

State of Florida



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DATE: December 1, 2011
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *CJP*
RE: Docket No.: 110264-WS
Company Name: Labrador Utilities, Inc.
Company Code: WS851
Audit Purpose: Rate Case
Audit Control No: 11-273-4-1

Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There were confidential work papers associated with this audit.

CJP/klh

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

08719 DEC-1 =

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State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Miami District Office

Auditor's Report

Labrador Utilities, Inc.
Rate Case (PAA)

Twelve Months Ended December 31, 2010

Docket No. 110264-WS
Audit Control No. 11-273-4-1
November 30, 2011

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Purpose

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 dated September 29, 2011. We have applied these procedures to the attached schedules prepared by Labrador Utilities, Inc. in support of its filing for rate relief in Docket No. 110264-WS.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

The term "Company" refers to Utilities, Inc., the parent of Labrador Utilities Inc. (Utility). The Utility has filed a rate case with the test year ended December 31, 2010. The Utility's last rate case order PSC-09-0711-WS was issued October 26, 2009 in Docket No. 080249-WS.

Utility Books and Records

Objectives: To determine that the Utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA).

Procedures: We reviewed the Utility's accounting systems. The Utility does not use NARUC account numbers in its ledgers but maintains a conversion table and converts its filings into NARUC accounts.

Rate Base

Objectives: Our objective was to determine that the Utility's adjustments to rate base were correct and supported by adequate audit evidence.

Procedures: We obtained supporting documentation for the adjustments to rate base and verified the assumptions used. We traced any test year data used to the test year general ledger.

Utility Plant in Service

Objectives: Our objectives were to: 1) Determine that property exists and is owned by the Utility and that plant additions are authentic, recorded at cost, and properly classified in compliance with Commission rules and the NARUC USOA, 2) Verify that the proper retirements of plant were made when a replacement item was put in service, and 3) verify that the adjustments to plant in the Utility's last rate proceeding were recorded in the its general ledger.

Procedures: We determined the water and wastewater plant balances as of December 31, 2007 that were established in Docket 080249-WS. We reviewed and sampled additions to plant for the period January 1, 2008 through December 31, 2010, to verify the plant balances for this proceeding. We ensured that retirements were made when a capital item was removed or replaced. We toured the utility plant site to observe whether plant additions were completed and in service, and to ascertain if a retirement was needed.

Land & Land Rights

Objectives: Our objectives were to: 1) Determine that Utility land is recorded at original cost and is owned or secured under a long-term lease, and 2) Verify that the adjustments to land in the Utility's last rate proceeding were recorded in its general ledger.

Procedures: We determined the land balances as of December 31, 2007 that were established in Docket 080249-WS. No land was added since the last rate case.

Contributions-in-Aid-of-Construction (CIAC)

Objectives: Our objectives were to: 1) Determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC USOA, 2) Verify that donated property is properly accounted for and recorded as CIAC, and 3) Verify that the adjustments to CIAC in the Utility's last rate proceeding were recorded in the general ledger.

Procedures: We determined the CIAC balances as of December 31, 2007 that were established in Docket 080249-WS. We reviewed and sampled additions to CIAC for the period January 1, 2008 through December 31, 2010, to verify the Utility's CIAC balances for this rate case proceeding. We reviewed the Income Tax returns for unrecorded cash and property contributions.

Accumulated Depreciation

Objectives: Our objectives were to: 1) Verify that the adjustments to accumulated depreciation in the Utility's last rate proceeding were recorded in the general ledger, 2) Determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USOA, 3) Verify that depreciation expense accruals are calculated using the Commission's authorized rates, and 4) Verify that retirements are properly recorded.

Procedures: We determined the accumulated depreciation balances as of December 31, 2007 that were established in Docket 080249-WS. We reviewed and sampled additions to accumulated depreciation balances for this proceeding. We ensured that retirements to accumulated depreciation were made when a capital item was removed or replaced.

Accumulated Amortization of CIAC

Objectives: Our objectives were to: 1) Determine accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules, and 2) Verify that the adjustments to accumulated amortization of CIAC in the Utility's last rate proceeding were recorded in the general ledger.

Procedures: We determined the accumulated amortization of CIAC balances as of December 31, 2007 that was established in Docket 080249-WS. We reviewed and sampled additions to accumulated amortization of CIAC for the period January 1, 2008 through December 31, 2010, to verify the Utility's accumulated amortization of CIAC balances for this proceeding.

Working Capital

Objectives: Our objective was to determine that the Utility's working capital balance is properly calculated in compliance with Commission rules.

Procedures: We verified the Utility's calculation of working capital balances as of December 31, 2010, using the formula method and traced the components to the general ledger.

Net Operating Income

Operating Revenue

Objectives: Our objective was to determine that utility revenues are properly recorded in compliance with Commission rules and are based on the Utility's Commission approved tariff rates.

Procedures: We verified the Utility's revenues for the 12-month period ending December 31, 2010, by tracing them to the Utility's general ledger and billing register system. We verified that the Utility is using its Commission authorized tariff rates by recalculating a sample of residential and general service customers' bills in the test year period.

Operation and Maintenance Expense

Objectives: Our objective was to determine that operation and maintenance expenses are properly recorded in compliance with NARUC USOA and Commission rules and are representative of ongoing utility operations.

Procedures: We verified water and wastewater operating and maintenance expenses for the 12-month period ending December 31, 2010, by tracing a sample of invoices to the original source documentation. We reviewed invoices for proper amount, period, classification, NARUC account, and recurring nature.

We reviewed related party allocations from Utilities, Inc. for payroll and services provided from its headquarters in Northbrook, Illinois, its regional office, and its Altamonte Springs, Florida office.

Taxes Other than Income

Objectives: Our objective was to determine that taxes other than income expenses are properly recorded in compliance with Commission rules and are reasonable and prudent for ongoing utility operations.

Procedures: We verified water and wastewater taxes other than income tax expense expenses for the 12-month period ending December 31, 2010, by tracing invoiced taxes to original source documentation. We reviewed the 2010 regulatory assessment fee returns and no exceptions were noted.

Capital Structure

Objectives: Our objective was to determine that the components of the Utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission requirements.

Procedures: We reviewed the cost of capital components allocated from Utilities, Inc. headquarters in Northbrook, Illinois. Customer deposits and deferred taxes were reconciled to the general ledger.

Audit Findings

Finding 1: Retirements Not Booked

Audit Analysis: As a result of our sample of plant additions, we determined that there were several retirements that were not recorded by the Utility. The Utility agreed that retirements should have been recorded when the new assets were installed. The retirements were calculated using 75% of the new addition in accordance with the Commission policy. The accumulated depreciation and depreciation expense related to these assets also need to be removed. The schedule following this finding details the accounts, the vendor for the new addition, and the amounts with the associated depreciation for each item.

Effect on the General Ledger: The adjustment on the following page is needed to correct the ledger. Since the test year is already closed in the ledger, the depreciation expense should be recorded to retained earnings.

Effect on the Filing: Average Water Plant should be reduced by \$3,048.77. Average Water Accumulated Depreciation should be reduced by \$3,529.77. Water depreciation expense should be reduced by \$105.06. Average Wastewater Plant should be reduced by \$12,903.12. Average Wastewater Accumulated Depreciation should be reduced by \$17,772.78 and Wastewater depreciation expense should also be reduced by \$766.24.

| Calculation of Average Plant and Accumulated Depreciation | | |
|--|---------------|----------------|
| | Water | Wastewater |
| Plant in Service | | |
| Beginning Balance | \$ (2,757.40) | \$ (8,807.02) |
| Ending Balance | \$ (3,340.13) | \$ (16,999.21) |
| TOTAL | \$ (6,097.53) | \$ (25,806.23) |
| AVERAGE | \$ (3,048.77) | \$ (12,903.12) |
| Accumulated Depreciation | | |
| Beginning Balance | \$ 3,477.24 | \$ 17,389.66 |
| Ending Balance | \$ 3,582.30 | \$ 18,155.90 |
| TOTAL | \$ 7,059.54 | \$ 35,545.56 |
| AVERAGE | \$ 3,529.77 | \$ 17,772.78 |

