

State of Florida



Public Service Commission

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

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

DATE: November 13, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (P. Buys, Hill, King) PDB m PV TR
Division of Accounting and Finance (Fletcher, Archer) BF A CRBB MC
Division of Economics (Bruce, Hudson) BSH PA
Office of the General Counsel (Mapp, Crawford) KLM JSC

ALM

RE: Docket No. 140135-WS – Application for increase in water/wastewater rates in Pasco County by Labrador Utilities, Inc.

AGENDA: 11/25/14 – Regular Agenda – Decision on Suspension of Rates and Interim Rates
– Participation is at the Discretion of the Commission

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: 60-Day Suspension Waived Through 11/25/14

SPECIAL INSTRUCTIONS: None

Case Background

Labrador Utilities, Inc., (Labrador or Utility) is a Class B utility providing water and wastewater services to approximately 764 water and 751 wastewater customers in Pasco County. Water and wastewater rates were last established for this Utility in its 2011 rate case.¹

On September 15, 2014, Labrador filed its application for the rate increase at issue in the instant docket. On October 16, 2014, staff sent Labrador a letter indicating deficiencies in the filing of its minimum filing requirements (MFRs). Corrections to the MFRs are due no later than November 17, 2014. The Utility requested that the application be processed using the Proposed

¹ See Order No. PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

Docket No. 140135-WS
Date: November 13, 2014

Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is the simple-average period ended December 31, 2013.

Labrador requested interim revenue increases of \$41,409 (15.6 percent) for water and \$111,995 (27.4 percent) for wastewater. The Utility requested final revenue increases of \$96,942 (37.0 percent) for water and \$287,269 (70.7 percent) for wastewater.

The original 60-day statutory deadline for the Commission to suspend the Utility's requested final rate and approve interim rates was November 17, 2014. However, by letter dated September 22, 2014, the Utility agreed to extend the time by which the Commission is required to suspend the proposed rates and authorize interim rates through the November 25, 2014, Commission Conference.

This recommendation addresses the suspension of Labrador's requested final rates and its requested interim rates. The Commission has jurisdiction pursuant to Section 367.081 and 367.082, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the Utility's proposed final water and wastewater rates be suspended?

Recommendation: Yes. Labrador's proposed final water and wastewater rates should be suspended. (P. Buys, Hill)

Staff Analysis: Section 367.081(6), F.S., provides that the Commission may, for good cause, withhold consent to the implementation of requested rates within 60 days after the date the rate request is filed. As previously stated, the Utility has extended the 60-day deadline until November 25, 2014. Further, Section 367.081(8), F.S., permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months from the official date of filing if: (1) the Commission has not acted upon the requested rate increase; or (2) if the Commission's PAA action is protested by a party other than the Utility.

Staff has reviewed the filing and has considered the information filed in support of the rate application and the proposed final rates. Staff recommends that further investigation of this information, including on-site investigation by Commission staff, is warranted. As noted in the case background, staff sent a deficiency letter to Labrador on October 16, 2014. To date, staff has initiated an audit of Labrador's books and records. The audit is tentatively to be completed on November 25, 2014. Staff sent a data request to Labrador on November 4, 2014 and the response is due November 19, 2014. Further, staff believes additional requests will be necessary to process this case. Based on the foregoing, staff recommends that the Utility's proposed final rate increase be suspended.

Issue 2: Should any interim revenue increase be approved?

Recommendation: Yes, Labrador should be authorized to collect annual water and wastewater revenues as indicated below:

| | <u>Adjusted Test Year Revenues</u> | <u>\$ Increase</u> | <u>Revenue Requirement</u> | <u>% Increase</u> |
|------------|--|--------------------|--------------------------------|-------------------|
| Water | \$266,438 | \$34,665 | \$301,102 | 13.01% |
| Wastewater | \$410,128 | \$83,096 | \$493,223 | 20.26% |

(Fletcher, P. Buys)

Staff Analysis: On September 15, 2014, Labrador filed its rate base, cost of capital, and operating statements to support its requested interim increase in water and wastewater rates. Pursuant to Section 367.082(1), F.S., in order to establish a prima facie entitlement for interim relief, the utility shall demonstrate that it is earning outside the range of reasonableness on its rate of return. Pursuant to Section 367.081(2)(a), F.S., in a proceeding for an interim increase in rates, the Commission shall authorize, within 60 days of the filing for such relief, the collection of rates sufficient to earn the minimum of the range of rate of return. Based on the Utility's filing and the recommended adjustments below, staff believes that the Utility has demonstrated a prima facie entitlement in accordance with Section 367.082(1), F.S.

