BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for rate increase in Pasco County by Labrador Utilities, Inc.	DOCKET NO. 030443-WS ORDER NO. PSC-04-1281-PAA-WS ISSUED: December 28, 2004

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

NOTICE OF PROPOSED AGENCY ACTION
ORDER ESTABLISHING WATER AND WASTEWATER REVENUE REQUIREMENTS AND RATES FOR LABRADOR UTILITIES, INC.

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature, except our decisions to reduce rates after the four-year period for amortization of rate case expense and to require proof of compliance with the adjustments ordered herein, 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.

I. BACKGROUND

Labrador Utilities, Inc. (Labrador or utility) is a Class B water and wastewater utility located approximately one mile east of Zephyrhills, in Pasco County. Labrador is a subsidiary of Utilities, Inc. (UI) that provides service to 903 customers in the Forest Lake Estates Mobile Home Park (MH Park) and to the Forest Lake R.V. Resort (RV Resort). For the year ended December 31, 2003, the utility's total revenues were $181,836, with a total operating loss of $162,305.

On October 27, 2003, the utility filed an application for approval of an interim rate increase pursuant to Section 367.082, Florida Statutes. By Order No. PSC-04-0200-PCO-WS, issued February 24, 2004, in this docket, we approved an interim rate increase of $141,117 (267.67%) for water and $146,292 (117.95%) for wastewater based on the historical test year ended June 30, 2003.

On June 30, 2004, the utility filed its application for a final rate increase pursuant to Sections 367.081 and 367.082, Florida Statutes, and requested that we process its petition under our proposed agency action (PAA) procedure. The information submitted by the utility did not satisfy the minimum filing requirements (MFRs) for a general rate increase. Subsequently, on August 3, 2004, the utility satisfied the MFRs for a general rate increase. Thus, the official filing date for this case was established as August 3, 2004. By Order No. PSC-04-0719-PCO-WS, issued July 23, 2004, we granted intervenor status to Forest Lake Estates Co-Op, Inc. (Co-Op).[1]

The test year for setting final rates is the historical year ended December 31, 2003. Labrador has requested annual water and wastewater revenues of $199,958 and $389,475, respectively. This represents an increase of $144,477 (260.41%) for water and $260,380 (201.70%) for wastewater.

This order disposes of Labrador's application for a final rate increase and establishes the revenue requirements and rates to be applied by Labrador on a prospective basis. We have jurisdiction pursuant to Chapter 367, Florida Statutes, including Sections 367.081 and 367.082.

II. QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), Florida Administrative Code, we must determine the utility's overall quality of service in every water and wastewater rate case by evaluating (1) the quality of the product, (2) the operating conditions of the plant and facilities, and (3) the utility's attempt to address customer satisfaction.

A. Quality of the Utility's Product

Based on our staff's review of records of the utility and the Department of Environmental Protection (DEP) and based on our staff's communications with DEP staff, it appears that the finished products of Labrador's water and wastewater plants comply with regulatory standards. Thus, we find that the quality of the finished product of Labrador's water and wastewater treatment plants is satisfactory.

B. Operating Condition of the Utility's Water and Wastewater Facilities

Based on our staff's field inspection and other investigations, the utility's plants and its distribution and collection systems appear to comply with DEP environmental regulatory standards. DEP's staff indicated that as of August 24, 2004, the utility needed minor improvements in several areas related to its wastewater facilities. The utility's representative later indicated that all of the deficiencies listed by DEP had been corrected. On October 25, 2004, an inspector at DEP confirmed that the utility had completed all of the improvements. Thus, we find that the operating condition of the utility's water and wastewater facilities is satisfactory.

C. Utility's Attempt to Address Customer Satisfaction

On August 24, 2004, our staff conducted a customer meeting in Zephyrhills, Florida, at the Forest Lake Estates Clubhouse. Just prior to the customer meeting, our staff met with several members of the Co-Op and the Forest Lake Estates Non-Shareholder Homeowners' Association.

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[1] Forest Lake Estates Co-Op, Inc. represents the RV Resort and several homeowners in the MH Park.

During that meeting, customers expressed concerns regarding consumption-based rates, the level and fairness of interim rates, the seasonality of the residents, the method of calculation of any interim refund, the distribution of rates between the MH Park residents compared to the RV Resort, the reported consumption listed on bills, meter reading, the utility's response time to customer complaints, and odor from the wastewater treatment plant. Our staff explained how we determine interim rates and how interim refunds are made. Our staff also discussed the manner in which consumption-based rates are set.

Over 250 persons attended the customer meeting held that evening, and twenty-seven people spoke. At the meeting, our staff explained the Commission's ratesetting process, then addressed comments from the customers. The main concerns expressed at the customer meeting dealt with wastewater plant odor, water consumption and meter readings, the utility's response to customer complaints, and the level of the utility's final requested increase. We address the customer's concerns below.

Plant Odor

One customer complained of odors coming from the wastewater treatment plant. On two separate occasions, our staff visited the wastewater facilities. Our staff reported that on each occasion there were no strong odors emanating from the wastewater plant. Based on our staff's inspection, it appears that the odors were consistent with the normal odors that would be encountered when one is close to any wastewater treatment plant.

Water Consumption and Meter Readings

Many customers complained about inaccurate levels of consumption listed on their bills and meter readings. Several customers provided utility bills that indicated zero usage for a month when the customers used the water service regularly. Customers also had concerns about the utility's meter reading personnel. Several customers stated that the water consumption shown on their bills was much higher than what they thought they had used. Two customers questioned whether their meters were read properly because the meter sight glass was covered with dirt or the meter was underwater.

The morning after the customer meeting, our staff and utility personnel visited several homes and looked at the meters. Our staff visited the home with the dirt-covered meter and found that with a sweep of the hand across the sight glass, the dirt was removed and the meter was easily read. Our staff also visited a home where the meter was underwater. The utility personnel pumped the water out and stated that water covering a meter is not uncommon when the water table is high or a sprinkler system is used just before the meter is read. The meter readers carry portable pumps to use where water is present. Additionally, they check to see if the water appears to be ground water or a symptom of leaking water pipes.

Regarding the complaints about inaccurate meter readings and consumption levels, the utility responded that because it has always had flat rates, inaccuracies often went unchecked in the billing system. This also impacted the reported level for excess unaccounted water. For its systems with measured rates, Utilities, Inc. normally generates a variance report on unusual or excessive consumption levels. Utilities, Inc. also relies on customer contact for feedback on questionable billings. In the Labrador system, the utility has been unable to generate this monthly variance report. Further, as soon as consumption-based rates are implemented, the utility states that this report will be produced and reviewed each month.

Our staff also requested that the utility investigate the meter and consumption complaints by testing a representative sample of meters at homes in the service area. The utility was to perform 5-gallon bucket tests on 53 meters chosen by our staff, representing 4% of the customer base. As a result of the tests, the utility acknowledged that there were 3 inaccurate meters, which the utility replaced. The utility also discovered that 3 meters were installed backwards by the prior owner, and the utility reinstalled the meters properly. The utility was unable to test 6 meters because the water was shut-off inside the residence. Thus, of the 47 meters tested, only 41 were accurate, which correlates to a 13% error rate for the sample. We believe that this error rate could be indicative of a system-wide problem. Accordingly, we order Labrador to develop a plan and test all of its meters by June 30, 2005, and make any necessary repairs or adjustments. Pursuant to Rule 25-30.267, Florida Administrative Code, the utility shall maintain a log of all meters tested. Further, we require 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 shall be filed with this Commission by April 15, July 15, and October 15, 2005.