| Compyr Account | NARUC | Description | Debit | Credit |
|-------------------|-------|---|-------------|---------------|
| 1105 | 311.3 | Pumping Equipment Water Treatment Plant | | \$ (948.40) |
| 1105 | 311.3 | Pumping Equipment Water Treatment Plant | | \$ (220.20) |
| 1115 | 320.3 | Water Treatment Equipment | | \$ (346.50) |
| 1130 | 333.4 | Services- Water | | \$ (186.43) |
| 1130 | 333.4 | Services- Water | | \$ (176.11) |
| 1145 | 335.4 | Hydrants- Water | | \$ (1,462.50) |
| 1365 | 364.2 | Flow Measure Devices | | \$ (1,232.99) |
| 1380 | 371.3 | Pumping Equip. Wastewater Pump | | \$ (2,056.34) |
| 1380 | 371.3 | Pumping Equip. Wastewater Pump | | \$ (309.26) |
| 1380 | 371.3 | Pumping Equip. Wastewater Pump | | \$ (565.11) |
| 1380 | 371.3 | Pumping Equipment Wastewater Pump | | \$ (2,299.16) |
| 1380 | 371.3 | Pumping Equipment Wastewater Pump | | \$ (431.75) |
| 1380 | 371.3 | Pumping Equipment Wastewater Pump | | \$ (431.75) |
| 1400 | 380.4 | Treatment & Disposal Wastewater Treatment | | \$ (882.75) |
| 1400 | 380.4 | Treatment & Disposal Wastewater Treatment | | \$ (1,161.80) |
| 1400 | 380.4 | Treatment & Disposal Wastewater Treatment | | \$ (882.75) |
| 1400 | 380.4 | Treatment & Disposal Wastewater Treatment | | \$ (1,923.72) |
| 1400 | 380.4 | Treatment & Disposal Wastewater Treatment | | \$ (1,139.55) |
| 1400 | 380.4 | Treatment & Disposal Wastewater Treatment | | \$ (736.64) |
| 1410 | 381.4 | Plant Sewers Wastewater Treatment | | \$ (1,590.40) |
| 1410 | 381.4 | Plant Sewers Wastewater Treatment | | \$ (1,355.25) |
| 1900 | 108 | Acc. Depreciation-Pumping Equip. WTP | \$ 1,066.95 | |
| 1900 | 108 | Acc. Depreciation-Pumping Equip. WTP | \$ 222.04 | |
| 1910 | 108 | Acc. Depreciation Water Treatment Equip. | \$ 374.06 | |
| 1925 | 108 | Acc. Depreciation- Services | \$ 190.31 | |
| 1925 | 108 | Acc. Depreciation Services | \$ 179.78 | |
| 1940 | 108 | Acc. Depreciation- Hydrants | \$ 1,549.17 | |
| 2125 | 108 | Acc. Depr. Flow Measuring Device | \$ 1,253.54 | |
| 2140 | 108 | Acc. Depr.-Pumping Equipment WW | \$ 2,360.98 | |
| 2140 | 108 | Acc. Depr.-Pumping Equipment WW | \$ 591.27 | |
| 2140 | 108 | Acc. Depr. Pumping Equipment WW | \$ 327.87 | |
| 2140 | 108 | Acc. Depr. Pumping Equipment WW | \$ 2,426.89 | |
| 2140 | 108 | Acc. Depr. Pumping Equipment WW | \$ 445.74 | |
| 2140 | 108 | Acc. Depr. Pumping Equipment WW | \$ 435.75 | |
| 2160 | 108 | Acc. Depr. Treatment & Disposal WW | \$ 964.49 | |
| 2160 | 108 | Acc. Depr. Treatment & Disposal WW | \$ 1,269.37 | |
| 2160 | 108 | Acc. Depr. Treatment & Disposal WW | \$ 952.23 | |
| 2160 | 108 | Acc. Depr. Treatment & Disposal WW | \$ 2,057.31 | |
| 2160 | 108 | Acc. Depr. Treatment & Disposal WW | \$ 1,197.58 | |
| 2160 | 108 | Acc. Depr. Treatment & Disposal WW | \$ 767.33 | |
| 2170 | 108 | Acc. Depr. Plant Sewers WW | \$ 1,711.57 | |
| 2170 | 108 | Acc. Depr. Plan Sewers WW | \$ 1,393.97 | |
| 4998 | 215 | Retained Earnings | | \$ 1,398.84 |

Calculation of Water Retirements

| Co. | Co. Acct. | Vendor | Date | Invoice Amount | Plant Adjustment 75% | NARUC Plant Account | Retirement Acc. Dep. | Acc. A/D | Year Life | Monthly Dep. Exp. | Depreciation Expense 2010 | Mths. | Change in A/D related to Plant Removal | R/E Account | Retained Earnings |
|-----|-----------|----------------|-----------|--------------------|----------------------|---------------------|----------------------|----------|-----------|-------------------|---------------------------|-------|--|-------------|--------------------|
| 259 | 1145 | Ken's Bush Hog | 5/14/2008 | \$ 1,950.00 | \$ (1,462.50) | 335.4 | \$ 1,462.50 | 1940 | 45 | \$ (2.71) | \$ (32.50) | 32 | \$ 86.67 | 4998/215 | \$ (54.17) |
| 259 | 1105 | Paramount | 7/31/2008 | \$ 1,264.53 | \$ (948.40) | 311.3 | \$ 948.40 | 1900 | 20 | \$ (3.95) | \$ (47.42) | 30 | \$ 118.55 | 4998/215 | \$ (71.13) |
| 259 | 1115 | The Dumont | 4/16/2009 | \$ 462.00 | \$ (346.50) | 320.3 | \$ 346.50 | 1910 | 22 | \$ (1.31) | \$ (15.75) | 21 | \$ 27.56 | 4998/215 | \$ (11.81) |
| 259 | 1130 | Sunstate Meter | 3/6/2010 | \$ 248.57 | \$ (186.43) | 333.4 | \$ 186.43 | 1925 | 40 | \$ (0.39) | \$ (3.88) | 10 | \$ 3.88 | 4998/215 | \$ - |
| 259 | 1130 | Sunstate Meter | 3/10/2010 | \$ 234.81 | \$ (176.11) | 333.4 | \$ 176.11 | 1925 | 40 | \$ (0.37) | \$ (3.67) | 10 | \$ 3.67 | 4998/215 | \$ - |
| 259 | 1105 | USA Bluebook | 11/9/2010 | \$ 293.60 | \$ (220.20) | 311.3 | \$ 220.20 | 1900 | 20 | \$ (0.92) | \$ (1.84) | 2 | \$ 1.84 | 4998/215 | \$ - |
| | | TOTAL | | \$ 4,453.51 | \$ (3,340.13) | | \$ 3,340.13 | | | \$ (9.65) | \$ (105.06) | | \$ 242.17 | | \$ (137.11) |

Calculation of Wastewater Retirements

| Co. | Co. Acct. | Vendor | Date | Invoice Amount | Plant Adjustment 75% | NARUC Plant Account | Retirement Acc. Dep. | Acc. A/D | Year Life | Monthly Dep. Exp. | Depreciation Expense 2010 | Mths. | Change in A/D related to Plant Removal | R/E Account | Retained Earnings |
|-----|-----------|----------------|-----------|---------------------|-----------------------|---------------------|----------------------|----------|-----------|-------------------|---------------------------|-------|--|-------------|--------------------|
| 259 | 1410 | Ken's Bush Hog | 5/2/2008 | \$ 2,120.53 | \$ (1,590.40) | 381.4 | \$ 1,590.40 | 2170 | 35 | \$ (3.79) | \$ (45.44) | 32 | \$ 121.17 | 4998/215 | \$ (75.73) |
| 259 | 1380 | Mader Electric | 5/15/2008 | \$ 2,741.79 | \$ (2,056.34) | 371.3 | \$ 2,056.34 | 2140 | 18 | \$ (9.52) | \$ (114.24) | 32 | \$ 304.64 | 4998/215 | \$ (190.40) |
| 259 | 1400 | Bob Dean | 5/11/2009 | \$ 1,177.00 | \$ (882.75) | 380.4 | \$ 882.75 | 2160 | 18 | \$ (4.09) | \$ (49.04) | 20 | \$ 81.74 | 4998/215 | \$ (32.69) |
| 259 | 1400 | USA Bluebook | 5/25/2009 | \$ 1,549.07 | \$ (1,161.80) | 380.4 | \$ 1,161.80 | 2160 | 18 | \$ (5.38) | \$ (64.54) | 20 | \$ 107.57 | 4998/215 | \$ (43.03) |
| 259 | 1400 | Bob Dean | 8/26/2009 | \$ 1,177.00 | \$ (882.75) | 380.4 | \$ 882.75 | 2160 | 18 | \$ (4.09) | \$ (49.04) | 17 | \$ 69.48 | 4998/215 | \$ (20.43) |
| 259 | 1400 | USA Bluebook | ##### | \$ 2,564.96 | \$ (1,923.72) | 380.4 | \$ 1,923.72 | 2160 | 18 | \$ (8.91) | \$ (106.87) | 15 | \$ 133.59 | 4998/215 | \$ (26.72) |
| 259 | 1380 | USA Bluebook | ##### | \$ 412.35 | \$ (309.26) | 371.3 | \$ 309.26 | 2140 | 18 | \$ (1.43) | \$ (17.18) | 13 | \$ 18.61 | 4998/215 | \$ (1.43) |
| 259 | 1380 | Bob Dean | 1/26/2010 | \$ 3,065.55 | \$ (2,299.16) | 371.3 | \$ 2,299.16 | 2140 | 18 | \$ (10.64) | \$ (127.73) | 12 | \$ 127.73 | 4998/215 | \$ - |
| 259 | 1410 | Ken's Bush Hog | 1/27/2010 | \$ 1,807.00 | \$ (1,355.25) | 381.4 | \$ 1,355.25 | 2170 | 35 | \$ (3.23) | \$ (38.72) | 12 | \$ 38.72 | 4998/215 | \$ - |
| 259 | 1400 | Bob Dean | 2/25/2010 | \$ 1,519.40 | \$ (1,139.55) | 380.4 | \$ 1,139.55 | 2160 | 18 | \$ (5.28) | \$ (58.03) | 11 | \$ 58.03 | 4998/215 | \$ - |
| 249 | 1380 | USA Bluebook | 3/18/2010 | \$ 753.48 | \$ (565.11) | 371.3 | \$ 565.11 | 2140 | 18 | \$ (2.62) | \$ (26.16) | 10 | \$ 26.16 | 4998/215 | \$ - |
| 259 | 1400 | USA Bluebook | 4/1/2010 | \$ 982.18 | \$ (736.64) | 380.4 | \$ 736.64 | 2160 | 18 | \$ (3.41) | \$ (30.69) | 9 | \$ 30.69 | 4998/215 | \$ - |
| 259 | 1380 | Bob Dean | 6/13/2010 | \$ 575.66 | \$ (431.75) | 371.3 | \$ 431.75 | 2140 | 18 | \$ (2.00) | \$ (13.99) | 7 | \$ 13.99 | 4998/215 | \$ - |
| 259 | 1380 | Bob Dean | ##### | \$ 575.66 | \$ (431.75) | 371.3 | \$ 431.75 | 2140 | 18 | \$ (2.00) | \$ (4.00) | 2 | \$ 4.00 | 4998/215 | \$ - |
| 259 | 1365 | Paralee Co. | ##### | \$ 1,643.98 | \$ (1,232.99) | 364.2 | \$ 1,232.99 | 2125 | 5 | \$ (20.55) | \$ (20.55) | 1 | \$ 20.55 | 4998/215 | \$ - |
| | | TOTAL | | \$ 22,665.61 | \$ (16,999.21) | | \$ 16,999.21 | | | \$ (86.92) | \$ (766.24) | | \$ 1,156.69 | | \$ (390.44) |

Finding 2: Depreciation Restatement

Audit Analysis: The Utility made several adjustments to plant and accumulated depreciation in its Depreciation Restatement. The depreciation restatement was prepared by the Utility to recalculate depreciation expense based on plant that was adjusted for Commission ordered adjustments and using the correct depreciation rates. The filing was adjusted for this restatement in the Adjustments to Rate Base and the Adjustments to Net Operating Income. However, these adjustments were not booked. If the ledger is not adjusted these differences will be carried forward. Therefore the adjustment should be booked. The ledger at December 31, 2010 excluding allocations was compared to the Depreciation Restatement to determine the adjustments that need to be made.