Pursuant to Section 367.082(5)(b)1, F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with adjustments made in the utility's most recent rate proceeding and annualizing any rate changes. Staff has reviewed Labrador's interim request, as well as Order No. PSC-12-0206-PAA-WS, in which the Commission last established rate base. Staff's recommended adjustments are discussed below. Staff has attached accounting schedules to illustrate staff's recommended rate base, capital structure, and test year operating income amounts. Rate base schedules are labeled as Schedule Nos. 1-A and 1-B, with the adjustments shown on Schedule No. 1-C. Capital structure is labeled as Schedule No. 2. Operating income schedules for water and wastewater, respectively, are labeled as Schedule Nos. 3-A and 3-B, with the adjustments shown on Schedule No. 3-C.

RATE BASE

Pursuant to Section 367.082(5)(b)1, F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with adjustments made in the utility's most recent rate proceeding. Based on staff's review, there are several adjustments necessary for interim purposes.

Based on staff's review, adjustments are necessary to remove amounts from the plant in service balances associated with the Utility's Phoenix Project. Those amounts equate to reductions of \$8,844 for water and \$8,693 for wastewater. Corresponding adjustments are necessary to decrease accumulated depreciation for water and wastewater by \$6,193 and \$6,091, respectively. Further, depreciation expense should be reduced by \$3,154 for water and \$3,105

for wastewater. These adjustments are consistent with the methodology used in the Utility's last rate case.

Pursuant to Section 367.082, F.S., the method used to calculate used and useful (U&U) in Labrador's previous rate case must be used for interim purposes. By Order No. PSC-12-0206-PAA-WS, the Commission found Labrador's water treatment plant, ground storage tank, water distribution system, and wastewater collection system were 100 percent U&U. The Commission found the wastewater treatment plant to be 79.94 percent U&U. Therefore, in accordance with Section 367.082, F.S., wastewater rate base should be reduced by \$159,457 for interim purposes. Corresponding adjustments should also be made to reduce depreciation expense and property taxes by \$3,757 and \$2,517, respectively.

As mentioned later in the cost of capital section, staff has recommended that rate base be increased by the U&U net debit accumulated deferred income taxes (ADITs). Based on the test year balances for accumulated depreciation for water and wastewater, the total company net ADIT balance of \$3,261 results in allocations of \$970 and \$2,291 for water and wastewater, respectively. Further, applying the U&U percentage of 79.94 percent for the wastewater treatment plant results in a U&U ADIT amount of \$1,832 for wastewater.

Pursuant to Rule 25-30.433(2), Florida Administrative Code (F.A.C.), working capital for Class B utilities shall be calculated using the formula method which is one-eighth of operation and maintenance (O&M) expenses. Based on staff's adjustments to water and wastewater O&M expenses discussed below, staff reduced working capital by \$466 for water and \$739 for wastewater. Therefore, staff recommends that Labrador's interim water rate base should be \$579,749, and wastewater rate base should be \$1,082,591.

COST OF CAPITAL

Based on an analysis of the MFRs and staff's review of Order No. PSC-12-0206-PAA-WS from the Utility's last rate proceeding, staff believes an adjustment is necessary to the Utility's capital structure. On MFR Schedule D-2 for interim, the Utility reflected a negative amount of \$3,261 for ADITs. Pursuant to Rule 25-30.433(3), F.A.C., utilities are required to offset used and useful debit deferred taxes against any used and useful credit deferred taxes. If the offset results in a net debit ADIT, it is included as a separate line item in rate base. If the offset results in a net credit ADIT, it is included in the capital structure. Accordingly, staff recommends that the net debit ADIT amount of \$3,261 be removed from the capital structure and only the used and useful amount should be included in rate base. Therefore, staff recommends an interim weighted average cost of capital of 8.04 percent.