Response to Customer Complaints

One customer stated that the utility did not promptly address customer complaints. To investigate this concern, our staff reviewed the customer complaint logs of the utility, DEP, and this Commission. In its MFRs, the utility listed 17 customer complaints that were received by the utility during the test year. Those complaints related to low water pressure, odor, no water service, wastewater backups or clogged lines needing repair, sand draining down the street, fill dirt needed for repairs, and a lift station alarm sounding. Based on our staff's review of the utility's records, it appears that the complaints were handled in a proper and timely manner. In reviewing DEP's records, our staff found no customer complaints on file.

This Commission's records indicate that 10 complaints were received from the utility's customers during the last three years (January, 2002 to October, 2004). The complaints received in early 2002 related to excess chlorine and low water pressure. We note that these complaints were handled timely by the utility, but were filed prior to the purchase of the system by Utilities, Inc. in May, 2002. The remaining six complaints were filed in 2004. One dealt with a water outage, in which the customer stated that he received no notice for boil water requirements. Based on our staff's review of the utility's response, it appears that the utility properly notified DEP, as well as the customers, of the boil water requirements. The other five complaints related to the interim rate increase and the reported consumption data reflected on the bills. Of the six complaints filed in 2004 with the Commission, we note that the utility responded late to three and failed to respond to one.

Our staff contacted the utility regarding the late responses to customer complaints. By e-mail dated November 18, 2004, the utility stated that due to administrative oversights, the responses to these complaints were not filed with this Commission by the due date. On a going-forward basis, the utility has created a filing system to track all Commission complaints received. Further, the utility stated that two employees will check the log daily to ensure that responses are filed on time. Labrador has assured us that they will take these steps to timely file any required responses to Commission complaints.

While the utility has not promptly responded to the customer complaints that it has received in 2004, we are satisfied with its efforts taken to ensure prompt responses in the future. Further, we note that there have only been ten complaints filed with this Commission in the last three years, and none were filed in 2003. With the utility's assurance that future responses will be provided on a timely basis, we find that the utility's response to customer complaints is satisfactory.

III. RATE BASE

A. Adjustments to Plant

Our staff's auditors reviewed the utility's rate base accounts to determine the appropriate balances for 2003 and pro forma 2004 plant at the end of the year. The audit report contained several recommended adjustments, the majority of which the utility agreed to make. Listed below are the adjustments per the audit, additional adjustments we find necessary, and the total we find necessary.

Miscellaneous Plant

In Audit Exceptions No. 1 and 2, our auditors recommended several adjustments to remove misclassified plant and unsupported plant, particularly all of the reported transportation plant. The utility agreed that adjustments should be made to these accounts, with the exception of a $534 reduction to transportation plant. The utility submitted an invoice to support this plant item, but the invoice amount did not agree with the $534 amount charged to Labrador. As such, we find that the total transportation equipment account was unsupported. We note that our auditor did not allocate the adjustment to transportation equipment between water and wastewater. Thus, we have reflected the proper allocation in the adjustment we approve herein. Below are the average adjustments we find necessary, which are reflected as adjustments to rate base. The year-end adjustments are shown to allow the utility to correct its books.

Miscellaneous Plant –Exceptions No. 1 and 2	Year End Adjustment	Average Adjustment
Plant – Water	($21,510)	($16,684)
Plant – Wastewater	($3,972)	($6,654)
Accumulated Depreciation – Water	($6,756)	($1,628)
Accumulated Depreciation – Wastewater	$20,610	$11,954
Depreciation Expense – Water	($3,680)	$0
Depreciation Expense – Wastewater	($559)	$0

Pro forma 2004 Plant Additions

In its MFRs, the utility requested pro forma plant additions of $135,801 for water and $164,157 for wastewater. In Audit Disclosures No. 1 and 2, our auditors recommended adjustments to reflect actual costs above those projected, and removed those projects that were improperly supported. Our auditors recommended total pro forma plant additions of $22,510 for water and $153,183 for wastewater. In addition, our auditors stated that the utility should have included retirements to Account Nos. 311, 330, and 333, for the 2004 pro forma plant improvements. The utility agreed that retirements should be made to these accounts.

Our staff asked the utility to provide a detailed description of each pro forma plant item, including its purpose, a statement as to why it should be considered in this rate case, copies of all signed contracts directly related to the addition of each plant project, and the projected in-service date for each project. In its response, the utility included a description, justification, projected cost, and expected completion date for each project. We note that the utility requested recovery of 17 pro forma plant additions of which 13 are in service and four are projected to be completed in January, 2005.

In consideration of the utility's response, we find that the utility's requested pro forma plant additions are reasonable and prudent. We note that none of the pro forma plant additions are required by DEP. These additions appear to be normal recurring plant items. Further, we believe that to add only plant and accumulated depreciation related to the pro forma plant on a year-end basis ignores the additional year of depreciation received from the 2003 plant carried forward to 2004. We find that it is reasonable to allow recovery of the 2004 pro forma plant and accumulated depreciation, but those amounts should be reflected on an average basis. Further, the incremental depreciation on 2003 additions shall be included in accumulated depreciation. We believe that this is a fair presentation because the utility has little growth, the plant additions appear prudent, and the additional year of depreciation expense funded by rates has been reflected. The adjustments we find necessary are shown below:

Pro forma Plant Additions – Disclosure No. 1 & 2	P/F per Utility	P/F per Commission	Required Adjustments
Pro forma Plant – Water	$135,800	$65,651	($70,150)
Pro forma Plant – Wastewater	$164,158	$97,760	($66,372)
Accumulated Depreciation – Water	($6,761)	$1,149	$7,910
Accumulated Depreciation – Wastewater	($11,015)	($5,133)	$5,882
Depreciation Expense – Water	$6,761	$3,148	($3,613)
Depreciation Expense – Wastewater	$11,015	$5,133	($5,882)

Summary

Below is a summary of the adjustments to plant, accumulated depreciation, and depreciation expense that we find necessary:

	Plant	Accumulated Depreciation	Depreciation Expense
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

B. Adjustments to Common Plant Allocations

Water Services Corporation (WSC) is a Utilities, Inc. (UI) subsidiary that provides administrative services to UI's operating subsidiaries. WSC allocates common rate base and expenses based primarily on customer equivalents (CEs), but does utilize other methodologies to allocate computer costs and insurance expenses. Utilities, Inc. of Florida (UIF) also allocates common plant and accumulated depreciation based on a percentage of Labrador's CEs to total Florida CEs.

In its MFRs, the utility reflected allocated WSC rate base of $6,871 for water and $6,900 for wastewater. The allocation of UIF common plant and accumulated depreciation was $14,025 and $3,706, respectively, for water, and $14,086 and $3,723, respectively, for wastewater. We find that adjustments are necessary to these allocations, as discussed forth below.

WSC

First, we find that UI overstated the number of CEs for Labrador and its other Florida subsidiaries. CEs are calculated by multiplying the number of customers for each system by a customer factor. The utility uses a factor of 1.0 for a water or wastewater-only customer and 1.5 for a water and wastewater customer. Using this methodology, UI determined Labrador's 2003 CEs to be 1,757 (1,171 customers multiplied by 1.5). After reviewing the utility's methodology, we believe that the utility erred in counting Labrador's customers. The utility counted the RV Resort as 274 customers, because the utility bills the RV Resort based on the number of lots under the current rate structure. However, service is provided to the 274 lots of the RV Resort through one 6-inch master-meter. Instead of counting lots behind the meter, we find it more reasonable to use meter equivalents prior to applying the utility's customer factor. Thus, the RV Resort shall be counted as 50 ERCs, which is the meter equivalency factor for a 6-inch meter pursuant to Rule 25-30.055(1)(b), Florida Administrative Code.

