

**Ann Cole**

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**From:** Carlotta Stauffer  
**Sent:** Thursday, March 22, 2012 1:27 PM  
**To:** Commissioners Advisors; Ann Cole; Catherine Potts; Braulio Baez; Carlotta Stauffer; Chuck Hill; Selena Chambers; Cheryl Bulecza-Banks; Marshall Willis; Delores Reecy; Jennifer Crawford; Andrew Maurey; Martha Brown; Pamela Paultre; Kelly McLanahan; Kathleen Stewart; Betty Leland; Cristina Slaton  
**Subject:** FW: Request for Oral Modification to Item 9, March 27, 2012 Agenda Conference, Docket No. 110264-WS - Labrador Utilities, Inc.  
**Importance:** High  
**Attachments:** Request for Oral Modification to Item 9, March 27, 2012 Agenda Conference, Docket No. 110264-WS - Labrador Utilities, Inc.

Good Afternoon,

Please see attached request, which has been approved.

Thanks,  
Carlotta

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**From:** Braulio Baez  
**Sent:** Thursday, March 22, 2012 1:10 PM  
**To:** Carlotta Stauffer  
**Subject:** FW: Request for Oral Modification to Item 9, March 27, 2012 Agenda Conference, Docket No. 110264-WS - Labrador Utilities, Inc.  
**Importance:** High

Sent from my Windows Phone

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**From:** Cheryl Bulecza-Banks  
**Sent:** 3/22/2012 1:02 PM  
**To:** Braulio Baez  
**Cc:** Marshall Willis; Jennifer Crawford; Andrew Maurey; Martha Brown  
**Subject:** Request for Oral Modification to Item 9, March 27, 2012 Agenda Conference, Docket No. 110264-WS - Labrador Utilities, Inc.

3/22/2012

DOCUMENT NUMBER - DATE  
01718 MAR 22 09  
FPSC-COMMISSION CLERK

**Ann Cole**

**From:** Cheryl Bulecza-Banks  
**Sent:** Thursday, March 22, 2012 1:02 PM  
**To:** Braulio Baez  
**Cc:** Marshall Willis; Jennifer Crawford; Andrew Maurey; Martha Brown  
**Subject:** Request for Oral Modification to Item 9, March 27, 2012 Agenda Conference, Docket No. 110264-WS - Labrador Utilities, Inc.  
**Importance:** High  
 Good Afternoon Braulio,

Staff requests approval to make an oral modification to Issue 14 of the recommendation for the above-referenced item. Item 9 relates to a PAA rate increase request by Labrador Utilities, Inc. (Labrador or Utility). The statutory time frame to process this case is March 30, 2012, and, as such, we do not have the option to defer this item.

Subsequent to filing its recommendation, staff determined that modifications are necessary to reflect the appropriate amount of rate case expense. Changing the recommended amount of rate case expense will affect the fall-out issues regarding working capital, rate base, revenue requirement, and the resulting rates, as well as the interim refund and four-year rate reductions. In addition, staff overstated the interim refunds by inadvertently factoring in the rate case expense from the Utility's last rate case. As a result, there is no water refund required and the wastewater refund should be lower.

First, beginning on Page 29 under the Legal Consultant Fees' section of Staff Analysis, staff adjustment to remove \$3,000 for unbilled legal hours is in error due to a typographical error by the Utility in its lead schedule for total requested legal fees. The Utility's typographical error was that it reflected \$3,607 for unbilled hours instead of \$607 that Labrador actually included in its total requested legal fees. As a result, staff mistakenly recommended a \$3,000 reduction for legal fees.

Second, staff mistakenly recommended a reduction for unbilled outside photocopies and Federal Express expenses because of no back-up documentation. Routinely staff conducts a cursory review of other costs, but does not ask for the back-up outside photocopies and Federal Express receipts. Because staff did not specifically ask for this atypical back-up support, the recommended \$1,588 reduction was made in error on staff's part.