NET OPERATING INCOME

Pursuant to Section 367.082(5)(b)1, F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with adjustments made in the Utility's most recent rate proceeding and annualizing any rate changes. Based on staff's review, some adjustments are necessary for interim purposes.

First, on MFR Schedule B-3 for interim, the Utility made adjustments to increase revenues by \$510 for water and \$1,764 for wastewater. Based on staff's annualized revenue calculations in accordance with the interim statute, revenues should be increased further by \$1,025 and \$2,074 for water and wastewater, respectively.

Second, using the same methodology in the last rate case for salaries, benefits, sludge removal, miscellaneous expenses, and excessive unaccounted for water, staff recommends that O&M expenses be reduced by \$3,733 for water and \$5,911 for wastewater.

Based on the above, staff recommends that the appropriate test year operating income, before any revenue increase, is \$25,975 and \$37,566 for water and wastewater, respectively.

REVENUE REQUIREMENT

Based on the above adjustments, staff recommends revenue requirements of \$301,102 for water and \$493,223 for wastewater. This represents interim increases in annual revenues of \$34,665 (or 13.01 percent) for water and \$83,096 (or 20.26 percent) for wastewater. These increases will allow the Utility the opportunity to recover its water and wastewater operating expenses and earn an 8.04 percent return on its water and wastewater rate bases.

Issue 3: What are the appropriate interim water and wastewater rates?

Recommendation: The interim rate increase of 13.09 percent for water and 20.31 percent for wastewater should be applied as an across-the-board increase to the service rates in effect as of December 31, 2013. The rates, as shown on Schedule Nos. 4-A and 4-B, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until the required security has been filed, staff has approved the proposed customer notice, and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis: Staff recommends that interim service rates for Labrador be designed to allow the Utility the opportunity to generate annual operating revenues of \$301,102 and \$493,223 for water and wastewater, respectively. Before removal of miscellaneous revenues, this would result in an increase of \$34,665 (13.01 percent) for water and \$83,096 (20.26 percent) for wastewater. To determine the appropriate increase to apply to the service rates, miscellaneous revenues should be removed from the test year revenues. The calculation is as follows:

Table 3-1

| | <u>Water</u> | <u>Wastewater</u> |
|---|-----------------|-------------------|
| 1 Total Test Year Revenues | \$266,438 | \$410,128 |
| 2 Less: Miscellaneous Revenues | <u>\$1,521</u> | <u>\$903</u> |
| 3 Test Year Revenues from Service Rates | \$264,917 | \$409,225 |
| 4 Revenue Increase | <u>\$34,665</u> | <u>\$83,096</u> |
| 5 % Service Rate Increase (Line 4/Line 3) | 13.09% | 20.31% |

Staff recommends that the interim rate increase of 13.09 percent for water and 20.31 percent for wastewater should be applied as an across-the-board increase to the service rates in effect as of December 31, 2013. The rates, as shown on Schedule Nos. 4-A and 4-B, should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. In addition, the approved rates should not be implemented until the required security has been filed, staff has approved the proposed customer notice, and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 4: What is the appropriate security to guarantee the interim increase?

Recommendation: A cumulative corporate undertaking of \$178,147 is acceptable contingent upon receipt of the written guarantee of the parent company, Utilities, Inc. (UI or Company) and written confirmation that the cumulative outstanding guarantees on behalf of UI-owned utilities in other states will not exceed \$1.2 million (inclusive of all Florida utilities). UI should be required to file a corporate undertaking on behalf of its subsidiaries to guarantee any potential refunds of revenues collected under interim conditions. UI's total guarantee should be a cumulative amount of \$178,147, which includes an amount of \$68,706 subject to refund in this docket. Pursuant to Rule 25-30.360(6), F.A.C., the Utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and in accordance with Rule 25-30.360, F.A.C. (Fletcher, Archer)

Staff Analysis: Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As recommended in Issue 2, the total annual interim increase is \$117,760. In accordance with Rule 25-30.360, F.A.C., staff calculated the potential refund of revenues and interest collected under interim conditions to be \$68,706. This amount is based on an estimated seven months of revenue being collected from staff's recommended interim rates over the Utility's current authorized rates shown on Schedule Nos. 4-A and 4-B.

