

State of Florida



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# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

COMMISSION  
CLERK

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**DATE:** December 19, 2008  
**TO:** Curtis M. Mouring, Regulatory Analyst II, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance *DN*  
**RE:** Docket No: 080249-WS; Company Name: Labrador Utilities, Inc.;  
Audit Purpose: Rate Case; Company Code: WS851;  
Audit Control No: 08-261-1-2;

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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 a response to the Office of the Commission Clerk. There are no confidential work papers associated with this audit.

DNV/tbm

Attachment: Audit Report

CC: Division of Regulatory Compliance (Salak, Mailhot, Harvey,  
District Offices, File Folder)  
Office of Commission Clerk (2)  
General Counsel  
Office of Public Counsel

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FLORIDA PUBLIC SERVICE COMMISSION  
DIVISION OF REGULATORY COMPLIANCE  
BUREAU OF AUDITING

Tallahassee District Office

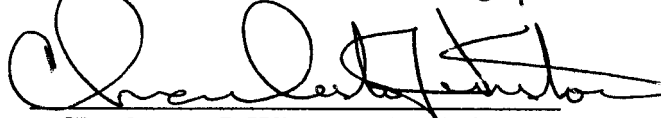
LABRADOR UTILITIES, INC.

FILE AND SUSPEND RATE CASE

TEST YEAR ENDED DECEMBER 31, 2007

DOCKET NO. 080249-WS  
AUDIT CONTROL NO. 08-261-1-2

  
Intesar Terkawi, Audit Manager

  
Charleston J. Winston, Audit Staff

  
Lynn M. Deamer, Audit Supervisor

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**DIVISION OF REGULATORY COMPLIANCE  
AUDITOR'S REPORT**

**December 18, 2008**

**TO: FLORIDA PUBLIC SERVICE COMMISSION**

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the Minimum Filing Requirements (MFRs) prepared by Labrador Utilities, Inc. in support for rate relief in Docket No. 080249-WS for the test period year ending December 31, 2007.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed upon procedures and the report is intended only for internal Commission use.

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## **OBJECTIVES AND PROCEDURES**

### **RATE BASE**

**A. Objective – Plant in Service:** To determine that property exists and is owned by the utility. To determine that additions to Utility Plant In Service (UPIS) are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that the proper retirements of UPIS were made when a replacement item was put in service.

1. We reconciled the beginning plant in service balance on the MFR schedules to the utility's books and to the prior Commission orders. We traced the filing additions and retirements by year to the utility's annual reports, and general ledgers. Audit Findings numbers 1 through 4 address the Utility Plant in Service balances in the filing.
2. We judgmentally selected a sample of additions and retirements from the general ledger. We tested the sample of plant in service additions for the following: date acquired, original cost, account recorded and appropriate retirements. We tested the sample of retirements for the following: cost retired, account number, date of retirement or disposition, amount of accumulated depreciation retired, amount of proceeds/cost of removal, and amount of gain/loss recorded in utility books after disposal.

**B. Objective – Land and Land Rights:** To determine that utility land is recorded at original cost and is owned or secured under a long-term lease.

1. We verified that there have been no changes to the utility's lease of the water and wastewater site property since its last rate proceeding.

**C. Objective – Accumulated Depreciation and Depreciation Expense:** To verify that accumulated depreciation and depreciation expense are calculated using the Commission authorized rates and that the calculations are correct.

1. We scheduled accumulated depreciation beginning and ending balances by UPIS sub-account. We reviewed methodology for calculating annual depreciation expense accruals, service lives used to determine the depreciation expense, and methodology for accounting for retirements and adjustments. We calculated current period depreciation expense by sub-account.
2. We reconciled depreciation expense accruals to the utility's general ledger. Audit Findings I through 4 address the accumulated depreciation balances in the filing.

**D. Objective – Contribution in Aid of Construction (CIAC):** To determine that Utility CIAC balances are properly stated and are reflective of service availability charges authorized in the utility’s approved Commission tariff.

1. We reconciled the beginning CIAC balances to the utility’s books and prior Commission orders. We read the utility’s authorized tariff to determine the type and the amount, if any, of service availability fees for new customer additions, and inquired if the utility had any special agreements, developer agreements, and whether or not it has received donated property of CIAC. Audit Finding No. 5 addresses the CIAC balance in the filing.

**E. Objective – Accumulated Amortization of CIAC and Amortization Expense:** To determine that CIAC accumulated amortization balances are properly stated and that annual accruals are reflective of depreciation rates authorized in the utility’s last Commission rate case proceeding.

1. We reconciled beginning balances to the utility’s books and the prior Commission Orders. We reconciled accumulated amortization accruals to the utility’s general ledger. Audit Finding No. 5 addresses the accumulated amortization of CIAC balances in the filing.

**F. Objective – Working Capital:** To determine that the utility’s working capital balance is properly calculated in compliance with Commission rules.

1. We recalculated the utility’s working capital balance as of December 31, 2007.

**G. Objective – Capital Structure:** To determine that capital structure represents utility’s debt, capital stock, retained earnings, deferred taxes, customer deposits, and other available funds for investment in utility plant, inventory, and operations.

1. We traced the deferred income taxes to the general ledger. We recalculated deferred income taxes. The other components of the capital structure are reviewed and discussed in a separate audit of allocations.

## **REVENUE AND EXPENSES:**

**A. Objective – Revenue:** To verify that revenues earned from the utility property during the test year are recorded and included in the filed exhibits, to verify that the utility is billing the approved tariff rates, and that the revenues are classified in compliance with the Commission Rules and Uniform System of Accounts.

1. We tested the reasonableness of the utility revenues by multiplying average consumption times the number of customers for each class of service, and compared it to a schedule of utility revenues by customer class for the historical test year as

shown in the MFR.

2. We reconciled revenues reported on the Regulatory Assessment Fee (RAF) filing to the utility's books and records, and recalculated the amount of RAF fees due based on the utility's revenues reported. We agreed revenue balances in the MFR to the utility general ledger.

**B. Objective – Operation and Maintenance Expenses:** To determine that operation and maintenance expenses are classified according to the Commission Rules and Uniform System of Accounts, that expenditures are appropriate for regulatory policy, that the amounts on the invoice agree with the general ledger, and that expenditures are recorded in the proper period.

1. We reconciled the general ledger Operation and Maintenance Expenses to the MFR Operation and Maintenance Expenses Schedules B-5 and B-6. We reviewed the Bench Mark Analysis shown in the MFR, we reviewed the Audit Service Request, we reviewed the previous Audit Report and we reviewed the amounts included in the MFR in determining our sample.
2. All of the expenses included in the MFR were traced to the general ledgers. We sampled the direct expenses for the proper supporting documentation, proper amount, proper period, proper classification, whether non-utility related, nonrecurring, unreasonable and imprudent. We found that an expense item was misclassified to Labrador. More information on this issue can be found in Audit Finding No. 6. We found that rent expense is overstated. More information on this issue can be found in Audit Finding No. 7. We found that rate case expense is overstated. More information on this issue can be found in Audit Finding No. 8.

**C. Objective – Taxes other than Income:** To determine the appropriate costs for taxes other than income taxes for the test year.

1. We sampled Taxes Other Than Income incurred by the utility for the historical test year for the proper supporting documentation, proper amount, proper period, proper classification, whether non-utility related, nonrecurring, unreasonable and imprudent. We reconciled taxes other than income amounts to the utility's general ledger.

**AUDIT FINDING NO. 1**

**SUBJECT: CORRECTIONS TO PRIOR ORDER ADJUSTMENTS**

**AUDIT ANALYSIS:** The utility's average water and wastewater rate base balances are overstated by \$23,889 and understated by \$21,030, respectively, as of December 31, 2007.

Order No. PSC-04-1281-PAA-WS, issued December 28, 2004 required specific adjustments to the utility's utility plant in service (UPIS) and accumulated depreciation balances as of December 31, 2003.

