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:** April 23, 2015

**TO:** Office of Commission Clerk (Stauffer)

**FROM:** Division of Engineering (P. Buys, Hill, King, Rieger)
Division of Accounting and Finance (T. Brown, Fletcher, Galloway, Polk, Smith, Trueblood)
Division of Economics (Bruce, Hudson)
Office of the General Counsel (Mapp, Crawford)

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

**AGENDA:** 05/05/15 – Regular Agenda - Proposed Agency Action, except Issues 18 and 19 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brown

**CRITICAL DATES:** 5-Month Effective Date Waived Through 05/05/15

**SPECIAL INSTRUCTIONS:** None

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## Case Background

Labrador Utilities, Inc. (Labrador or Utility) is a Class B utility providing water and wastewater services to approximately 862 water and 859 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 in the instant docket. The Utility's application did not meet the minimum filing requirements (MFRs). On November 17, 2014, Labrador provided corrections to its MFRs, but the MFRs were still deficient. On December 2, 2014, Labrador filed additional corrections and the MFRs were determined to be complete. Therefore, the official filing date was established as December 2, 2014. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for final rates is the simple-average period ended December 31, 2013. The Utility requested final revenue increases of $97,036 (37.03 percent) for water and $287,175 (70.71 percent) for wastewater.

By Order No. PSC-14-0695-PCO-WS, issued December 15, 2014 (Interim Order), the Commission authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, Florida Statues (F.S.). The approved interim revenue requirement for water was $301,102, which represents an increase of $34,665 or 13.01 percent. The approved interim revenue requirement for wastewater was $493,223, which represents an increase of $83,096 or 20.26 percent.

The five-month statutory deadline for the Commission to vote on the Utility's final rates was May 1, 2015. However, by letter dated December 11, 2014, the Utility agreed to extend the time to the May 5, 2015 Commission Conference.

The Office of Public Counsel (OPC) is actively monitoring this docket and provided a letter of concerns and issues on October 16, 2014. Forest Lake Estate Co-op, Inc. (Co-op), who is also monitoring the docket, provided consumer comments, complaints, and responses to a questionnaire that was developed by the Co-op, concerning water and wastewater services on March 20 and 24, and April 8, 2015.

This recommendation addresses Labrador's request for final rates. The Commission has jurisdiction pursuant to Section 367.081, F.S.

[1] 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.

## Discussion of Issues

**Issue 1**: Is the quality of service provided by Labrador satisfactory?

**Recommendation**: Labrador has not made sufficient efforts to engage its customers to discuss and resolve their continuing dissatisfaction with the quality of the water since its last rate case. Therefore, staff recommends that the overall quality of service provided by Labrador should be considered satisfactory for the wastewater services, and marginal for water services provided to customers. In addition, staff recommends a reduction in the return on equity (ROE) for its water treatment plant and facilities of 25 basis points. (Hill)

**Staff Analysis**: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by a utility. This is derived from an evaluation of three separate components of the utility operations. These components are the quality of the utility's product, the operating conditions of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Florida Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. In addition, input from the DEP and health department officials and customer comments or complaints will be considered.

Quality of Utility's Product and Operating Conditions of the Utility's Plant and Facilities

Labrador's service area is located in Zephyrhills, Florida, in Pasco County. The raw water source is ground water, which is obtained from two wells in the service area and is treated with liquid chlorine for disinfection and a sequestration chemical for iron control. The wastewater treatment plant (WWTP) uses extended aeration to treat the wastewater. The treated effluent is disposed of on a 34.7 acre slow-rate restricted access spray field. Recent plant modifications have been made to reduce odors emanating from the WWTP. These modifications are described in Issue 4.

Staff reviewed the chemical analysis of water samples dated February 4, 2015. All of the contaminants were below the Maximum Contaminant Level (MCL) with the exception of manganese. The original sample was retested and the manganese level was well below the MCL. Therefore, there are no deficiencies. In addition, the Utility's DEP Sanitary Survey Report, dated May 24, 2013, revealed no deficiencies.

Staff reviewed the Utility's last two DEP Wastewater Compliance Reports, dated May 22, 2012, and October 23, 2014. The earlier report noted issues with a reclaimed water spill which did not comply with effluent disposal standards. The Utility responded to this report in a letter dated July 19, 2012, indicating that all suggested actions had been taken. In the October 23, 2014, report, all areas of evaluation were found to be in compliance.

The Utility's Attempt to Address Customer Satisfaction

In order to determine the Utility's attempt to address customer satisfaction, staff reviewed customer complaints and comments from five sources: the Commission's Consumer Activity Tracking System (CATS), the DEP, the complaints the Utility has recorded, the customer meeting, and any correspondence submitted to the Commission Clerk regarding this rate case.

The customer meeting was held in Zephyrhills, Florida, on February 11, 2015. Approximately 130 residents of Forest Lake Estates attended the meeting. Fourteen residents, an attorney of the Co-op, and the community property manager spoke at the meeting. A summary of all complaints and comments received is shown in Table 1-1.

Table 1-1

| Number of Complaints by Source | | | | | |
|---|---|---|---|---|---|
| Subject of Complaint | PSC's Records (CATS) (test year) | Utility's Records (test year) | DEP (test year) | Docket Correspondence | Customer Meeting |
| Billing Related | | 3 | | 1 | |
| Opposing Rate Increase | | | | 26 | 12 |
| Quality of Water | | 4 | | 33 | 11 |
| Wastewater Odor | | 7 | | | 1 |
| Outage or Equipment Repair | 8 | 2 | | 5 | 6 |
| Total* | 8 | 16 | 0 | 34 | 14 |

* A complaint may appear twice in this table if it meets multiple categories.

Complaints were also reviewed for the four years prior to the test year. The Commission received 7 complaints, DEP received 1 complaint, and the Utility recorded 170 for this time period. Based on the records of the Utility and the Commission, it appears that the Utility has responded in a timely manner to each of these complaints. Additionally, the Co-op created a questionnaire, solicited responses from the customers of the Utility, and submitted those responses to the Commission. Staff has reviewed these responses and has found that they are consistent with the concerns presented at the customer meeting and in the customer comments.

For the wastewater system, the records indicate that the complaints about odor coming from the WWTP have decreased greatly since the odor control project was completed in 2013. There was an average of five odor complaints per year from 2009 through 2011, twenty-one odor complaints in 2012, seven odor complaints in 2013, one at the customer meeting, and zero mentioned in customer comment cards submitted to the Commission.

For the water system, the complaints and comments indicate that many customers remain dissatisfied with the quality of the water. The order in the previous rate case stated, in part, that "[we] expect the Utility to engage customers in further discussion of water quality and possible options for aesthetic water quality improvement as well."[2] Staff, therefore requested from the Utility any records that showed it had engaged with customers in such discussions. The Utility has provided staff with synopses of six meetings it held with board members and representatives of the Co-op, which represents approximately 40 percent of Forest Lake Estates residents. Staff found that these synopses describe meetings that deal primarily with wastewater concerns. In the most recent of these meetings, held after the customer meeting for this rate case, water quality was discussed. The Utility described its iron sequestration and line flushing programs, as well as the erroneous manganese level testing from February 4, 2015. The synopsis of this and the other meetings does not appear to indicate that the Utility has actively engaged its customers to discuss possible options to improve the aesthetics of the water provided, as expected in the previous order.

In addition to addressing the water dissatisfaction, the Commission's prior order found that the quality of service for the wastewater system was marginal, and reduced the Utility's ROE for wastewater by 25 basis points.[3] The reason for this determination was the Utility's failure to address customer dissatisfaction regarding odor complaints from the WWTP. Staff notes that the state of the current water complaints and the Utility's response is very similar to the state of the wastewater odor complaints in the previous rate case.

When determining the quality of service for a utility, Rule 25-30.433(1), F.A.C., requires staff to consider three separate components of utility operations: the quality of the utility's product, the operational conditions of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Staff recommends that the condition of plant and facilities are satisfactory, and that the quality of the utility's product meets all DEP health and aesthetics standards. However, staff believes that, while the Utility has attempted to address other complaints and requests, it has not sufficiently attempted to address customer concerns with the quality of the water. Based on customer input, it appears that customer satisfaction with the quality of water has not significantly improved. The Utility has not presented evidence that it is taking steps to address this issue, and therefore has not followed the intent of the previous order.

## Conclusion

Labrador has not made sufficient efforts to engage its customers to discuss and resolve their continuing dissatisfaction with the quality of the water since its last rate case. Therefore, staff recommends that the overall quality of service provided by Labrador should be considered satisfactory for the wastewater services, and marginal for water services provided to customers. In addition, staff recommends a reduction in the ROE for its water treatment plant and facilities of 25 basis points.

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[2] Order No. PSC-12-0206-PAA-WS, issued April 17, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

[3] Id.

**Issue 2**: Should the audit adjustments to rate base, to which Labrador and staff agree, be made?

**Recommendation**: Yes. Based on the audit adjustments agreed to by the Utility and staff, the following adjustments should be made to rate base as set forth in staff's analysis below. (Galloway, Smith)

**Staff Analysis**: In its response to the staff audit reports and other correspondence, Labrador agreed to the audit adjustments as set forth in the tables below.