Additionally, the utility erred by exclusively using the 1.5 factor, because the utility services some water-only customers. In its annual report, Labrador reflects 972 water meter equivalents and 947 wastewater meter equivalents. To properly spread costs to customers and calculate the proper CEs, we find that the utility shall use factors of 1.5 for its 972 water and wastewater meter equivalents and 1.0 for its 25 water-only meter equivalents. Thus, applying the utility's allocation factors to the number of meter equivalents in its annual report, we find that Labrador's total CEs shall be 1,446. To be consistent with this methodology, we find that the total CEs for UI's Florida subsidiaries shall also be calculated using meter equivalents. Using the annual reports on file with this Commission, we calculate UI's total Florida subsidiaries' CEs to be 64,130.

Second, we find that UI used an improper cutoff date to determine which subsidiaries should be included in the allocation process. UI uses a June 30 cutoff date for this purpose. UI asserted that a cutoff date after June 30 would unfairly allocate expenses to a subsidiary that was owned for less than six months. UI stated that it previously considered including newly acquired companies based on the date of acquisition, using a weighted average, but rejected that method as too cumbersome. We believe that a June 30 cutoff for determining the CEs for each system does not adequately spread each year's common costs. Because the test year in this docket is the year ended December 31, 2003, we believe it would be inappropriate to exclude the additional CEs from the allocation process because resources were expended for those customers during 2003. We note that UI acquired Utilities, Inc. of Pennbrooke and Utilities, Inc. of Hutchinson Island after June 30. The total CEs for these systems are 1,908. We have added these CEs to the total Florida CEs in order to properly spread the costs allocated to Labrador.

Third, UI allocated excess liability insurance based on a weighted factor of the number of miles of sewer mains, gallons of water sold, and operator's salary. Labrador has stated that its MFR Schedule E-14 incorrectly reflected gallons of water sold and that the correct gallons sold for 2003 was 33,888,000, as shown on MFR schedule E-2. UI excluded operator salaries for the additional Florida utilities acquired after June 30, 2003. We believe it would create a mismatch if the sewer mains, water sold, and salaries for the additional utilities were not considered in the allocation process. Accordingly, we have reflected the correct amounts for gallons of water sold and the incremental salaries related to the systems acquired after June 30, 2003.

Fourth, WSC allocated worker's compensation insurance based on operator salaries only. This insurance also applies to office employees. We believe that this insurance shall be allocated based on operator and office salaries, and we have made adjustments accordingly.

By applying the above adjustments to the utility's allocation methodology, we conclude that WSC rate base shall be decreased by $895 for water and $860 for wastewater. We note that this adjustment is based on net plant, and no further adjustments are required to accumulated depreciation and depreciation expense. In addition, we conclude that WSC common O&M expenses shall be reduced by $3,940 for water and $3,785 for wastewater.

UIF

UIF allocates common plant and accumulated depreciation based on a percentage of Labrador's CEs to total Florida customers, calculated by UIF as 2.81%. This 2.81 percentage is calculated by dividing Labrador's CEs (2,344) by total UIF CEs (83,520). Based on our adjustments to CEs discussed above, we believe that corresponding adjustments to UIF's allocated common plant are necessary. We have recalculated the percentage and find it appropriate to apply 1.95% to UIF common plant and accumulated depreciation.

Using the recalculated percentage, we find that plant shall be reduced by $2,841 for water and $3,341 for wastewater. Accumulated depreciation shall be reduced by $791 for water and $922 for wastewater.

C. Used and Useful Facilities

In its filing, the utility stated that its water and wastewater treatment plants, distribution and collection systems, and reuse facilities are 100% percent used and useful. Our analysis of the utility's request and our related findings are discussed below.

Water Treatment Plant

The utility calculated the used and useful percentage for its water treatment plant by taking the peak demand, adding a fire flow allowance, and dividing the sum by the firm reliable capacity of the plant. The peak demand is based on the average of the five highest days of the peak month of January during the test year. The required fire flow allowance is 500 gallons per minute (gpm) to be maintained for two hours, or 60,000 gallons per day (gpd). The utility stated that its firm reliable capacity for the water plant is 288,000 gpd. This is based on the assumption that if its larger 440 gpm well is taken off-line, its smaller 200 gpm well would be used 24 hours per day. Additionally, the utility did not include a growth margin in its calculation. Without fire flow or a growth allowance, the utility's calculation reflected 100% used and useful.

Upon review of the utility's calculation, we find that it is consistent with our practice of calculating used and useful percentages for a water treatment plant. While our calculation would reflect minor adjustments, the result is still 100%. Accordingly, we find that the water treatment plant is 100% used and useful.

Wastewater Treatment Plant

Pursuant to Rule 25-30.432, Florida Administrative Code, used and useful percentages for a wastewater treatment plant shall be calculated by comparing test year flows to the DEP permitted capacity, using the same method of measuring flows. The rule further states that this Commission will consider other factors including growth, infiltration and inflow, whether the service area is built-out, whether the permitted capacity differs from the design capacity, differences between components, and whether flows have decreased.

In its MFRs, the utility provided a used and useful calculation of 77% for its wastewater treatment plant. It divided the maximum month average daily flow (MMADF) of 166,065 gpd by the DEP permitted capacity 216,000 gpd MMADF. Notwithstanding this calculation, the utility believes that the plant should be considered 100% used and useful. The utility stated that the wastewater treatment plant capacity is substantially less than the design criterion and that the community is virtually built-out. Further, the facilities, as purchased, were designed to serve the community at build-out.

Pursuant to Rule 25-30.432, Florida Administrative Code, we may consider the design criteria of a plant and whether the service area is built-out when determining used and useful percentages. However, other than the statement that its wastewater plant design capacity is greater than its permitted capacity, the utility did not provide any supporting arguments in its MFRs. We do not believe that this statement provides sufficient support for deviating from a calculation based on a comparison of flows with the permitted capacity.

We have reviewed the utility's original calculation, which includes the proper MMADF of 166,065 gpd in the numerator and permitted capacity of 216,000 gpd in the denominator. We have also reviewed the utility's calculations for infiltration and inflow, and we agree that the levels are reasonable and that no adjustment is necessary.

Based on our staff's field investigation, we disagree with the utility's statement that the service territory is built-out. The Co-Op owns an 11.6 acre parcel of land, which is vacant and zoned as a future commercial site. Vacant lots are also located in the MH Park. Thus, we believe that there is potential for growth in the service area. Accordingly, we find it appropriate to include a growth allowance in the used and useful calculation. The utility's MFRs stated that insufficient data was available to perform a regression analysis of growth, because it has only owned the system since 2002. As such, we have applied the average consumption of 189 gpd per equivalent residential connection (ERC) to the test year growth of seven customers. After applying the 5-year statutory growth allowance, we find that the growth allowance shall be 6,615 gpd (7 ERCs x 189 gpd/ERC x 5 years).

Based on the foregoing, we find that Labrador's wastewater treatment plant is 79.94% used and useful. As a result, we reduce wastewater rate base by $146,215 to reflect that 20.06% of treatment and disposal equipment is not used and useful. We also make corresponding adjustments to reduce depreciation expense and property tax expense by $10,985 and $2,292, respectively.