Our analysis of the utility's journal entry to record the ordered adjustments indicates that the utility only recorded some of the required adjustments and that the journal entry was not posted until December 2005.

The schedule on page eight of this report shows the adjustments ordered by the Commission in the above order, the utility's journal entry adjustments posted in December 2005 to book the order, and the additional adjustments needed to correct the utility's posted journal entry.

**EFFECT ON GENERAL LEDGER IF THE FINDING IS ACCEPTED:** The following entries are needed to correct the utility's general ledger balances.

| Utility<br>Acct. No | NARUC<br>Acct. No. | Account Description                       | Debit    | Credit   |
|---------------------|--------------------|---|----------|----------|
| 1082000             | 108                | Wat & W/Wat Acc/Dep Transportation        | \$3,320  |          |
| 1083021             | 108                | Water Acc/Dep - Structure and Improv.     |          | \$23,518 |
| 1083025             | 108                | Water Acc/Dep - Pumping Equip.            |          | \$56     |
| 1083043             | 108                | Water Acc/Dep - Tran. And Distr. Mains    | \$6,079  |          |
| 1083094             | 108                | Water Acc/Dep - Tools & Shop              |          | \$2,454  |
| 1084003             | 108                | W/Water Acc/Dep - Structure and Improv.   | \$3,016  |          |
| 1084005             | 108                | W/Water Acc/Dep - Sewer Treatment Plant   | \$10,472 |          |
| 2151000             | 215                | Retained Earnings                         | \$2,575  |          |
| 3043021             | 304                | Water Structure and Improv.               | \$2,703  |          |
| 3315043             | 331                | Water Tran. And Distr. Mains              |          | \$5,567  |
| 3547003             | 354                | W/Water Structure and Improv.             |          | \$18,591 |
| 3804005             | 380                | W/Water Sewer Treatment Plant             | \$21,455 |          |
| 4032021             | 403                | Water Dep. Exp. - Structure and Improv.   | \$85     |          |
| 4032043             | 403                | Water Dep. Exp. - Tran. And Distr. Mains  |          | \$130    |
| 4033003             | 403                | W/Water Dep. Exp. - Structure and Improv. |          | \$582    |
| 4033005             | 403                | W/Water Dep. Exp. - Sewer Treatment Plant | \$1,193  |          |



**EFFECT ON THE FILING IF THE FINDING IS ACCEPTED:** The utility's average water and wastewater rate base balance should be decreased by \$23,889 (\$21,025 + \$2,864) and increased by \$21,030 (\$2,864 + \$18,166), respectively as of December 31, 2007. The utility's water and wastewater year end balances should be decreased by \$23,866 (\$21,002 + \$2,864) and increased by \$20,725 (\$17,861+ \$2,864). The utility's water and wastewater depreciation expense balances should be decreased by \$45 and increased by \$611, respectively, for the 12-month period ended December 31, 2007.

See the audit staff's calculations on the following pages.

**General Ledger and Filing Adjustments**

| <u>Acct. No.</u>                 | <u>Acct. No.</u> | <u>Acct. Descrip</u> | <u>Adjustment</u> | <u>Adjustment</u> | <u>Adjustment</u> | <u>Adjustment</u> | <u>Adjustment</u> |
|----------------------------------|------------------|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 3043021                          | 304              | Structures an        | \$2,703           | \$0               | \$0               | \$2,703           | \$2,703           |
| 3315043                          | 331              | T&D Mains            | <u>(5,567)</u>    | <u>0</u>          | <u>0</u>          | <u>(5,567)</u>    | <u>(5,567)</u>    |
| Total Water UPIS Adjustment      |                  |                      | <u>(\$2,864)</u>  | <u>\$0</u>        | <u>\$0</u>        | <u>(\$2,864)</u>  | <u>(\$2,864)</u>  |
| 3547003                          | 354              | Structures an        | (\$18,591)        | \$0               | \$0               | (\$18,591)        | (\$18,591)        |
| 3804005                          | 380              | Sewer Treatm         | <u>21,455</u>     | <u>0</u>          | <u>0</u>          | <u>21,455</u>     | <u>21,455</u>     |
| Total Wastewater UPIS Adjustment |                  |                      | <u>\$2,864</u>    | <u>\$0</u>        | <u>\$0</u>        | <u>\$2,864</u>    | <u>\$2,864</u>    |

Adjustment to Acc/Dep: Debit (Credit)

| Utility                        | NARUC     |                               | Dec-04<br>Acc/Dep<br>Adjustment | Dec-05<br>Accrual<br>Adjustment | Dec-06<br>Accrual<br>Adjustment | Dec-07<br>Acc/Dep<br>Adjustment | Average<br>Acc/Dep<br>Adjustment |
|--------------------------------|-----------|-------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|----------------------------------|
| Acct. No.                      | Acct. No. | Acct. Description             |                                 |                                 |                                 |                                 |                                  |
| 1082000                        | 108       | Transportation - Order        | (\$1,053)                       | \$0                             | \$0                             | (\$1,053)                       | (\$1,053)                        |
| 1083021                        | 108       | Struc. & Improv. - Order      | (\$23,136)                      | \$0                             | \$0                             | (\$23,136)                      | (\$23,136)                       |
| 1083021                        | 108       | Struc. & Improv. - Cumulative | <u>(127)</u>                    | <u>(85)</u>                     | <u>(85)</u>                     | <u>(382)</u>                    | <u>(340)</u>                     |
|                                |           |                               | (\$23,263)                      | (\$85)                          | (\$85)                          | (\$23,518)                      | (\$23,476)                       |
| 1083025                        | 108       | Pumping Equip.                | (\$56)                          | (\$56)                          | (\$56)                          | (\$56)                          | (\$56)                           |
| 1083043                        | 108       | T&D Mains - Order             | \$5,494                         | \$0                             | \$0                             | \$5,494                         | \$5,494                          |
| 1083043                        | 108       | T&D Mains - Cumulative        | <u>195</u>                      | <u>130</u>                      | <u>130</u>                      | <u>585</u>                      | <u>520</u>                       |
|                                |           |                               | \$5,689                         | \$130                           | \$130                           | \$6,079                         | \$6,014                          |
| 1083094                        | 108       | Tools & Shop - Order          | (\$2,454)                       | \$0                             | \$0                             | (\$2,454)                       | (\$2,454)                        |
| Total Water Acc/Dep Adjustment |           |                               | <u>(\$21,137)</u>               | <u>(\$11)</u>                   | <u>(\$11)</u>                   | <u>(\$21,002)</u>               | <u>(\$21,025)</u>                |

| Utility                             | NARUC     |                                    | Dec-04<br>Acc/Dep<br>Adjustment | Dec-05<br>Accrual<br>Adjustment | Dec-06<br>Accrual<br>Adjustment | Dec-07<br>Acc/Dep<br>Adjustment | Average<br>Acc/Dep<br>Adjustment |
|-------------------------------------|-----------|------------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|----------------------------------|
| Acct. No.                           | Acct. No. | Acct. Description                  |                                 |                                 |                                 |                                 |                                  |
| 1082000                             | 108       | Transportation - Order             | \$4,373                         | \$0                             | \$0                             | \$4,373                         | \$4,373                          |
| 1084003                             | 108       | Struc. & Improv. - Order           | \$397                           | \$0                             | \$0                             | \$397                           | \$397                            |
| 1084003                             | 108       | Struc. & Improv. - Cumulative      | <u>873</u>                      | <u>582</u>                      | <u>582</u>                      | <u>2,619</u>                    | <u>2,328</u>                     |
|                                     |           |                                    | \$1,270                         | \$582                           | \$582                           | \$3,016                         | \$2,725                          |
| 1084005                             | 108       | Sewer Treatment Plant - Order      | \$15,840                        | \$0                             | \$0                             | \$15,840                        | \$15,840                         |
| 1084005                             | 108       | Sewer Treatment Plant - Cumulative | (1,789)                         | (1,193)                         | (1,193)                         | (5,368)                         | (4,772)                          |
|                                     |           |                                    | \$14,051                        | (\$1,193)                       | (\$1,193)                       | \$10,472                        | \$11,068                         |
| Total Wastewater Acc/Dep Adjustment |           |                                    | <u>\$19,694</u>                 | <u>(\$611)</u>                  | <u>(\$611)</u>                  | <u>\$17,861</u>                 | <u>\$18,166</u>                  |