Labrador is a wholly-owned subsidiary of UI, which provides all investor capital to its subsidiaries. Based on the requested interim rate increase for its Labrador system, the incremental increase in UI's corporate undertaking is \$68,706. The current cumulative corporate undertaking amount outstanding for other UI systems is \$109,441. The new request would bring the cumulative amount outstanding to \$178,147 (\$68,706 + \$109,441).

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff reviewed UI's 2011, 2012, and 2013 financial statements to determine if the Company can support a corporate undertaking on behalf of its subsidiary. UI reported both an insufficient working capital amount and an inadequate current ratio in 2012 and 2013. 2013 had an insufficient Interest Coverage Ratio. However, in all other time periods, the Company achieved sufficient liquidity and interest coverage ratios. In addition, UI reported adequate ownership equity over the three-year review period. UI also reported net income in excess of \$5 million a year in all periods.

Based on staff's review of the financial reports submitted by UI, staff believes UI has adequate resources to support a corporate undertaking in the amount requested. Based on this analysis, staff recommends that a cumulative corporate undertaking of \$178,147 is acceptable contingent upon receipt of the written guarantee of UI and written confirmation that the cumulative outstanding guarantees on behalf of UI-owned utilities in other states will not exceed \$1.2 million (inclusive of all Florida utilities).

The brief financial analysis above is only appropriate for deciding if UI can support a corporate undertaking in the amount proposed and should not be considered a finding regarding staff's position on other issues in this proceeding.

Pursuant to Rule 25-30.360(6), F.A.C., the Utility should provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the Utility.

Issue 5: Should this docket be closed?

Recommendation: No. The docket should remain open pending the Commission's PAA decision on the Utility's requested rate increase. (Mapp)

Staff Analysis: The docket should remain open pending the Commission's PAA decision on the Utility's requested rate increase.

| Labrador Utilities, Inc. Schedule of Water Rate Base Test Year Ended 12/31/13 | | Schedule No. 1-A Docket No. 140135-WS | | | |
|--|--|--|---|------------------------------------|---|
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Staff Adjust- ments | Staff Adjusted Test Year |
| 1 Plant in Service | \$934,990 | (\$1,020) | \$933,970 | (\$8,844) | \$925,126 |
| 2 Land and Land Rights | 540 | (3) | 537 | 0 | 537 |
| 3 Non-used and Useful Components | 0 | 0 | 0 | 0 | 0 |
| 4 Accumulated Depreciation | (375,176) | 701 | (374,475) | 6,193 | (368,282) |
| 5 CIAC | (342) | 0 | (342) | 0 | (342) |
| 6 Amortization of CIAC | 64 | 0 | 64 | 0 | 64 |
| 7 Net Debit Deferred Income Taxes | 0 | 0 | 0 | 970 | 970 |
| 8 CWIP | 94,653 | (94,653) | 0 | 0 | 0 |
| 9 Working Capital Allowance | 0 | 22,143 | 22,143 | (466) | 21,677 |
| 10 Acquisition Adjustments | (351,387) | 351,387 | 0 | 0 | 0 |
| 11 Accum. Amort. Of Acq. Adjustments | <u>94,285</u> | <u>(94,285)</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| 12 Rate Base | <u>\$397,627</u> | <u>\$184,270</u> | <u>\$581,897</u> | <u>(\$2,148)</u> | <u>\$579,749</u> |