Third, with regard to staff's recommended \$700 adjustment for legal travel expenses, staff believes this adjustment was made in error primary because the \$1,000 travel expense to Tallahassee was for not only the PAA Commission Conference but also for the Interim Commission Conference. Thus, the \$500 allowance for each conference is in-line with previously Commission approved travel expenses for Labrador's sister companies. Any remain potential excess for the customer meeting travel costs would be immaterial.

Staff believes these initially recommended rate case expense adjustments should be removed from the revenue requirement calculations.

The fall-out changes to the recommendation are reflected below. The specific modifications are in type and strike format and highlighted in yellow, as follows:

**1) Page 21, Issue 7, Recommendation Paragraph and Staff Analysis Paragraph**

**Recommendation:** The appropriate working capital allowance is \$19,736 ~~\$49,653~~ for water and \$26,327 ~~\$26,245~~ for wastewater. As such, the working capital allowance should be decreased by \$5,938 ~~\$6,024~~ for water and \$6,196 ~~\$6,278~~ for wastewater. (Springer)

**Staff Analysis:** Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of O&M expense, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the formula method. Staff has recommended adjustments to Labrador's O&M expense. As a result, staff recommends working capital of \$19,736 ~~\$49,653~~ for water and \$26,327 ~~\$26,245~~ for wastewater. This reflects a decrease of \$5,938 ~~\$6,024~~ for water and \$6,196 ~~\$6,278~~ for wastewater to the Utility's requested working capital allowance of \$25,674, and \$32,523 for water and wastewater, respectively.

**2) Page 22, Issue 8, Recommendation Paragraph and Staff Analysis Paragraph**

**Recommendation:** The appropriate simple average rate base for the test year ended December 31, 2010, is \$695,728 ~~\$695,645~~ for water and \$1,351,775 ~~\$1,351,693~~ for wastewater. (Springer)

**Staff Analysis:** In its MFRs, the Utility recorded rate base of \$703,973 for water and \$1,354,886 for wastewater. Staff has calculated Labrador's water and wastewater rate bases using the Utility's MFRs with adjustments as recommended in the preceding issues. Accordingly, staff recommends that the appropriate simple average rate base for the test year ended December 31, 2010, is \$695,728 ~~\$695,645~~ for water and \$1,351,775 ~~\$1,351,693~~ for wastewater. Staff's recommended water and wastewater rate

3/22/2012

bases are shown on Schedule Nos. 1-A and 1-B, respectively. The adjustments are shown on Schedule No. 1-C.

### 3) Page 29, Issue 14, Recommendation Paragraph

**Recommendation:** The appropriate amount of rate case expense is ~~\$88,662~~ ~~\$83,374~~. This expense should be recovered over four years for an annual expense of ~~\$22,166~~ ~~\$20,844~~, or ~~\$11,171~~ ~~\$10,505~~ for water and ~~\$10,994~~ ~~\$10,338~~ for wastewater. Therefore, annual rate case expense should be reduced by ~~\$22,547~~ ~~\$23,213~~ for water and ~~\$22,189~~ ~~\$22,844~~ for wastewater from the amounts requested in the Utility's MFRs. (Springer)

### 4) Page 29, Issue 14, Staff Analysis Section

#### Legal Consultant Fees

Staff recommends three adjustments related to the Utility's legal consultant fees, resulting in a total reduction of \$9,836. The first adjustment relates to unbilled fees and costs in the amount of \$4,588. The Utility submitted an estimate to complete the rate case through the PAA process from the legal consultant that included \$3,000 for unbilled legal fees, but did not

### 5) Page 30, Issue 14, Staff Analysis Section

include any description documenting the legal consultant's time. In addition, the legal consultant provided a cost report totaling \$1,588 for unbilled outside photocopies and Federal Express, but did not provide any documentation demonstrating the costs were associated with the instant rate case or any invoices for the costs. Accordingly, staff recommends that legal fees be reduced by \$4,588 (~~\$3,000~~ + \$1,588).