Effect on the General Ledger: The entry on the following page should be made to the books.

Effect on the Filing: There is no effect on the filing.

| Utility Acct. | Description | NARUC Acct. | Debit (Credit) |
|---------------|------------------------------------|-------------|----------------|
| 1090 | SUPPLY MAINS | 309.2 | (314.88) |
| 1105 | ELECTRIC PUMP EQUIP WTP | 311.3 | 1,056.95 |
| 1125 | TRANS & DISTR MAINS | 331.4 | 314.88 |
| 1290 | STRUCT/IMPRV COLL PLT | 354.2 | (269.80) |
| 1295 | STRUCT/IMPRV PUMP PLT LS | 354.3 | 269.80 |
| 1300 | STRUCT/IMPRV TREAT PLT | 354.4 | 415.82 |
| 1330 | POWER GEN EQUIP TREAT PLT | 355.4 | (415.82) |
| 1345 | SEWER FORCE MAIN | 360.2 | (13,448.54) |
| 1350 | SEWER GRAVITY MAIN | 361.2 | (22.33) |
| 1353 | MANHOLES | 361.2 | 22.33 |
| 1360 | SERVICES TO CUSTOMERS | 363.2 | 13,448.54 |
| 1380 | PUMPING EQUIPMENT PUMP PLT | 371.3 | 6,087.58 |
| 1400 | TREAT/DISPEQUIP TRT PLT | 380.4 | 153.79 |
| 1435 | OTHER PLT PUMP | 389.3 | (157.44) |
| 1440 | OTHER PLT TREATMENT | 389.4 | (5,930.14) |
| 1535 | REUSE DIST RESERVOIRS | 374.5 | (305.28) |
| 1540 | REUSE TRANSMISSION & DIST SYS | 375.6 | 305.28 |
| 1666 | WORK IN PROCESS-WATER | 105 | (1,056.95) |
| 1776 | WORK IN PROCESS-WASTEWATER | 105 | (153.79) |
| 1835 | ACC DEPR-ORGANIZATION | 108.1 | 834.33 |
| 1840 | ACC DEPR-FRANCHISES | 108.1 | (1,173.45) |
| 1845 | ACC DEPR-STRUCT&IMPRV SRC SPLY | 108.1 | 39.56 |
| 1850 | ACC DEPR-STRUCT&IMPRV WTP | 108.1 | 6.72 |
| 1875 | ACC DEPR-WELLS & SPRINGS | 108.1 | 154.45 |
| 1885 | ACC DEPR-SUPPLY MAINS | 108.1 | 2.16 |
| 1890 | ACC DEPR-POWER GENERATION EQUIP | 108.1 | (4.80) |
| 1895 | ACC DEPR-ELECT PUMP EQUIP SRC PUMP | 108.1 | (69.60) |
| 1900 | ACC DEPR-ELECT PUMP EQUIP WTP | 108.1 | (1,549.15) |
| 1910 | ACC DEPR-WATER TREATMENT EQPT | 108.1 | (61.04) |
| 1920 | ACC DEPR-TRANS & DISTR MAINS | 108.1 | 28.92 |
| 1940 | ACC DEPR-HYDRANTS | 108.1 | (6.34) |
| 1985 | ACC DEPR-TOOL SHOP & MISC EQPT | 108.1 | 1,021.96 |
| 1990 | ACC DEPR-LABORATORY EQUIPMENT | 108.1 | (82.25) |
| 2000 | ACC DEPR-COMMUNICATION EQPT | 108.1 | (323.70) |
| 2050 | ACC DEPR-STRUCT/IMPRV COLL PLT | 108.1 | 11.00 |
| 2055 | ACC DEPR-STRUCT/IMPRV PUMP PLT LS | 108.1 | (277.94) |
| 2060 | ACC DEPR-STRUCT/IMPRV TREAT PLT | 108.1 | (4,441.19) |
| 2065 | ACC DEPR-STRUCT/IMPRV RCLM WTP | 108.1 | (26.93) |
| 2070 | ACC DEPR-STRUCT/IMPRV RCLM DST | 108.1 | (83.17) |
| 2090 | ACC DEPR-PWR GEN EQP TRT PLT | 108.1 | 31.81 |
| 2105 | ACC DEPR-SEWER FORCE MAIN | 108.1 | (261.96) |
| 2110 | ACC DEPR-SEWER GRAVITY MAIN | 108.1 | (35.28) |
| 2113 | ACC DEPR-MANHOLES | 108.1 | (71.36) |
| 2120 | ACC DEPR-SERVICES TO CUSTOMERS | 108.1 | 536.09 |
| 2125 | ACC DEPR-FLOW MEASURE DEVICES | 108.1 | (65.89) |
| 2140 | ACC DEPR-PUMP EQP PUMP PLT | 108.1 | (619.10) |
| 2155 | ACC DEPR-TREAT/DISP EQP LAGOON | 108.1 | (2,286.96) |
| 2160 | ACC DEPR-TREAT/DISP EQP TRT PLT | 108.1 | (15,838.42) |
| 2170 | ACC DEPR-PLANT SEWERS TRT PLT | 108.1 | (94.98) |
| 2200 | ACC DEPR-OTHER PLT TREATMENT | 108.1 | 134.80 |
| 2235 | ACC DEPR-LABORATORY EQPT | 108.1 | (1.52) |
| 2240 | ACC DEPR-POWER OPERATED EQUIP | 108.1 | (9.14) |
| 2280 | ACC DEPR-REUSE DIST RESERVOIRS | 108.1 | 20.70 |
| 2285 | ACC DEPR-REUSE TRANS/DIST SYS | 108.1 | (18.36) |
| 4998 | RETAINED EARNINGS | 215 | 24,580.03 |

Finding 3: Accumulated Depreciation

Audit Analysis: In preparing the Depreciation Restatement that adjusted the filing, the Utility used the December 2010 account balance of \$(2,793) for Utility account 1840-Accumulated Depreciation Franchises (NARUC Acct. 108.1) as the beginning balance at December 1, 2008. The balance from the last filing was (\$1,008) and the last Commission Order increased it by (\$595) to (\$1,603). Therefore, Water Accumulated Depreciation in the filing was overstated by \$1,190.

Effect on the General Ledger: There is no effect on the ledger.

Effect on the Filing: Average Water Accumulated Depreciation should be reduced by \$1,190.

Finding 4: Allocations from Headquarter- Rate Base

Audit Analysis: The Utility made an adjustment to plant in service and accumulated depreciation for parent allocations from its Illinois Headquarters and the Florida Altamonte Springs Office. For its Illinois Headquarter allocation, the Utility used an ERC report which excluded certain companies because they were expected to be sold. The utilities were not sold. Therefore, the allocation factor for Labrador Utilities, Inc. was overstated since there were more utilities to allocate the headquarter costs to. The Utility used an allocation factor of .58%. We recalculated the allocation factor to be .56% when the additional utilities were included. The difference is allocated 50.4% to water and 49.6% to wastewater. The Florida allocations were not affected since the utilities that were expected to be sold were out of state.

Effect on the General Ledger: There is no effect on the general ledger since the adjustments are made to the filing only.

Effect on the Filing: Average Plant should be decreased by \$1,721 and \$1,693 for water and wastewater, respectively. Average Accumulated Depreciation should be decreased by \$582 and \$573 for water and wastewater, respectively.

Computation of Differences in Rate Base Due to a Decreased ERC Allocation Factor

| RATE BASE | Revised Adj. Total | Revised Adj. W | Revised Adj. WW | MFR Adj. Total | MFR Adj. W | MFR Adj. WW | Difference Adj. Total | Difference Adj. W | Difference Adj. WW |
|-------------|--------------------------|----------------------|-----------------------|----------------------|------------------|-------------------|-----------------------------|-------------------------|--------------------------|
| Plant | \$ (19,148) | \$ (15,405) | \$ (3,743) | \$ (15,734) | \$ (13,684) | \$ (2,050) | \$ (3,414) | \$ (1,721) | \$ (1,693) |
| Accum. Dep. | \$ 16,366 | \$ 9,789 | \$ 6,576 | \$ 15,211 | \$ 9,207 | \$ 6,004 | \$ 1,155 | \$ 582 | \$ 573 |
| Total | \$ (2,783) | \$ (5,616) | \$ 2,833 | \$ (524) | \$ (4,477) | \$ 3,954 | \$ (2,259) | \$ (1,139) | \$ (1,121) |

Finding 5: Permit

Audit Analysis: In 2010, the Utility has recorded as an expense several invoices related to permit renewals. Some of the permit costs were recorded in account 6020 Engineering Fees and through a proforma adjustment they were allocated between water and wastewater but the costs were specifically for either the water or wastewater permit. Some were charged directly but incorrectly to water or wastewater as shown below. All these invoices should have been recorded in a deferred account and amortized over the life of the permit as shown on the following page. The utility agrees that these invoices should have been amortized. The following schedules shows what was recorded in the filing and whether the invoice was for the water or wastewater permit.