| Labrador Utilities, Inc. Schedule of Wastewater Rate Base Test Year Ended 12/31/13 | | Schedule No. 1-B Docket No. 140135-WS | | | |
|---|--------------------------------------|--|---|------------------------------------|---|
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Staff Adjust- ments | Staff Adjusted Test Year |
| 1 Plant in Service | \$2,086,875 | (\$1,002) | \$2,085,873 | (\$8,693) | \$2,077,180 |
| 2 Land and Land Rights | 0 | 0 | 0 | 0 | 0 |
| 3 Non-used and Useful Components | 0 | 0 | 0 | (159,457) | (159,457) |
| 4 Accumulated Depreciation | (876,820) | 688 | (876,132) | 6,091 | (870,041) |
| 5 CIAC | 0 | 0 | 0 | 0 | 0 |
| 6 Amortization of CIAC | 0 | 0 | 0 | 0 | 0 |
| 7 CWIP | 1,565 | (1,565) | 0 | 0 | 0 |
| 8 Net Debit Deferred Income Taxes | 0 | 0 | 0 | 1,832 | 1,832 |
| 9 Working Capital Allowance | <u>0</u> | <u>33,818</u> | <u>33,818</u> | <u>(739)</u> | <u>33,079</u> |
| 10 Rate Base | <u>\$1,211,620</u> | <u>\$31,939</u> | <u>\$1,243,559</u> | <u>(\$160,968)</u> | <u>\$1,082,591</u> |

| Labrador Utilities, Inc. Adjustments to Rate Base Test Year Ended 12/31/13 | | Schedule No. 1-C Docket No. 140135-WS | |
|---|------------------|--|--|
| Explanation | Water | Wastewater | |
| <u>Plant In Service</u> To reflect Phoenix Project adjustment from last rate case. | <u>(\$8,844)</u> | <u>(\$8,693)</u> | |
| <u>Non-used and Useful</u> To reflect net non-used and useful adjustment | <u>\$0</u> | <u>(\$159,457)</u> | |
| <u>Accumulated Depreciation</u> To reflect Phoenix Project adjustment from last rate case. | <u>\$6,193</u> | <u>\$6,091</u> | |
| <u>Net Debit Deferred Income Taxes</u> To reflect the appropriate net debit deferred tax balance. | <u>\$970</u> | <u>\$1,832</u> | |
| <u>Working Capital</u> To reflect the appropriate amount of working capital. | <u>(\$466)</u> | <u>(\$739)</u> | |

| Labrador Utilities, Inc. Capital Structure-Simple Average Test Year Ended 12/31/13 | | | | | | Schedule No. 2 Docket No. 140135-WS | | |
|--|-----------------------------|-----------------------|-----------------------------|-------------------------------|---------------------------------|--|----------------------|---------------------|
| Description | Total Capital | Specific Adjustments | Subtotal Adjusted Capital | Prorata Adjustments | Capital Reconciled to Rate Base | Ratio | Cost Rate | Weighted Cost |
| Per Utility | | | | | | | | |
| 1 Long-term Debt | \$180,000,000 | \$0 | \$180,000,000 | (\$179,081,065) | \$918,935 | 50.34% | 6.64% | 3.34% |
| 2 Short-term Debt | 3,100,000 | 0 | 3,100,000 | (3,084,175) | 15,825 | 0.87% | 8.48% | 0.07% |
| 3 Preferred Stock | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 4 Common Equity | 174,356,625 | 0 | 174,356,625 | (173,466,501) | 890,124 | 48.76% | 9.51% | 4.64% |
| 5 Customer Deposits | 3,833 | 0 | 3,833 | 0 | 3,833 | 0.21% | 6.00% | 0.01% |
| 6 Deferred Income Taxes | <u>(3,261)</u> | <u>0</u> | <u>(3,261)</u> | <u>0</u> | <u>(3,261)</u> | <u>-0.18%</u> | 0.00% | <u>0.00%</u> |
| 7 Total Capital | <u>\$357,457,197</u> | <u>\$0</u> | <u>\$357,457,197</u> | <u>(\$355,631,741)</u> | <u>\$1,825,456</u> | <u>100.00%</u> | | <u>8.07%</u> |
| Per Staff | | | | | | | | |
| 8 Long-term Debt | \$180,000,000 | \$0 | \$180,000,000 | (\$179,164,846) | \$835,154 | 50.24% | 6.64% | 3.34% |
| 9 Short-term Debt | 3,100,000 | 0 | 3,100,000 | (3,085,617) | 14,383 | 0.87% | 8.48% | 0.07% |
| 10 Preferred Stock | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 11 Common Equity | 174,356,625 | 0 | 174,356,625 | (173,547,655) | 808,970 | 48.66% | 9.51% | 4.63% |
| 12 Customer Deposits | 3,833 | 0 | 3,833 | 0 | 3,833 | 0.23% | 2.00% | 0.00% |
| 13 Deferred Income Taxes | <u>(3,261)</u> | <u>3,261</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0.00%</u> | 0.00% | <u>0.00%</u> |
| 14 Total Capital | <u>\$357,457,197</u> | <u>\$3,261</u> | <u>\$357,460,458</u> | <u>(\$355,798,117)</u> | <u>\$1,662,341</u> | <u>100.00%</u> | | <u>8.04%</u> |
| | | | | | | <u>LOW</u> | <u>HIGH</u> | |
| RETURN ON EQUITY | | | | | | <u>9.51%</u> | <u>11.51%</u> | |
| OVERALL RATE OF RETURN | | | | | | <u>8.04%</u> | <u>9.02%</u> | |