Table 2-1

Audit Adjustments Agreed to by Labrador

| Water - Labrador Audit Findings | Plant | Accum. Depr. |
|---|---|---|
| Finding No. 1 - To reflect prior COAs | $0 | ($533) |
| Finding No. 3 – To correct capitalized salaries | (1,698) | 0 |
| Finding No. 5 - To correct CWIP transfer | (2,682) | (602) |
| Finding No. 6 - To reverse debit balances in A/D | 0 | (1,570) |
| Subtotal Water - Labrador Adjustments | ($4,380) | ($2,705) |
| Water - Affiliate Audit Findings | | |
| Finding No. 1 - To correct transportation allocation | ($13,693) | ($14,379) |
| Finding No. 4 - To reflect prior COAs | (6,297) | (9,985) |
| Finding No. 5 - To correct allocations of common plant | (5,665) | 0 |
| Subtotal Water - Affiliate Adjustments | ($25,655) | ($24,364) |
| Total Water Audit Adjustments | ($30,035) | ($27,069) |

Table 2-2

Audit Adjustments Agreed to by Labrador

| Wastewater - Labrador Audit Findings | Plant | Accum. Depr. |
|---|---|---|
| Finding No. 1 - To reflect prior COAs | $0 | ($4,450) |
| Finding No. 2 - UPIS Capitalized Salary Adjustment | 0 | (921) |
| Finding No. 6 - To reverse debit balances in A/D | 0 | (53,135) |
| Finding No. 7 - To correct ADIT balance | 0 | 0 |
| Subtotal Wastewater - Labrador Adjustments | $0 | ($58,506) |
| Wastewater - Affiliate Audit Findings | | |
| Finding No. 1 - To correct transportation allocation | ($13,601) | ($14,282) |
| Finding No. 4 - To reflect prior COAs | (6,258) | (9,912) |
| Finding No. 5 - To correct allocations of common plant | 4,644 | 0 |
| Subtotal Wastewater - Affiliate Adjustments | ($15,215) | ($24,194) |
| Total Wastewater Audit Adjustments | ($15,215) | ($82,700) |

**Issue 3**: Should any adjustment be made to Labrador's Project Phoenix Financial/Customer Care Billing System (Phoenix Project)?

**Recommendation**: Yes. Adjustments should be made to reduce accumulated depreciation by $1,684 for water and $1,655 for wastewater and reduce depreciation expense by $1,684 for water and $1,655 for wastewater. (T. Brown)

**Staff Analysis**: The purpose of the Phoenix Project is to improve accounting, customer service, customer billing, and financial and regulatory reporting functions of Utilities, Inc., (UI) and its subsidiaries. UI's Phoenix Project became operational in December 2008. In the Miles Grant Water and Sewer Co., case, the Commission determined that recovery of Phoenix Project costs would be allocated on the basis of equivalent residential connections (ERCs).[4] Beginning with the Utilities, Inc. of Pennbrooke case, and in subsequent dockets, the Commission removed the ERCs of systems divested by UI from total company ERCs when calculating the net investment in the Phoenix Project.[5]

In the instant docket, UI allocated 0.56 percent of its costs to Labrador based on the ratio of its ERCs to the total ERCs at the corporate level. According to UI, the total Phoenix Project costs for the test year are $23,176,439, of which the Utility calculated its allocated share to be $129,788.[6]

UI Generic Docket

In Docket No. 110153-SU, as part of a proposed settlement of Proposed Agency Action protests, UI, with the consent and support of OPC, petitioned the Commission to open a generic docket to address the protested issue relating to the Utility's Phoenix Project.[7] These protested issues were subsequently addressed by Order No. PSC-14-0521-FOF-WS in the UI Generic Docket.[8] In the UI Generic Docket, the Commission clarified its treatment of divestitures going forward; so that any adjustments related to UI divested systems were net of any UI acquisitions. The Commission also reiterated its position that the appropriate depreciable life for the Phoenix Project is ten years and that remaining depreciable life should be used in the calculation of depreciation expense.[9]

At the time the Phoenix Project was placed in service, UI had 296,950 total ERCs. The Utility filed an update of closed and pending acquisitions on February 13, 2015. As of that date, there were 297,085 ERCs.[10] According to the Utility, an acquisition closed on January 13, 2015,

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[4] Order No. PSC-08-0812-PAA-WS, issued December 16, 2008, in Docket No. 070695-WS, In re: Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company.
[5] Order No. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.
[6] Audit Control No. 14-197-4-1, Work Paper No. 22-4.6.1, in Docket No. 140060-WS.
[7] Order No. PSC-12-0346FOF-SU, issued July 5, 2012, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.
[8] Order No. PSC-14-0521-FOF-WS, issued September 30, 2014, in Docket No. 120161-WS, In re: Analysis of Utilities, Inc.'s financial accounting and customer service computer system.
[9] Order No. PSC-14-0521-FOF-WS, p.11.
[10] Document No. 00959-15, filed February 13, 2015.

and several additional pending acquisitions are under contract pending approval by the Louisiana and New York regulatory authorities. Given these acquisitions, an adjustment to the investment is no longer necessary given that UI will exceed the level of total ERCs existing when the Phoenix Project was placed in service. As such, the adjustment identified in Affiliate Audit Finding No. 2 is no longer necessary.

Accordingly, staff believes the adjustment to accumulated depreciation and depreciation expense identified in Affiliate Audit Finding No. 3 should be revised to reflect the full investment of the Phoenix Project. Audit staff discovered that the Utility did not change the depreciable life for the Phoenix Project from eight to ten years as directed by Order No. PSC-10-0407-PAA-SU. Consistent with the Commission's decision in the UI Generic Docket, adjustments should be made to decrease water and wastewater accumulated depreciation by $1,684 and $1,655, respectively. Water and wastewater depreciation expense should also be decreased by $1,684 and $1,655, respectively.

<u>Creation of a Regulatory Asset or Liability</u>

In addition to establishing the UI Generic Docket in Docket No. 110153-SU, the parties agreed, and the Commission subsequently ordered, that if there is an upward or downward adjustment to the previously approved revenue requirement for Eagle Ridge resulting from a final Commission decision in this docket, the Utility shall be authorized to create a regulatory asset or liability, and accrue interest on the regulatory asset or liability, at the 30-day commercial paper rate until the establishment of rates in Eagle Ridge's next rate proceeding.[11] The Labrador final order preceded the July 5, 2012, settlement Order in Eagle Ridge and does not include the regulatory asset or liability provision.[12] Accordingly, no adjustment is needed in this docket to address the regulatory asset or liability.

<u>Conclusion</u>

Staff recommends that accumulated depreciation be reduced by $1,684 for water and $1,655 for wastewater. Depreciation expense should be reduced by $1,684 for water and $1,655 for wastewater. These amounts are also reflected in Schedule Nos. 1-C and 3-C.

[11] Order No. PSC-12-0346-FOF-SU; pp. 2, 9.
[12] Order No. PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, <u>In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.</u>

**Issue 4**: Should any adjustments be made to Labrador's pro forma plant?

**Recommendation**: Yes. The appropriate amount of pro forma plant additions is $178,576 for water and $626,196 for wastewater. This results in an increase of $78,576 for water and a decrease of $47,868 for wastewater from the Utility's requested amounts. Corresponding adjustments to water and wastewater accumulated depreciation result in decreases of $8,662 and $2,540, respectively. Depreciation expense should also be increased by $2,528 for water and decreased by $1,560 for wastewater. Additionally, pro forma property taxes should be increased by $1,936 for water and decreased by $1,850 for wastewater. Accumulated deferred income taxes (ADITs) should be increased by $872 for water and be decreased by $3,666 for wastewater. Finally, test year expenses should be reduced by $161 to remove maintenance expense associated with the retired ground storage tank. (P. Buys, Galloway, Smith)

**Staff Analysis**: In its filing, Labrador included $100,000 for water pro forma plant additions and $674,064 for wastewater pro forma plant additions. While staff believes Labrador has provided reasonable documentation and justification for these projects, staff made adjustments to reflect the difference between what was provided in the MFRs and the estimated bids for the pro forma projects. Once the projects are completed, the Utility should provide invoices as they are received and processed.

WTP Ground Storage Tank Replacement

The ground storage tank was inspected in January 2010, and the report indicated several repairs should be made to the tank. The Utility estimated the tank to be 33 years old based on its review of its files and DEP inspections reports. Labrador asserted that replacing the ground storage tank would be less expensive then repairing the tank. Plus, repairing the tank would require taking the tank off-line which would cause long interruptions of water services to Labrador's customers. The Utility provided multiple bids for replacing the ground storage tank with a tank similar to the existing tank, a tank made of stainless steel, and a tank made of glass-fused steel. The lowest bid, which was for a tank made of glass-fused steel, was $178,576. The project was awarded in February 2015 and will be completed by the end of June 2015. The retirement of the ground storage tank associated with this replacement is $36,519. Staff believes that the pro forma addition is reasonable and prudent because the cost to replace is less than the cost to repair, customer interruptions will be less during the replacement than during the repair, and the new tank will be more reliable than the repaired tank.

