average water and wastewater AD balances as of December 31, 2003.

<u>AD Adjustment</u>	<u>Water</u>	<u>Wastewater</u>
Pro Forma additions	\$6,760	\$11,014
Allocation of Utilities, Inc. of Florida rate base	(7,160)	7,160
Other Adjustments	<u>4,590</u>	<u>58,899</u>
Total AD Adjustment	<u>\$4,190</u>	<u>\$77,073</u>

The utility's filing reflects the following adjustments to its water and wastewater depreciation expense balances for the 12-month period ended December 31, 2003.

<u>Dep. Expense Adjustment</u>	<u>Water</u>	<u>Wastewater</u>
Pro Forma additions	\$6,761	\$11,051
Allocation of Utilities, Inc. of Florida rate base	484	487
Other Adjustments	<u>(11,586)</u>	<u>(31,805)</u>
Total Dep. Expense Adjustment	<u>(\$4,341)</u>	<u>(\$20,304)</u>

The utility's Other Adjustments to accumulated depreciation and depreciation expense above are characterized as adjustments to restate its accumulated depreciation balance as of December 31, 2003, based on specific adjustments to remove non-regulated UPIS account balances and to recalculate the utility's accumulated depreciation balances since the date of transfer on May 31, 2002 through December 31, 2003.

Order No. PSC-03-0638-PAA-WS, required the utility to use the average service lives guideline rates prescribed by Rule 25-30-140, F.A.C., for all depreciation recorded after May 31, 2002.

Recommendation: The utility's adjustments to its water and wastewater AD balance should be increased by \$4,365 (\$9,882-\$5,517) for a total adjustment that increases water AD by \$8,555 (\$4,190+\$4,365) and reduced by \$25,789 (\$24,152+\$1,637) for a total adjustment that increases wastewater AD by \$51,284 (\$77,073-\$25,789), respectively, for the period ended December 31, 2003.

Correspondingly, the utility's adjustments to its water and wastewater depreciation expense balances should be increased by \$3,013 (\$5,517-\$2,504) for a total adjustment of \$7,355 (\$4,341+\$3,013) and reduced by \$6,016 (\$4,379+\$1,637) for a total adjustment of \$14,288 (\$20,304-\$6,016), respectively, for the 12-month period ended December 31, 2003, based on the following audit staff determinations.

Disclosure No. 2, continued

- 1) The audit staff recommended specific adjustments to the utility's UPIS pro forma additions in Disclosure No. 1 of this report that require corresponding adjustments to its accumulated depreciation and depreciation expense balances.
- 2) The audit staff incorporated Rule 25.30.140, F.A.C., depreciation rates per the Order cited above to recalculate all of the utility's accumulated depreciation and depreciation expense adjustments.

See the audit staff calculations in Schedules G-I that follow.

Schedule G for Disclosure No. 2

Adjustments for Pro Forma Additions

<u>Acct. No.</u>	<u>Water Pro Forma Additions</u>	<u>Rule Dep. Rate</u>	<u>UPIS Audit</u>	<u>Accumulated Dep. & Dep. Expense</u>		
				<u>Audit</u>	<u>Adjustment</u>	<u>Utility</u>
311	G/L Addition	5.88%	\$1,166	\$69	(\$164)	\$233
330	G/L Addition	3.03%	1,454	44	(12)	56
333	G/L Addition	3.03%	1,428	43	(2)	45
334	G/L Addition	5.88%	294	17	2	15
343	G/L Addition	6.67%	169	11	0	11
310	106-0693-115-02-02	5.88%	10,977	646	36	610
310	106-0693-115-03-01	5.88%	6,302	371	56	315
311	106-0693-115-04-01	5.88%	0	0	(4,178)	4,178
311	106-0693-115-04-02	5.88%	<u>720</u>	<u>42</u>	<u>(1,255)</u>	<u>1,297</u>
Total Water Pro Forma Additions			<u>\$22,510</u>	<u>\$1,243</u>	<u>(\$5,517)</u>	<u>\$6,760</u>