Per Ledger with Adjustment Made in Filing to Allocate to Wastewater:

| Utility Acct./NARUC Account | Vendor | Amount Per Books | Water Expense Per Filing | Wastewater Expense Per Filing allocated 49.5989% | Invoice date | Should have been charged to Account | Permit Actually Relates To |
|-----------------------------|--|---------------------|--------------------------|--|--------------|-------------------------------------|----------------------------|
| 6020/631 | Excd Engineering | \$ 2,363.20 | \$ 1,191.08 | \$ 1,172.12 | 1/15/2010 | 2985/186.2 | Water |
| 6020/631 | Excd Engineering | \$ 1,258.60 | \$ 634.35 | \$ 624.25 | 1/15/2010 | 2985/186.2 | Wastewater |
| 6020/631 | Excd Engineering | \$ 689.50 | \$ 347.52 | \$ 341.98 | 3/22/2010 | 2985/186.2 | Wastewater |
| 6020/631 | Excd Engineering | \$ 2,990.00 | \$ 1,506.99 | \$ 1,483.01 | 6/1/2010 | 2985/186.2 | Water |
| 6020/631 | Excd Engineering | \$ 6,900.00 | \$ 3,477.68 | \$ 3,422.32 | 3/2/2010 | 2985/186.2 | Wastewater |
| 6305/675 | Excd Engineering | \$ 3,000.00 | \$ 3,000.00 | | 7/13/2010 | 2985/186.2 | Water |
| 6305/675 | Excd Engineering | \$ 4,800.00 | \$ 4,800.00 | | 9/1/2010 | 2985/186.2 | Wastewater |
| 6305/675 | Excd Engineering | \$ 750.00 | \$ 750.00 | | 12/28/2010 | 2985/186.2 | Water |
| | TOTAL Water Booked | \$ 22,751.30 | \$ 15,707.61 | \$ 7,043.69 | | | |
| | | | | | | | |
| 6340/775 | Fla. Dept. of Env. | \$ 300.00 | | \$ 300.00 | 8/2/2010 | 2985/186.2 | Wastewater |
| | TOTAL Wastewater Booked | \$ 300.00 | \$ - | \$ 300.00 | | | |
| | Total Water and Wastewater Per Filing | \$ 23,051.30 | \$ 15,707.61 | \$ 7,343.69 | | | |

The following schedule corrects the invoices appropriately to water or wastewater and determines the amortization based on the life of the permit.

| Correction of the invoices by staff: | | | | | | | |
|--|---------------------|---------------------------------|--------------------------------------|-----------|------------------|---------------------------|-----------------------|
| Calculation of Amortization Expense Water: | | | | | | | |
| Vendor | Amount | Water Deferred Acct. 2985/186.2 | Wastewater Deferred Acct. 2985/186.2 | Year Life | Monthly | 2010 Amortization Expense | NARUC Expense Account |
| Excel Engineering | \$ 2,363.20 | \$ 2,363.20 | | 20 | \$ 9.85 | \$ 118.16 | 675 |
| Excel Engineering | \$ 2,990.00 | \$ 2,990.00 | | 20 | \$ 12.46 | \$ 87.21 | 675 |
| Excel Engineering | \$ 3,000.00 | \$ 3,000.00 | | 20 | \$ 12.50 | \$ 75.00 | 675 |
| Excel Engineering | \$ 750.00 | \$ 750.00 | | 20 | \$ 12.50 | \$ 12.50 | 675 |
| TOTAL | \$ 9,103.20 | \$ 9,103.20 | | | \$ 47.31 | \$ 292.87 | |
| Calculation of Amortization Expense Wastewater: | | | | | | | |
| Fla. Dept. of Env. Revenue | \$ 300.00 | | \$ 300.00 | 5 | \$ 5.00 | \$ 25.00 | 775 |
| Excel Engineering | \$ 6,900.00 | | \$ 6,900.00 | 5 | \$ 115.00 | \$ 1,150.00 | 775 |
| Excel Engineering | \$ 1,258.60 | | \$ 1,258.60 | 5 | \$ 20.98 | \$ 251.72 | 775 |
| Excel Engineering | \$ 689.50 | | \$ 689.50 | 5 | \$ 11.49 | \$ 114.92 | 775 |
| Excel Engineering | \$ 4,800.00 | | \$ 4,800.00 | 5 | \$ 20.00 | \$ 80.00 | 775 |
| TOTAL | \$ 13,948.10 | \$ - | \$ 13,948.10 | | \$ 172.47 | \$ 1,621.64 | |
| TOTAL BOTH | \$ 23,051.30 | \$ 9,103.20 | \$ 13,948.10 | | | \$ 1,914.51 | |

The following schedule computes the differences between the filing and staff's calculation above.

| Co. Acct. | NARUC Acct. | Description | Per Filing | Per Staff | Difference |
|-----------|-------------|------------------------|--------------|------------|----------------|
| 6020 | 631 | Water Engineering Fees | \$ 7,157.62 | | \$ (7,157.62) |
| 6305 | 675 | Water Permits | \$ 8,550.00 | \$ 292.87 | \$ (8,257.13) |
| | | Water O & M | \$ 15,707.62 | \$ 292.87 | \$ (15,414.75) |
| 6020 | 731 | Wastewater Engineering | \$ 7,043.68 | | \$ (7,043.68) |
| 6340 | 775 | Wastewater Permits | \$ 300.00 | \$1,621.64 | \$ 1,321.64 |
| | | Wastewater O & M | \$ 7,343.68 | \$1,621.64 | \$ (5,722.04) |
| | | Water and Wastewater | \$ 23,051.30 | \$1,914.51 | \$ (21,136.79) |

Effect on the General Ledger: The following adjustment is needed to correct the general ledger.

| Company Account | Description | Debit | Credit |
|-----------------|-----------------------------|--------------|--------------|
| 2985/186.2 | Deferred Charges-Other | \$ 21,136.79 | |
| 6340/775 | Wastewater Permits | \$ 1,321.64 | |
| 6305/675 | Water Engineering Fees | | \$ 8,257.13 |
| 6020/631 | Wastewater Engineering Fees | | \$ 14,201.30 |

Effect on the Filing: Operation and Maintenance expenses should be reduced by \$15,414.75 for water and \$5,722.04 for wastewater.

Finding 6: Retirement of Telephone Equipment

Audit Analysis: In July 2010, the Company recorded additions for the new phone system of \$338,651.98 for Illinois (Division 102) and \$66,110.31 for Altamonte Springs (Division 855). In November, 2010 the Company recorded retirement entries related to these additions. A summary of the entries follows:

| Co. No. | Co. Acct. | NARUC Account | Account Description | Debit | Credit |
|---------|-----------|---------------|----------------------------|--------------|--------------|
| 102 | 1205 | 396 | Communication Equipment | | \$360,358.40 |
| 102 | 2000 | 108.1 | Acc. Dep. - Comm Equipment | \$376,697.60 | |
| 102 | 7691 | | Net Book Value Disposal | | \$16,339.20 |
| | | | Total | \$376,697.60 | \$376,697.60 |

| Co. No. | Co. Acct. | NARUC Account | Account Description | Debit | Credit |
|---------|-----------|---------------|----------------------------|-------------|-------------|
| 855 | 1205 | 396 | Communication Equipment | | \$66,110.31 |
| 855 | 2000 | 108.1 | Acc. Dep. - Comm Equipment | \$68,363.30 | |
| 855 | 7691 | | Net Book Value Disposal | | \$2,252.99 |
| | | | Total | \$68,363.30 | \$68,363.30 |

During our audit of affiliated transactions in Docket 110153-SU, the Company explained the calculations for the retirement entries could not be located. Therefore, we could not determine if the appropriate amount was retired.

Effect on the General Ledger: This is provided for informational purposes.

Effect on the Filing: This is provided for informational purposes.

Finding 7: Ordered Adjustments for Project Phoenix Not Booked

Audit Analysis: Project Phoenix is the Company's financial, customer care, and billing system, which became operational in December 2008. In Order PSC-10-0407-PAA-SU, the Commission established that the total cost for Project Phoenix at December 31, 2008 was \$21,617,487 and required the Company to deduct \$1,724,166 from the total cost of Project Phoenix, reducing it to \$19,893,321, before allocating costs to the remaining UI subsidiaries. In the Affiliate Audit of Utilities Inc. Docket 110153-SU, the Company provided a restatement schedule for all computer balances on its books to take into account the ordered adjustments of the past. The schedule showed that the Company did not make the adjustment ordered for Project Phoenix. The Company's restatement schedule shows the Project Phoenix balance at December 31, 2008 to be \$21,545,555. The difference between the Company's balance and the ordered amount is \$1,652,234.

The amount of allocated cost, received by Labrador Utilities, Inc., is based on its ERC ratio to the total ERCs at the corporate level. The revised allocation from the Illinois office (corporate level) is .56% at December 2010 based on an earlier Finding in this report. The allocation to water and wastewater is 50.4% and 49.6%, respectively.