WWTP Rotary Drum Replacement

The documentation for this pro forma project indicated that the existing rotary drum is no longer repairable and does not perform as intended. A rotary drum continuously removes debris from the raw wastewater stream prior to the first treatment unit. The rotary drum is estimated to be over 30 years old and at the end of its service life. A new rotary drum was placed in service in October 2014. The project costs $49,700 and the retirement associated with this replacement is $19,658. Staff believes that this pro forma addition is reasonable and prudent because the old rotary drum was at the end of its service life and unrepairable, and the new rotary drum will provide reliable wastewater service to Labrador's customers.

WWTP Odor Control

In May 2008, Forest Lake Estates Cooperative filed a civil lawsuit against Labrador. In June 2013, a settlement was reached and the case was closed. Part of the settlement was that Labrador would undertake the WWTP odor control pro forma project. This project includes refurbishing three steel digester tanks and two steel flow equalization tanks followed by installing tank covers, fiberglass ducts, a two-stage biological reactor, control panel, and appurtenances. The number of complaints received by Labrador and the Commission concerning the WWTP odor have decreased. In addition, staff observed minimal odor coming from the WWTP during its site visit. Labrador received four bids for this project and the lowest bid was $576,496. There are no retirements associated with this project. Based on this information above, staff believes that the pro forma addition is reasonable and prudent.

Staff is recommending adjustments to the water and wastewater plant, accumulated depreciation, depreciation expense, property taxes and ADIT. The tables below illustrate these adjustments.

Table 4-1

| Pro Forma Water Plant Adjustments | | | | |
|---|---|---|---|---|
| Project | MFR Amount | Invoices Amount | Staff Adjustments | Staff Recommended |
| Ground Storage Tank | $100,000 | $178,576 | $78,576 | $178,576 |

Table 4-2

| Pro Forma Wastewater Plant Adjustments | | | | |
|---|---|---|---|---|
| Project | MFR Amount | Invoices Amount | Staff Adjustments | Staff Recommended |
| Odor Control Equip. | $624,064 | $576,496 | ($47,568) | $576,496 |
| Rotary Drum Screen | 50,000 | 49,700 | (300) | 49,700 |
| Total | $674,064 | $626,196 | ($47,868) | $626,196 |

Table 4-3

| Water Accumulated Depreciation Adjustments | | | | | |
|---|---|---|---|---|---|
| Project | Annual Depreciation | Retirements | Total TY Adjustment | Adj Per MFR A-3 | Staff Adjustment |
| Ground Storage Tank | ($4,826) | $36,519 | ($31,693) | ($23,031) | $8,662 |

Table 4-4

| Wastewater Accumulated Depreciation Adjustments | | | | | |
|---|---|---|---|---|---|
| Project | Annual Depreciation | Retirements | Total TY Adjustment | Adj Per MFR A-3 | Staff Adjustment |
| Odor Control Equip. | ($32,028) | 0 | ($32,028) | ($34,670) | $2,642 |
| Rotary Drum Screen | (2,761) | 19,658 | 16,897 | 16,999 | (102) |
| Total | ($34,789) | $19,658 | ($15,131) | ($11,639) | $2,540 |

Table 4-5

| Water Depreciation Expense | | | | | |
|---|---|---|---|---|---|
| Project | Cost | Service Life | Staff Dep Exp | MFR Amounts | Staff Adj |
| Ground Storage Tank | $178,576 | 37 | $4,826 | $2,007 | $2,819 |
| Retirement | ($6,519) | 37 | ($987) | ($696) | ($291) |
| | | | | | $2,528 |

Table 4-6

| Wastewater Depreciation Expense | | | | | |
|---|---|---|---|---|---|
| Project | Cost | Service Life | Staff Dep Exp | MFR Amounts | Staff Adj |
| Odor Control Equip. | $576,496 | 18 | $32,028 | $34,670 | ($2,642) |
| Rotary Drum Screen | 49,700 | 18 | 2,761 | 1,679 | 1,082 |
| Total | $626,196 | | $34,789 | $36,349 | ($1,560) |

Table 4-7

| Water Pro Forma Property Taxes | | | | | |
|---|---|---|---|---|---|
| Project | Net Plant | Millage | Staff Amount | MFR Amount | Staff Adj |
| Ground Storage Tank | $173,750 | 0.0168154 | $2,805 | $869 | $1,936 |

Table 4-8

| Wastewater Pro Forma Property Taxes | | | | | |
|---|---|---|---|---|---|
| Project | Net Plant | Millage | Staff Amount | MFR Amount | Staff Adj |
| Odor Control Equip. | $544,468 | 0.0168154 | $8,789 | $10,552 | ($1,762) |
| Rotary Drum Screen | 46,939 | 0.0168154 | 758 | 845 | 88 |
| Total | $591,407 | | $9,547 | $11,397 | ($1,850) |

Table 4-9

| Pro Forma Water ADITs Adjustments | | | | | |
|---|---|---|---|---|---|
| Project | Cost | 2015 Dep per Tax | 2015 Dep per Books | Difference | ADIT |
| Ground Storage Tank | $178,576 | $7,143 | $4,826 | $2,317 | ($872) |

Table 4-10

| Pro Forma Wastewater ADITs Adjustments | | | | | |
|---|---|---|---|---|---|
| Project | Cost | 2015 Dep per Tax | 2015 Dep per Books | Difference | ADIT |
| Odor Control Equip. | $576,496 | $23,060 | $32,028 | ($8,968) | $3,375 |
| Rotary Drum Screen | 49,700 | 1,988 | 2,761 | (773) | 291 |
| Total | $626,196 | $25,048 | $34,789 | ($9,741) | $3,666 |

Conclusion

Based on the information above, staff recommends that the appropriate amount of pro forma plant additions is $178,576 for water and $626,196 for wastewater. This results in an increase of $78,576 for water and a decrease of $47,868 for wastewater from the amount requested in the Utility's MFRs. Using the depreciable lives pursuant to Rule 25-30.140, F.A.C., corresponding adjustments should be made to decrease accumulated depreciation for water and wastewater by $8,662 and $2,540, respectively. Depreciation expense should be increased by $2,528 for water and decreased by $1,560 for wastewater. In addition, pro forma property taxes should be increased by $1,936 for water and decreased by $1,850 for wastewater. Further, ADITs should increase by $872 for water and decreased of $3,666 for wastewater. Finally, test year expenses should be reduced by $161 to remove maintenance expense associated with the retired ground storage tank.

**Issue 5**: What are the Used and Useful (U&U) percentages of Labrador's water and wastewater systems?

**Recommendation**: Labrador's water treatment plant, ground storage tank, wastewater treatment plant, water distribution system and wastewater collection system should be considered 100 percent U&U. Staff recommends that a 6.4 percent adjustment to purchased power and chemicals should be made for excessive unaccounted for water. No adjustments should be made for excessive infiltration and inflow. (P. Buys)

**Staff Analysis**: Based upon Rules 25-30.431, 25-30.432, and 25-30.4325, F.A.C., the Commission's U&U evaluation of water and wastewater system includes consideration of the formula-based method and all relevant factors such as prior decisions, conservation, and change in customer base. The formula-based method calculates the customer demand as a percentage of capacity. The customer demand is based on the actual demand in the test period and the estimated demand over the five-year statutory growth period.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., defines Excessive Unaccounted for Water (EUW) as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the utility. In determining whether adjustments to plant and operating expenses are necessary, staff considers the reasons for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible.[13] EUW is calculated by subtracting both the gallons used for other services, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year. Labrador produced 21,456,000 gallons of water and sold 17,421,000 gallons of water to customers. The Utility recorded 500,000 gallons of water used for other uses. The result ([21,456,000 – 17,421,000 – 500,000] / 21,456,000) for unaccounted for water is 16.4 percent, which yields EUW of 6.4 percent.

Infiltration and Inflow

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider infiltration and inflow (I&I). Typically, infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. In addition, adjustments to operating expenses such as chemical and electrical costs are considered necessary, if excessive. Schedule F-6 of the MFRs indicated there is no excessive I&I for the test year. Staff has reviewed the assumptions and calculations and believes that they are reasonable. Therefore, staff recommends that no adjustment should be made for excessive I&I.

[13] Operating expenses include purchased electrical power and chemicals costs.

Used and Useful Plant

In its application, Labrador asserts that the water treatment plant (WTP), ground storage tank and wastewater treatment plant (WWTP), as well as the water distribution and wastewater collection systems, are all 100 percent U&U. Labrador maintains that the service territory the treatment plants are designed to serve are built out and there is no obvious potential for expansion. The service area consists of the 894-lot Forest Lake Estates Mobile Home Park and the 274-lot Forest Lakes RV Park. Within the service area, there is a vacant 11.6 acre parcel of land which is owned by the Co-op. Currently, the residents use this land for RV parking and there are plans to build a maintenance shed on this site. The land has been vacant and used as RV parking since 2004 with no indication of development.

Water Treatment Plant

In Docket No. 110264-WS, the Commission determined that Labrador's WTP was 100 percent U&U.[14] There has been no change in circumstances; therefore, in accordance with Commission policy, staff recommends that the WTP should continue to be 100 percent U&U.