Calculations:

Average Acc/Dep adjustment = (2006 Acc/Dep adjustment + 2007 Acc/Dep adjustment) / 2

**Water and Wastewater Plant in Service Adjustment:**

*Correcting adjustments to the order balance: Debit (Credit)*

| Utility<br>Acct. No.                      | NARUC<br>Acct. No. | Acct. Description      | Per Order<br>Adjustment | Correction<br>Required | Per Utility<br>Adjustment |
|---|--------------------|------------------------|-------------------------|------------------------|---------------------------|
| 3043021                                   | 304                | Structures and Improv. | \$2,703                 | \$2,703                | \$0                       |
| 3113028                                   | 311                | Pumping Equip.         | (557)                   | 0                      | (557)                     |
| 3315043                                   | 331                | T&D Mains              | (5,567)                 | (5,567)                | 0                         |
| 3917000                                   | 341                | Transportation Equip.  | (12,217)                | 0                      | (12,217)                  |
| 3466094                                   | 346                | Tools & Shop           | (5,873)                 | 0                      | (5,873)                   |
| Water utility plant in service adjustment |                    |                        | (\$21,511)              | (\$2,864)              | (\$18,647)                |

| Utility<br>Acct. No.                           | NARUC<br>Acct. No. | Acct. Description      | Per Order<br>Adjustment | Correction<br>Required | Per Utility<br>Adjustment |
|--|--------------------|------------------------|-------------------------|------------------------|---------------------------|
| 3547003  | 354                | Structures and Improv. | (\$18,591)              | (\$18,591)             | \$0                       |
| 3804005  | 380                | Sewer Treatment Plant  | 21,455                  | 21,455                 | 0                         |
| 3917000  | 391                | Transportation Equip.  | (6,836)                 | 0                      | (6,836)                   |
| Wastewater utility plant in service adjustment |                    |                        | (\$3,972)               | \$2,864                | (\$6,836)                 |

Audit staff's adjustment to UPIS is made as of December 2003.  
Therefore the average 2007 ending UPIS adjustment equals the total correction.

*Cumulative effect of posting 2003 adjustments in 2007: Debt (Credit)*

| Utility<br>Acct. No.                   | NARUC<br>Acct. No. | Acct. Description      | Correction<br>Amount | Depreciation<br>Rule Rate | Acc/Dep<br>Adjustment | Dep. Exp<br>Adjustment |
|--|--------------------|------------------------|----------------------|---------------------------|-----------------------|------------------------|
| 3043021                                | 304                | Structures and Improv. | \$2,703              | 3.13%                     | (\$382)               | \$85                   |
| 3315043                                | 331                | Tran. and Distr. Mains | (5,567)              | 2.33%                     | 585                   | (130)                  |
| Water Acc/Dep and Dep. Exp. adjustment |                    |                        | (\$2,864)            |                           | \$203                 | (\$45)                 |

| Utility<br>Acct. No.                   | NARUC<br>Acct. No. | Acct. Description      | Correction<br>Amount | Depreciation<br>Rule Rate | Acc/Dep<br>Adjustment | Dep. Exp<br>Adjustment |
|--|--------------------|------------------------|----------------------|---------------------------|-----------------------|------------------------|
| 3547003                                | 354                | Structures and Improv. | (\$18,591)           | 3.13%                     | \$2,619               | (\$582)                |
| 3804005                                | 380                | Sewer Treatment Plant  | 21,455               | 5.56%                     | (5,368)               | 1,193                  |
| Water Acc/Dep and Dep. Exp. adjustment |                    |                        | \$2,864              |                           | (\$2,749)             | \$611                  |

## Acc/Dep Adjustment to Order

*Correcting adjustments to the order balance: Debit (Credit)*

| Utility                                   | NARUC            |                                    | Per Order         | Correction      | Per Utility       |
|---|------------------|------------------------------------|-------------------|-----------------|-------------------|
| <u>Acct. No.</u>                          | <u>Acct. No.</u> | <u>Acct. Description</u>           | <u>Adjustment</u> | <u>Required</u> | <u>Adjustment</u> |
| 1082000                                   | 108              | Acc/Dep - Transportation Equipment | \$8,475           | (\$1,053)       | \$9,528           |
| 1083021                                   | 108              | Acc/Dep - Structure and Improv.    | (23,136)          | (23,136)        | 0                 |
| 1083025                                   | 108              | Acc/Dep - Pumping Equip.           | 14                | (56)            | 70                |
| 1083043                                   | 108              | Acc/Dep - Tran. And Distr. Mains   | 5,494             | 5,494           | 0                 |
| 1083094                                   | 108              | Acc/Dep - Tools & Shop             | <u>2,397</u>      | <u>(2,454)</u>  | <u>4,851</u>      |
| Water accumulated depreciation adjustment |                  |                                    | (\$6,756)         | (\$21,205)      | \$14,449          |

| Utility  | NARUC            |                                    | Per Order         | Correction      | Per Utility       |
|--|------------------|------------------------------------|-------------------|-----------------|-------------------|
| <u>Acct. No.</u>                               | <u>Acct. No.</u> | <u>Acct. Description</u>           | <u>Adjustment</u> | <u>Required</u> | <u>Adjustment</u> |
| 1082000  | 108              | Acc/Dep - Transportation Equipment | \$4,373           | \$4,373         | \$0               |
| 1084003  | 108              | Acc/Dep - Structure and Improv.    | 397               | 397             | 0                 |
| 1084005  | 108              | Acc/Dep - Sewer Treatment Plant    | <u>15,840</u>     | <u>15,840</u>   | <u>0</u>          |
| Wastewater accumulated depreciation adjustment |                  |                                    | \$20,610          | \$20,610        | \$0               |

Audit staff's adjustment to accumulated depreciation is made as of December 2003.

Therefore the average 2007 ending accumulated depreciation adjustment equals the total correction.

## AUDIT FINDING NO. 2

### SUBJECT: ADJUSTMENT TO ORGANIZATION COST AND FRANCHISE FEES

**AUDIT ANALYSIS:** The utility's water and wastewater average rate base balances are overstated by \$15,833 and understated by \$331, respectively, as of December 31, 2007

In its filing, the utility included average balances of \$15,338 for water organizational cost and \$7,933, each, for water and wastewater franchise fees. The filing included corresponding average accumulated depreciation of \$2,820 and \$1,008 for water organizational cost and water franchise fees, and average accumulated depreciation of \$5 and \$2,231 for wastewater organization and wastewater franchise fees.

The organizational cost balance was removed for rate case purposes in the utility's last rate filing and not included in the rate base balance established by the Commission as of December 31, 2003. Therefore, the organizational cost balance of \$15,338 with the corresponding accumulated depreciation of \$2,820, and \$5 for water and wastewater, respectively, should be removed for this rate case filing also. The audit staff calculated the average accumulated depreciation of franchise fees to be \$1,503.