<u>Acct. No.</u>	<u>W/Water Pro Forma Additions</u>	<u>Rule Dep. Rate</u>	<u>UPIS Audit</u>	<u>Accumulated Dep. & Dep. Expense</u>		
				<u>Audit</u>	<u>Adjustment</u>	<u>Utility</u>
393	G/L Addition	6.67%	\$169	\$11	\$0	\$11
360	G/L Addition	3.70%	3,806	141	14	127
361	G/L Addition (net of retirement)	2.50%	1,510	38	4	34
380	G/L Addition (net of retirement)	6.67%	14,624	975	162	813
355	106-0693-115-02-02	5.88%	11,023	648	35	613
355	106-0693-116-03-02	5.88%	72,982	4,293	(1,789)	6,082
380	106-0693-116-04-01	6.67%	41,850	2,790	2,389	401
380	106-0693-116-04-02	6.67%	7,220	481	(112)	593
380	106-0693-116-04-03	6.67%	0	0	(1,760)	1,760
380	106-0693-116-04-04	6.67%	<u>0</u>	<u>0</u>	<u>(581)</u>	<u>581</u>
Total W/Water Pro Forma Additions			<u>153,184</u>	<u>\$9,377</u>	<u>(\$1,637)</u>	<u>\$11,014</u>

- Per audit UPIS balances from the audit staff's adjustments recommended in Disclosure No. 2 of this report.
- Per audit accumulated depreciation and depreciation expense balances calculated using UPIS audit balance times the respective rule depreciation rate.
- Utility balances from utility-provided schedules.

Schedule H for Disclosure No. 2

<u>Water Accumulated Dep.</u>	<u>Utility (a)</u>	<u>Adjustment</u>	<u>Audit</u>
Acc. Dep. Balance as of Dec. 31, 2002 (b)	\$102,785	\$1,200	\$103,985
Less: Org. Cost on Acc. Dep.	(38)	0	(38)
Acc. Dep. Balance as of Dec. 31, 2003 (b)	118,791	3,704	122,495
Less: Acc. Dep. on Organization Cost	(295)	0	(295)
Total	221,243	4,904	226,147
Divided by 2	/2	/2	/2
Average Acc. Dep. as of Dec. 31, 2003	110,622	2,452	113,074
Per Books and MFR Filing as of Dec. 31, 2003	<u>106,032</u>	0	<u>106,032</u>
Adjustment to 2003 balance	4,590	2,452	7,042
Add Back UIF Allocation (c)	0	<u>7,430</u>	<u>7,430</u>
Final Adjustment as of Dec. 31, 2003	<u>\$4,590</u>	<u>\$9,882</u>	<u>\$14,472</u>
<u>Water Dep. Expense</u>	<u>Utility</u>	<u>Adjustment</u>	<u>Audit</u>
Total Dep. Expense (b)	\$16,006	\$2,504	\$18,510
Less: Org Cost Dep. Expense	(257)	0	(257)
Adj. Dep. Expense	15,749	2,504	18,253
Per Books	<u>27,335</u>	0	<u>27,335</u>
Final Adjustment	<u>(\$11,586)</u>	<u>\$2,504</u>	<u>(\$9,082)</u>

- a) The utility balances are from utility-provided schedules.
- b) The adjustments are due to differing depreciation rates applied by the utility and the audit staff and a footing error on the utility-provided schedule.
- c) The utility's accumulated depreciation adjustment schedule eliminates the allocated accumulated depreciation from UIF. The audit staff's adjustment adds it back.