Ground Storage Tank

In Docket No. 110264-WS, the Commission determined that Labrador's ground storage tank was 100 percent U&U. There has been no change in circumstances; therefore, in accordance with Commission policy, staff believes that the ground storage tank should continue to be 100 percent U&U.[15]

Wastewater Treatment Plant

Pursuant to Rule 25-30.432, F.A.C., the U&U percentage of the WWTP was calculated by taking the Three Month Rolling Average Daily Flow (3MRADF) plus a growth allowance minus the excessive I&I and then dividing the sum by the permitted capacity of the plant. Labrador's test year 3MRADF was 64,863 gpd. There has been no growth in the past five years; therefore, the growth allowance is zero gpd. In addition, the excessive I&I is calculated to be zero percent. The WWTP's permitted capacity is 216,000 gpd per 3MRADF. The calculation [(64,863-0+0)/216,000] results in a 30 percent U&U. In Docket No. 110264-WS, the Commission determined that Labrador's WWTP was 79.94 percent U&U.[16] Labrador believes that this facility should be considered 100 percent U&U because the plant was designed to serve full occupancy at design flows of 280 gpd/ ERC which would require 250,000 gpd capacity. The actual flows are closer to 58 gpd/ERC in the peak three-month period assuming 95 percent occupancy. As mentioned above, there is a vacant 11.6 acre parcel of land which is owned by Forest Lakes Estates Cooperative. This land is undeveloped and the residents have been using it for RV storage since 2004. When asked, the Co-op advised that the only plans for the land was to build a maintenance shed on the site. Rule 25-30.432, F.A.C., contains a provision for consideration of other factors when developing the U&U percentage, such as whether the service

[14] 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.

[15] Id.

[16] Id.

area is built out with no potential for expansion of the service territory. Based on the above information and pursuant to Rule 25-30.432, F.A.C., the service area should be considered built out and the WWTP should be considered 100 percent U&U.

Water Distribution and Wastewater Collection Systems

The Commission found the distribution and collection systems to be 100 percent U&U by Order No. PSC-12-0206-PAA-WS.[17] There has been no change in circumstances; therefore, in accordance with Commission policy, the water distribution system and wastewater collection system should continue to be considered 100 percent U&U.

Conclusion

Labrador's water treatment plant, ground storage tank, wastewater treatment plant, and water distribution and wastewater collection systems should be considered 100 percent used and useful. Staff recommends that a 6.4 percent adjustment to purchased power and chemicals should be made for excessive unaccounted for water. No adjustments should be made for excessive infiltration and inflow.

[17] 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.

**Issue 6**: What is the appropriate working capital allowance?

**Recommendation**: The appropriate working capital allowances are $19,063 for water and $28,777 for wastewater. As such, the working capital allowances should be decreased by $6,570 and $9,371 for water and wastewater, respectively. (Galloway, Smith)

**Staff Analysis**: Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of operation and Maintenance (O&M) expense, to calculate working capital allowance. The Utility has properly filed its allowance for working capital using the one-eighth of O&M expense method. Staff has recommended adjustments to Labrador's O&M expense, which are reflected on Schedule No. 3-C. As a result, staff recommends working capital allowances of $19,063 for water and $28,777 for wastewater. This reflects a decrease of $6,570 to the Utility's requested working capital allowance for water and a decrease of $9,371 for wastewater.

**Issue 7**: What is the appropriate rate base for the test year period ended December 31, 2013?

**Recommendation**: Consistent with other recommended adjustments, the appropriate rate base for the test year ended December 31, 2013, is $758,478 for water and $1,898,946 for wastewater. (Galloway, Smith)

**Staff Analysis**: In its MFRs, the Utility requested a rate base of $680,736 for water and $1,886,122 for wastewater. Based on staff's recommended adjustments, the appropriate rate base is $758,478 for water and $1,898,946 for wastewater. Staff's adjustments recommended in the preceding issues result in an increase of $77,742 for water and an increase of $12,824 for wastewater. The schedules for rate base are attached as Schedule Nos. 1-A and 1-B, and the adjustments are shown on Schedule No. 1-C.

**Issue 8**: What is the appropriate return on equity?

**Recommendation**: Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 10.43 percent for wastewater. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. Additionally, staff is recommending a 25-basis point reduction in ROE for water only, as discussed in Issue 1. This reduction results in an ROE for water of 10.18 percent. (Galloway, Smith)

**Staff Analysis**: The Utility requested an ROE of 10.43 percent. Based on the Commission leverage formula currently in effect and an equity ratio of 48.78 percent, the appropriate ROE is 10.43 percent for wastewater.[18] Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. As discussed in Issue 1, staff is recommending a 25-basis point reduction to the ROE for water due to staff's determination of a marginal quality of service for water as discussed in Issue 1. This reduction results in ROE for water of 10.18 (10.43 - .25) percent.

[18] Order No. PSC-14-0272-PAA-WS, issued May 29, 2014, in Docket No. 140006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

**Issue 9**: What is the appropriate amount of accumulated deferred income taxes?

**Recommendation**: The appropriate amount of accumulated deferred income taxes (ADITs) to include in the capital structure is $24,058. (Galloway, Smith)

**Staff Analysis**: In its filing, Labrador reflected a debit ADIT balance of $3,261, of which $1,644 was attributed to water and $1,617 was attributed to wastewater. Staff believes several adjustments are necessary to reflect the appropriate ADIT balance for the Utility as discussed below.

According to Audit Finding No. 7, the Utility failed to remove an acquisition adjustment as ordered by the Commission in Order No. PSC-03-0638-PAA-WS, issued May 27, 2003. Removing the acquisition adjustment of $62,401 results in an adjustment of $11,741 [($62,401 * 37.63 percent)/2] and a test year average credit ADIT balance of $8,480 ($11,741 - $3,261). Labrador also included a debit ADIT amount of $18,372 associated with a net operating loss (NOL). For the purpose of setting rates, the debit amount associated with the NOL should not be included in the ADIT balance unless the NOL is included in the calculation of the per book income tax expense. Because the Utility did not include the NOL in its income tax expense, staff recommends the debit amount of $18,372 be removed from the Utility's net credit ADIT balance. Further, the Utility did not include any adjustments related to pro forma ADITs in its filing. Based on staff's recommendation regarding pro forma plant in Issue 4, staff recommends a corresponding pro forma ADIT decrease of $2,794 ($3,666 - $872).

Based on the above, the appropriate ADIT balance to include in the capital structure is $24,058 ($8,480 + $18,372 - $2,794).

**Issue 10**: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2013?

**Recommendation**: The appropriate weighted average cost of capital for the test year ended December 31, 2013 is 8.25 percent for water and 8.37 percent for wastewater. (Galloway, Smith)

**Staff Analysis**: In its filing, the Utility requested an overall cost of capital of 8.50 percent. In addition to the recommendations in Issues 8 and 9, staff believes the cost rates for short-term debt and customer deposits should be adjusted.

In its filing, Labrador properly used the simple average method to calculate its short-term interest rate of 8.48 percent. In Docket No. 140060-WS, Labrador's sister company, Sanlando Utilities Corp. (Sanlando), used a 13-month average method to calculate an average short-term interest rate of 2.82 percent. Sanlando also calculated an average short-term debt amount of $9,315,385. Using the simple average method, Labrador calculated its average short-term debt balance to be $3,100,000. Given that both utilities had the same amount of interest expense, the simple average method skews the calculation of the interest rate. Because the short-term debt for both utilities is allocated from their parent company, Utilities Inc., staff recommends the interest rate be the same. Therefore, staff recommends reducing Labrador's short-term interest rate to 2.82 percent to be consistent with the short-term debt cost rate of Sanlando.

In its filing, Labrador included 6.00 percent as the cost rate for customer deposits on MFR Schedule D-1. The Utility's response to staff's data request confirmed that 2.00 percent is the appropriate cost rate for customer deposits. Therefore, in accordance with Rule 25-30.311(4)(a), F.A.C., staff recommends the cost rate for customer deposits should be 2.00 percent.

Based upon the proper components, amounts, and cost rates associated with the capital structure, staff recommends a weighted average cost of capital for the test year ended December 31, 2013, of 8.25 percent for water and 8.37 percent for wastewater. As discussed in Issues 1 and 8, staff is recommending a 25-basis point reduction in ROE for water only. Schedule No. 2 details staff's recommended overall cost of capital.

**Issue 11**: Should adjustments be made to test year revenues?

**Recommendation**: Yes. The appropriate test year revenues for Labrador's water and wastewater systems are $263,502 and $407,248, respectively. (Bruce)

**Staff Analysis**: In its MFRs, Labrador's adjusted test year revenues were $262,050 for water and $406,120 for wastewater. The water revenues include $260,529 of service revenues and $1,521 of miscellaneous revenues. The wastewater revenues include $405,217 of service revenues and $903 of miscellaneous revenues. In order to determine the appropriate test year service revenues, staff adjusted the test year billing determinants to reflect actual gallons sold, removed prior period billing determinants, and removed duplicate bills. The Utility had two rate adjustments outside of the test year. Therefore, staff annualized test year revenues by applying the rates in effect as of October 19, 2014, to the staff adjusted billing determinants.[19] Accordingly, test year service revenues should be $261,981 for water and $406,345 for wastewater. This results in an increase of $1,452 ($261,981 - $260,529) for water and $1,128 ($406,345 - $405,217) for wastewater test year service revenues. Based on the above, the appropriate test year revenues for Labrador's water and wastewater systems, including miscellaneous revenues, are $263,502 and $407,248, respectively.

[19] The Utility filed a 2014 Price Index that became effective October 19, 2014.