Reuse Facilities

According to Section 367.0817(3), Florida Statutes, the prudent costs of a reuse project shall be recovered in rates. The utility's reuse facilities consist of two percolation ponds, a slow drip field, and a non-public access sprayfield. Based on our review, the utility's reuse facilities appear to be prudent and shall be considered 100% used and useful.

Water Distribution and Wastewater Collection Systems

In its MFRs, the utility stated that the MH Park is virtually built-out, having only one non-metered lot and 66 vacant lots (7% of the total lots) at the end of the test year. The RV Resort has 274 lots which are served by a master-meter. Labrador believes that its distribution and collection systems are 100% used and useful. The utility stated that all residential wastewater customers are water customers; therefore, only one calculation was necessary for the distribution and collection systems.

We calculated the used and useful percentage for the distribution and collection systems by adding the average number of the test year lots of 1,099 and the 35 ERCs for growth, discussed above. We then divided the sum by the total number of lots of 1,168, which results in 97.09% used and useful. Consistent with Commission practice, any percentage above 95% is considered 100% used and useful. Accordingly, we find that the used and useful percentage for water distribution and wastewater collection systems is 100%.

C. Working Capital Allowance

Rule 25-30.433(2), Florida Administrative Code, requires that Class B utilities use the formula method (one-eighth of O&M expenses) to calculate working capital allowance. The utility has properly filed its allowance for working capital using the formula method and has requested $13,341 for water and $20,226 for wastewater. As discussed in detail below, we have found it necessary to make several adjustments to the utility's O&M expenses. Due to those adjustments, we determine that working capital shall be $9,968 for water and $16,321 for wastewater. This reflects a decrease of $3,373 for water and $3,905 for wastewater.

D. Adjusted Rate Base

Consistent with the various adjustments we find necessary herein, the appropriate simple average rate base for the test year ended December 31, 2003, is $379,797 for water and $939,190 for wastewater. The rate base for water and wastewater that we approve are shown on Schedule Nos. 1-A and 1-B, respectively. The adjustments are shown on Schedule No. 1-C. Schedule Nos. 1-A, 1-B, and 1-C are attached hereto and incorporated herein by reference.

IV. COST OF CAPITAL

In its MFRs, the utility used the debt and equity ratios of UI to prorate Labrador's share of UI's capital. The utility did not include short-term debt in its capital structure. Using this Commission's 2003 leverage formula, the utility reflected a cost of capital of 11.92% for equity, and requested an overall cost of capital of 9.11%.

The utility has agreed that Labrador's cost of capital should include an allocated share of the short-term debt from UI's capital structure. UI's short-term debt balance was $1,047,000 with a cost rate of 4.95%. Using the general ledger average balances and the interest rate requirements stated on the debt agreement, we find that short-term debt shall be included in Labrador's allocated capital structure at a cost rate of 4.95%.

In its MFRs, the utility did not reflect the special tax depreciation allowance related to its requested pro forma plant in its deferred taxes. To correct this, we find that deferred taxes shall be increased by $30,746 to reflect the impact of the utility's claim of a special tax depreciation allowance on historical plant, as well as for the balance on pro forma plant established herein.

The current leverage formula was approved by Order No. PSC-04-0587-PAA-WS, issued June 10, 2004, in Docket No. 040006-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), Florida Statutes. Based on the current leverage formula and the utility's equity ratio, we find that the appropriate cost of equity for Labrador is 11.35%, with a range of 10.35% to 12.35%. Based on the above, we find that the overall cost of capital for Labrador is 8.63%, with a range of 8.24% to 9.02%. This cost of capital is shown on Schedule No. 2, which is attached hereto and incorporated herein by reference.

V. NET OPERATING INCOME

A. Adjustments to Employee Salaries and Benefits

In its MFRs, the utility reflected adjusted employee salaries of $23,142 for water and $10,054 for wastewater. In addition, Labrador made pro forma adjustments to employee salaries and benefits by 3%. This resulted in an increase of $2,511 for water and $2,124 for wastewater.

Each year, the utility allocates salaries and benefits by computing a weighted average factor of CEs for each UI system for which an employee performs services. It then allocates the salary and benefits for each employee by this factor. As noted above, we have determined that adjustments to CEs for Labrador and all Florida subsidiaries of UI are necessary. Based on these adjustments, we find that corresponding adjustments to salaries, benefits, and insurance costs are necessary to reflect the appropriate test year salary levels. Employee salaries shall be decreased by $4,197 for water and $4,032 for wastewater. Corresponding adjustments shall also be made to reduce pensions and benefits by $122 for water and $117 for wastewater and to reduce employee insurance costs by $625 for water and $600 for wastewater. Corresponding reductions of $255 and $245 shall also be made to payroll taxes for water and wastewater, respectively.

B. Adjustments to Purchased Power Expense

In Audit Exception No. 6, our auditors recommended reductions to purchased power expense of $514 for water and $1,471 for wastewater to remove out-of-period expenses. In its response, Labrador agreed with the auditors' recommendation. Accordingly, we find that purchase power expense shall be reduced by $514 for water and $1,471 for wastewater.

In Audit Disclosure No. 3, our auditors stated that in May 2004, upon completion of several electric service modifications at the wastewater treatment plant, the utility consolidated its two electric service meters into one meter with the Withlacoochee River Electric Cooperative. Prior to the consolidation, the utility was billed under two different rate structures at the wastewater plant. Afterward, it was billed under one rate structure. We have analyzed the impact of the consolidated meter and calculated an estimated monthly savings of $310, before taxes. These savings are very similar to those calculated by the utility, as reflected in the utility's response to our staff's data requests. After adding taxes, we find that wastewater purchased power expense on a going-forward basis will be reduced by $4,045 annually. Thus, we find that this known and measurable change shall be reflected in test year expenses.

C. Adjustment for Excessive Unaccounted Water

We have typically allowed 10% of total water treated as an acceptable level of unaccounted water. In most instances, we have made adjustments to the chemical and electrical costs associated with unaccounted water in excess of 10% so that ratepayers do not bear those excessive costs.

In its MFRs, the utility indicated that its test year unaccounted water was 16.33%, and that the utility believes that 12.50% is an acceptable level for unaccounted water. However, it made no reduction to chemicals or purchased power expenses. Further, the utility stated that because its current rates are flat, the utility has no information upon which to investigate excess unaccounted water levels. Because meters are now being read and consumption-based rates will be implemented in this case, the utility will be able to better address variances in water pumped compared to water sold. We note that an excess unaccounted water adjustment has no impact on the calculation of used and useful water plant because the utility's demand was much greater than its firm reliable capacity.

We find that while the 12.5% goal advocated by the utility for unaccounted water has merit, the utility should be encouraged to aggressively seek a goal of 10% or less. We made a similar finding in Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida. As we noted in that order, water conservation is becoming increasingly important, and we believe that utilities should make extra efforts to track water sales, record water losses, and be vigilant to reduce those excessive amounts of unaccounted water. Using 10% as an acceptable level of unaccounted water, we find it necessary to reduce expenses for purchased power and chemicals by 6.33%, or $814.

D. Adjustment to Land Lease Expense

In 1989, Mr. Henri Viau acquired ownership of the Forest Lake Estates, Inc. (MH Park), and Forest Lake Village, Inc. (RV Resort), communities and the water and wastewater facilities that provided service to these communities.