| Labrador Utilities, Inc. Statement of Water Operations Test Year Ended 12/31/13 | | | | | | Schedule No. 3-A Docket No. 140135-WS | |
|---|-----------------------------|-----------------------------|--------------------------------------|---------------------------|--------------------------------|--|------------------------|
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Staff Adjust- ments | Staff Adjusted Test Year | Revenue Increase | Revenue Requirement |
| 1 Operating Revenues: | <u>\$264,903</u> | <u>\$41,919</u> | <u>\$306,822</u> | <u>(\$40,384)</u> | <u>\$266,438</u> | <u>\$34,665</u> 13.01% | <u>\$301,102</u> |
| Operating Expenses | | | | | | | |
| 2 Operation & Maintenance | \$202,275 | (\$25,130) | \$177,145 | (\$3,733) | \$173,412 | | \$173,412 |
| 3 Depreciation | 40,877 | (1,638) | 39,239 | (3,154) | 36,085 | | 36,085 |
| 4 Amortization | 0 | 0 | 0 | 0 | 0 | | 0 |
| 5 Taxes Other Than Income | 31,188 | (3,953) | 27,235 | 0 | 27,235 | 1,560 | 28,795 |
| 6 Income Taxes | <u>(19,914)</u> | <u>36,190</u> | <u>16,276</u> | <u>(12,545)</u> | <u>3,731</u> | <u>12,457</u> | <u>16,188</u> |
| 7 Total Operating Expense | <u>254,426</u> | <u>5,469</u> | <u>259,895</u> | <u>(19,433)</u> | <u>240,462</u> | <u>14,017</u> | <u>254,480</u> |
| 8 Operating Income | <u>\$10,477</u> | <u>\$36,450</u> | <u>\$46,927</u> | <u>(\$20,952)</u> | <u>\$25,975</u> | <u>\$20,648</u> | <u>\$46,623</u> |
| 9 Rate Base | <u>\$397,627</u> | | <u>\$581,897</u> | | <u>\$579,749</u> | | <u>\$579,749</u> |
| 10 Rate of Return | <u>2.63%</u> | | <u>8.06%</u> | | <u>4.48%</u> | | <u>8.04%</u> |