 

**Issue 12**: Should the audit adjustments to operating expense, to which Labrador and staff agree, be made?

**Recommendation**: Yes. Based on the audit adjustments agreed to by Labrador and staff, the following adjustments should be made to net operating income as set forth in staff's analysis below. (Smith)

**Staff Analysis**: In its response to the staff audit reports and other correspondence, Labrador agreed to the audit adjustments as set forth in the table below.

Table 12-1
Audit Adjustments Agreed to by Labrador

| Labrador Audit Findings | Water O&M | Wastewater O&M | Water Dep Exp | Wastewater Dep Exp | Water TOTI | Wastewater TOTI |
|---|---|---|---|---|---|---|
| Finding No. 1 - To reflect prior Commission-Ordered Adjustments | $0 | $0 | ($6) | ($3) | $0 | $0 |
| Finding No. 2 - To correct capitalized salaries | 0 | 0 | 0 | (443) | 0 | 0 |
| Finding No. 3 - To correct capitalized salaries | 739 | 0 | (112) | 0 | 0 | 0 |
| Finding No. 5 - To correct Construction Work In Progress transfer | 0 | 0 | 1,204 | 0 | 0 | 0 |
| Finding No. 9 - To amortize abandoned projects expense | (38,366) | (37,714) | 0 | 0 | 0 | 0 |
| Finding No. 10 - To amortize lawsuit expense | (4,311) | (4,237) | 0 | 0 | 0 | 0 |
| Subtotal - Labrador Adjustments | ($41,938) | ($41,951) | $1,086 | ($446) | $0 | $0 |
| Affiliate Audit Findings | | | | | | |
| Finding No. 1 - To correct transportation allocation | ($1,234) | ($1,226) | $488 | $484 | $0 | $0 |
| Finding No. 4 - To reflect prior Commission-Ordered Adjustments | 0 | 0 | 285 | 286 | 0 | 0 |
| Finding No. 8 - To correct allocated payroll, benefits, & tax expenses | (8,365) | (7,665) | 0 | 0 | (178) | (131) |
| Subtotal - Affiliate Adjustments | ($9,599) | ($8,891) | $773 | $770 | ($178) | ($131) |
| Total Audit Adjustments | ($51,537) | ($50,842) | $1,859 | $324 | ($178) | ($131) |

**Issue 13**: What is the appropriate amount of rate case expense?

**Recommendation**: The appropriate amount of rate case expense is $102,439. This expense should be recovered over four years for an annual expense of $25,610. Therefore, annual rate case expense should be decreased by $14,323 for water and $14,080 for wastewater from the respective levels of expense included in the MFRs. (T. Brown, Norris)

**Staff Analysis**: In its MFRs, Labrador requested $216,050 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On February 24, 2015, the Utility submitted a revised estimated rate case expense through completion of the PAA process of $143,632. However, using information provided by the Utility, staff calculated the revised estimated rate case expense to be $142,797. Staff will use its revised figure for purposes of this recommendation. The following table illustrates the Utility's requested rate case expense.

Table 13-1

| Initial and Revised Rate Case Expense | | | | |
|---|---|---|---|---|
| | MFR B-10 Estimated | Actual | Additional Estimated | Revised Total |
| Legal Fees | $40,000 | $25,112 | $14,040 | $39,152 |
| Accounting Consultant Fees | 66,000 | 60,313 | 6,800 | 67,113 |
| Engineering Consultant Fees | 4,950 | 2,588 | 0 | 2,588 |
| WSC In-house Fees | 95,000 | 19,855 | 3,990 | 23,845 |
| Filing Fee | 4,000 | 0 | 4,000 | 4,000 |
| WSC Travel | 1,000 | 0 | 1,000 | 1,000 |
| WSC FedEx/Misc. | 100 | 0 | 100 | 100 |
| Cust. Notices and Postage | 5,000 | 0 | 5,000 | 5,000 |
| Total | $216,050 | $107,867 | $34,930 | $142,797 |

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on its review, staff believes the following adjustments to Labrador's rate case expense estimate are appropriate.

Legal Consultant Fees – Friedman & Friedman, P.A. (F&F)

The first adjustment to rate case expense relates to Labrador's legal fees. The Utility included in its MFRs $40,000 in legal fees to complete the rate case. Labrador provided support documentation detailing this expense through February 17, 2015. The documentation and Revised B-10 showed actual expenses associated with the rate case totaling $25,112, and an estimated $14,040 to complete the rate case, totaling $39,152. Actual expenses included the $4,000 filing fee, which also appeared under "Public Service Commission – Filing Fee" in the Utility's Revised B-10. Staff has left the filing fee as part of the legal fees and will remove the entry elsewhere in this issue to avoid double recovery of this fee.

According to the invoices, the law firm of F&F billed the Utility $735 related to the correction of MFR deficiencies. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.[20] Accordingly, staff believes that $735 should be removed as duplicative and unreasonable rate case expense. In a June 11, 2014, invoice entry, F&F noted 5.90 hours, or $2,065, for "Travel to Tallahassee for pre-filing meeting with PSC Staff." This same entry appears in F&F's support documentation in Sanlando's rate case. While staff believes it is appropriate to split the shared costs, staff believes it should be split three ways instead of in half. UI and Commission staff discussed a sister utility, Mid-County Services, Inc., in addition to Labrador and Sanlando at that meeting. As such, the total cost of the pre-filing meeting, $4,130 ($2,065 + $2,065), should be divided among the three utilities. This results in a per-utility cost of approximately $1,377. As such, $688 ($2,065 - $1,377) should be removed from F&F's fees to reflect the revised division. Accordingly, staff believes that $1,423 ($735 + $688) should be removed as duplicative and unreasonable rate case expense.

Additionally, staff recommends an adjustment to the estimated cost to complete this case. F&F's estimate to complete included fees for 29.5 hours at $360/hr. and costs totaling $520.[21] An additional $2,900 was noted in the Utility's Revised B-10 for various expenses associated with legal fees. Staff believes that the $2,900 is simply a placeholder amount left over from the original B-10 filed with the MFRs. As such, $2,900 should be removed from estimated costs. Staff believes that most of the estimated hours to complete appear reasonable, except for the 15 hours requested to "prepare for and attend Agenda conference, discuss Agenda with client and staff." Attorney's fees and costs associated with the Commission Conference should be reduced due to the fact that the attorney is also handling a rate case for Sanlando at the same Commission Conference.[22] As such, legal fees and costs associated with attending the Commission Conference should be shared by both utilities. Accordingly, staff recommends that 7.5 hours, or $2,700 ($360/hr. x 7.5 hrs.), be removed from estimated rate case expense. In total, staff recommends that legal fees and costs be reduced by $7,023 ($1,423 + $2,900 + $2,700) to reflect these adjustments.

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[20] Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

[21] Beginning January 1, 2015, the hourly rate increased based upon the application of the Price Index since hourly rates were last adjusted. This results in a new hourly rate of $360.

[22] Docket No. 140060-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.

Accounting Consultant Fees – Milian, Swain & Associates (MS&A)

The second adjustment relates to MS&A's actual and estimated fees of $67,113, which was comprised of $60,313 in actual costs and $6,800 in estimated fees to complete the rate case as of December 26, 2014.

In regard to MS&A's actual expenses, staff reviewed the supporting documentation and identified 2.75 hours related to correcting deficiencies. As stated previously, the Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs. As such, staff believes that $263 (1.75 hrs. x $150/hr.) should be removed for M. Bravo and $200 (1 hr. x $200/hr.) be removed for D. Swain. Accordingly, staff recommends that MS&A's actual accounting consultant fees be reduced by $463 ($263 + $200).

Staff also identified approximately 357 hours in MS&A's support documentation related to MFR preparation. Staff was concerned that the number of hours related to MFR preparation might be duplicative of the hours spent by WSC In-House employees on the same task. Staff asked the Utility to explain why the WSC In-House hours related to MFR preparation (105 hours) were not duplicative of the hours for MFR preparation and review included in MS&A's rate case expense support documentation.[23] In response to staff's data request on the matter, the Utility responded by stating:

> The WSC In-House hours related to MFR preparation are in no way duplicative of the hours Milian, Swain and Associates, Inc. spends on MFR preparation. The WSC In-House hours associated with the MFR preparation primarily entail gathering the company's raw data, project plans, invoices and a slew of other information and then translating those items into a usable format for Milian, Swain and Associates, Inc. to use in the preparation of the MFRs.[24]

Staff will address adjustments to WSC's In-House hours later in this issue. Given the Utility's response above, and the additional adjustments to WSC hours recommended later, staff believes no additional adjustments to MS&A's actual expense are necessary.

MS&A estimates that a total of 44 hours are needed to complete the case. According to MS&A's summary, the consultant estimated the following:

[23] Based on the itemized descriptions of rate case work performed by WSC employees, approximately 27 hours of various MFR preparation are recorded for Patrick Flynn. Darrien Pitts' hours reflected approximately 53 hours for preparation of MFR schedules A, B, D, and E, and an additional 25 hours for the preparation of the chemical and transportation schedules.
[24] Document No. 01360-15, filed March 11, 2015.