Schedule I for Disclosure No. 2

<u>Wastewater Accumulated Dep.</u>	<u>Utility (a)</u>	<u>Adjustment</u>	<u>Audit</u>
Acc. Dep. Balance as of Dec. 31, 2002 (b)		\$309,283	\$309,283
Less: Org. Cost on Acc. Dep.		0	0
Acc. Dep. Balance as of Dec. 31, 2003 (c)	361,849	4,263	366,112
Less: Acc. Dep. on Organization Cost	0	0	0
Total	361,849	313,546	675,395
Divided By 2			2
Average Acc. Dep. as of Dec. 31, 2003	361,849	(24,152)	337,698
Per Books and MFR Filing as of Dec. 31, 2003	302,950	0	302,950
Adjustment to 2003 balance	<u>\$58,899</u>	<u>(\$24,152)</u>	<u>\$34,748</u>
<u>Wastewater Dep. Expense</u>	<u>Utility</u>	<u>Adjustment</u>	<u>Audit</u>
Total Dep. Expense (c)	\$52,450	\$4,379	\$56,829
Less: Org Cost Dep. Expense	0	0	0
Adj. Dep. Expense	52,450	4,379	56,829
Per Books	84,255	0	84,255
Adjustment to 2003 balance	<u>(\$31,805)</u>	<u>\$4,379</u>	<u>(\$27,426)</u>

- a) The utility balances are from utility-provided schedules.
- b) The utility's wastewater accumulated depreciation adjustment schedule did not include a balance for 12/31/2002, for averaging purposes.
- c) The adjustments are due to differing depreciation rates applied by the utility and the audit staff.

Disclosure No. 3

Subject: Operation and Maintenance Expense (O&M) – Purchased Power

Statement of Fact: In May 2004, upon completion of several electric service modifications at the wastewater treatment plant, the utility consolidated its account with the Withlacoochee River Electric Cooperative from two to one electric power meter.

Prior to the consolidation, the utility was billed under two different rate structures at the wastewater plant.

- 1) Meter No. 18323542V included Kw demand charges in addition to the standard Kw charge.
- 2) Meter No. 21774071V included a standard Kw charge only.

After the consolidation, the utility was billed under one rate structure.

- 1) Meter No. 18323535V includes Kw demand charge in addition to the standard Kw charge.

Recommendation: The staff engineer in Tallahassee should be requested to determine the effect of the above changes in the wastewater plant power meter system on the utility's wastewater purchased power expenses on a going forward basis.

The audit staff obtained and calculated the following information displayed on Schedule J from utility records to aid in the above-requested analysis.

The audit staff's analysis of the three-month period since the electric meters were consolidated indicates that the average Kw demand charge increased an average of 27 Kw per month (42-15) over the same three-month period for the prior year. The average Kw demand increase, if appropriate, would suggest an increase of \$231 (42Kw x \$5.50) monthly or \$2,772 (\$231 x 12 months) annually to the utility's wastewater purchased power expense may be warranted.

Schedule J for Disclosure No. 3

Three-Month Period After Consolidation – Year 2004

WWTP - Meter No. 18323535v					
<u>Ref#</u>	<u>Period From/To</u>		<u>Kw</u>	<u>Kw Demand</u>	<u>Amount</u>
056149	6/21/04	7/21/04	21,233	37	\$1,453.65
053665	5/19/04	6/21/04	21,147	39	1,386.12
051489	M/C	5/19/04	<u>14,680</u>	<u>51</u>	<u>1,114.91</u>
3-Month Total			57,060	127	\$3,954.68
3-Month Average			19,020	42	\$1,318.23
3-Month Average Demand Charge				42 X \$5.50	<u>(\$231.00)</u>
3-Month Average Kw Charge					\$1,087.23
Average Kw Charge				\$1,087/19,020	\$0.0572

Three-Month Period Prior to Consolidation – Year 2003

WWTP#1 & WWTP#2 – Meters Nos. 18323542ZV and 21774071V					
<u>Ref#</u>	<u>Period From/To</u>		<u>Kw</u>	<u>Kw Demand</u>	<u>Amount</u>
028758	6/19/03	7/22/03	8,062		\$661.80
026416	5/20/03	6/19/03	7,470		613.97
024270	4/21/03	5/20/03	7,233		594.82
028757	6/19/03	7/22/03	14,331	26	933.99
026415	5/20/03	6/19/03	14,705	24	1,198.27
024269	4/21/03	5/20/03	<u>13,943</u>	<u>38</u>	<u>986.11</u>
3-Month Total			65,744	88	\$4,988.96
3-Month Average			21,915	15	\$1,662.98
3-Month Average Demand Charge				15 X \$5.50	<u>(\$82.50)</u>
3-Month Average Kw Charge					\$1580.48
Average Kw Charge				\$1,580/21,915	\$0.0721