| Labrador Utilities, Inc. Statement of Wastewater Operations Test Year Ended 12/31/13 | | | | | | Schedule No. 3-B Docket No. 140135-WS | |
|--|-----------------------------|-----------------------------|--------------------------------------|---------------------------|--------------------------------|--|------------------------|
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Staff Adjust- ments | Staff Adjusted Test Year | Revenue Increase | Revenue Requirement |
| 1 Operating Revenues: | <u>\$406,290</u> | <u>\$113,759</u> | <u>\$520,049</u> | <u>(\$109,921)</u> | <u>\$410,128</u> | <u>\$83,096</u> 20.26% | <u>\$493,223</u> |
| Operating Expenses | | | | | | | |
| 2 Operation & Maintenance | 286,328 | (\$15,788) | \$270,540 | (\$5,911) | \$264,629 | | \$264,629 |
| 3 Depreciation | 69,563 | (1,610) | 67,953 | (6,862) | 61,091 | | 61,091 |
| 4 Amortization | 0 | 0 | 0 | 0 | 0 | | 0 |
| 5 Taxes Other Than Income | 38,644 | 7,831 | 46,475 | 0 | 46,475 | 3,739 | 50,214 |
| 6 Income Taxes | <u>3</u> | <u>34,787</u> | <u>34,790</u> | <u>(34,423)</u> | <u>367</u> | <u>29,862</u> | <u>30,229</u> |
| 7 Total Operating Expense | <u>394,538</u> | <u>25,220</u> | <u>419,758</u> | <u>(47,197)</u> | <u>372,561</u> | <u>33,601</u> | <u>406,163</u> |
| 8 Operating Income | <u>\$11,752</u> | <u>\$88,539</u> | <u>\$100,291</u> | <u>(\$62,725)</u> | <u>\$37,566</u> | <u>\$49,495</u> | <u>\$87,061</u> |
| 9 Rate Base | <u>\$1,211,620</u> | | <u>\$1,243,559</u> | | <u>\$1,082,591</u> | | <u>\$1,082,591</u> |
| 10 Rate of Return | <u>0.97%</u> | | <u>8.06%</u> | | <u>3.47%</u> | | <u>8.04%</u> |

| Labrador Utilities, Inc. | | Schedule No. 3-C | |
|--|-------------------|-----------------------------|--|
| Adjustment to Operating Income | | Docket No. 140135-WS | |
| Test Year Ended 12/31/13 | | | |
| Explanation | Water | Wastewater | |
| <u>Operating Revenues</u> | | | |
| 1 Remove requested interim revenue increase. | (\$41,409) | (\$111,995) | |
| 2 To reflect the appropriate amount of annualized revenues. | <u>1,025</u> | <u>2,074</u> | |
| Total | <u>(\$40,384)</u> | <u>(\$109,921)</u> | |
| <u>Operation and Maintenance Expense</u> | | | |
| Salaries, Benefits, Sludge Removal, Misc. Exp., and EUW. | <u>(\$3,733)</u> | <u>(\$5,911)</u> | |
| <u>Depreciation Expense - Net</u> | | | |
| 1 To reflect Phoenix Project adjustment from last rate case. | (\$3,154) | (\$3,105) | |
| 2 To remove net depreciation on non-U&U adjustment above. | <u>0</u> | <u>(3,757)</u> | |
| Total | <u>(\$3,154)</u> | <u>(\$6,862)</u> | |
| <u>Taxes Other Than Income</u> | | | |
| 1 RAFs on revenue adjustments above. | (\$1,817) | (\$4,946) | |
| 2 To remove property taxes on non-U&U adjustment above. | <u>0</u> | <u>(2,517)</u> | |
| Total | <u>(\$1,817)</u> | <u>(\$7,463)</u> | |

LABRADOR UTILITIES, INC.
TEST YEAR ENDED DECEMBER 31, 2013
MONTHLY WATER RATES

SCHEDULE NO. 4-A
DOCKET NO. 140135-WS

| | RATES | UTILITY | UTILITY | STAFF | |
|---|-----------------------|------------------|------------------|--------------------|----------|
| | AT | CURRENT | REQUESTED | REQUESTED | |
| | 12/31/2013 (1) | RATES (2) | INTERIM | FINAL | |
| | | | | RECOMMENDED | |
| | | | | INTERIM | |
| <u>Residential Service</u> | | | | | |
| Base Facility Charge – 5/8" Meter Size | \$10.57 | \$10.38 | \$12.18 | \$14.24 | \$11.95 |
| Charge per 1,000 Gallons- Residential | \$8.43 | \$8.30 | \$9.71 | \$11.39 | \$9.53 |
| <u>General Service</u> | | | | | |
| Base Facility Charge by Meter Size | | | | | |
| 5/8" | \$10.57 | \$10.38 | \$12.18 | \$14.24 | \$11.95 |
| 3/4" | \$15.86 | \$15.58 | \$18.27 | \$21.36 | \$17.94 |
| 1" | \$26.43 | \$25.96 | \$30.45 | \$35.60 | \$29.36 |
| 1-1/2" | \$52.85 | \$51.90 | \$60.90 | \$71.20 | \$58.69 |
| 2" | \$84.56 | \$83.03 | \$97.44 | \$113.92 | \$95.63 |
| 3" | \$169.12 | \$166.07 | \$182.70 | \$213.60 | \$191.26 |
| 4" | \$264.25 | \$259.48 | \$304.50 | \$356.00 | \$298.84 |
| 6" | \$528.50 | \$518.96 | \$609.00 | \$712.00 | \$597.68 |
| Charge per 1,000 Gallons - General Service | \$8.43 | \$8.30 | \$9.71 | \$11.39 | \$9.53 |
| <u>Irrigation</u> | | | | | |
| Base Facility Charge – 2" Meter Size | \$84.56 | \$83.03 | \$97.44 | \$113.92 | \$95.63 |
| Charge per 1,000 Gallons – Irrigation | \$8.43 | \$8.30 | \$9.71 | \$11.39 | \$9.53 |
| <u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u> | | | | | |
| 3,000 Gallons | \$35.86 | \$35.28 | \$41.31 | \$48.41 | \$40.54 |
| 5,000 Gallons | \$52.72 | \$51.88 | \$60.73 | \$71.19 | \$59.60 |
| 10,000 Gallons | \$94.87 | \$93.38 | \$109.28 | \$128.14 | \$107.25 |