Table 13-2

| MS&A's Estimated Hours to Complete Case | |
|---|---|
| Est. Hours | Activity |
| 10 | Provide support to client – Responses to Staff's Data Requests, including updates to Rate Case Expense. |
| 2 | Review Interim Order, test interim rates and consult with client. |
| 10 | Review audit, discuss issues with client. |
| 3 | Review OPC interrogatories, researching and preparing response, discussion with client and legal and follow-up. |
| 12 | Review Staff recommendations, testing recommended revenue requirements and resulting rates, including suppression calculations, and discuss with client. |
| 7 | Review PAA Order, testing final approved revenue requirements and resulting final rates, including suppression calculations, and discuss with client. |
| 44 | Total |

In short, staff believes the number of hours estimated for accounting consultant fees are excessive and unreasonable. MS&A has estimated 10 hours to respond to data request responses and provide updates to rate case expense. While six additional data requests were sent after MS&A's summary was assembled, staff believes that any response would require minimal time from the accounting consultant.[25] In fact, it is likely that these data requests would be more appropriately addressed by WSC In-House employees or Labrador staff. Moreover, no additional updates to rate case expense were received from this consultant. As such, staff believes that a total of 5 hours should be sufficient to address any remaining tasks here. Accordingly, staff recommends a reduction of 5 hours for C. Yapp.

MS&A included 2 hours in connection with reviewing the Interim Order in this docket. Staff notes that the Interim Order was issued on December 15, 2014.[26] Staff believes that any review of the Interim Order would likely have taken place between the order's issuance and the billed through date of December 26, 2014. As such staff recommends a reduction of 2 hours for C. Yapp.

Likewise, MS&A included 3 hours for reviewing OPC's interrogatories, preparing responses, discussions with client, and any follow-up. OPC did not file any interrogatories in this proceeding. As such, 3 hours (2 hours for C. Yapp, 1 hour for D. Swain) should be removed from estimated rate case expense.

In addition, MS&A included 10 hours to review the audit and discuss issues with client. Staff notes that two audit reports were prepared in this docket: the UI affiliate transactions audit report (issued on November 6, 2014) and the Labrador audit report (issued on December 16, 2014). Staff believes that the majority of MS&A's audit review likely occurred between each audit's issuance and the billed through date of December 26, 2014. However, staff recognizes

[25] The six data requests contained approximately 31 questions total.
[26] Order No. PSC-14-0695-PCO-WS.

that some additional review and discussion may have occurred outside of that period. Even though the majority of audit staff's adjustments were agreed to, staff believes that MS&A may have provided information or analysis prior to the Utility filing its audit responses.[27] Absent additional information, staff believes that a total of 5 hours should be sufficient to address any remaining audit-related tasks. Accordingly, staff recommends a reduction of 5 hours for C. Yapp.

MS&A included 19 hours to complete from the filing of staff's recommendation to the completion of the PAA process. Staff notes that this consultant has worked with Labrador, and other UI systems, on numerous dockets before this Commission through the years. The consultant's familiarity with the Utility and this Commission led staff to believe that the request is excessive and unreasonable. Absent additional support, staff believes that a total of 9.5 hours is an ample amount of time to review staff's recommendation and the Commission's PAA Order, and consult with their client in the instant docket. Accordingly, staff recommends a reduction of 9.5 hours (8 hours for C. Yapp, 1.5 hours for D. Swain).

In summary, staff recommends reducing the associate accountant's estimated hours to complete from 40 to 18, and the accounting firm partner's estimated hours to complete from 4 to 1.5. As such, staff believes that an additional $3,300 (22 hrs. x $150/hr.) should be removed for C. Yapp and $500 (2.5 hrs. x $200/hr.) be removed for D. Swain. Accordingly, staff recommends that accounting consultant fees be reduced by $4,263 ($463 + $3,300 + $500).

Engineering Consultant Fees – M&R Consultants

The Utility included $4,950 in its MFRs for M&R Consultants to provide consulting services for engineering-related schedules and responses to staff's data requests. The Utility provided support documentation detailing this expense through January 2015. The actual fees and costs totaled $2,588 with no additional estimated costs to complete the rate case. Staff believes the full amount of $2,588 to be reasonable and justified. Accordingly, no adjustment is necessary.

WSC In-House Staff Fees

The Commission has previously disallowed WSC In-House Employee fees in several dockets involving the Utility's sister companies.[28] However, the Commission subsequently allowed the inclusion of this expense for its sister companies, Utilities, Inc. of Florida and Cypress Lakes Utilities, Inc., based on the removal of employee salaries from the total salaries

[27] The Utility accepted 9 of the 12 findings in the Audit Report of Labrador Utilities, Inc. and 5 of the 8 findings in the Audit of Affiliate Transactions Report. Document Nos. 00712-15, filed February 2, 2015 and 00956-15, filed February 13, 2015.

[28] Order Nos. PSC-13-0085-PAA-WS, issued February 14, 2013, in Docket No. 110257-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; PSC-12-0667-PAA-WS, issued December 21, 2012, in Docket No. 120037-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke; 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.; and PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.

and wages balance prior to any allocation.[29] Based on staff's review of the confidential salary information, the Utility failed to adjust the test year salary and wage expense to exclude capitalized time spent on the instant docket.

In its MFRs, Labrador originally estimated $95,000 in expense for in-house employees. The Utility provided updates of actual and estimated rate case expense through January 15, 2015. Labrador reflected $19,855 of actual expense for in-house employees and estimated expense to completion of $3,990, totaling $23,845. In support of the actual expense, the Utility also provided a breakdown of the work performed by each employee including hours and descriptions.

The total employee compensation reflected in the Utility's confidential salary information did not include an adjustment that corresponded to the amount of in-house employee expense estimated by Labrador in Schedule B-10 of its MFRs. The total employee compensation prior to any allocation reflected a full year of salaries and wages for each employee. Further, the Utility stated that the hourly positions paid did not incur overtime for time spent on this rate case and the positions that are salaried did not receive any bonuses for time spent on this rate case.

As such, staff believes the entire amount of WSC in-house employees should be removed from rate case expense. The job duties and descriptions of the in-house employees that comprise this expense include rate case related functions. Thus, this expense is appropriately reflected in the Utility's salaries and wages expense. Therefore, staff recommends that the $23,845 related to in-house employees be removed from rate case expense.

Filing Fee

The Utility included $4,000 in its MFR Schedule B-10 for the filing fee. According to the documentation provided by F&F, the $4,000 filing fee was paid as part of the legal fees and was included in F&F's invoices. Since the amount is already included in F&F's legal fees, staff removed $4,000 to avoid double recovery of this fee.

WSC Travel Expense

In its MFRs, Labrador estimated $1,000 for travel expenses. The Utility provided no support documentation for this expense, or a detailed estimate of the expense to completion. Furthermore, based on several previous UI rate cases, UI does not send a representative from its Illinois office to attend the Commission Conference for PAA rate cases. Therefore, staff recommends that $1,000 of rate case expense associated with WSC Travel Expense be removed.

[29] Order Nos. PSC-14-0025-PAA-WS issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida; and PSC-14-0283-PAA-WS issued May 30, 2014, in Docket No. 130212-WS, In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

WSC FedEx Expense

The final adjustment to the requested rate case expense relates to WSC expenses for FedEx and other miscellaneous costs. The Utility estimated $100 of FedEx and other miscellaneous costs in its initial filing, but did not provide any support of these expenses. Based on the lack of support documentation, staff recommends that rate case expense be decreased by $100.

Customer Notices and Postage

In its revised rate case expense schedule, Labrador reflected estimated costs of $5,000 for customer noticing and postage. The Utility is responsible for sending out four notices: the initial notice, the interim notice, customer meeting notice, and notice of the final rate increase. The interim notice and initial notice were not combined in this docket. Instead, the initial notice was combined with the customer meeting notice. The Utility did not provide any invoices reflecting the actual cost associated with sending the interim notice, or the combined initial and customer meeting notice.

The Commission has historically approved recovery of noticing and postage, despite the lack of support documentation, based on a standard methodology to estimate the total expense using the number of customers and the estimated per unit cost of envelopes, copies, and postage.[30] The estimated cost of postage for the interim notice, combined initial and customer notice, and the final notice is approximately $782 (764 customers x $0.341 pre-sorted rate x 3 notices), the cost of copies is approximately $840 (764 customers x $0.10 per copy x 11 total pages), and the cost of envelopes is approximately $115 (764 customers x $0.05 x 3 notices). Based on these components, we find the total cost for these notices and postage is $1,737 ($782 + $840 + $115). As such, rate case expense should be decreased by $3,263 ($5,000 - $1,737) to allow for adequate expenses related to mailing notices.

Additional Rate Case Expense

In addition to the rate case expense provided by the Utility, the Commission found in the Utilities, Inc., generic docket "that rate case expense shall be allocated to each UI Florida subsidiary based on the ratio of each subsidiaries' ERCs to UI's total Florida ERCs as of December 31, 2013."[31] The Order specified that each subsidiary would be allowed to recover its allocated portion of rate case expense over four years, pursuant to Section 367.0816, F.S. Recovery of this expense should be included as a separate line item within rate case expense as part of each subsidiaries' next file and suspend rate case, limited proceeding, or staff-assisted rate case. Labrador's portion of rate case expense from that docket is $3,136, or $784 on an annual basis.