The second adjustment relates to travel expenses. The legal consultant included an estimate of \$400 to attend the customer meeting and \$1,000 to attend the Commission Conference, for a total of \$1,400 related to travel, meals, and hotel. The customer meeting was held in Zephyr Hills, Florida, which is approximately a 90-minute drive from the legal consultant's law offices in Lake Mary, Florida. Therefore, staff believes \$400 for travel to the customer meeting is excessive. Staff believes an expense of \$1,000 for travel to attend the Commission Conference is also excessive. In July 2011, the legal consultant requested, and the Commission approved, \$500 for travel to attend the Commission Conference in the LUCI rate case. It is unreasonable to assume the cost for travel from Lake Mary, Florida to Tallahassee has doubled since July 2011. Therefore, staff believes the requested travel expenses for the legal consultant should be reduced by \$700. This adjustment provides \$500 for travel to the Commission Conference consistent with the amount allowed in a recent case for a sister utility and \$200 for travel to the customer meeting.

Staff recommends an The third adjustment relates to the hourly rate billed by the legal consultant. In the AUF rate case, the Commission voted to decrease the hourly rate of the consultants to the rate authorized in the Utility's previous rate case. Staff believes the conditions in this case are similar to those in the Aqua case, and as such, the hourly billing rate for the legal consultant should be set at the rate authorized in Labrador's 2008 rate case. The hourly billing rate in the instant case is \$340 for the partner and \$315 for the associate. In Labrador's 2008 rate case, the hourly billing rate for the partner was \$315 and \$290 for the associate. Applying the hourly billing rate from the last rate case to the total hours in the instant case equates to a difference of \$4,548. Accordingly, staff recommends that legal fees be reduced by \$4,548.

#### Accounting Consultant Fees

### 6) Page 37, Issue 14, Staff Analysis Section

Table 14-3

Description	Utility			Total
	MFR Estimated	Revised Actual & Estimated	Staff Adjustments	
			<del>(\$4,548)</del>	<del>\$30,747</del>
Legal Fees	\$82,325	\$35,295	<del>(\$9,836)</del>	<del>\$25,459</del>
Accounting Consultant Fees	67,250	49,813	0	49,813
Engineering Consultant Fees	3,900	3,238	(2,000)	1,238
WSC In-house Fees	87,928	89,906	(89,906)	0
Filing Fee	4,000	4,000	0	4,000
Travel - WSC	3,200	3,200	(3,200)	0
Temp Employee Fess - WSC	2,000	2,000	(1,969)	31
Miscellaneous	12,000	12,000	(11,862)	138
Notices, Postage	<u>5,000</u>	<u>5,000</u>	<u>(2,305)</u>	<u>2,695</u>
Total Rate Case Expense	<u>\$267,603</u>	<u>\$204,452</u>	<u>(\$115,790)</u>	<u>\$88,662</u>
			<del>(\$121,070)</del>	<del>\$69,374</del>
Annual Amortization	\$66,901	\$51,113	<u>(\$28,947)</u>	<u>\$22,166</u>
			<del>(\$30,269)</del>	<del>\$20,844</del>

In its MFRs, Labrador requested total rate case expense of \$267,603, which amortized over four years is \$66,901, or \$33,718 for water and \$33,183 for wastewater. Based on the adjustments recommended above, total rate case expense should be decreased by ~~\$178,941~~ ~~\$184,229~~ (~~\$267,603~~ - ~~\$88,662~~ ~~\$83,374~~), and the annual amortization amounts by ~~\$22,547~~ ~~\$23,213~~ for water and ~~\$22,189~~ ~~\$22,844~~ for wastewater.

### 7) Page 38, Issue 15, Recommendation Paragraph and Staff Analysis Paragraph

**Recommendation:** The following revenue requirement should be approved.

	Test Year Revenue	\$ Increase	Revenue Requirement	% Increase
Water	\$249,568	<del>\$52,363</del> <del>\$51,655</del>	<del>\$301,937</del> <del>\$301,223</del>	<del>20.98%</del> <del>20.70%</del>
Wastewater	\$445,644	<del>\$46,146</del> <del>45,449</del>	<del>\$491,790</del> <del>\$491,093</del>	<del>10.35%</del> <del>10.20%</del>

(Springer)

**Staff Analysis:** In its filing Labrador requested revenue requirements to generate annual revenue of \$355,634 and \$549,422 for water and wastewater, respectively. These requested revenue requirements represent revenue increases of \$110,904, or approximately 45 percent, for water and \$110,312, or approximately 25 percent, for wastewater.