On June 10, 1999, Mr. Viau sold the community and land, exclusive of the utility facilities, to the Forest Lake Estates Co-Op, Inc. (Co-Op). At that time, the Co-Op consisted of homeowners in approximately 240 of the nearly 900 lots in the MH Park. The transaction included the land under the lots in the MH Park and the RV Resort, as well as the land under the water and wastewater facilities. The Co-Op had until January 1, 2000, to exercise an option to purchase the utility facilities. When the time period expired without the Co-Op exercising its option, Mr. Viau filed for water and wastewater certificates with this Commission. By Order No. PSC-01-1483-PAA-WS, issued July 16, 2001, in Docket No. 000545-WS, In Re: Application for original certificates to operate a water and wastewater utility in Pasco County by Labrador Services, Inc., we granted original certificates to Labrador.

Section 367.1213, Florida Statutes, requires water and wastewater utilities to either own or possess the right to continued use of the land on which treatment facilities are located. As part of the certificate review process, Mr. Viau entered into a lease agreement with the Co-Op for 99 years commencing on June 10, 1999, for $3,500 per month, or $42,000 per year. In 2002, the utility's assets were sold to UI, and UI took assignment of the lease from Mr. Viau. On June 4, 2002, an application was filed for authority to transfer Labrador Services, Inc.'s facilities and certificates to Labrador Utilities, Inc. By Order No. PSC-03-0638-PAA-WS, issued May 27, 2003, in Docket No. 020484-WS, In Re: Application for transfer of facilities and Certificates Nos. 616-W and 530-S from Labrador Services, Inc. to Labrador Utilities, Inc. in Pasco County, we approved the transfer of the facilities and certificates of Labrador Services, Inc. to Labrador Utilities, Inc. In that order, we acknowledged the existence and amount of the lease. Because the rates previously established and grandfathered by the original certificate docket were not cost-based, this lease expense has never been included in rates, nor have we ever considered the reasonableness of the lease amount.

The utility agrees that the date the land was devoted to public service was 1986 for the water and wastewater treatment plants and 1997 for the sprayfield. These are the dates the facilities were first permitted by DEP. Our staff requested that the utility provide documentation showing the original cost of the land for those two years or an appraisal if documentation could not be found. The utility indicated that it was having an appraisal performed to support the original cost.

The utility did not provide an appraisal. Our staff contacted the Pasco County's Tax Appraisal Office to obtain information on recent lot sales adjacent to the utility's facilities and found three land sales in the area which occurred during 2002 and 2004. Those sales ranged from $30,400 for 2.6 acres to $56,500 for 17.5 acres. All three sales were for property zoned agricultural. Because the utility's water and wastewater treatment facilities and sprayfield are also zoned agricultural by the Pasco County Tax Appraisal Office, we believe that these sales are comparable. According to the tax office, agricultural zoned lots located near the utility's facilities were sold for $4,400 to $11,600 per acre in 2003.

Using this data, we calculated an average price per acre of $8,478 for 2003. We then discounted this price for the percentage change in the Consumer Price Index (CPI) from 1986 to 2003, and determined that the utility's 7.0 acre parcel devoted to the water and wastewater treatment plants would have a value of $36,155. Based on information from DEP that the utility's sprayfield consists of 34.7 acres, we similarly calculated a value for a 34.7 acre parcel by discounting the 2003 per acre price for the percentage change in the CPI from 1997 to 2003. We determined that a reasonable value for the 34.7 acre sprayfield parcel would be $262,462. Because the utility did not provide documentation of the original cost of its facilities and sprayfield and did not provide an appraisal, we find that a reasonable estimate of the total original value of land for the water and wastewater treatment plants and the sprayfield is $298,617.

In Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, In Re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc., we found that the maximum lease amount should be the annual rate of return, based on the utility's capital structure, times the original cost of the land when placed in service. Based on the rate of return of 8.63% approved herein, we find that the utility's land lease expense should be $25,771. In order to effectively spread costs to all customers, we allocate $13,143 of this lease expense to water and $12,628 to wastewater. This is the same allocation methodology used by the utility for its lease expense.

Based on the above, for rate setting purposes, we determine the utility's annual land lease expense to be $25,771. As a result, the utility's test year lease expense shall be reduced by $7,811 for water and $8,419 for wastewater.

E. Rate Case Expense

In its MFRs, the utility reflected a $100,554 estimate for rate case expense to process this case. Our staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as an estimated amount to complete the case. The utility submitted a revised estimate of rate case expense through completion of the PAA process of $93,280. Based on our examination of the requested actual expenses, supporting documentation, and estimated expenses for the current rate case, we find that the revised estimate is reasonable with three exceptions, as discussed below.

Our first adjustment relates to rate case expense incurred to correct deficiencies in the MFR filing. Based on the utility's responses to staff's data requests, we calculate that the utility's attorneys spent 7.10 hours and WSC employees spent 40 hours correcting MFR deficiencies and revising the utility's filing. We believe that the costs associated with correcting MFR deficiencies are duplicative and unreasonable. Accordingly, we find it necessary to adjust rate case expense to remove $1,704 and $434 in attorney fees and expenses, respectively, and to remove $2,180 in WSC's in-house fees.

Our second adjustment relates to the utility's estimated legal fees to complete the rate case. The utility's counsel estimated $12,000 in fees and $1,000 in expenses to complete the rate case. Upon review, we believe that these estimates reflect an overstatement of the amount of time necessary for the utility's counsel to respond to data requests, review our staff's recommendation, and travel to agenda We find that 40 hours ($9,600) should be sufficient to conduct these activities and adjust estimated legal fees accordingly. Further, we believe that the utility's estimated miscellaneous expenses overstate travel expense from Orlando to Tallahassee and the cost of additional photocopies. We find that $414 is reasonable for the travel, including meals, mileage, and lodging, and we find that $150 is reasonable for the additional photocopies. We adjust these estimated miscellaneous expenses accordingly. We also note that the rate case filing fee of $4,000 was counted twice, having been listed in miscellaneous legal expenses and as a separate line item. To avoid double counting this amount, we remove it from legal fees. In total, we find it necessary to remove $8,974 from the utility's requested rate case expense for legal fees.

Third, the utility submitted documentation supporting actual WSC in-house fees of $18,651 and an estimate of remaining costs to complete of $12,800, for a total of $31,451. We find that the utility made a mathematical error in calculating its actual fees. Having recalculated the utility's actual hours worked per employee, we find that the actual fees should be $13,627. This results in a reduction of $5,024 to rate case expense. Additionally, the utility estimated that 250 hours of work by WSC employees would be necessary to complete the case. Upon review, we believe that 92 hours is reasonable. By applying the individual employee rates, we find that the estimated WSC in-house fees to complete should be $5,217. Thus, the utility's estimated expense of $12,800 shall be reduced by $7,583. Adding in the adjustment for MFR deficiencies, we make a total adjustment to WSC in-house fees of $14,787.

For miscellaneous rate case expenses, the utility requested $2,990 in actual and estimated costs to complete. Upon review, we believe that this amount overstates travel expense from Illinois to Florida and the cost of additional postage for notices. We find that $750 is reasonable for the travel, including meals, flight, car rental, parking, and lodging, and we find that $327 is a reasonable estimate for any additional postage for notices. With these adjustments, we determine that miscellaneous rate case expenses of $2,459 are reasonable and shall be allowed. As such, the utility's requested miscellaneous rate case expenses shall be reduced by $532 as unsupported and unreasonable rate case expense.