The filing includes depreciation expense of \$198 for wastewater franchise fees for the year 2007, but did not include depreciation expense of the same amount for the water franchise fees. Therefore, it should be increased by \$198 ( $\$7,993 \times 2.5\%$  Rule Rate). Also, the accumulated depreciation for water franchise fees should be increased by \$594 ( $\$198 \times 3$  years 2005, 2006, 2007 )

**EFFECT ON GENERAL LEDGER IF THE FINDING IS ACCEPTED:** The following entry should be made to correct the water and wastewater organization and franchise fee accounts.

| <u>Acct. No.</u> | <u>Acct. No.</u> | <u>Account Description</u>      | <u>Debit</u> | <u>Credit</u> |
|------------------|------------------|---------------------------------|--------------|---------------|
| 1083002          | 108              | Acc/Dep - Franchise - Water     |              | \$594         |
| 4032002          | 403              | Dep. Exp. - Franchise Water     | \$198        |               |
| 1084002          | 108              | Acc/Dep - Franchise - Wwater    | \$231        |               |
| 3013021          | 301              | Water - Organization            |              | \$15,338      |
| 1083001          | 108              | Acc/Dep - Organization - Water  | \$2,820      |               |
| 1084001          | 108              | Acc/Dep - Organization - WWater | \$10         |               |
| 2151000          | 215              | Retained Earning                | \$12,673     |               |

**EFFECT ON FILING IF THE FINDING IS ACCEPTED:** The utility's water and wastewater average rate base balances should be reduced by \$15,833 and increased by \$331, respectively, as of December 31, 2007. The utility's water and wastewater year end rate base balances should be reduced by \$594 and increased by \$231 respectively, as of December 31, 2007, and its water depreciation expense balance should be increased by \$198, for the 12-month period ended December 31, 2007. See our calculations below.

|   |                   |                  |                |                  |           |
|---|-------------------|------------------|----------------|------------------|-----------|
| <u>Acct. No. 301 - Organization Cost</u>          | Average           | Average          |                |                  |           |
| Per Audit   | <u>Water</u>      | <u>W/Water</u>   |                |                  |           |
| Per Utility                                       | \$0               | -na-             |                |                  |           |
| Adjustment  | <u>15,338</u>     | <u>-na-</u>      |                |                  |           |
|   | (\$15,338)        | -na-             |                |                  |           |
| <br>  |                   |                  |                |                  |           |
| <u>Acct. No. 108 - Acc/Dep - Franchise Fee:</u>   | Average           | Average          | 2007           | 2007             |           |
| Per Audit   | <u>Water</u>      | <u>W/Water</u>   | <u>Water</u>   | <u>W/Water</u>   |           |
| Per Utility                                       | (\$1,503)         | (\$1,900)        | (\$1,602)      | (\$1,999)        |           |
| Adjustment  | <u>(1,008)</u>    | <u>(\$2,231)</u> | <u>(1,008)</u> | <u>(\$2,230)</u> |           |
|   | (\$495)           | \$331            | (\$594)        | \$231            |           |
| <br>  |                   |                  |                |                  |           |
| Average Rate Base Adjustment                      | <u>(\$15,833)</u> | <u>\$331</u>     |                |                  |           |
| <br>  |                   |                  |                |                  |           |
| <u>Acct. No. 108 - Acc/Dep - Franchise Fee:</u>   | Balance           | Balance          | Balance        | Balance          | Average   |
| Water   | <u>Dec-04</u>     | <u>Dec-05</u>    | <u>Dec-06</u>  | <u>Dec-07</u>    |           |
| Wastewater  | (\$1,008)         | (\$1,206)        | (\$1,404)      | (\$1,602)        | (\$1,503) |
|   | (\$1,405)         | (\$1,603)        | (\$1,801)      | (\$1,999)        | (\$1,900) |
| <br>  |                   |                  |                |                  |           |
| <u>Acct. No. 403 - Dep. Exp. - Franchise Fee:</u> | 2007              | 2007             |                |                  |           |
| Per Audit   | <u>Water</u>      | <u>W/Water</u>   |                |                  |           |
| Per Utility                                       | \$198             | \$198            |                |                  |           |
| Dep. Expense Adjustment                           | <u>0</u>          | <u>(198)</u>     |                |                  |           |
|   | <u>\$198</u>      | <u>\$0</u>       |                |                  |           |
| <br>  |                   |                  |                |                  |           |
| <u>Acct. No. 108 - Acc/Dep - Organization I</u>   | Average           | Average          |                |                  |           |
| Per Audit   | <u>Water</u>      | <u>W/Water</u>   |                |                  |           |
| Per Utility                                       | \$0               | \$0              |                |                  |           |
| Adjustment  | <u>2,820</u>      | <u>\$5</u>       |                |                  |           |
|   | (\$2,820)         | (\$5)            |                |                  |           |

**AUDIT FINDING NO. 3**

**SUBJECT: ADJUSTMENT TO RETIRE UTILITY PLANT IN SERVICE**

**AUDIT ANALYSIS:** The utility's average rate base is understated by \$1,361 and \$344 for water and wastewater, respectively, as of December 31, 2007.

The utility recorded eight capital additions to utility plant in service that should have included a corresponding retirement amount. The utility's policy is to retire 75 percent of the capital asset's purchase price when the original cost cannot be determined.

| Year Added | Utility Acct. No. | NARUC Acct. No. | RETIREMENT SCHEDULE<br>Acct. Description | Invoice Ref# and Vendor                              | Amount  | Associated Retirement | Dep. Rate | Dep. Exp.  | Acc. Dep.  |
|------------|-------------------|-----------------|--|--|---------|-----------------------|-----------|------------|------------|
| 2004       | 3113025           | 311             | Pumping Equip.                           | 08189*Thompson                                       | \$4,662 | \$3,497               | 5.00%     | \$175      | \$612      |
| 2006       | 3113025           | 311             | Pumping Equip.                           | N14878*Ken's Bush Hog Svc                            | \$3,058 | \$2,294               | 5.00%     | \$115      | \$172      |
| 2005       | 3345046           | 334             | Meters                                   | 00109*Badger M                                       | 2,269   | 1,702                 | 5.00%     | 85         | 213        |
| 2005       | 3345046           | 334             | Meters                                   | 00109*Badger M                                       | 7,350   | <u>5,513</u>          | 5.00%     | <u>276</u> | <u>689</u> |
|            |                   |                 |  |  |         | 13,005                |           | 651        | 1,686      |
| 2006       | 3542011           | 354             | Structure&Improv                         | N14878*Ken's Bush Hog Svcs                           | 2,210   | 1,658                 | 3.13%     | 52         | 78         |
| 2006       | 3804005           | 380             | Treatment&Disp.Equip                     | 36815*UtilEquip Svcs Inc.                            | 2,980   | 2,235                 | 5.56%     | 124        | 186        |
| 2006       | 3804005           | 380             | Treatment&Disp.Equip                     | N18659*Technical Treat.Svcs                          | 2,087   | 1,565                 | 5.56%     | 87         | 131        |
| 2006       | 3804005           | 380             | Treatment&Disp.Equip                     | R36815*UtilEquip Svcs Inc                            | 1,940   | <u>1,455</u>          | 5.56%     | <u>81</u>  | <u>121</u> |
|            |                   |                 |  |  |         | \$6,913               |           | \$344      | \$516      |
|            |                   |                 |  | WaterAcc/Dep adjustment @ 12/31/06 (\$1,686 - \$651) |         |                       |           | \$1,035    |            |
|            |                   |                 |  | WaterAcc/Dep adjustment @ 12/31/07                   |         |                       |           |            | \$1,686    |
|            |                   |                 |  | SewerAcc/Dep adjustment @ 12/31/06 (\$516 - \$344)   |         |                       |           | \$172      |            |
|            |                   |                 |  | SewerAcc/Dep adjustment @ 12/31/07                   |         |                       |           |            | \$516      |

Retirement amount was calculated as 75 percent of the cost of the new asset addition.