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[30] Order No. PSC-14-0025-PAA-WS issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.
[31] Order No. PSC-14-0521-FOF-WS, issued September 30, 2014, in Docket No. 120161-WS, In re: Analysis of Utilities, Inc.'s financial accounting and customer service computer system, p. 19.

Conclusion

Based upon the adjustments discussed above, staff recommends that Labrador's revised rate case expense of $142,797 be decreased by $40,358, to reflect staff's adjustments and the additional rate case expense allocated from Docket No. 120161-WS, for a total of $102,439. A breakdown of rate case expense is as follows:

Table 13-3

| Staff-Recommended Rate Case Expense | | | | |
|---|---|---|---|---|
| Description | MFR Estimated | Utility Revised Act.& Est. | Staff Adj. | Recom. Total |
| Legal Fees | $40,000 | $39,152 | ($7,023) | $32,129 |
| Accounting Consultant Fees | 66,000 | 67,113 | (4,263) | 62,851 |
| Engineering Consultant Fees | 4,950 | 2,588 | 0 | 2,588 |
| WSC In-House Fees | 95,000 | 23,845 | (23,845) | 0 |
| Filing Fee | 4,000 | 4,000 | (4,000) | 0 |
| WSC Travel | 1,000 | 1,000 | (1,000) | 0 |
| WSC FedEx/Misc. | 100 | 100 | (100) | 0 |
| Cust. Notices and Postage | 5,000 | 5,000 | (3,263) | 1,737 |
| Total | $216,050 | $142,797 | ($43,494) | $99,303 |
| Add'l RCE – Generic Dkt. | | | | $3,136 |
| Total w/Add'l RCE | | | | $102,439 |

In its MFRs, the Utility requested total rate case expense of $216,050. When amortized over four years, this represents an annual expense of $54,013. The recommended total rate case expense of $102,439 should be amortized over four years, pursuant to Section 367.081(6), F.S. Based on the above, staff recommends that rate case expense be decreased by $113,611 ($216,050 – $102,439). As a result, annual rate case expense should be decreased by $14,323 for water and $14,080 for wastewater from the respective levels of expense included in the MFRs.

**Issue 14**: Should further adjustments be made to Labrador's operating expenses?

**Recommendation**: Yes. The operating expenses for the test year should be increased by $13,266 for water and decreased by $10,337 for wastewater. (Trueblood, T. Brown, P. Buys)

**Staff Analysis**: In its filing, Labrador recorded test year operating expenses of $205,060 for water and $305,181 for wastewater. Based on its review, staff believes several adjustments to the Utility's operating expenses are necessary, as summarized below.

Expense Allocations between Water and Wastewater

In the Affiliate Audit for Utilities Inc., the staff auditors examined O&M expense allocations for Labrador. Staff auditors found that the Utility changed the methodology in which it allocated all but direct O&M expenses between water and wastewater. In prior rate cases, the Utility used test year-end ERC factors to allocate O&M expenses between water and wastewater in accordance with the Commission's post-hearing decision in a sister utility's 2002 docket.[32] However, in the instant filing, the expenses were allocated based on business units. As a result, the staff auditors recalculated O&M water and wastewater balances based on the practice in prior rate cases and recommended that Labrador's water expenses be increased by $14,160 and wastewater expenses be decreased by $14,052.

In its response to Affiliate Audit Finding No. 6, Labrador disagreed with the finding and asserted that it is still using ERCs to allocate common plant and expenses and that there has been no change in its methodology. Although the Utility disagreed with Audit Finding No. 6, it failed to provide any calculations or documentation to refute the finding. Therefore, in accordance with the Commission's post-hearing decision, staff recommends that Labrador's water and wastewater expenses be adjusted as indicated above.

Contractual Services-Other Expense

According to audit staff's work papers and the UI general ledger, the account for "Internet Supplier" expense included 13 monthly payments allocated to Labrador. Staff believes that the second December payment of $13,943 is an out-of-period expense and should be removed. This results in a reduction of Labrador allocated expenses by $78 (.56 percent x $13,943). The removal of these costs resulted in a decrease to Contractual Services-Other Expense of $39 for water and $39 for wastewater.

A review of UI's general ledger for "Other Outside Services" expense revealed a May entry of $18,225 that was for the review of the forecasts for three utilities (Lake Utility Services, a Carolina utility, and a Louisiana utility). Staff believes these expenses should be a direct charge to those systems and the amount allocated to Labrador should be removed. This results in a reduction of $102 (.56 percent x $18,225) to Labrador. The removal of these costs results in a further decrease to Contractual Services-Other of $51 for water and $51 for wastewater.

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[32] Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

Miscellaneous Expense

Staff reviewed the Affiliate Audit Work Papers 43-7.5 for miscellaneous expenses which showed that multiple payments totaling $46,259 were recorded for the Leadership Training Conference in Orlando, Florida at the Rosen Conference Center. The expense of leadership training is not necessarily impermissible on its face; however, the failure to provide detailed expense support documentation warrants an adjustment in this instance. The Utility was put on notice that detailed support of this expense was required. Therefore, these costs should be disallowed consistent with the Commission decision in a prior rate case where similar costs were removed due to inadequate detailed expense support documentation.[33] Therefore, Labrador's expenses should be reduced by $259 (.56 percent x $46,259). The removal of these costs results in a decrease to miscellaneous expense of $131 for water and $128 for wastewater.

The Affiliate Audit work papers for UI also indicated that office landscape/mowing allocations included in miscellaneous expense increased substantially from 2012 to 2013. A substantial amount of this increase was due to tree removal. Staff verified that this was a reoccurring expense. To determine an amount that is more representative of the costs the Utility would normally incur, staff calculated a four-year average using the amounts recorded for 2010-2013. Based on a four-year average, the 2013 expenses for office landscape/mowing should be reduced by $11,574, with an allocation for Labrador of $65. Likewise, the amount for water and wastewater should be reduced by $33 and $32, respectively.

Pro Forma Expense for Televise and Clean Gravity Collection Expense

Labrador requested to add a pro forma project to televise and clean its collection system once every ten years at a cost of $2.15 per linear foot. The Utility provided a quote dated March 20, 2015, from Altair Environmental Group. The quote included two options: to clean the lines all at once at $2.15 per linear foot and the other option, to clean 10 percent of lines at $2.96 per linear foot. The difference in the price per linear foot includes a mobilization fee of $1,200 and a dump fee of $1,500 per load. The expectation is that there will be a minimum of one load of material to be removed and hauled away per cleaning. It is more cost effective to televise and clean the entire system once every ten years as opposed to cleaning 10 percent of the system every year. Televising and cleaning the collection system will reduce the risk of pipe or manhole failures and will reduce backups and sanitary sewer overflows, which will enhance the overall quality of service to Labrador's customers. If the request is approved, Labrador will begin the biding process after the May 5, 2015 Commission Conference and expects to complete this project by the end of 2015. Staff believes that the project is prudent and reasonable.

The quote was to clean 28,000 Linear Feet at $2.15 per foot. The total cost is $60,200 (28,000 x $2.15) and the annual amortization expense is $6,020. Staff believes the test year wastewater O&M expenses should be increased by $6,020.

[33] Order No. PSC-14-0283-PAA-WS, issued May 30, 2014, in Docket No. 130212-WS, In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes, Inc.

Chemicals

In its MFR, Labrador recorded $857 in chemical costs for water and $22,564 for chemical costs for wastewater for the test year. In a data request response, Labrador asserted that the correct chemical costs for water and wastewater are $1,416 and $23,514, respectively. Staff reviewed the invoices for the chemicals used in the test year that were provided in response to a data request. Based on staff's analysis, the actual chemical costs used during the test year are $1,591 for water and $21,291 for wastewater. Therefore, staff believes the test year chemical costs for water should be increased by $734 ($1,591 - $857) and the wastewater chemicals costs should be decreased by $1,273 ($22,564 - $21,291).

Excessive Unaccounted For Water (EUW)

Based on the 6.4 percent of unaccounted water in Issue 5, staff recommends that the purchased power and chemicals expense be reduced collectively by $497.

Land Lease Expense

The utility initially recorded land lease expense of $23,382 and $30,528 in its MFRs for water and wastewater, respectively. It subsequently reduced these expenses to $12,866 and $12,648, respectively. Based on staff's recommended cost of capital of 8.25 percent for water and 8.37 percent for wastewater, the appropriate amounts of land lease expenses are $10,943 and $18,123 for water and wastewater, respectively. As a result, staff recommends reducing the Utility's adjusted land lease expenses by $427 for water and $243 for wastewater.