Consistent with staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates designed to generate a water revenue requirement of ~~\$301,937~~ ~~\$301,223~~ and a wastewater revenue requirement of ~~\$491,790~~ ~~\$491,093~~. The recommended water revenue requirement exceeds staff's adjusted test year revenue by ~~\$52,363~~ ~~\$51,655~~, or ~~20.98~~ ~~20.70~~ percent, for water. The recommended wastewater revenue requirement exceeds staff's adjusted test year revenue by ~~\$46,146~~ ~~\$45,449~~ or ~~10.35~~ ~~10.20~~ percent. These recommended pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn an 8.26 percent return on its investment in water and wastewater rate base.

**8) Page 41, Issue 15, Recommendation Paragraph and Staff Analysis First Paragraph**

**Recommendation:** The appropriate monthly water rates are shown on Schedule No. 4-A, and the corresponding appropriate monthly wastewater rates are shown on Schedule No. 4-B. Excluding miscellaneous service revenue, the recommended water rates are designed to produce revenue of ~~\$300,975~~ ~~\$300,268~~ while the recommended wastewater rates are designed to produce revenue of ~~\$491,212~~ ~~\$490,515~~. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice. (Thompson, Springer)

**Staff Analysis:** Excluding miscellaneous service revenue, the recommended water rates shown on Schedule No. 4-A are designed to produce revenue of ~~\$300,975~~ ~~\$300,268~~. Approximately 40 percent (or ~~\$120,390~~ ~~\$120,107~~) of the water monthly service revenue is recovered through the base facility charge, while approximately 60 percent (or ~~\$180,585~~ ~~\$180,161~~) represents revenue recovered through the consumption charge. Excluding miscellaneous service revenue, the recommended wastewater rates shown on Schedule No. 4-B are designed to produce revenue of ~~\$491,212~~ ~~\$490,515~~. Approximately 50 percent (or ~~\$245,606~~ ~~\$245,258~~) of the wastewater monthly service revenue is recovered through the base facility charge, while approximately 50 percent (or ~~\$245,606~~ ~~\$245,258~~) represents revenue recovered through the consumption charge.

**9) Page 42, Issue 18, Recommendation Paragraph**

**Recommendation:** The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenue requirement granted. Based on this calculation, there is no refund required for water, and the Utility should be required to refund ~~3.08 percent, or \$8,838, of water annual revenue and 3.15~~ ~~5.71~~ percent, ~~or \$28,358, of wastewater annual revenue granted under interim rates.~~ The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the corporate undertaking should be released upon staff's verification that the required refunds have been made. (Springer)

**10) Page 42, Issue 18, Staff Analysis Fourth Paragraph**

Using the principles discussed above, staff calculated a revised interim revenue requirement of ~~\$290,223~~ ~~\$277,910~~ for water and ~~\$480,278~~ ~~\$468,102~~ for wastewater utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. The revised water interim revenue requirement of ~~\$290,223~~ ~~\$277,910~~ is greater ~~less~~ than the interim revenue requirement of \$285,793 granted in the Interim Order, ~~plus miscellaneous service revenue of \$955, for a total of \$286,748.~~ This results in no required refund for water ~~a difference of \$8,838 or 3.08 percent.~~ The revised wastewater interim revenue requirement of ~~\$480,278~~ ~~\$468,102~~ is less than the interim revenue requirement of \$495,882 granted in the Interim Order, ~~plus other wastewater revenue of \$578, for a total of \$496,460.~~ This results in a difference of ~~\$15,604~~ ~~\$28,358~~ or ~~3.15~~ ~~5.71~~ percent.