In summary, we find that the utility's revised rate case expense shall be reduced by $24,293. The appropriate total rate case expense is $68,988. A breakdown of the allowance of rate case expense is as follows:

	MFR Estimated	Utility Revised Actual & Estimated	Commission Adjustments	Total
Filing Fee	$4,000	$4,000	$0	$4,000
Legal Fees	45,000	49,816	(8,974)	40,842
Consultant Fees	12,000	5,023	0	5,023
WSC In-house Fees	22,304	31,451	(14,787)	16,664
Miscellaneous Expense	19,250	2,990	(532)	2,459
Total Rate Case Expense	$100,554	$93,280	($24,293)	$68,988
Amortization	$25,139			$17,247

The total rate case expense allowed herein shall be amortized over four years, pursuant to Section 367.016, Florida Statutes. Based on the data provided by the utility and the adjustments discussed above, we approve annual rate case expense of $17,247: $8,796 for water and $8,451 for wastewater.

In its MFRs, the utility requested total rate case expense of $100,554, which, amortized over four years, would be $25,139. The utility actually included $12,657 and $12,711 for rate case expense in the test year for water and wastewater, respectively. Thus, rate case expense is hereby reduced by $3,861 for water and $4,260 for wastewater.

F. Adjustments to Taxes Other than Income

In Audit Exception 8, our auditors determined that that the utility understated its regulatory assessment fees and personal property tax expense. The utility agreed with these adjustments. Accordingly, we find that test year regulatory assessment fees shall be increased by $151 for water and $350 for wastewater, and property taxes shall be increased by $2,810 for water and $7,213 for wastewater.

G. Test Year Operating Income before Revenue Increase

Based on the adjustments discussed above, we find that Labrador's test year operating income before any provision for increased revenues is ($27,725) for water and ($35,010) for wastewater. These amounts for water and wastewater are reflected on Schedule Nos. 3-A and 3-B, respectively, with the adjustments shown on Schedule No. 3-C. Schedule Nos. 3-A, 3-B, and 3-C are attached hereto and incorporated herein by reference.

VI. REVENUE REQUIREMENTS

Labrador requested final rates designed to generate annual revenues of $199,958 for water and $389,475 for wastewater. These revenues exceed test year revenues by $144,477 (260.41%) for water and $260,380 (201.70%) for wastewater.

Based upon our findings above concerning the appropriate rate base, cost of capital, and operating income for Labrador, we find it appropriate to establish rates designed to generate a water revenue requirement of $157,075 and a wastewater revenue requirement of $324,000. These revenues exceed our adjusted test year revenues by $101,594 (183.12%) for water and $194,905 (150.98%) for wastewater. These increases will allow the utility the opportunity to recover its expenses and earn an 8.63% return on its investment in water and wastewater rate base.

VII. RATES AND RATE STRUCTURE

A. ERCs and Gallons to be Used for Ratesetting

We find that the appropriate ERCs to be used for ratesetting purposes for the water and wastewater systems are 10,806 ERCs and 10,554 ERCs, respectively. We also find that 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.

B. Appropriate Rate Structure

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

C. Repression Adjustments

We find that adjustments to reflect repression of consumption are appropriate. For the water system, we accept a consumption reduction of approximately 7,684.4 kgals (approximately 21.5%), resulting in total water consumption for ratesetting of 28,095.6 kgals. For the wastewater system, we reduce consumption by 5,824.8 kgals (approximately 21.9%), 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 shall prepare monthly reports detailing the number of bills rendered, the consumption billed, and the revenues billed. These reports shall 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.

D. Appropriate Monthly Rates

We approve the monthly rates shown on Schedules Nos. 4-A and 4-B, which are attached hereto and incorporated herein by reference. These rates are designed to produce revenues of $155,928 for water and $321,337 for wastewater, after excluding miscellaneous service charge revenues of $1,147 for water and $2,663 for wastewater from the revenue requirements approved above.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the rates approved herein. The approved rates shall 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 shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

E. Interim Revenue Refund

By Order No. PSC-04-0200-PCO-WS, issued February 24, 2004, we authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, Florida Statutes. The approved interim revenue requirements are shown below:

	Revenue Requirement	Revenue Increase	Percentage Increase
Water	$193,837	$141,117	267.67%
Wastewater	$270,324	$146,292	117.95%

According to Section 367.082(4), Florida Statutes, any refund shall be calculated to reduce the rate of return of the utility during the pendency of the proceedings to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period in which interim rates are in effect shall be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim rates was the twelve-month period ended June 30, 2003, and the test period for final rates is the twelve-month period ended December 31, 2003. Labrador's approved interim rates did not include any provision for pro forma or projected operating expenses or plant. The interim increases were designed to allow recovery of actual interest costs and the floor of the last authorized range for equity earnings. To establish the proper refund amount, we have calculated revised interim revenue requirements utilizing the same data used to establish final rates. Rate case expense, four pro forma projects not in service as of November 30, 2004, and the repression adjustment were excluded because those items are prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, we have calculated the interim revenue requirements for the interim collection period to be $136,342 for water and $305,626 for wastewater. The water revenue levels are less than the interim revenues, and the wastewater revenue levels are greater than the interim levels. Therefore, we order a refund of 29.84% of interim rates for water. 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. Because the wastewater revenues for the interim collection period are greater than the interim revenues granted in Order No. PSC-04-0200-PCO-WS, no wastewater interim refund is required.

The water refund shall be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. The utility shall submit proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code, and shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

F. Reduction of Rates After Amortization of Rate Case Expense

Immediately upon expiration of the four-year amortization period for rate case expense, rates shall be reduced as shown on the attached Schedule No. 4 to remove $9,210 and $8,849 for water and wastewater rate case expense, respectively, grossed-up for regulatory assessment fees (RAFs). At the conclusion of the four-year amortization period, the utility shall file revised tariff sheets and a proposed customer notice to reflect the new rates. The new rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code. The rates shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

If the utility files documents reflecting this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

VIII. PROCEDURAL MATTERS

To ensure that the utility adjusts its books in accordance with this order, Labrador shall 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.

Our staff is hereby given administrative authority to verify that the revised tariff sheets and customer notice have been filed by the utility, to approve those documents, and to verify that the interim refund required by this order has been completed. Once these actions are complete, the corporate undertaking shall be released. When all proposed agency action taken in this order becomes final, and when the refund, tariff, and notice actions described herein have been completed, this docket may be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Labrador Utilities, Inc.'s application for a permanent rate increase is granted, subject to the adjustments and findings discussed in the body of this order. It is further

ORDERED that Labrador Utilities, Inc. shall develop a meter test plan, test all of its meters by June 30, 2005, and make any necessary adjustments or repairs. Labrador shall maintain a log of all meters tested and prepare a status report that reflects the number of meters tested by month, including the number of meters repaired or replaced as a result of the tests. The meter test log and updated status reports shall be filed with this Commission on April 15, July 15, and October 15, 2005. It is further

ORDERED that Labrador Utilities, Inc. shall prepare monthly reports, by customer class and meter size, detailing the number of bills rendered, the consumption billed, and the revenues billed, and shall file such reports with this Commission on a quarterly basis for a period of two years, beginning with the first billing period after implementation of the rates approved herein. It is further