- Dep. Exp. of \$175 = \$3,497 x 5.0% x 1 year of service
- Acc/Dep of \$612 = \$3,497 x 5.0% x 3.5 years of service
- Dep. Exp. of \$115 = \$2,294 x 5.0% x 1 year of service
- Acc/Dep of \$172 = \$2,294 x 5.0% x 1.5 years of service
- Dep. Exp. \$85 = \$1,702 x 5.0% x 1 year of service
- Acc/Dep of \$213 = \$1,702 x 5.0% x 2.5 years of service
- Dep. Exp. \$276 = \$5,513 x 5.0% x 1 year of service
- Acc/Dep of \$689 = \$5,513 x 5.0% x 2.5 years of service
- Dep. Exp. of \$52 = \$1,658 x 3.13% x 1 year of service
- Acc/Dep of \$78 = \$1,658 x 3.13% x 1.5 year of service
- Dep. Exp. of \$124 = \$2,235 x 5.56% x 1 year of service
- Acc/Dep of \$186 = \$2,235 x 5.56% x 1.5 year of service
- Dep. Exp. of \$87 = \$1,565 x 5.56% x 1 years of service
- Acc/Dep of \$131 = \$1,565 x 5.56% x 1.5 year of service
- Dep. Exp. of \$81 = \$1,455 x 5.56% x 1 years of service
- Acc/Dep of \$121 = \$1,455 x 5.56% x 1.5 year of service

**EFFECT ON GENERAL LEDGER IF THE FINDING IS ACCEPTED:** The following entries are needed to correct the utility's general ledger balances to properly record the retirements discussed above.

| Utility<br>Acct. No. | NARUC<br>Acct. No. | Account Description                    | Debit   | Credit  |
|----------------------|--------------------|--|---------|---------|
| 1083025              | 108                | Acc/Dep - Pumping Equipment            | \$6,575 |         |
| 1083046              | 108                | Acc/Dep - Meters                       | \$8,116 |         |
| 2151000              | 215                | Retained Earnings                      |         | \$1,292 |
| 3113025              | 311                | Pumping Equipment                      |         | \$5,791 |
| 3345046              | 334                | Meters                                 |         | \$7,214 |
| 4032025              | 403                | Dep. Exp. - Pumping Equipment          |         | \$290   |
| 4032046              | 403                | Dep. Exp. - Meters                     |         | \$276   |
| 1085040              | 108                | Acc/Dep - Structure & Improv.          | \$1,736 |         |
| 1088000              | 108                | Acc/Dep - Treatment & Disp. Equip      | \$5,693 |         |
| 3547003              | 354                | Structural & Improv                    |         | \$1,658 |
| 3804005              | 380                | Treatment & Disp. Equip                |         | \$5,255 |
| 4033003              | 403                | Dep. Exp. - Structure & Improv.        |         | \$52    |
| 4033005              | 403                | Dep. Exp. - Treatment & Dispos. Equip. |         | \$292   |

Calculations:

|   |   |
|---|---|
| \$6,575 = \$3,497 + \$2,294+\$612+\$172 | \$8,116 = \$1,702 + \$5,512+\$213+\$689               |
| \$5,791 = \$3,497+\$2,294               | \$7,214 = \$1,702 + \$5,512                           |
| \$361 = \$85 + \$276                    | \$290 = \$175 + \$115                                 |
| \$1,736 = \$1,658 + \$78                | \$5,693 = \$2,235 + \$1,565+\$1,455+\$186+\$131+\$121 |
| \$5,255 = \$2,235 + \$1,565+\$1,455     | \$292 = \$124 + \$87+\$81                             |

**EFFECT ON FILING IF THE FILING IS ACCEPTED:** The corresponding decreases to utility plant in service and accumulated depreciation have no effect on the utility's rate base filing since they offset each other. However, average test year accumulated depreciation and depreciation expense should be reduced by \$1,361  $(\$1,035 + \$1,686)/2$  and \$651, and \$344  $(\$172 + \$516)/2$  and \$344 for water and wastewater, respectively, to remove the cumulative effect of the audit staff's retirement entries on the utility's filing.



## AUDIT FINDING NO. 4

### SUBJECT: UPIS MISCELLANEOUS ADJUSTMENTS

**AUDIT ANALYSIS:** The utility's filing reflects the following balances for the indicated accounts as of December 31, 2007.

| <u>Acct. No.</u> | <u>Description</u>       | <u>UPIS</u> | <u>Acc. Dep.</u> | <u>Dep. Expense</u> |
|------------------|--------------------------|-------------|------------------|---------------------|
| 311              | Pumping Equipment        | \$126,476   | \$15,408.00      | \$6,345.00          |
| 333              | Services                 | \$29,633    | (\$4,355.00)     | \$709.00            |
| 380              | Treatment & Disp. Equip. | \$482,012   | \$88,389.00      | \$13,563.00         |

The utility's UPIS and accumulated depreciation balances are overstated by \$9,083 and \$671, and \$440 and \$12 for water and wastewater respectively, as of December 31, 2007, because of the following audit staff findings.

1. The \$126,476 balance for Account No. 311 includes 2006 invoice of \$8,000 that represents the expense to terminate a contract of roof repair with a subcontractor, and a lost profit due to a contract termination. The amount should be removed per the NARUC rule as it represents expenses that should be recorded in Account 426 Miscellaneous Nonutility Expense. The utility also included 2006 invoice of \$808 that represents a repair of a service pump. This amount should be removed and should have been recorded in an expense account.
2. The \$29,633 balance for Account 333 includes 2006 invoice of \$275 that represents a repair of 1" meter. This amount should be removed and should have been recorded in an expense account.
3. The \$482,012 balance for Account 380 includes 2007 double entry of \$440 for the same vendor, the same month, and the same amount. The utility supported one invoice and failed to support the second one. The amount \$440 should be removed for the lack of support.

Additionally, the above adjustments will require a corresponding reduction of \$447 (\$400 + \$40 + \$7) and \$12 to depreciation expenses for water and wastewater respectively, for the 12-month period ended December 31, 2007. See the audit staff's calculations that follow.

| <u>Acct. No.</u> | <u>Description</u>      | <u>UPIS</u>  | <u>Acc. Dep.</u> | <u>Dep. Rate</u> | <u>Dep. Expense</u> |
|------------------|-------------------------|--------------|------------------|------------------|---------------------|
| 311              | Pumping Equipment       | \$8,000      | \$600            | 5.00%            | \$400               |
| 311              | Pumping Equipment       | \$808        | \$61             | 5.00%            | \$40                |
| 333              | Services                | <u>\$275</u> | <u>\$10</u>      | 2.50%            | <u>\$7</u>          |
|                  |                         | \$9,083      | \$671            |                  | \$447               |
| 380              | Treatment & Disp.Equip. | \$440        | \$12             | 5.56%            | \$12                |

$\$400 = \$8,000 * 5\%$   
 $\$600 = \$8,000 * 5\% * 1.5 \text{ Years of service}$   
 $\$40 = \$808 * 5\%$   
 $\$61 = \$808 * 5\% * 1.5 \text{ Years of service}$   
 $\$7 = \$275 * 2.5\%$   
 $\$10 = \$275 * 2.50\% * 1.5 \text{ Years of service}$   
 $\$12 = \$440 * 5.56\% * 1/2 \text{ year of service}$

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:** The following entries are needed to correct the utility's general ledger balances.

| <u>Utility</u> | <u>NARUC</u> | <u>Account Description</u>             | <u>Debit</u> | <u>Credit</u> |
|----------------|--------------|--|--------------|---------------|
| 1083025        | 108          | Acc/Dep - Pumping Equipment            | \$661        |               |
| 1083330        | 108          | Acc/Dep - Services                     | \$10         |               |
| 2151000        | 215          | Retained Earnings                      | \$9,299      |               |
| 3113025        | 311          | Pumping Equipment                      |              | \$8,808       |
| 3335046        | 333          | Services                               |              | \$275         |
| 4032025        | 403          | Dep. Exp. - Pumping Equipment          |              | \$440         |
| 4032046        | 403          | Dep. Exp. - Services                   |              | \$7           |
| 1088000        | 108          | Acc/Dep - Treatment & Disp. Equip      | \$12         |               |
| 3804005        | 380          | Treatment & Disp. Equip                |              | \$440         |
| 4033005        | 403          | Dep. Exp. - Treatment & Dispos. Equip. |              | \$12          |

Calculations:

$\$661 = \$600 + \$61$   
 $\$440 = \$400 + \$40$   
 $\$361 = \$85 + \$276$   
 $\$8,808 = \$8,000 + \$808$

**EFFECT ON THE FILING IF THE FINDING IS ACCEPTED:** The utility's average rate base balance should be decreased by \$8,412 (\$9,083 - \$671), and \$428 (\$440 - \$12) for water and wastewater respectively, as of December 31, 2007. The depreciation expense should be decreased by \$447 and \$12 for water and wastewater respectively, for the 12-month period ended December 31, 2007.