**11) Page 43, Issue 18, Staff Analysis First Paragraph**

Thus, the ~~The~~ Utility should be required to refund ~~3.15~~ ~~3.08~~ percent of water revenue and ~~5.71~~ percent of wastewater revenue collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility

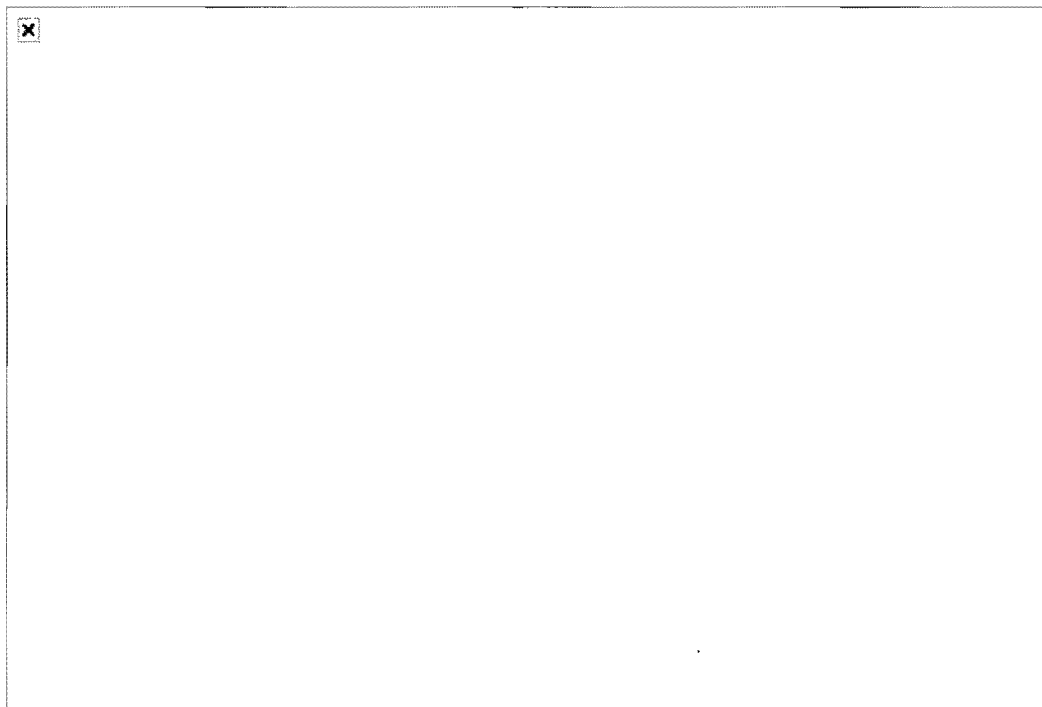
should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C.

**12) Page 44, Issue 19, Recommendation Paragraph and Staff Analysis First Paragraph**

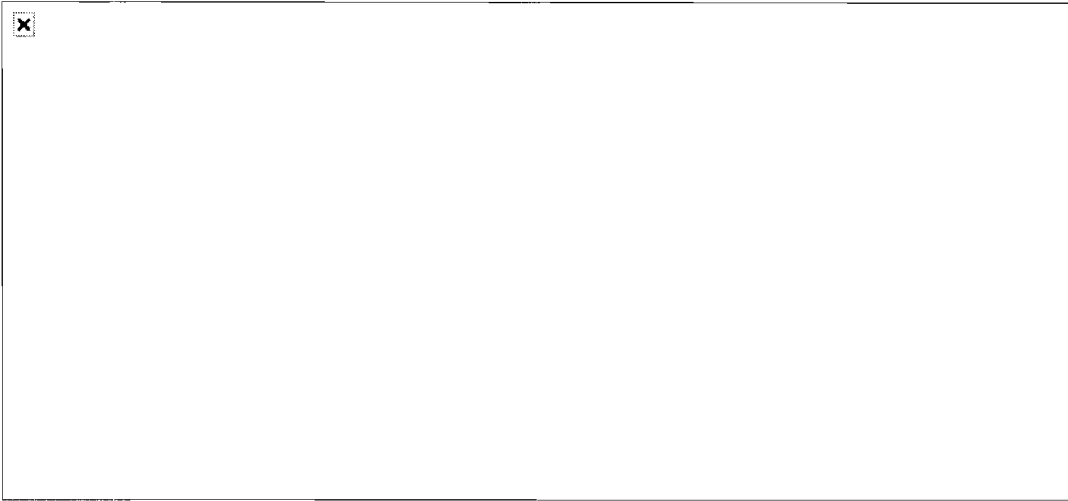
**Recommendation:** The rates should be reduced as shown on Schedule Nos. 4-A and 4-B to remove ~~\$11,819~~ ~~\$11,114~~ for water and ~~\$11,631~~ ~~\$10,937~~ for wastewater related the annual rate case expense, grossed-up for RAFs, which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (Springer)