ORDERED that Labrador Utilities, Inc. shall implement the monthly rates for water and wastewater service set forth in Schedule No. 4, which is attached hereto and incorporated herein by reference. Labrador shall file, for administrative approval by our staff, revised tariff sheets and a proposed customer notice reflecting these rates. These rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets. These rates shall not be implemented prior to our staff's approval of the proposed customer notice, and Labrador shall provide proof of the date such notice was given no less than 10 days after the date of the notice. It is further

ORDERED that Labrador Utilities, Inc. shall refund to customers 29.84% of its interim period water revenues, but need not refund any portion of its interim period wastewater revenues. In accordance with Commission rules, this refund shall be made with interest, and any unclaimed refunds shall be treated as CIAC. Our staff is granted administrative authority to verify that the refund has been completed. It is further

ORDERED that, upon expiration of the four-year amortization period for rate case expense, the monthly rates approved by this order shall be reduced as shown on Schedule No. 4, which is attached hereto and incorporated herein by reference. At the conclusion of the four-year amortization period, the utility shall file, for administrative approval by our staff, revised tariff sheets and a proposed customer notice reflecting the new rates. The new rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets. The rates shall not be implemented prior to our staff's approval of the proposed customer notice, and Labrador shall provide proof of the date such notice was given no less than 10 days after the date of the notice. It is further

ORDERED that Labrador Utilities, Inc. shall provide proof, within 90 days of the issuance date of a final order in this docket, that it has adjusted its books to reflect the adjustments to all the applicable primary accounts required by this order. 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 Director, Division of the Commission Clerk and Administrative Services, 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 when all the provisions of this order issued as proposed agency action become final, when all refunds required by this order are complete, when tariffs for the monthly rates approved herein have been filed and approved, and when proof of customer notice of the rates approved herein has been verified, this docket may be closed administratively.

By ORDER of the Florida Public Service Commission this 28th day of December, 2004.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: Marcia Sharma
Marcia Sharma, Assistant Director
Division of the Commission Clerk
and Administrative Services

(S E A L)

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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 actions proposed herein are preliminary in nature, except our decisions to reduce rates after the four-year period for amortization of rate case expense and to require proof of compliance with the adjustments ordered herein. Any person whose substantial interests are affected by the preliminary actions 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 Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on January 18, 2005. In the absence of such a petition, those portions of the order identified above as being preliminary in nature shall become final and effective upon the issuance of a Consummating Order. Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Our actions to reduce rates after the four-year period for amortization of rate case expense and to require proof of compliance with the adjustments ordered herein are issued as final action in this matter. Any party adversely affected by this final action may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Labrador Utilities, Inc.
Schedule of Water Rate Base

Schedule No. 1-A
Test Year Ended 12/31/03

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	PSC Adjust-ments	PSC Adjusted Test Year
1	Plant in Service	$471,086	$103,751	$574,837	($61,986)	$512,851
2	Land and Land Rights	0	0	0	0	0
3	Non-used and Useful Components	0	0	0	0	0
4	Accumulated Depreciation	(106,032)	(4,191)	(110,223)	(32,800)	(143,023)
5	CIAC	0	0	0	0	0
6	CWIP	24,313	(24,313)	0	0	0
7	Working Capital Allowance	0	13,341	13,341	(3,373)	9,968
8	**Rate Base**	$389,367	$88,588	$477,955	($98,158)	$379,797

Labrador Utilities, Inc.
Schedule of Wastewater Rate Base

Schedule No. 1-B
Test Year Ended 12/31/03

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	PSC Adjust-ments	PSC Adjusted Test Year
1	Plant in Service	$1,257,522	$194,691	$1,452,213	$7,821	$1,460,034
2	Land and Land Rights	0	0	0	0	0
3	Non-used and Useful Components	0	0	0	(146,215)	(146,215)
4	Accumulated Depreciation	(302,950)	(77,073)	(380,023)	(10,927)	(390,950)
5	CIAC	0	0	0	0	0
6	CWIP	28,861	(28,861)	0	0	0
7	Working Capital Allowance	0	20,226	20,226	(3,905)	16,321
8	**Rate Base**	$983,433	$108,983	$1,092,416	($153,226)	$939,190

Labrador Utilities, Inc.
Adjustments to Rate Base
Test Year Ended 12/31/03

Schedule No. 1-C
Docket No. 030443-WS

	Explanation	Water	Wastewater
	Plant in Service		
	Correct plant additions & retirements for 2003 (AE 1 & AE 2)-Average	($16,684)	($6,654)
2	To remove average adjustments and correct 2003 year-end balance	(41,566)	18,676
4	To reflect the appropriate WSC allocated rate base	(895)	(860)
3	To reflect the appropriate UIF allocated plant	(2,841)	(3,341)
	Total	($61,986)	$7,821
	Non-used and Useful		
	To reflect net non-used and useful adjustment	0	(146,215)
	Accumulated Depreciation		
1	Correct plant additions & retirements for 2003 (AE 1 & AE 2)-Average	($1,628)	$11,954
2	To remove average adjustments and correct 2003 year-end balance	(32,563)	(22,324)
3	To reflect 2004 depreciation expense	600	(1,479)
4	To reflect the appropriate UIF allocated plant	791	922
	Total	($32,800)	($10,927)
	Working Capital		
	Adjust working capital based on staff's adjusted O&M expenses	($3,373)	($3,905)

Labrador Utilities, Inc.
Capital Structure-Simple Average
Test Year Ended 12/31/03

Schedule No. 2
Docket No. 030443-WS

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$116,575,577	($115,654,518)	$921,059	$0	$921,059	58.65%	7.32%	4.29%
2	Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	80,296,797	(79,662,276)	634,521	0	634,521	40.41%	11.92%	4.82%
5	Customer Deposits	0	0	0	0	0	0.00%	6.00%	0.00%
6	Deferred Income Taxes	14,791	0	14,791	0	14,791	0.94%	0.00%	0.00%
10	**Total Capital**	$196,887,165	($195,316,794)	$1,570,371	$0	$1,570,371	100.00%		9.11%
Per PSC									
11	Long-term Debt	$116,575,577	$0	$116,575,577	($115,825,508)	$750,069	56.87%	7.32%	4.16%
12	Short-term Debt	0	1,047,000	1,047,000	(1,040,263)	6,737	0.51%	4.95%	0.03%
14	Common Equity	80,296,797	0	80,296,797	(79,780,153)	516,644	39.17%	11.35%	4.45%
15	Customer Deposits	0	0	0	0	0	0.00%	6.00%	0.00%
16	Deferred Income Taxes	14,791	30,746	45,537	0	45,537	3.45%	0.00%	0.00%
20	**Total Capital**	$196,887,165	$1,077,746	$197,964,911	($196,645,925)	$1,318,986	100.00%		8.63%

PSC Adjustments			**LOW**	**HIGH**
Reflect short-term debt in capital structure	$1,047,000	RETURN ON EQUITY	10.35%	12.35%
Adjust deferred taxes for bonus depreciation	$30,746	OVERALL RATE OF RETURN	8.24%	9.02%