**AUDIT FINDING NO. 5**

**SUBJECT: ADJUSTMENT TO REMOVE CONTRIBUTION**

**AUDIT ANALYSIS:** The utility's rate base is understated by \$329 as of December 31, 2007

The utility recorded \$342 of Water CIAC in 2005, and recorded \$8 and \$9 of amortization of CIAC in the years 2006, and 2007 respectively. Order PSC-03-0638-PAA-WS, states, "... since the utility was built-out at the time of certification, we did not authorize the utility to collect service availability charges on a going-forward basis."

Since the Commission did not authorize the company to collect service availability fees, then the amount should be refunded to the customer charged.

**EFFECT ON GENERAL LEDGER IF THE FINDING IS ACCEPTED:** The following entry should be made to correct the CIAC and accumulated amortization of CIAC account balances.

| <u>Utility</u><br><u>Acct. No.</u> | <u>NARUC</u><br><u>Acct. No.</u> | <u>Account Description</u>         | <u>Debit</u> | <u>Credit</u> |
|------------------------------------|----------------------------------|------------------------------------|--------------|---------------|
| 1411000                            | 141                              | Acct. Receivable (customer refund) |              | \$342         |
| 2711010                            | 271                              | CIAC - Water                       | \$342        |               |
| 2722010                            | 272                              | Acc. Amortization of CIAC - Water  |              | \$17          |
| 4072072                            | 403                              | Amortization of CIAC - Water       | \$9          |               |
| 2151000                            | 215                              | Retained Earning                   | \$8          |               |

**EFFECT ON FILING IF THE FILING IS ACCEPTED:** Average CIAC should be reduced by \$329 (\$342 - \$13 that represents the average accumulated amortization of CIAC) for the year ended December 31, 2007.

**AUDIT FINDING NO. 6**

**SUBJECT: ADJUSTMENT TO EXPENSES – SYSTEM MISCLASSIFICATION**

**AUDIT ANALYSIS:** Labrador recorded \$2,910 to Miscellaneous Expenses – Account No. 775 in March 2007. Per the invoice this expense should have been recorded to the Sandalhaven utility system.

The expense was for cleaning seven lift stations at Sandalhaven performed by Lehigh Environmental Service, Inc., on March 5, 2007.

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:**

|   |           |
|---|-----------|
| Sandalhaven: Miscellaneous Expenses – Account No. 775 | \$2,910   |
| Labrador: Miscellaneous Expenses – Account No. 775    | <\$2,910> |

**EFFECT ON THE FILING IF FINDING IS ACCEPTED:**

Reduce Labrador’s Miscellaneous Expenses – Account No. 775 for \$2,910.

Reduce the Wastewater Working Capital by \$364 (\$2,910/8).

**AUDIT FINDING NO. 7**

**SUBJECT: ADJUSTMENT TO RENTAL EXPENSES**

**AUDIT ANALYSIS:** Labrador recorded real property lease expense of \$49,140 for the period ending December 31, 2007. The amount recorded for water was \$24,836 to Rental of Building/Real Property Expenses, Account No. 641. The amount recorded for wastewater was \$24,304 to Rental of Building/Real Property Expenses, Account No. 741.

The lease is for the leasing of three parcels of land, the water treatment plant, the wastewater treatment plant and the sprayfield.

FPSC Order No. PSC-04-1281-PAA-WS, issued December 28, 2004, states that the Commission set a cap on the amount that Labrador should be paying to Forest Lake Estates and that the maximum lease amount charged 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. The Commission estimated that the total original value of the land for both water and wastewater was \$298,617.

Per the above Order the maximum amount of lease expense that should be allowed for utility operations is \$25,293. ( $\$298,617 \times 8.47\%$  based on the requested Cost of Capital in this rate proceeding)

The utility added Pro Forma adjustments of \$594 for water and \$581 for wastewater based on the 2.9% index per the 2008 Price Index in FPSC Order PSC-08-0104-PAA-WS, issued February 18, 2008.

Per the lease agreement the above lease amount of \$49,140 per year is valid from June 1, 2005 through May 31, 2011. According to the lease agreement "Every six (6) years thereafter, rental amounts shall be increased to an amount equal to the increase in the Consumer Price Index which shall be determined every six (6) years and paid at the new rental rate adjusted by the cumulative increase over the prior six (6) years." Based on the Commission Order and the stated cap, no Pro Forma adjustment is required and should be removed.

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:**

|   |          |
|---|----------|
| Miscellaneous Nonutility Expenses - Account No. 426 | \$23,847 |
| Rental of Building/Real Property - Account No. 641  | \$23,847 |

See schedule below for details.

**EFFECT ON THE FILING IF FINDING IS ACCEPTED:**

|   |          |
|---|----------|
| Miscellaneous Nonutility Expenses - Account No. 426 | \$23,847 |
| Rental of Building/Real Property - Account No. 641  | \$12,053 |
| Rental of Building/Real Property - Account No. 741  | \$11,794 |

Water working capital allowance should be reduced by \$1,507. Wastewater working capital allowance should be reduced by \$1,474.

Pro Forma Adjustments:

Rental of Building/Real Property - Account No. 641 should be reduced by \$594. Rental of Building/Real Property – Account No. 741 should be reduced by \$581.

Water working capital allowance should be reduced by \$74 and wastewater should be reduced by \$73.

See schedule below for details.

| <u>Lease Expense</u>                                     | <u>Total</u>       | <u>Water</u>       | <u>Wastewater</u>  |
|--|--------------------|--------------------|--------------------|
| Per Audit  | \$ 25,293          | \$ 12,784          | \$ 12,509          |
| Per Utility  | \$ 49,140          | \$ 24,836          | \$ 24,304          |
| Adjustment   | <u>\$ (23,847)</u> | <u>\$ (12,053)</u> | <u>\$ (11,794)</u> |
| Allocated based on customers                             |                    | 50.54%             | 49.46%             |
| Working Capital Adjustment<br>Required at 1/8:           | \$ (2,981)         | \$ (1,507)         | \$ (1,474)         |
| Pro Forma Adjustment:                                    |                    |                    |                    |
| Per Audit  | \$ -               | \$ -               | \$ -               |
| Per Utility  | \$ 1,175           | \$ 594             | \$ 581             |
| Adjustment   | <u>\$ (1,175)</u>  | <u>\$ (594)</u>    | <u>\$ (581)</u>    |
| Pro Forma Working Capital<br>Adjustment Required at 1/8: | \$ (147)           | \$ (74)            | \$ (73)            |
| Total O & M Adjustment                                   | \$ (25,022)        | \$ (12,647)        | \$ (12,375)        |
| Total Working Capital<br>Adjustment                      | \$ (3,128)         | \$ (1,581)         | \$ (1,547)         |

**AUDIT FINDING NO. 8**

**SUBJECT: ADJUSTMENT TO PRIOR RATE CASE EXPENSE**

**AUDIT ANALYSIS:** FPSC Order PSC-04-1281-PAA-WS, issued December 28, 2004, authorized \$68,988 of rate case expenses to be amortized over four years or \$17,247 per year. The utility’s new tariffs per the above Order were effective on February 3, 2005, which is the beginning of the four-year amortization period for rate case expense recovery.

The utility’s general ledger shows \$92,490 to be amortized over the same four-year period.

**EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:**

|   |          |
|---|----------|
| Account No. 215 - Retained Earnings                 | \$12,552 |
| Account No. 186.1 Deferred Rate Case Expense        | \$6,584  |
| Account No. 666 – Amortization of Rate Case Expense | \$3,016  |
| Account No. 766 – Amortization of Rate Case Expense | \$2,952  |

See schedule below for details

**EFFECT ON FILING IF FINDING IS ACCEPTED:**

The effect on filing will be equal to the effect on the general ledger with an additional adjustment to working capital. Water working capital allowance should be reduced by \$377 and wastewater should be reduced by \$369. See schedule below for details.

| <b>UNAMORTIZED/RATE CASE EXPENSE:</b> |                   | Total       | Water       | Wastewater  | Water      | Wastewater |            |
|---------------------------------------|-------------------|-------------|-------------|-------------|------------|------------|------------|
|                                       |                   | Unamortized | Unamortized | Unamortized |            |            |            |
| Beginning                             | Amount Amortized  | Balance at  | Balance at  | Balance at  | 2007       | 2007       |            |
| Balance at                            | (Feb 3, 05 to Dec | December    | December    | December    | Expense    | Expense    |            |
| February 3, 2005                      | 31, 07)           | 31, 2007    | 31, 2007    | 31, 2007    |            |            |            |
| Per Audit                             | \$ 68,988         | \$ 50,304   | \$ 18,684   | \$ 9,443    | \$ 9,241   | \$ 8,717   | \$ 8,530   |
| Per Utility                           | \$ 92,490         | \$ 67,222   | \$ 25,268   | \$ 12,771   | \$ 12,497  | \$ 11,733  | \$ 11,482  |
| Adjustment                            | \$ (23,502)       | \$ (16,918) | \$ (6,584)  | \$ (3,328)  | \$ (3,256) | \$ (3,016) | \$ (2,952) |

Allocated based on customers 50.54% 49.46%

Working Capital Adjustment  
 Required at 1/8: \$ (746) \$ (377) \$ (369)

Schedule of Water Rate Base

Florida Public Service Commission

Company: Labrador Utilities, Inc.  
 Docket No.: 080249-WS  
 Schedule Year Ended: December 31, 2007  
 Interim  Final   
 Historic  Projected

Schedule: A-1  
 Page 1 of 1  
 Preparer: John Hoy

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.

| Line No. | (1)<br>Description                | (2)<br>Average Amount<br>Per<br>Books | (3)<br>Utility<br>Test Year<br>Adjustments | (4)<br>Utility<br>Adjusted<br>Test Year | (5)<br>Utility<br>Pro Forma<br>Adjustments | (6)<br>Adjusted<br>Utility<br>Balance | (7)<br>Supporting<br>Schedule(s) |
|----------|-----------------------------------|---------------------------------------|--|---|--|---------------------------------------|----------------------------------|
| 1        | Utility Plant in Service          | \$ 650,138                            | \$ 2,835 (A)                               | \$ 652,973                              | \$ 57,879 (A)                              | \$ 710,652                            | A-3, A-5                         |
| 2        |                                   |                                       |  |   |  |                                       |                                  |
| 3        | Utility Land & Land Rights        | 123                                   | 198 (A)                                    | 321                                     | (A)  | 321                                   | A-3, A-5                         |
| 4        |                                   |                                       |  |   |  |                                       |                                  |
| 5        | Less: Non-Used & Useful Plant     |                                       |  |   |  |                                       | A-7                              |
| 6        |                                   |                                       |  |   |  |                                       |                                  |
| 7        | Construction Work in Progress     | 21,496                                | (21,496) (B)                               |   | (B)  |                                       | A-3                              |
| 8        |                                   |                                       |  |   |  |                                       |                                  |
| 9        | Less: Accumulated Depreciation    | (155,978)                             | 2,099 (C)                                  | (153,879)                               | (9,613) (C)                                | (163,492)                             | A-3, A-9                         |
| 10       |                                   |                                       |  |   |  |                                       |                                  |
| 11       | Less: CIAC                        | (342)                                 |  | (342)                                   |  | (342)                                 | A-12                             |
| 12       |                                   |                                       |  |   |  |                                       |                                  |
| 13       | Accumulated Amortization of CIAC  | 13                                    |  | 13                                      |  | 13                                    | A-14                             |
| 14       |                                   |                                       |  |   |  |                                       |                                  |
| 15       | Acquisition Adjustments           | (351,387)                             | 351,387 (D)                                |   | (D)  |                                       | A-3                              |
| 16       |                                   |                                       |  |   |  |                                       |                                  |
| 17       | Accum. Amort. of Acq. Adjustments | 39,095                                | (39,095) (D)                               |   | (D)  |                                       | A-3                              |
| 18       |                                   |                                       |  |   |  |                                       |                                  |
| 19       | Advances For Construction         |                                       |  |   |  |                                       | A-16                             |
| 20       |                                   |                                       |  |   |  |                                       |                                  |
| 21       | Working Capital Allowance         |                                       | 18,827 (E)                                 | 18,827                                  | 3,163 (E)                                  | 21,990                                | A-17                             |
| 22       |                                   |                                       |  |   |  |                                       |                                  |
| 23       | <b>Total Rate Base</b>            | <b>\$ 203,157</b>                     | <b>\$ 314,755</b>                          | <b>\$ 517,913</b>                       | <b>\$ 51,229</b>                           | <b>\$ 569,142</b>                     |                                  |



Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Labrador Utilities, Inc.  
 Docket No.: 090249-WS  
 Schedule Year Ended: December 31, 2007  
 Interim [ ] Final [X]  
 Historic [X] Projected [ ]

Schedule: A-2  
 Page 1 of 1  
 Preparer: John Hoy

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.

| Line No. | (1)<br>Description                | (2)<br>Average Amount<br>Per<br>Books | (3)<br>Utility<br>Test Year<br>Adjustments | (4)<br>Utility<br>Adjusted<br>Test Year | (5)<br>Utility<br>Pro Forma<br>Adjustments | (6)<br>Adjusted<br>Utility<br>Balance | (7)<br>Supporting<br>Schedule(s) |
|----------|-----------------------------------|---------------------------------------|--|---|--|---------------------------------------|----------------------------------|
| 1        | Utility Plant in Service          | \$ 1,769,496                          | \$ 2,775 (A)                               | \$ 1,772,271                            | \$ 56,443 (A)                              | \$ 1,828,714                          | A-3, A-6                         |
| 2        |                                   |                                       |  |   |  |                                       |                                  |
| 3        | Utility Land & Land Rights        | 120                                   | 193 (A)                                    | 313                                     | (A)  | 313                                   | A-3, A-6                         |
| 4        |                                   |                                       |  |   |  |                                       |                                  |
| 5        | Less: Non-Used & Useful Plant     |                                       |  |   |  |                                       | A-7                              |
| 6        |                                   |                                       |  |   |  |                                       |                                  |
| 7        | Construction Work in Progress     | 20,518                                | (20,518) (B)                               |   | (B)  |                                       | A-3                              |
| 8        |                                   |                                       |  |   |  |                                       |                                  |
| 9        | Less: Accumulated Depreciation    | (480,174)                             | 2,055 (C)                                  | (478,119)                               | (9,407) (C)                                | (487,526)                             | A-3, A-10                        |
| 10       |                                   |                                       |  |   |  |                                       |                                  |
| 11       | Less: CIAC                        |                                       |  |   |  |                                       | A-12                             |
| 12       |                                   |                                       |  |   |  |                                       |                                  |
| 13       | Accumulated Amortization of CIAC  |                                       |  |   |  |                                       | A-14                             |
| 14       |                                   |                                       |  |   |  |                                       |                                  |
| 15       | Acquisition Adjustments           |                                       |  |   |  |                                       |                                  |
| 16       |                                   |                                       |  |   |  |                                       |                                  |
| 17       | Accum. Amort. of Acq. Adjustments |                                       |  |   |  |                                       |                                  |
| 18       |                                   |                                       |  |   |  |                                       |                                  |
| 19       | Advances For Construction         |                                       |  |   |  |                                       | A-16                             |
| 20       |                                   |                                       |  |   |  |                                       |                                  |
| 21       | Working Capital Allowance         |                                       | 30,711 (D)                                 | 30,711                                  | 3,389 (D)                                  | 34,100                                | A-17                             |
| 22       |                                   |                                       |  |   |  |                                       |                                  |
| 23       | Total Rate Base                   | \$ 1,309,960                          | \$ 15,216                                  | \$ 1,325,176                            | \$ 50,425                                  | \$ 1,375,601                          |                                  |