**Staff Analysis:** Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs, which is ~~\$11,819~~ ~~\$11,114~~ for water and ~~\$11,631~~ ~~\$10,937~~ for wastewater. The decreased revenue will result in the rate reduction recommended by staff on Schedule Nos. 4-A and 4-B.

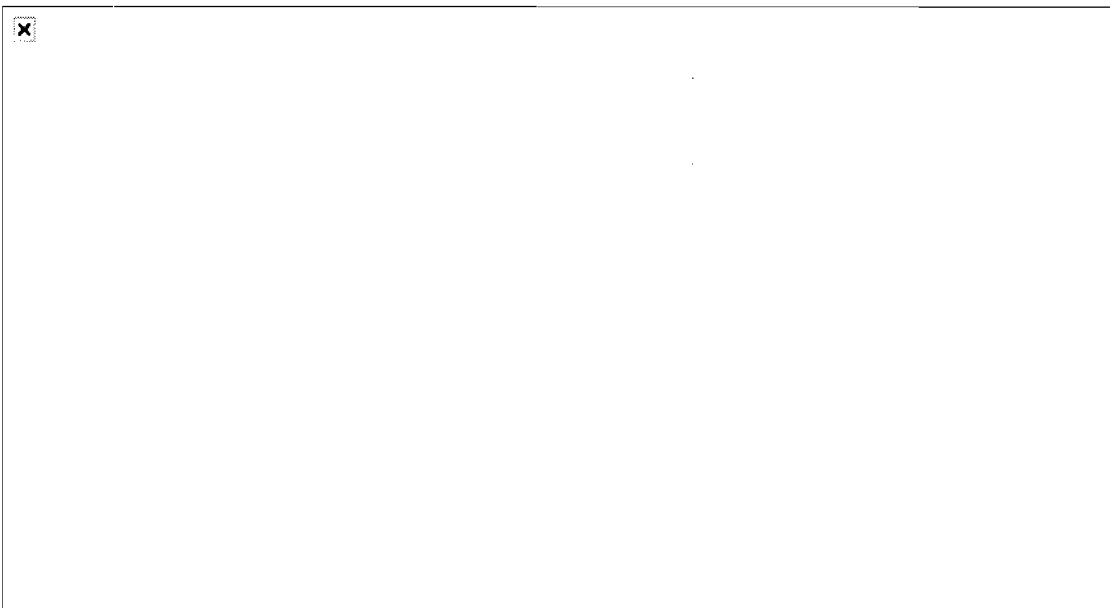
**13) Page 47, Water Rate Base Schedule No. 1-A**