Labrador Utilities, Inc.
Statement of Water Operations
Test Year Ended 12/31/03

Schedule No. 3-A
Docket No. 030443-WS

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	PSC Adjust-ments	PSC Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$54,659	$145,299	$199,958	($144,477)	$55,481	$101,594 183.12%	$157,075
	Operating Expenses							
2	Operation & Maintenance	$104,012	$205	$104,217	($24,472)	$79,745		$79,745
3	Depreciation	27,335	(4,341)	22,994	(4,880)	18,114		18,114
4	Amortization	(7,029)	7,029	0	0	0		0
5	Taxes Other Than Income	8,750	6,716	15,466	(3,796)	11,670	4,572	16,242
6	Income Taxes	(16,976)	30,728	13,752	(40,076)	(26,324)	36,510	10,186
7	**Total Operating Expense**	116,092	40,337	156,429	(73,223)	83,206	41,081	124,287
8	**Operating Income**	($61,433)	$104,962	$43,529	($71,254)	($27,725)	$60,513	$32,789
9	**Rate Base**	$389,367		$477,955		$379,797		$379,797
10	**Rate of Return**	-15.78%		9.11%		-7.30%		8.63%

Labrador Utilities, Inc.
Statement of Wastewater Operations
Test Year Ended 12/31/03

Schedule No. 3-B
Docket No. 030443-WS

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	PSC Adjust-ments	PSC Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$127,177	$262,298	$389,475	($260,380)	$129,095	$194,905 150.98%	$324,000
	Operating Expenses							
2	Operation & Maintenance	$159,685	$4,947	$164,632	($34,068)	$130,564		$130,564
3	Depreciation	84,255	(20,304)	63,951	(8,585)	55,366		55,366
4	Amortization	231	(231)	0	0	0		0
5	Taxes Other Than Income	17,739	11,981	29,720	(6,691)	23,029	8,771	31,799
6	Income Taxes	(27,326)	58,937	31,611	(76,465)	(44,854)	70,042	25,189
7	**Total Operating Expense**	234,584	55,330	289,914	(125,809)	164,105	78,813	242,918
8	**Operating Income**	($107,407)	$206,968	$99,561	($134,571)	($35,010)	$116,092	$81,082
9	**Rate Base**	$983,433		$1,092,416		$939,190		$939,190
10	**Rate of Return**	-10.92%		9.11%		-3.73%		8.63%

Labrador Utilities, Inc.
Adjustment to Operating Income
Test Year Ended 12/31/03

Schedule 3-C
Docket No. 030443-WS

	Explanation	Water	Wastewater
	Operating Revenues		
1	Remove requested final revenue increase	($144,477)	($260,380)
	Operation and Maintenance Expense		
1	To reflect the appropriate WSC allocated costs.	($3,940)	($3,785)
2	Adjust salaries for change in CEs.	(4,197)	(4,032)
3	Adjust pension and benefits for change in CEs.	(122)	(117)
4	Adjust employee insurance cost for change in CEs	(625)	(600)
5	Remove out-of-period costs from purchased power (AE 6)	(514)	(1,471)
6	Adjust purchased power for consolidated meter savings	0	(4,045)
7	Adjust chemicals & purchased power for excessive unaccounted water	(814)	0
8	To reflect annual rent expense	(7,811)	(8,419)
9	Reflect adjusted rate case expense	(3,861)	(4,260)
10	To reflect adjustments for repression (chemicals & purchased power)	(2,589)	(7,338)
	Total	($24,472)	($34,068)
	Depreciation Expense - Net		
1	To correct plant additions and retirements for 2003 (AE 1 & AE 2)	($3,680)	($559)
2	To reflect 2004 depreciation expense	(1,200)	2,959
3	Non-used and useful depreciation	0	(10,985)
	Total	($4,880)	($8,585)
	Taxes Other Than Income		
1	RAFs on revenue adjustments above	($6,501)	($11,717)
2	Remove non-used and useful property tax expense	0	(2,292)
3	To reduce payroll taxes on above salary adjustments.	(255)	(245)
4	To correct test year RAFs.	151	350
5	Correct test year personal property taxes (AE 8)	2,810	7,213
	Total	($3,796)	($6,691)

Labrador Utilities, Inc.
Water Monthly Service Rates
Test Year Ended 12/31/03

Schedule No. 4-A
Docket No. 030443-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	PSC Approved Final	4-year Rate Reduction
Residential					
Mobile Home Flat Rate	$4.50	$16.33	N/A	N/A	N/A
Base Facility Charge - 5/8" x 3/4" Meter Size:	N/A	N/A	$7.75	$6.28	$0.37
Gallonage Charge, per 1,000 Gallons	N/A	N/A	$3.79	$3.14	$0.18
General Service					
1" Flat Rate	$4.50	$16.33	N/A	N/A	N/A
2" Irrigation	$4.50	$16.33	N/A	N/A	N/A
6" RV Resort Flat Rate	$3.00	$10.89	N/A	N/A	N/A
Base Facility Charge by Meter Size:					
5/8"	N/A	N/A	N/A	$6.28	$0.37
3/4"	N/A	N/A	N/A	$9.42	$0.55
1"	N/A	N/A	$19.38	$15.70	$0.92
1 1/2"	N/A	N/A	N/A	$31.40	$1.84
2"	N/A	N/A	$62.00	$50.24	$2.95
3"	N/A	N/A	N/A	$100.48	$5.89
4"	N/A	N/A	N/A	$157.00	$9.21
6" - RV Resort	N/A	N/A	$387.50	$314.00	$18.41
Gallonage Charge, per 1,000 Gallons	N/A	N/A	$3.79	$3.14	$0.18
Irrigation					
Base Facility Charge by Meter Size:					
2"	N/A	N/A	$62.00	$50.24	$2.95
Gallonage Charge, per 1,000 Gallons	N/A	N/A	$3.79	$3.14	$0.18
	Typical Residential Bills 5/8" x 3/4" Meter				
0 Gallons	$4.50	$16.33	$7.75	$6.28	
3,000 Gallons	$4.50	$16.33	$19.12	$15.70	
5,000 Gallons	$4.50	$16.33	$26.70	$21.98	
10,000 Gallons	$4.50	$16.33	$45.65	$37.68	

Labrador Utilities, Inc.
Wastewater Monthly Service Rates
Test Year Ended 12/31/03

Schedule No. 4-B
Docket No. 030443-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	PSC Approved Final	Four-year Rate Reduction
Residential					
Mobile Home Flat Rate	$10.50	$22.79	N/A	N/A	N/A
Base Facility Charge - 5/8" x 3/4" Meter Size:	N/A	N/A	$15.30	$12.09	$0.33
Gallonage Charge, per 1,000 Gallons	N/A	N/A	$7.72	$9.34	$0.26
General Service					
RV Park Flat Rate	$7.00	$15.19	N/A	N/A	N/A
Base Facility Charge by Meter Size:					
5/8"	N/A	N/A	N/A	$12.09	$0.33
3/4"	N/A	N/A	N/A	$18.14	$0.50
1"	N/A	N/A	$38.25	$30.23	$0.83
1 1/2"	N/A	N/A	N/A	$60.45	$1.65
2"	N/A	N/A	N/A	$96.72	$2.64
3"	N/A	N/A	N/A	$193.44	$5.28
4"	N/A	N/A	N/A	$302.25	$8.26
6" - RV Resort	N/A	N/A	$765.00	$604.50	$16.51
Gallonage Charge, per 1,000 Gallons	N/A	N/A	$9.27	$11.21	$0.31
	Typical Residential Bills 5/8" x 3/4" Meter				
0 Gallons	$10.50	$22.79	$15.30	$12.09	
3,000 Gallons	$10.50	$22.79	$38.46	$40.11	
5,000 Gallons	$10.50	$22.79	$53.90	$58.79	
6,000 Gallons and above	$10.50	$22.79	$61.62	$68.13	

(Residential Wastewater Gallonage Cap - 6,000 Gallons)