EXHIBIT I

(Revised August 2, 2004)

Schedule of Water Rate Base

Florida Public Service Commission

Company: Labrador Utilities, Inc.
Docket No.: 030443-SU
Schedule Year Ended: December 31, 2003
 Interim [] Final [X]
 Historic [X] Projected []

Schedule: A-1
Page 1 of 1
Preparer: Lubertozi, Steven

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use. If method other than formula approach (1/8 O&M) is used to determine working capital, provide additional schedule showing detail calculation.

(1)	(2)	(3)	(4)	(5)	
Line No.	Description	Balance Per Books	A-3 Utility Adjustments	Adjusted Utility Balance	Supporting Schedule(s)
1	Utility Plant in Service	\$ 471,086	\$ 103,751 A,D,E&G	\$ 574,837	A-5, A-3
2	Utility Land & Land Rights				A-5
3	Less: Non-Used & Useful Plant		- B		A-7, A-3
4	Construction Work in Progress	24,313	(24,313)		A-18, A-3
5	Less: Accumulated Depreciation	(106,032)	(4,190) C,H&I	(110,222)	A-9, A-3
6	Less: CIAC	-	-	-	A-12
7	Accumulated Amortization of CIAC	-	-	-	A-14
8	Acquisition Adjustments	-	-	-	A-18, A-3
9	Accum. Amort. of Acq. Adjustments	-	-	-	A-18, A-3
10	Advances For Construction	-	-	-	A-16
11	Working Capital Allowance	-	13,341 F	13,341	A-17, A-3
12	Total Rate Base	\$ 389,367	\$ 88,588	\$ 477,955	

EXHIBIT II

(Revised August 2, 2004)

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Labrador Utilities, Inc.
 Docket No.: 030443-SU
 Schedule Year Ended: December 31, 2003
 Interim [] Final [X]
 Historic [X] Projected []

Schedule: A-2
 Page 1 of 1
 Preparer: Lubertozzi, Steven

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments. All non-used and useful items should be reported as Plant Held For Future Use. If method other than formula approach (1/8 O&M) is used to determine working capital, provide additional schedule showing detail calculation.

(1)	(2)	(3)	(4)	(5)	
Line No.	Description	Balance Per Books	A-3 Utility Adjustments	Adjusted Utility Balance	Supporting Schedule(s)
1	Utility Plant In Service	\$ 1,257,522	\$ 194,691 A,D&G	\$ 1,452,213	A-6, A-3
2	Utility Land & Land Rights			-	A-6
3	Less: Non-Used & Useful Plant	-	- B		A-7, A-3
4	Construction Work in Progress	28,861	(28,861)	-	A-18
5	Less: Accumulated Depreciation	(302,950)	(77,073) C,H&I	(380,023)	A-10, A-3
6	Less: CIAC	-	-	-	A-12
7	Accumulated Amortization of CIAC	-	-	-	A-14, A-3
8	Acquisition Adjustments	-	-	-	A-18, A-3
9	Accum. Amort. of Acq. Adjustments	-	-	-	A-18, A-3
10	Advances For Construction	-	-	-	A-16
11	Working Capital Allowance	-	20,226 F	20,226	A-17, A-3
12	Total Rate Base	\$ 983,433	\$ 108,982	\$ 1,092,415	

EXHIBIT III

(Revised August 2, 2004)'

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Labrador Utilities, Inc.
 Docket No.: 030443-SU
 Test Year Ended: December 31, 2003
 Interim [] Final [X]
 Historic [X] or Projected []