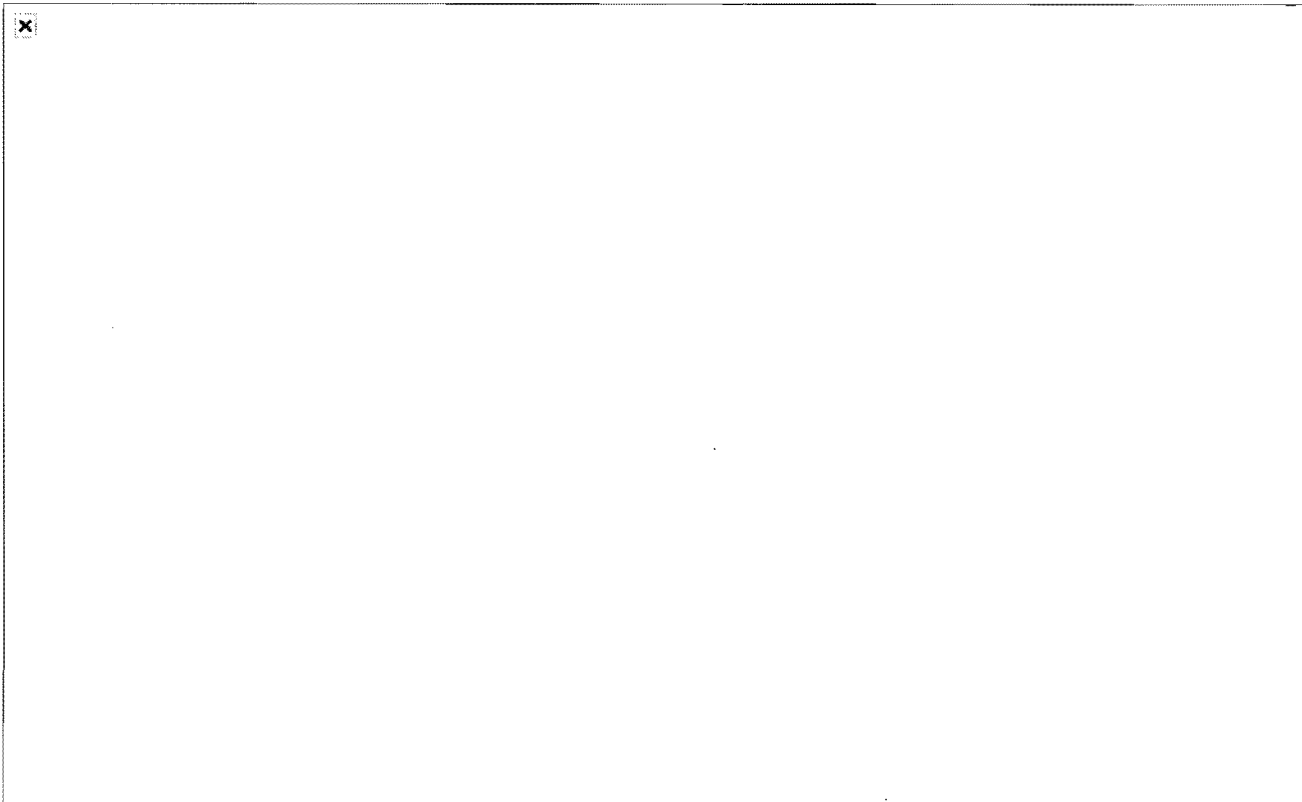
**14) Page 48, Wastewater Rate Base Schedule No. 1-B**