The schedule following this finding shows the calculation of the adjustment to plant, accumulated depreciation, and depreciation expense needed to comply with the Order and the adjustment to Labrador Utilities, Inc. allocated rate base and expense accounts. In the Order stated above, Project Phoenix's depreciable life was changed from eight to 10 years. However, the Company has continued to depreciate the project over eight years. In Finding 8, we adjusted the accumulated depreciation and depreciation expense on Project Phoenix from eight to 10 years to comply with the Order. However, the schedule below removes depreciation for the reduction in plant using the 10 year depreciable life to avoid duplicating the adjustment.

Effect on the General Ledger: The following adjustment corrects the Company's ledger. Since the test year is already closed in the ledger, the depreciation expense should be recorded to retained earnings.

| Co. No. | Co. Acct. | NARUC Acct. | Account Description | Debit | Credit |
|---------|-----------|-------------|---------------------------|---------------------|---------------------|
| 102 | 1590 | 340.5 | Computer System Cost | | \$ 1,652,234 |
| 102 | 2330 | 108.1 | Computer System Acc. Dep. | \$ 330,447 | |
| 102 | 4998 | 215 | Retained Earnings | \$ 1,321,787 | |
| | | | Total | \$ 1,652,234 | \$ 1,652,234 |

Effect on the Filing: For Labrador Utilities, Inc., the average decrease to water plant and wastewater plant should be \$4,664 and \$4,589, respectively. The average decrease to water accumulated depreciation and wastewater accumulated depreciation should be \$700 and \$688, respectively. Labrador Utilities, Inc. decrease to water depreciation expense and wastewater depreciation expense should be \$466 and \$459, respectively.

Project Phoenix Reconciliation

| Description | Amount |
|---|----------------|
| Project Phoenix Total Cost Per Order | \$ 21,617,487 |
| Ordered Adjustments Per Order | \$ (1,724,166) |
| Difference | \$ 19,893,321 |
| Project Phoenix Total Cost Per Company | \$(21,545,555) |
| Adjustment to Correct Beginning Balance | \$ (1,652,234) |

Calculation of Depreciation

| Co. Acct. No. | Date | Debit | Explanation | Beg. Bal. Adjustment | Life (Year) | Adjustment to Dep. Exp/RE | Depreciation Exp. Acct. | Mths. | Adjustment to Acc. Dep. | Acc. Dep. Acct. |
|---------------|------------|----------------|--------------------|----------------------|-------------|---------------------------|-------------------------|-------|-------------------------|-----------------|
| 1590 | 12/31/2008 | \$1,724,166.00 | Ordered Adjustment | \$ (1,652,234) | 10 | \$ (165,223) | 6920 | 24 | \$ (330,447) | 2330 |

Utility Allocation

| | Rate | Dep. Exp. | Avg Plant Adj. | Avg Acc. Dep. |
|---------------------|-------|------------|----------------|---------------|
| Illinois Allocation | 0.56% | \$ (925) | \$ (9,253) | \$ (1,388) |
| | | Water | \$ (466) | \$ (4,664) |
| | | Wastewater | \$ (459) | \$ (4,589) |

Beg. and Ending Avg. Calculation

| Date | Plant Adjustment | Acc. Dep. Adjustment |
|-----------------------------------|------------------|----------------------|
| December 31, 2009 | \$ (1,652,234) | \$ (165,223) |
| December 31, 2010 | \$ (1,652,234) | \$ (330,447) |
| Beginning and Ending Average Calc | \$ (1,652,234) | \$ (247,835) |

Finding 8: Depreciation Life of Project Phoenix

Audit Analysis: In Order PSC-10-0407-PAA-SU, the Company was directed to change the depreciation life for Project Phoenix from eight years to ten years. During our audit of affiliate transactions in Docket 110153-SU, we determined that the Company is still using eight years.

The Company has also overstated the depreciation expense for this account by \$3,527. This was included in the depreciation expense account in June, but it was not included in the accumulated depreciation account. The amount of allocated cost received by Labrador Utilities, Inc., is based on its ERC ratio to the total ERCs at the corporate level. The revised allocation from the Illinois office is .56% for December 2010. The allocation to water and wastewater is 50.4% and 49.6%, respectively.

The schedule following this finding shows the calculation for accumulated depreciation and depreciation expense adjustments to correct the accrual balances for Headquarters and Labrador Utilities, Inc.

Effect on the General Ledger: The following adjustment is recommended to correct the Illinois general ledger balance. Since the test year is already closed in the ledger, the depreciation expense should be recorded to retained earnings.

| Co. No. | Co. Acct. | NARUC Acct. | Account Description | Debit | Credit |
|---------|-----------|-------------|---------------------------|---------------------|---------------------|
| 102 | 2330 | 108.1 | Computer System Acc. Dep. | \$ 1,372,368 | |
| 102 | 4998 | 215 | Retained Earnings | | \$ 1,372,368 |
| | | | Total | \$ 1,372,368 | \$ 1,372,368 |

Effect on the Filing: The effect on Labrador Utilities, Inc. is a decrease to average water Accumulated Depreciation and average wastewater Accumulated Depreciation of \$3,090 and \$3,040, respectively. A decrease should also be made to water Depreciation Expense and wastewater Depreciation Expense of \$1,567 and \$1,543, respectively.

Depreciation at 10 Years Vs. 8 Years

| Co. No. | Description | Plant Balance | Life (Year) | Dep. Exp./RE | Acct. | Acc. Dep. | Acct. |
|---------|--------------------------------------|----------------------|-------------|---------------------|-------|-----------------------|-------|
| 102 | with Restated Dep. Per Staff | \$ 21,545,555 | 10 | \$ 2,154,556 | 6920 | \$ 5,397,056 | 2330 |
| | 2009 | \$ 513,062 | | \$ 51,306 | | \$ 76,959 | |
| | 2010 | \$ 338,666 | | \$ 16,933 | | \$ 16,933 | |
| | Total @ 10 Yrs. Per Staff | \$ 22,397,283 | | \$ 2,222,795 | | \$ 5,490,949 | |
| | 2008 Balance Per Co. | \$ 21,545,555 | 8 | \$ 2,692,825 | | \$ 6,745,951 | |
| | 2009 | \$ 513,062 | | \$ 64,133 | | \$ 96,199 | |
| | 2010 | \$ 338,666 | | \$ 21,167 | | \$ 21,167 | |
| | Total @ 8 Yrs. Per Co. | \$ 22,397,283 | | \$ 2,778,125 | | \$ 6,863,316 | |
| | Adjustment | | | \$ (555,330) | | \$ (1,372,368) | |

Utility Allocation

| | Rate | Beg and End Avg Acc. Dep. | Dep. Exp. |
|---------------------|------------|------------------------------|------------|
| Illinois Allocation | 0.56% | \$ (6,130) | \$ (3,110) |
| | Water | \$ (3,090) | \$ (1,567) |
| | Wastewater | (3,040) | (1,543) |

Beginning and Ending Average

| Date | Acc. Dep. Adj. |
|----------------|-----------------------|
| Dec. 2009 | \$ (817,038) |
| Dec. 2010 | \$ (1,372,368) |
| Avarage | \$ (1,094,703) |

Finding 9: Non-recurring Expense

Audit Analysis: An invoice in the amount of \$1,400 from Nodarse & Associates, Inc. was charged to account 6340 for the work required to abandon the well. The abandonment was required by the Florida Department of Environmental Protection as part of the new water permit. It is a one-time expense and should be removed from Net Operating Income.

Effect on the General Ledger: There is no effect in the general ledger since the books have been closed.

Effect on the Filing: Water Operating and Maintenance expense should be decreased by \$1,400.

Finding 10: Sludge Hauling

Audit Analysis: In June 2010 the Utility purchased a Sludge Box. The Utility has agreed that the sludge hauling expenses (Account 711) will decrease as a result of this installation. In the filing for 2010, the sludge hauling expenses were \$21,441. Based on the October 2011 and two more expected hauls, the Utility expects sludge hauling in 2011 to be \$10,000 which is \$11,441 less than the amount shown in the test year.

Effect on the General Ledger: This finding is for information purposes only.

Effect on the Filing: Wastewater Operating and Maintenance expense can be expected to decrease by \$11,441.

Finding 11: Rate Case Expenses

Audit Analysis: In the utility's last rate case with a test year ending December 31, 2007 the Utility included in its MFR's an estimate of \$212,445 as rate case expenses. However, in Commission order PSC-09-0462-PAA-WS, page 11, the Commission only allowed \$69,241. This order was protested. The settlement Order PSC-09-0711-AS-WS, page 6 states:

“In regards to rate case expenses, the Utility and the Citizens do not agree on the appropriate amount of rate case expense. It is the intent of Labrador and the Citizens that the PAA Order shall have no precedential value as to determining the appropriate amount of rate case expense. In lieu of stipulating to an appropriate amount of total rate case expense, Labrador and the Citizens have agreed and stipulated to total revenue requirement and rates and charges to be paid by the customers”.