Schedule: B-1
 Page 1 of 1
 Preparer: Lubertozi, Steven

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$ 54,659	\$ 822 K[38]	\$ 55,481	\$ 144,477 F	\$ 199,958	B-4, E-2
2	Operation & Maintenance	104,012	(12,337) B,L&M	91,675	12,542 G	104,217	B-5, B-3
3	Depreciation, net of CIAC Amort.	27,335	(4,341) C	22,994		22,994	B-13, B-3
4	Amortization	(7,029)	7,029			-	B-3
5	Taxes Other Than Income	8,750	215 D&K[41]	8,965	6,501 H	15,466	B-15, B-3
6	Provision for Income Taxes	(16,976)	16,976 E	-	13,752 I	13,752	C-1, B-3
7	OPERATING EXPENSES	<u>116,092</u>	<u>7,541</u>	<u>123,633</u>	<u>32,795</u>	<u>156,429</u>	
8	NET OPERATING INCOME	\$ (61,433)	\$ (6,719)	\$ (68,152)	\$ 111,681	\$ 43,529	
9	RATE BASE	\$ 389,367		\$ 477,955		\$ 477,955	
10	RATE OF RETURN	<u>-15.78%</u>		<u>-14.26%</u>		<u>9.11%</u>	

EXHIBIT IV

(Revised August 2, 2004)

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Labrador Utilities, Inc.
 Docket No.: 030443-SU
 Test Year Ended: December 31, 2003
 Interim [] Final [X]
 Historic [X] or Projected []

Schedule: B-2
 Page 1 of 1
 Preparer: Lubertozzi, Steven

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s)
1	OPERATING REVENUES	\$ 127,177	\$ 1,918 K[38]	\$ 129,095	\$ 260,380 F	\$ 389,475	B-4, E-2
2	Operation & Maintenance	159,685	(7,650) B,L&M	152,035	12,597 G	164,632	B-6, B-3
3	Depreciation, net of CIAC Amort.	84,255	(20,304) C	63,951		63,951	B-14, B-3
4	Amortization	231	(231)			-	B-3
5	Taxes Other Than Income	17,739	264 D&K[41]	18,003	11,717 H	29,720	B-15, B-3
6	Provision for Income Taxes	(27,326)	27,326 E	-	31,611 I	31,611	C-1, B-3
7	OPERATING EXPENSES	234,584	(595)	233,989	55,925	289,914	
8	NET OPERATING INCOME	\$ (107,407)	\$ 2,513	\$ (104,894)	\$ 204,455	\$ 99,561	
9	RATE BASE	\$ 983,433		\$ 1,092,415		\$ 1,092,415	
10	RATE OF RETURN		-10.92%		-9.60%	9.11%	

EXHIBIT V

(Revised August 2, 2004)

**Schedule of Requested Cost of Capital (Final Rates)
Beginning and End of Year Average**

Florida Public Service Commission

Company: Labrador Utilities, Inc.
Docket No.: 030443-SU
Test Year Ended: December 31, 2003
Schedule Year Ended: December 31, 2003
Historic [X] or Projected []

Schedule: D-1
Page 1
Preparer: Lubertozi, Steven

Subsidiary [] or Consolidated [X]

Explanation: Provide a schedule which calculates the requested Cost of Capital on a beginning and end of year average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations.

Line No.		(1)	(2)	(3)	(4)
		Total Capital	Ratio	Cost Rate	Weighted Cost
1	Long-Term Debt	921,059	58.65 %	7.32 %	4.29 %
2	Short-Term Debt	-			
3	Preferred Stock				
4	Customer Deposits	-		6.00	0.00
5	Common Equity	634,521	40.41	11.92	4.82
6	Tax Credits - Zero Cost				
7	Accumulated Deferred Income Tax	14,791	0.94	-	
8	Other (Explain)				
9	Total	1,570,371	100.00 %		9.11 %

10 Note: Cost of Equity based on leverage formula in effect pursuant to Order No. PSC-03-0707.