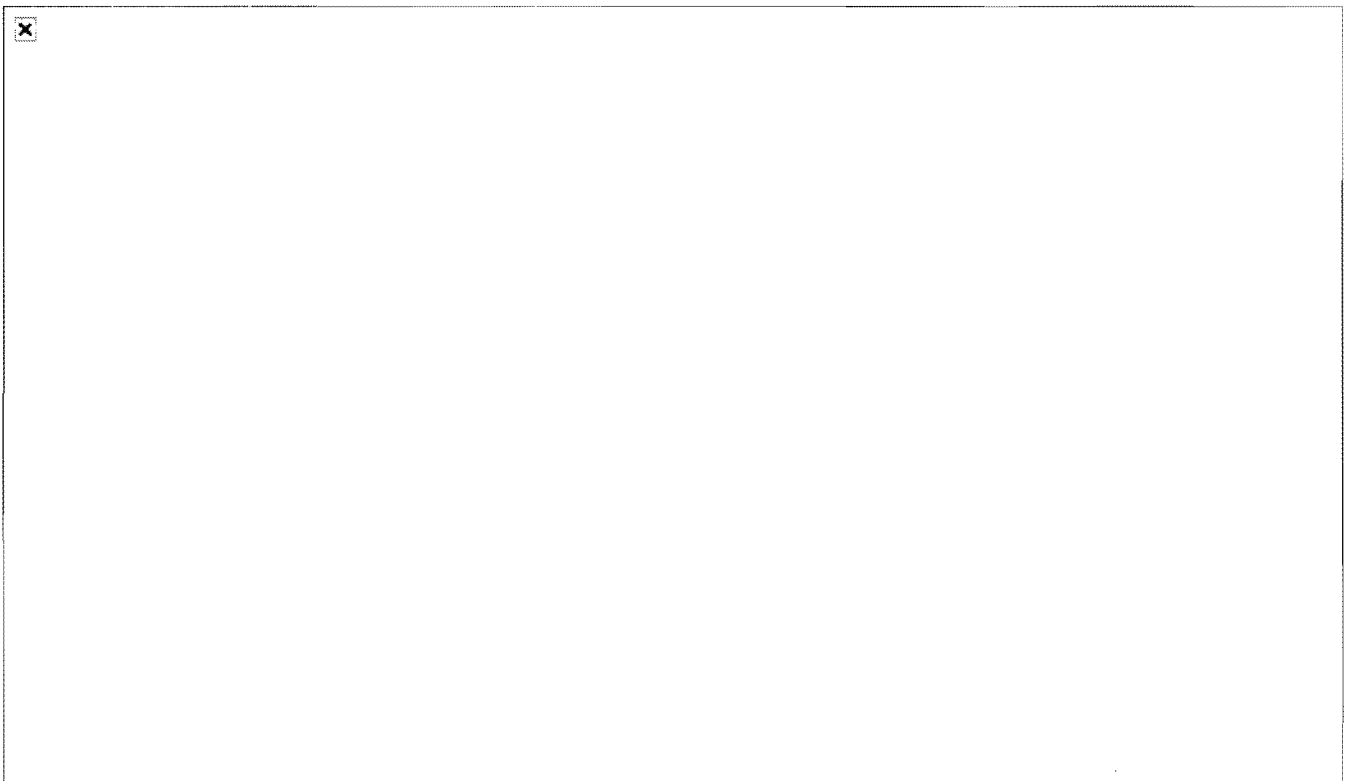
**15) Page 49, Adjustments Rate Base Schedule No. 1-C**



**16) Page 50, Capital Structure Schedule No. 2**



**17) Page 51, Water Operating Income Schedule No. 3-A**



**18) Page 52, Wastewater Operating Income Schedule No. 3-B**

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Labrador Utilities, Inc.  
Statement of Wastewater Operations  
Test Year Ended 12/31/2010

Schedule No. 3-B  
Docket No. I10264-WS

Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Decrease	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$439,110</u>	<u>\$110,312</u>	<u>\$549,422</u>	<u>(\$103,778)</u>	<u>\$445,644</u>	<u>\$45,449</u> 10.20%	<u>\$491,093</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$68,925	\$191,258	\$260,183	(\$49,568)	\$210,615		\$210,615
3 Depreciation	68,100	18,040	86,140	(5,057)	81,083		81,083
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	0	51,505	51,505	(4,754)	46,751	2,077	48,828
6 Income Taxes	<u>12,437</u>	<u>27,250</u>	<u>39,687</u>	<u>(16,666)</u>	<u>23,021</u>	<u>16,583</u>	<u>39,605</u>
7 <b>Total Operating Expense</b>	<u>\$149,462</u>	<u>\$288,053</u>	<u>\$437,515</u>	<u>(\$76,044)</u>	<u>\$361,471</u>	<u>\$18,660</u>	<u>\$380,131</u>
8 <b>Operating Income</b>	<u>\$289,648</u>	<u>(\$177,741)</u>	<u>\$111,907</u>	<u>(\$27,734)</u>	<u>\$84,173</u>	<u>\$27,486</u>	<u>\$111,659</u>
9 <b>Rate Base</b>	<u>\$1,256,308</u>		<u>\$1,354,886</u>		<u>\$1,351,775</u>		<u>\$1,351,775</u>
10 <b>Rate of Return</b>	<u>23.06%</u>		<u>8.26%</u>		<u>6.23%</u>		<u>8.26%</u>

19) Page 53, Adjustments to Operating Income Schedule No. 3-C

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20) Page 54, Water Rates and Four-Year Rate Reduction Schedule No. 4-A





**21) Page 55, Wastewater Rates and Four-Year Rate Reduction Schedule No. 4-B**