In this rate case filing, the Utility has included both the amortization of the prior rate case and a proforma adjustment for the amortization of current rate case. Normally, the unamortized balance of the prior rate case expense is added to the new costs and divided by four years to get the future amortization. However, in this case, the prior rate case expenses were never determined and the prior rate case expenses will be fully amortized by July 2013. If the Utility rate case expenses for the prior case were correct, the following calculation shows the overstatement of amortization expenses.

| | | Total | Water | Wastewater |
|---------------------------------------|-------------|---------------|--------------|--------------|
| Estimate of Current Rate Case Expense | | \$267,602.00 | | |
| Prior Rate Case Expenses Per Utility | | \$154,525.98 | | |
| Amortization of Prior Rate Case: | | | | |
| July-December 2009 | \$19,315.75 | | | |
| January-December 2010 | \$38,631.50 | | | |
| | \$57,947.24 | (\$57,947.24) | | |
| Unamortized Costs | | \$364,180.74 | | |
| Divided by 4 years | | \$91,045.19 | \$45,887.77 | \$45,157.41 |
| Per Filing | | \$105,850.00 | \$53,349.00 | \$52,501.00 |
| Expenses Overstated | | (\$14,804.82) | (\$7,461.23) | (\$7,343.59) |

Effect on the General Ledger: For information purposes only.

Effect on the Filing: If no other adjustments were made to prior or current rate case costs, Regulatory Commission expenses should be reduced by \$7,461.23 for water and \$7,343.59 for wastewater.

Finding 12: Purchased Power

Audit Analysis: The Utility has included thirteen months of purchased power expenses in account 5470-Electric Power Sewer System. These costs were allocated between water and wastewater in the proforma adjustments to the filing. In addition, to the twelve months of electric bills, it has also included an accrual of \$338.10 for water and \$1,454.42 for wastewater for December 2010. However, no reversal was made for the December 2009 expenses. The schedule on the following page shows the costs in the filing and staff's calculation of what should have been recorded.

Effect on the General Ledger: There is no effect on the ledger since the books have been closed.

Effect on the Filing: Net Operating Income should be reduced by \$338.10 for water and \$1,454.42 for wastewater.

| WATER ELECTRIC INVOICES | | |
|-------------------------------------|-------------|---------------|
| Address | Date | Amount |
| 6420 Forest Lake Dr. WTP | 1/26/2010 | \$ 589.63 |
| 6420 Forest Lake Dr. WTP. | 2/23/2010 | \$ 602.43 |
| 6420 Forest Lake Dr. WTP. | 3/25/2010 | \$ 576.85 |
| 6420 Forest Lake Dr. WTP. | 4/26/2010 | \$ 588.55 |
| 6420 Forest Lake Dr. WTP. | 5/25/2010 | \$ 364.94 |
| 6420 Forest Lake Dr. WTP. | 6/24/2010 | \$ 285.49 |
| 6420 Forest Lake Dr. WTP. | 7/26/2010 | \$ 259.70 |
| 6420 Forest Lake Dr. WTP. | 8/25/2010 | \$ 252.83 |
| 6420 Forest Lake Dr. WTP. | 9/24/2010 | \$ 248.45 |
| 6420 Forest Lake Dr. WTP. | 10/25/2010 | \$ 303.32 |
| 6420 Forest Lake Dr. WTP. | 11/22/2010 | \$ 871.15 |
| 6420 Forest Lake Dr. WTP. | 12/27/2010 | \$ 748.66 |
| | | \$ 5,692.00 |
| | Per filing | \$ 6,030.16 |
| | Difference | \$ (338.16) |
| | | |
| WASTEWATER ELECTRIC INVOICES | | |
| Address | Date | Amount |
| 753 Paquette Way WWTP #2 | 1/26/2010 | \$ 2,161.39 |
| 7229 Lumberton RD. SPFDPS | 1/25/2010 | \$ 153.80 |
| 41219 Hockey Dr. LS 2 | 1/26/2010 | \$ 35.46 |
| 180 Spring Lake Cir LS 1 | 1/26/2010 | \$ 178.75 |
| 753 Paquette Way WWTP #2 | 2/23/2010 | \$ 2,500.85 |
| 41219 Hockey Dr. LS 2 | 2/23/2010 | \$ 37.00 |
| 180 Spring Lake Cir LS 1 | 2/23/2010 | \$ 142.13 |
| 7229 Lumberton RD. SPFDPS | 2/22/2010 | \$ 147.12 |
| 753 Paquette Way WWTP #2 | 3/25/2010 | \$ 2,317.41 |
| 41219 Hocket Dr. LS 2 | 3/25/2010 | \$ 41.14 |
| 180 Spring Lake Cir LS 1 | 3/25/2010 | \$ 165.85 |
| 7229 Lumberton Rd. SPFDPS | 3/23/2010 | \$ 144.35 |
| 753 Paquette Way WWTP 2 | 4/26/2010 | \$ 2,532.24 |
| 41219 Hockey Dr. LS 2 | 4/26/2010 | \$ 35.57 |
| 180 Spring Lake Cir. LS 1 | 4/26/2010 | \$ 136.88 |
| 7229 Lumberton Rd. SPFDPS | 4/23/2010 | \$ 141.32 |
| 753 Paquette Way WWTP | 5/25/2010 | \$ 2,268.95 |
| 180 Spring Lake Cir LS 1 | 5/25/2010 | \$ 90.76 |
| 7229 Lumberton Rd. SPFDPS | 5/24/2010 | \$ 74.10 |
| 753 Paquette Way WWTP | 6/24/2010 | \$ 2,152.81 |
| 180 Spring Lake Cir LS 1 | 6/24/2010 | \$ 72.62 |
| 7229 Lumberton Rd. SPFDPS | 6/23/2010 | \$ 41.67 |
| 41219 Hockey Dr. LS 2 | 6/24/2010 | \$ 50.59 |
| 753 Paquette Way WWTP | 7/26/2010 | \$ 2,226.10 |
| 180 Spring Lake Cir LS 1 | 7/26/2010 | \$ 71.21 |
| 7229 Lumberton Rd. SPFDPS | 7/23/2010 | \$ 47.92 |
| 753 Paquette Way WWTP 2 | 8/25/2010 | \$ 2,195.66 |
| 41219 Hockey Dr. LS 2 | 8/25/2010 | \$ 46.43 |
| 180 Spring Lake Cir LS 1 | 8/25/2010 | \$ 78.63 |
| 7229 Lumberton Rd SPFDPs | 8/24/2010 | \$ 45.91 |
| 753 Paquette Way WWTP 2 | 9/24/2010 | \$ 2,289.15 |
| 180 Spring Lake Cir LS 1 | 9/24/2010 | \$ 113.60 |
| 753 Paquette Way WWTP 2 | 10/25/2010 | \$ 2,656.66 |
| 41219 Hockey Dr. LS 2 | 10/25/2010 | \$ 51.79 |
| 180 Spring Lake Cir LS 1 | 10/25/2010 | \$ 95.02 |
| 7229 Lumberton Rd SPFDPs | 10/22/2010 | \$ 82.23 |
| 753 Paquette Way WWTP 2 | 11/22/2010 | \$ 3,073.11 |
| 41219 Hockey Dr. LS 2 | 11/22/2010 | |
| 180 Spring Lake Cir LS 1 | 11/22/2010 | \$ 98.85 |
| 7229 Lumberton Rd SPFDPs | 11/19/2010 | \$ 79.58 |
| 753 Paquette Way WWTP 2 | 12/27/2010 | \$ 2,898.97 |
| 41219 Hockey Dr. LS 2 | 12/27/2010 | \$ 61.94 |
| 180 Spring Lake Cir LS 1 | 12/27/2010 | \$ 147.70 |
| 7229 Lumberton Rd SPFDPs | 12/22/2010 | \$ 111.90 |
| | | \$ 32,095.12 |
| | Per filing | \$ 33,549.48 |
| | Difference | \$ (1,454.36) |

Finding 13: Expense included in Plant

Audit Analysis: The Utility has included in Plant account 1400 an invoice from Utility Equipment Services, Inc. dated July 12, 2009 in the amount of \$517.27 for testing blower motors and rewiring. According to a Utility response, this invoice should have been recorded in an expense account.

Effect on the General Ledger: The following entry needs to be made to correct the

| Co. Acct. | NARUC | Description | Debit | Credit |
|-----------|-------|---|-----------|-----------|
| 1400 | 380.4 | Treatment & Disposal Equip. Treatment Plant | | \$ 517.27 |
| 2160 | 108 | Acc. Dep. Treatment & Disposal Equip. | \$ 43.02 | |
| 4998 | 215 | Retained Earnings | \$ 474.25 | |

Effect on the Filing: Average Plant in Service needs to be reduced by \$517.27 and average Accumulated Depreciation needs to be reduced by \$28.68.

| Amount Removed | Year Life | Monthly Dep. | Dep. 2010 |
|----------------|-----------|--------------|-----------|
| \$ 517.27 | 18 | \$ 2.39 | \$ 28.68 |

| | Plant | Accumulated Depreciation |
|-------------------|-------------|--------------------------|
| Beginning Balance | \$ 517.27 | \$ 14.34 |
| Ending Balance | \$ 517.27 | \$ 43.02 |
| Total | \$ 1,034.54 | \$ 57.36 |
| Average | \$ 517.27 | \$ 28.68 |

Finding 14: Allocations from Headquarter – Net Operating Income

Audit Analysis: The Utility made an adjustment to depreciation, operating and maintenance expenses, taxes other than income, salaries, benefits and payroll taxes for parent allocations from its Illinois Headquarters and the Florida Altamonte Springs Office. For its Illinois Headquarter allocation, the Utility used an ERC report which excluded certain companies because they were expected to be sold. The utilities were not sold. Therefore, the allocation factor for Labrador Utilities, Inc. was overstated since there were more utilities to allocate the headquarter costs to. The Utility used an allocation factor of .58%. We recalculated the allocation factor to be .56% when the additional utilities were included. The difference is allocated 50.4% to water and 49.6% to wastewater. The Florida allocations were not affected since the utilities that were expected to be sold were out of state.

Effect on the General Ledger: There is no effect on the general ledger since the adjustments are made to the filing only.