(1) The interim rate increase was applied to the rates at 12/31/2013.
 (2) The current rates became effective 8/25/2014 as a result of a four-year rate reduction.

| LABRADOR UTILITIES, INC. | | SCHEDULE NO. 4-B | | | |
|---|-------------------------------|----------------------|---------------------------------|-------------------------------|---------------------------------|
| TEST YEAR ENDED DECEMBER 31, 2013 | | DOCKET NO. 140135-WS | | | |
| MONTHLY WASTEWATER RATES | | | | | |
| | RATES AT 12/31/2013 (1) | CURRENT RATES (2) | UTILITY REQUESTED INTERIM | UTILITY REQUESTED FINAL | STAFF RECOMMENDED INTERIM |
| Residential | | | | | |
| Base Facility Charge - All Meter Sizes | \$22.65 | \$22.43 | \$28.74 | \$38.33 | \$27.25 |
| Charge per 1,000 Gallons- Residential 10,000 gallon cap | \$10.10 | \$10.00 | \$12.82 | \$17.09 | \$12.15 |
| General Service | | | | | |
| Base Facility Charge by Meter Size | | | | | |
| 5/8" | \$22.65 | \$22.43 | \$28.74 | \$38.33 | \$27.25 |
| 3/4" | \$33.98 | \$33.65 | \$43.11 | \$57.50 | \$40.88 |
| 1" | \$56.63 | \$56.07 | \$71.85 | \$95.83 | \$68.13 |
| 1-1/2" | \$113.25 | \$112.13 | \$143.70 | \$191.65 | \$136.25 |
| 2" | \$181.20 | \$179.40 | \$229.92 | \$306.64 | \$218.00 |
| 3" | \$362.40 | \$358.82 | \$431.10 | \$574.95 | \$436.00 |
| 4" | \$566.25 | \$560.65 | \$718.50 | \$958.25 | \$681.26 |
| 6" | \$1,132.50 | \$1,121.29 | \$1,437.00 | \$1,916.50 | \$1,362.51 |
| 8" | \$1,812.00 | \$1,828.43 | \$2,299.20 | \$3,066.40 | \$2,180.02 |
| Charge per 1,000 Gallons - General Service | \$12.12 | \$12.00 | \$15.38 | \$20.51 | \$14.58 |
| Typical Residential 5/8" x 3/4" Meter Bill Comparison | | | | | |
| 3,000 Gallons | \$52.95 | \$52.43 | \$67.20 | \$89.60 | \$63.70 |
| 5,000 Gallons | \$73.15 | \$72.43 | \$92.84 | \$123.78 | \$88.00 |
| 10,000 Gallons | \$123.65 | \$122.43 | \$156.94 | \$209.23 | \$148.75 |
| (1) The interim rate increase was applied to the rates at 12/31/2013. | | | | | |
| (2) The current rates became effective 8/25/2014 as a result of a four-year rate reduction. | | | | | |