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Labrador Utilities, Inc.  
 Docket No.: 080249-WS  
 Test Year Ended: December 31, 2007  
 Interim [ ] Final [X]  
 Historic [X] Projected [ ]

Schedule: B-1  
 Page 1 of 1  
 Preparer: John Hoy

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)<br>Description               | (2)<br>Balance Per Books | (3)<br>Utility Test Year Adjustments | (4)<br>Utility Adjusted Test Year | (5)<br>Requested Revenue Adjustment | (6)<br>Requested Annual Revenues | (7)<br>Supporting Schedule(s) |
|----------|----------------------------------|--------------------------|--------------------------------------|-----------------------------------|-------------------------------------|----------------------------------|-------------------------------|
| 1        | OPERATING REVENUES               | \$ 172,175               | \$ (16,413) (A)                      | \$ 155,762                        | \$ 146,521 (A)                      | \$ 302,283                       | B-4, B-3                      |
| 2        |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 3        | Operation & Maintenance          | 165,660                  | (15,048) (B)                         | 150,612                           | 25,310 (B)                          | 175,922                          | B-5, B-3                      |
| 4        | Depreciation, net of CIAC Amort. | 20,973                   | 3,725 (C)                            | 24,698                            | 9,613 (C)                           | 34,311                           | B-13, B-3                     |
| 5        |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 6        | Amortization                     |                          |                                      |                                   |                                     |                                  |                               |
| 7        |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 8        | Taxes Other Than Income          | 61,555                   | (41,159) (D)                         | 20,396                            | 6,775 (D)                           | 27,171                           | B-15, B-3                     |
| 9        |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 10       | Provision for Income Taxes       | (23,472)                 | 1,406 (E)                            | (22,066)                          | 38,735 (E)                          | 16,669                           | C-1, B-3                      |
| 11       |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 12       | OPERATING EXPENSES               | 224,715                  | (51,076)                             | 173,640                           | 80,433                              | 254,073                          |                               |
| 13       |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 14       | NET OPERATING INCOME             | \$ (52,540)              | \$ 34,682                            | \$ (17,878)                       | \$ 66,088                           | \$ 48,210                        |                               |
| 15       |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 16       |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 17       | RATE BASE                        | \$ 203,157               | \$ 314,755                           | \$ 517,913                        | \$ 51,229                           | \$ 569,142                       |                               |
| 18       |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 19       |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 20       |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 21       | RATE OF RETURN                   | (25.86) %                |                                      | (3.45) %                          |                                     | 8.47 %                           |                               |

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Labrador Utilities, Inc.  
 Docket No.: 080249-WS  
 Test Year Ended: December 31, 2007  
 Interim [ ] Final [X]  
 Historic [X] Projected [ ]

Schedule: B-2  
 Page 1 of 1  
 Preparer: John Hoy

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)<br>Description               | (2)<br>Balance Per Books | (3)<br>Utility Test Year Adjustments | (4)<br>Utility Adjusted Test Year | (5)<br>Requested Revenue Adjustment | (6)<br>Requested Annual Revenues | (7)<br>Supporting Schedule(s) |
|----------|----------------------------------|--------------------------|--------------------------------------|-----------------------------------|-------------------------------------|----------------------------------|-------------------------------|
| 1        | OPERATING REVENUES               | \$ 388,315               | \$ (25,866) (A)                      | \$ 362,449                        | \$ 181,228 (A)                      | \$ 543,677                       | B-4 B-3                       |
| 2        |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 3        | Operation & Maintenance          | 222,952                  | 22,734 (B)                           | 245,685                           | 27,115 (B)                          | 272,801                          | B-6 B-3                       |
| 4        | Depreciation, net of CIAC Amort. | 50,966                   | 3,647 (C)                            | 54,613                            | 9,407 (C)                           | 64,020                           | B-14, B-3                     |
| 5        |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 6        | Amortization                     | -                        |                                      |                                   |                                     |                                  |                               |
| 7        |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 8        | Taxes Other Than Income          | -                        | 41,712 (D)                           | 41,712                            | 8,333 (D)                           | 50,045                           | B-15 B-3                      |
| 9        |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 10       | Provision for Income Taxes       | -                        | (10,311) (E)                         | (10,311)                          | 50,604 (E)                          | 40,293                           | C-1, B-3                      |
| 11       |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 12       | OPERATING EXPENSES               | 273,917                  | 57,781                               | 331,699                           | 95,460                              | 427,158                          |                               |
| 13       |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 14       | NET OPERATING INCOME             | \$ 114,397               | \$ (83,647)                          | \$ 30,750                         | \$ 85,788                           | \$ 116,519                       |                               |
| 15       |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 16       |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 17       |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 18       | RATE BASE                        | \$ 1,309,860             | \$ 15,216                            | \$ 1,325,176                      | \$ 50,425                           | \$ 1,375,601                     |                               |
| 19       |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 20       |                                  |                          |                                      |                                   |                                     |                                  |                               |
| 21       | RATE OF RETURN                   | 8.73 %                   |                                      | 2.32 %                            |                                     | 8.47 %                           |                               |

Schedule of Requested Cost of Capital  
Simple Average

Florida Public Service Commission

Company - Labrador Utilities, Inc.  
Docket No. 080249-WS  
Schedule Year Ended: 12/31/07  
Interim  Final   
Historical  Projected

Schedule D-1  
Page 1 of 1  
Preparer: Kirsten Weeks

Explanation: Provide a schedule which calculates the requested cost of capital on a simple average basis. If a year-end basis is used, submit an additional schedule reflecting year-end calculations

| Line No. | (1)<br>Class of Capital  | (2)<br>Reconciled to<br>Requested Rate Base<br>AYE 12/31/07 | (3)<br>Ratio | (4)<br>Cost Rate | (5)<br>Weighted Cost |
|----------|--|---|--------------|------------------|----------------------|
| 1        | Long Term Debt   | \$ 1,040,951  | 53.53%       | 6.65%            | 3.56%                |
| 2        | Short Term Debt  | 44,818  | 2.30%        | 2.44%            | 0.06%                |
| 3        | Preferred Stock  | -   | 0.00%        | 0.00%            | 0.00%                |
| 4        | Common Equity  | 805,476   | 41.42%       | 11.70%           | 4.85%                |
| 5        | Customer Deposits  | -   | 0.00%        | 6.00%            | 0.00%                |
| 6        | Tax Credits - Zero Cost  | -   | 0.00%        | 0.00%            | 0.00%                |
| 7        | Tax Credits - Weighted Cost  | -   | 0.00%        | 0.00%            | 0.00%                |
| 8        | Accumulated Deferred Income Tax  | 53,498  | 2.75%        | 0.00%            | 0.00%                |
| 9        | Other (Explain)  | -   | 0.00%        | 0.00%            | 0.00%                |
| 10       |  |   |              |                  |                      |
| 11       | Total  | \$ 1,944,743  | 100.00%      |                  | 8.47%                |
| 12       |  |   |              |                  |                      |
| 13       |  |   |              |                  |                      |
| 14       | Note: The cost of equity is based on the leverage formula in effect pursuant to Order No. JSC-070006-WS.   |   |              |                  |                      |
| 15       |  |   |              |                  |                      |
| 16       | Note: Long term debt, short term debt, preferred stock, and common equity are actual for Labrador's parent |   |              |                  |                      |
| 17       | company, Utilities, Inc.   |   |              |                  |                      |

Supporting Schedules: D-2  
Recap Schedules: A-1, A-2