Effect on the Filing: Depreciation expense should be decreased by \$182 and \$180 for water and wastewater, respectively. Operating and Maintenance Expenses should be decreased by \$884 and \$873 for water and wastewater, respectively. Taxes other than Income should be decreased by \$37 and \$37 for water and wastewater, respectively.

Computation of Differences in Expense Allocations Excluding Salaries Due to a Decrease in the ERC Calculation

| Account | Revised Adj. Total | Revised Adj. W | Revised Adj. WW | MFR Adj. Total | MFR Adj. W | MFR Adj. WW | Difference Adj. Total | Difference Adj. W | Difference Adj. WW |
|-------------------------------|--------------------------|----------------------|-----------------------|----------------------|------------------|-------------------|-----------------------------|-------------------------|--------------------------|
| Depreciation Expense | \$ (292) | \$ (147) | \$ (145) | \$ 70 | \$ 35 | \$ 35 | \$ (362) | \$ (182) | \$ (180) |
| Operating and Maintenance Exp | \$ 1,791 | \$ 720 | \$ 1,070 | \$ 2,630 | \$ 1,143 | \$ 1,487 | \$ (839) | \$ (423) | \$ (417) |
| Taxes other than Income | \$ 12 | \$ 6 | \$ 6 | \$ 24 | \$ 12 | \$ 12 | \$ (12) | \$ (6) | \$ (6) |
| Total | \$ 1,511 | \$ 579 | \$ 931 | \$ 2,724 | \$ 1,190 | \$ 1,534 | \$ (1,213) | \$ (611) | \$ (603) |

Computation of Differences in Salary Related Allocations Due to a Decrease in the ERC Calculation

| Account | Revised Adj. Total | Revised Adj. W | Revised Adj. WW | MFR Adj. Total | MFR Adj. W | MFR Adj. WW | Difference Adj. Total | Difference Adj. W | Difference Adj. WW |
|--------------------------------|--------------------------|----------------------|-----------------------|----------------------|-------------------|-------------------|-----------------------------|-------------------------|--------------------------|
| Salaries and Wages | \$ (6,864) | \$ (3,459) | \$ (3,405) | \$ (6,299) | \$ (3,175) | \$ (3,124) | \$ (565) | \$ (284) | \$ (281) |
| Salaries and Wages - Officers | \$ 166 | \$ 84 | \$ 82 | \$ 367 | \$ 185 | \$ 182 | \$ (201) | \$ (101) | \$ (100) |
| Employee Pensions and Benefits | \$ 149 | \$ 75 | \$ 74 | \$ 300 | \$ 151 | \$ 149 | \$ (151) | \$ (76) | \$ (75) |
| Payroll Taxes | \$ (240) | \$ (121) | \$ (119) | \$ (178) | \$ (90) | \$ (88) | \$ (62) | \$ (31) | \$ (31) |
| Total | \$ (6,789) | \$ (3,421) | \$ (3,368) | \$ (5,810) | \$ (2,929) | \$ (2,881) | \$ (979) | \$ (492) | \$ (487) |

Finding 15: Proforma for Pay Increase

Audit Analysis: The Utility made a proforma adjustment to adjust for a 3% pay increase for Salaries and Wages for \$1,599 and \$1,573, for water and wastewater, respectively. A proforma adjustment was also made for Salaries and Wages – Officers for \$105 and \$104, for water and wastewater, respectively. The allocated salaries are based on April 2011 payroll. The Utility explained the 3% increase represents the merit increase scheduled for 2012.

For its Illinois Headquarter allocation, the Utility used an ERC report which excluded certain companies; therefore, the allocation factor for Labrador Utilities, Inc. was overstated. The Utility used an allocation factor of .58%. We recalculated the allocation factor to be .56% when the additional utilities were included. The difference in the adjustment using the .56% allocation is not material.

Effect on the General Ledger: There is no effect on the general ledger since the adjustments are made to the filing only.

Effect on the Filing: This is provided for informational purposes.

Finding 16: Removal of Operating Expenses

Audit Analysis: In our audit of affiliate transactions, Docket 110153-SU, we determined that the Illinois Headquarters and Altamonte Springs Headquarters expensed certain charges incorrectly to expense accounts that are allocated to Labrador Utilities, Inc.

| Item # | Company Account | NARUC Account | Amount | Allocation % to Labrador | Allocation Amount Labrador |
|--------|-----------------|---------------|--------------|--------------------------|----------------------------|
| 1 | 102.101.6010 | 732 | \$ 29,000.00 | 0.56% | \$162.40 |
| 2 | 102.100.7535 | 408 | \$ 16,928.46 | 0.56% | \$94.80 |
| 3 | 855.100.5810 | 775 | \$ 1,000.00 | 2.46% | \$24.60 |
| 4 | 855.100.5890 | 775 | \$ 1,000.00 | 2.46% | \$24.60 |
| | | | \$ 47,928.46 | | \$306.40 |

Item 1 - The Illinois headquarters accrued monthly entries for their fees paid to Price Waterhouse Coopers. The accruals included an amount of \$29,000 for Utilities, Inc. of Georgia. This is a direct expense and should not be included in the Florida allocations.

Item 2 - The Illinois headquarters included payments totaling \$16,928.46 to the Nevada Department of Taxation. This is a direct expense and should not be included in the Florida allocations.

Items 3 and 4 - The Florida headquarters costs included \$1,000 in account 5810 and \$1,000 in account 5890; however, they were ultimately removed during 2011. The Company explained these items should not have been recorded in this account.

The amount of allocated costs to Labrador Utilities, Inc. is based on its ERC ratio to total ERCs at the corporate level. The revised allocation, from the Illinois office to Labrador Utilities Inc. for December 2010, is .56%. The December 2010 allocation from the Florida headquarter office is 2.46% based on Labrador's ERC ratio to total Florida ERCs. The allocation to water and wastewater is 50.4% and 49.6%, respectively.

Effect on the General Ledger: No entry is made to the general ledger since this will not affect future rate cases.

Effect on the Filing: Labrador Utilities, Inc.'s operating expenses should be reduced by \$106 for water and \$105 for wastewater. Taxes other than income tax should be reduced by \$48 for water and \$47 for wastewater.

Finding 17: Prepaid – Other Expenses

Audit Analysis: In our audit of affiliate transactions in Docket 110153-SU, we analyzed the Prepaid-Other expense adjustment schedule provided by the Company. Our test of the Company's support revealed the following discrepancies.

| Item No. | Co. Acct. | Prepaid Per Company | Adj. Per Staff | Prepaid Per Staff | Amtz. Per Company | Months | Amtz. Per Staff | Adj. Per Staff |
|----------|--------------|---------------------|----------------|-------------------|-------------------|--------|-----------------|----------------|
| 1 | 102.101.5735 | \$ 25,900.13 | \$ (11,203.00) | \$ 14,697.13 | \$ 19,425.10 | 9 | \$ 11,022.85 | \$ (8,402.25) |
| 2 | 102.101.5735 | \$ 30,918.60 | \$ (30,918.60) | \$ - | \$ 15,459.30 | 6 | \$ - | \$ (15,459.30) |
| 3 | 102.101.5735 | \$ 30,796.49 | \$ - | \$ 30,796.49 | \$ 2,566.37 | 1 | \$ 1,283.19 | \$ (1,283.19) |
| | | \$ 87,615.22 | \$ (42,121.60) | \$ 45,493.62 | \$ 37,450.77 | | \$ 12,306.03 | \$ (25,144.74) |
| | | | | | | | Allocation % | 0.56% |
| | | | | | | | NARUC Acct. 736 | \$ (140.81) |

Item 1 - The Illinois Headquarters included \$11,203 in items that were directly related to subsidiaries. This was reported in the last affiliate audit, Audit Control Number 11-004-4-2, of Lake Utility Services, Inc.

Item 2 – The Illinois Headquarters included \$30,918.60 in July 2010 for an item related to a Carolina subsidiary.

Item 3 – The Illinois Headquarters included \$30,796.49 in December 2010 for an item paid to Microsoft Licensing, LP. The Company amortized this item over 12 months; however, the invoice indicates the period should be 2 years or 24 months.

The amount of allocated costs to Labrador Utilities, Inc. is based on its ratio of 2010 ERCs to total ERCs at the corporate level. The revised allocation from the Illinois office is .56%. The allocation to water and wastewater is 50.4% and 49.6%, respectively.

Effect on the General Ledger: The following entry is recommended to correct the Company's ledger.

| NARUC Account | Account Description | Debit | Credit |
|---------------|-----------------------|--------------|--------------|
| 186 | Prepaid Expense Other | | \$ 42,121.60 |
| 215 | Retained Earnings | \$ 42,121.60 | |

Effect on the Filing: The Labrador Utilities, Inc. amortization expenses should be reduced by \$71 for water and \$70 for wastewater.

Exhibits

Exhibit 1: Rate Base

Schedule of Water Rate Base

Florida Public Service Commission

Company: Labrador Utilities, Inc.
 Docket No.: 110284-WB
 Test Year Ended: December 31, 2010
 Interim [] Final [X]
 Historic [X] Projected []

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

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) Description | (2) Average Balance Per Books | (3) Utility Adjustments | Ref. | (4) Adjusted Utility Balance | (5) Supporting Schedule(s) |
|----------|-----------------------------------|----------------------------------|----------------------------|------|---------------------------------|-------------------------------|
| 1 | Utility Plant in Service | 862,062 | (86,079) | (A) | 875,983 | A-5, A-3 |
| 2 | | | | | | |
| 3 | Utility Land & Land Rights | 529 | (253) | (A) | 276 | A-5 |
| 4 | | | | | | |
| 5 | Less: Non-Used & Useful Plant | - | - | | - | A-7 |
| 6 | | | | | | |
| 7 | Construction Work In Progress | - | - | | - | A-3 |
| 8 | | | | | | |
| 9 | Less: Accumulated Depreciation | (344,659) | 147,003 | (B) | (197,656) | A-9, A-3 |
| 10 | | | | | | |
| 11 | Less: CIAC | (342) | - | | (342) | A-12, A-3 |
| 12 | | | | | | |
| 13 | Accumulated Amortization of CIAC | 38 | - | | 38 | A-14, A-3 |
| 14 | | | | | | |
| 15 | Acquisition Adjustments | (351,387) | 351,387 | (D) | - | A-3 |
| 16 | | | | | | |
| 17 | Accum. Amort. of Acq. Adjustments | 66,690 | (66,690) | (D) | - | A-3 |
| 18 | | | | | | |
| 19 | Advances For Construction | - | - | | - | A-16 |
| 20 | | | | | | |
| 21 | Working Capital Allowance | - | 25,674 | (C) | 25,674 | A-17, A-3 |
| 22 | | | | | | |
| 23 | Total Rate Base | 332,931 | 371,042 | | 703,973 | |

Schedule of Wastewater Rate Base

Florida Public Service Commission

Company: Labrador Utilities, Inc.
 Docket No.: 110264-WS
 Test Year Ended: December 31, 2010
 Interim [] Final [X]
 Historic [X] Projected []

Schedule: A-2
 Page 1 of 1
 Preparer: Kirsten Weeks

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) Description | (2) Average Balance Per Books | (3) Utility Adjustments | Ref. | (4) Adjusted Utility Balance | (5) Supporting Schedule(s) |
|----------|-------------------------------------|----------------------------------|----------------------------|------|---------------------------------|-------------------------------|
| 1 | Utility Plant in Service | 1,885,420 | 145,067 | (A) | 2,010,487 | A-6, A-3 |
| 2 | | | | | | |
| 3 | Utility Land & Land Rights | - | 271 | (A) | 271 | A-6, A-3 |
| 4 | | | | | | |
| 5 | Less: Non-Used & Useful Plant (net) | - | - | | - | A-7 |
| 6 | | | | | | |
| 7 | Construction Work in Progress | - | - | | - | A-3 |
| 8 | | | | | | |
| 9 | Less: Accumulated Depreciation | (609,112) | (79,283) | (B) | (688,395) | A-10, A-3 |
| 10 | | | | | | |
| 11 | Less: CIAC | - | - | | - | A-12, A-3 |
| 12 | | | | | | |
| 13 | Accumulated Amortization of CIAC | - | - | | - | A-14, A-3 |
| 14 | | | | | | |
| 15 | Acquisition Adjustments | - | - | | - | A-3 |
| 16 | | | | | | |
| 17 | Accum. Amort. of Acq. Adjustments | - | - | | - | A-3 |
| 18 | | | | | | |
| 19 | Advances For Construction | - | - | | - | A-16 |
| 20 | | | | | | |
| 21 | Working Capital Allowance | - | 32,523 | (C) | 32,523 | A-17, A-3 |
| 22 | | | | | | |
| 23 | Total Rate Base | 1,256,309 | 98,578 | | 1,354,886 | |

Exhibit 2: Net Operating Income

Schedule of Water Net Operating Income

Florida Public Service Commission

Company: Labrador Utilities, Inc.
 Docket No.: 110264-WS
 Test Year Ended: December 31, 2010
 Interim Final
 Historic or Projected

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

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

| Line No. | (1) Description | (2) Balance Per Books | (3) Utility Test Year Adjustments | (4) Utility Adjusted Test Year | (5) Requested Revenue Adjustment | (6) Requested Annual Revenues | (7) Supporting Schedule(s) |
|----------|----------------------------------|--------------------------|--------------------------------------|-----------------------------------|-------------------------------------|----------------------------------|-------------------------------|
| 1 | OPERATING REVENUES | 244,730 | 4,838 | 249,568 | 106,066 (A) | 355,634 | B-4, B-3 |
| 2 | | | | | | | |
| 3 | Operation & Maintenance | 350,514 | (180,544) | 169,970 | 35,423 (B) | 205,393 | B-5, B-3 |
| 4 | | | | | | | |
| 5 | Depreciation, net of CIAC Amort. | 49,180 | (12,666) | 36,482 | 1,291 (C) | 37,773 | B-13, B-3 |
| 6 | | | | | | | |
| 7 | Amortization | - | - | - | - | - | |
| 8 | | | | | | | |
| 9 | Taxes Other Than Income | 73,988 | (46,512) | 27,476 | 6,228 (D) | 33,704 | B-15, B-3 |
| 10 | | | | | | | |
| 11 | Provision for Income Taxes | 12,639 | (15,771) | (3,132) | 23,753 (E) | 20,621 | C-1, C-2, B-3 |
| 12 | | | | | | | |
| 13 | OPERATING EXPENSES | 486,321 | (255,525) | 230,796 | 66,695 | 297,491 | |
| 14 | | | | | | | |
| 15 | NET OPERATING INCOME | (241,591) | 280,383 | 18,772 | 39,371 | 68,143 | |
| 16 | | | | | | | |
| 17 | | | | | | | |
| 18 | RATE BASE | 332,931 | 371,042 | 703,973 | | 703,973 | |
| 19 | | | | | | | |
| 20 | | | | | | | |
| 21 | RATE OF RETURN | - | % | 2.67 % | | 6.26 % | |

Schedule of Wastewater Net Operating Income

Florida Public Service Commission

Company: Labrador Utilities, Inc.
 Docket No.: 110264-WS
 Test Year Ended: December 31, 2010
 Interim [] Final [X]
 Historic [X] or Projected []

Schedule: B-2
 Page 1 of 1
 Preparer: Kirsten Weeks

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

| Line No. | (1) Description | (2) Balance Per Books | (3) Utility Test Year Adjustments | (4) Utility Adjusted Test Year | (5) Requested Revenue Adjustment | (6) Requested Annual Revenues | (7) Supporting Schedule(s) |
|----------|----------------------------------|--------------------------|--------------------------------------|-----------------------------------|-------------------------------------|----------------------------------|-------------------------------|
| 1 | OPERATING REVENUES | 439,110 | 6,534 | 445,644 | 103,778 (A) | 549,422 | B-4, B-3 |
| 2 | | | | | | | |
| 3 | Operation & Maintenance | 68,925 | 156,399 | 225,324 | 34,859 (B) | 260,183 | B-6, B-3 |
| 4 | | | | | | | |
| 5 | Depreciation, net of CIAC Amort. | 68,100 | 16,214 | 84,314 | 1,828 (C) | 86,140 | B-14, B-3 |
| 6 | | | | | | | |
| 7 | Amortization | - | - | - | - | - | |
| 8 | | | | | | | |
| 9 | Taxes Other Than Income | - | 46,835 | 46,835 | 4,670 (D) | 51,505 | B-15, B-3 |
| 10 | | | | | | | |
| 11 | Provision for Income Taxes | 12,437 | 3,760 | 16,197 | 23,480 (E) | 39,687 | C-1, C-2, B-3 |
| 12 | | | | | | | |
| 13 | OPERATING EXPENSES | 149,482 | 223,208 | 372,670 | 64,845 | 437,515 | |
| 14 | | | | | | | |
| 15 | NET OPERATING INCOME | 289,648 | (216,674) | 72,974 | 38,933 | 111,907 | |
| 16 | | | | | | | |
| 17 | | | | | | | |
| 18 | RATE BASE | 1,266,308 | 88,678 | 1,354,986 | | 1,354,888 | |
| 19 | | | | | | | |
| 20 | | | | | | | |
| 21 | RATE OF RETURN | 23.06 % | | 5.39 % | | 8.28 % | |

Exhibit 3: Capital Structure

Schedule of Requested Cost of Capital
13-Month Average Balance

Florida Public Service Commission

Company: Labrador Utilities, Inc.
Docket No.: 110264-WS
Test Year Ended: December 31, 2010
Interim Final
Historical Projected

Schedule D-1
Page 1 of 1

Preparer: Kirsten E. Weeks

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

| Line No. | (1) Class of Capital | (2) Reconciled to Requested Rate Base 12/31/2010 | (3) Ratio | (4) Cost Rate | (5) Weighted Cost |
|----------|--|---|----------------|------------------|----------------------|
| 1 | Long Term Debt | 1,001,065 | 48.62% | 6.65% | 3.23% |
| 2 | Short Term Debt | 47,184 | 2.29% | 7.36% | 0.17% |
| 3 | Preferred Stock | - | | | |
| 4 | Common Equity | 951,081 | 46.19% | 10.51% | 4.86% |
| 5 | Customer Deposits | 800 | 0.04% | 6.00% | 0.00% |
| 6 | Tax Credits - Zero Cost | - | | | |
| 7 | Tax Credits - Weighted Cost | - | | | |
| 8 | Accumulated Deferred Income Tax | 58,729 | 2.85% | | |
| 9 | Other (Explain) | - | | | |
| 10 | | | | | |
| 11 | Total | 2,058,859 | 100.00% | | 8.26% |
| 12 | | | | | |
| 13 | | | | | |
| 14 | Notes: | | | | |
| 15 | 1. The cost of equity is based on the leverage formula in effect pursuant to Order No. PSC-11-0287-PAA-WS. | | | | |
| 16 | | | | | |
| 17 | 2. Long term debt, short term debt, preferred stock, and common equity are actual for Labrador Utilities, Inc.'s parent company. | | | | |
| 18 | Utilities, Inc. | | | | |

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