Computer Maintenance Expense

In several recent rate cases involving Labrador's sister companies, the Commission recognized the volatility of computer maintenance expense.[34] Due to this volatility, the Commission has routinely used a five-year average as an appropriate basis for ratemaking purposes, and excluded the portion of Phoenix Project IT maintenance charges associated with UI divested systems, consistent with the Commission's treatment of the Phoenix Project costs per ERC at that time.[35]

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[34] Order Nos. PSC-14-0335-PAA-WS, issued June 30, 2014, in Docket No. 130243-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities Inc.; PSC-14-0283-PAA-WS, issued May 30, 2014, in Docket No. 130212-WS, In re: Application for increase in water/wastewater rates in Polk County by Cypress Lakes Utilities, Inc.; PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

[35] See Order Nos. PSC-12-0667-PAA-WS, issued December 26, 2012, in Docket No. 120667-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke; PSC-12-0206-PAA-WS, issued April 17, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.; and PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

A five-year average was initially calculated using the computer maintenance expense included in the Utility's general ledger for 2009, 2010, 2011, 2012, and 2013. However, staff notes that the computer maintenance expense for 2010 is an anomaly when compared to the three most recent years, as reflected in the following table. Staff believes that computer maintenance expense should be determined in a prospective manner for the Utility. In this docket, staff believes that computer maintenance expense should be based on a three-year average using amounts from 2011, 2012, and 2013. This results in an average computer maintenance expense of $8,094, a reduction of $500 from the expense included in the Utility's test year. Based on the three-year average and Labrador's ERC allocation percentage by system, staff calculated a reduction of $252 for water and $248 for wastewater.

Table 14-1

| Computer Maintenance Expense | |
|---|---|
| Year | Expense |
| 2009 | $9,241 |
| 2010 | $10,476 |
| 2011 | $7,714 |
| 2012 | $7,975 |
| 2013 | $8,594 |

As mentioned previously in Issue 3, the Commission altered its treatment of divestitures, so that any adjustment related to UI divested systems was net of any UI acquisitions, and, based on 2015 total ERCs, a divesture adjustment is no longer necessary. Accordingly, an adjustment to computer maintenance expense related to divestitures is no longer necessary.

Gain on Sale of Vehicles

Labrador reported in its 2013 Annual Report, Gains on Sale of Vehicles of $743 for 2012 and $411 for 2013. Staff reviewed the gains resulting from the sale of property and sent a data request to the Utility for support documentation regarding the disposition and allocation calculations for the gains. In response to a staff data request, Labrador provided journal entries and other supporting documentation for the gains. Staff reviewed the documentation and believes the gains should be amortized over five years, in the amount of $231 annually. Accordingly, staff recommends that the operating expenses be reduced by $116 for water and $114 for wastewater.

Property Tax Adjustment Due to Change in Millage Rate

In its MFRs, the Utility recorded $39,180 for property taxes for the test year. According to the Pasco County Tax Collector's website, the 2014 property tax millage rate for Labrador has changed from 1.69614 to 1.68154, which represents a decrease of .01468. Staff believes this represents a known and measurable change from 2013 property taxes. Based on the above, staff recommends that property taxes be reduced by $259, which results in a decrease of $82 for water and $177 for wastewater.

Conclusion

Based on the above, staff recommends that operating expenses be increased by $13,266 for water and decreased by $10,337 for wastewater to reflect the appropriate level of operating expenses, as shown in Table 14-2.

Table 14-2

| Summary of Further Adjustments to Operating Expenses | | | |
|---|---|---|---|
| | | Water | Wastewater |
| | | | |
| 1 | Audit Finding No. 6 | $14,160 | ($14,052) |
| 2 | Contractual Services - Other | | |
| 3 | Internet Supplier | (39) | (39) |
| 4 | Other Outside Services | (51) | (51) |
| 5 | Miscellaneous Expense -Rosen Hotel | (131) | (128) |
| 6 | Land Lease Expense | (427) | (243) |
| 7 | Pro Forma Gravity Collection | 0 | 6,020 |
| 8 | Chemicals | 734 | (1,273) |
| 9 | Excessive Accounted for Water | (497) | 0 |
| 10 | Office Landscaping/Mowing | (33) | (32) |
| 11 | Computer Maintenance Expense | (252) | (248) |
| 12 | Gain on Sale of Vehicles | (116) | (114) |
| 13 | Property Tax Change in Millage Rate | (82) | (177) |
| | | $13,266 | ($10,337) |

**Issue 15**: What is the appropriate revenue requirement for the test year ended December 31, 2013?

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

| | Test Year Revenue | $ Increase/ (Decrease) | Revenue Requirement | % Increase/ (Decrease) |
|---|---|---|---|---|
| Water | $263,502 | $51,633 | $315,135 | 19.60% |
| Wastewater | $407,248 | $200,546 | $607,794 | 49.24% |

(Polk)

**Staff Analysis**: In its filing, Labrador requested revenue requirements to generate annual revenue of $359,086 and $693,295 for water and wastewater, respectively. These requested revenue requirements represent revenue increases of $97,036, or approximately 37.03 percent, for water and $287,175, or approximately 70.71 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 $315,135 and a wastewater revenue requirement of $607,794. The recommended water revenue requirement exceeds staff's adjusted test year revenue by $51,633, or 19.60 percent, for water. The recommended wastewater revenue requirement exceeds staff's adjusted test year revenue by $200,546 or 49.24 percent. These recommended pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn 8.25 percent return on its water rate base and 8.37 percent return on its wastewater rate base.

**Issue 16**: What are the appropriate rate structures and rates for Labrador's water and wastewater systems?

**Recommendation**: The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A through 4-D. 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 on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until 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 ten days of the date of the notice. (Bruce)

**Staff Analysis:**

**Water Rates**

Labrador is located in Pasco County within the Southwest Florida Water Management District (SWFWMD). The Utility provides water service to approximately 856 residential customers in a mobile home community, 1 irrigation customer, and 5 general service customers. One of the general service customers is a 274 unit RV park. Approximately 30 percent of the residential customer bills during the test year had zero gallons, indicating a very seasonal customer base. The average residential water demand is 1,412 gallons per month. The average residential water demand excluding zero gallon bills is 2,006 per month. Currently, the Utility's water rate structure consists of a monthly base facility charge (BFC) and uniform gallonage charge for all customers. In the Utility's last rate case, a BFC allocation of 40 percent was approved.

Staff performed an analysis of the Utility's billing data in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; (3) establish the appropriate non-discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

In the instant docket, staff believes that it is not necessary to design a conservation-oriented rate structure with a separate tier for non-discretionary demand due to the Utility's highly seasonal customer base coupled with the low average monthly demand. Typically, the Commission allocates no greater than 40 percent of the water revenue to the BFC. However, when a Utility's customer base is seasonal, it has been the Commission's practice to allocate greater than 40 percent of the revenue requirement to the BFC to address revenue stability. Also, the average residential water demand has declined slightly since the last rate case. As a result, staff believes that it is appropriate to allocate 50 percent of the water revenue to the BFC for revenue stability purposes. No additional significant repression is anticipated.

Staff also evaluated whether a BFC for the RV park should be based on a 6-inch meter, 50 equivalent residential connections (ERCs), or the demand the RV park places on the water system. Assuming full occupancy of the RV park, the average water demand is 311 [1,025,000 gallons/(274 x 12)] gallons per month per lot. In the instant docket, staff believes an ERC is equal to the average residential water demand of 1,412 gallons. As a result, each RV park lot is .22 (311 gallons/1,412 gallons) ERCs and the entire RV park uses an average of 60 ERCs of water per month (.22 ERC x 274 lots). However, due to the transient nature of an RV park, staff believes the existing rate, based on the 6-inch meter, is appropriate.

Staff recommends a continuation of the BFC and uniform gallonage charge rate structure for all customers and a BFC allocation based on 50 percent of the water revenue requirement. Staff's recommended rate structure and rates are shown on Schedule Nos. 4-A and 4-B.

**Wastewater Rates**

Labrador provides wastewater service to all 856 residential water customers and 3 of the general service customers. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with a 10,000 gallon cap per month. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

Staff performed an analysis of the Utility's billing data to evaluate various BFC cost recovery percentages and gallonage caps for the residential customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; and (3) implement a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

The Commission's practice is to allocate at least 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. Also, as mentioned previously, the customer base is highly seasonal. Therefore, an allocation of 50 percent of the wastewater revenue to the BFC is appropriate. It is Commission practice to set the wastewater cap at approximately 80 percent of residential water gallons sold. Based on staff's review of the billing analysis, 84 percent of the water gallons are captured at the 6,000 gallon consumption level. The wastewater gallonage cap recognizes that not all water used by the residential customers is returned to the wastewater system. For this reason, staff recommends that the gallonage cap of 10,000 per month be reduced to 6,000 gallons. Staff also recommends that the general service gallonage charge be 1.2 times greater than the residential gallonage charge which is consistent with Commission practice. Furthermore, staff recommends a BFC allocation based on 50 percent of the wastewater revenue requirement. Staff's recommended rate structure and rates are shown on Schedule Nos. 4-C and 4-D.

<u>Conclusion</u>

Based on the foregoing, the recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A through 4-D. 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 on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until 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 ten days of the date of the notice.

**Issue 17**: In determining whether any portion of the water and/or wastewater interim increases granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

**Recommendation**: The appropriate 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. The revised revenue requirements for the interim collection period should be compared to the amount of interim revenues granted. Based on this methodology, no refund is necessary for water or wastewater. As a result, the corporate undertaking amount of $68,706 should be released. (Polk)

**Staff Analysis**: By Order No. PSC-14-0695-FOF-WS, the Commission authorized the collection of interim water rates, and required the Utility to hold $68,706 subject to refund in this docket of the current water and wastewater revenues subject to refund if necessary, pursuant to Section 367.082, F.S.[36] According to Section 367.082, F.S., any refund should be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended December 31, 2013. Labrador's approved interim rates did not include any provisions for pro forma operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the lower limit of the last authorized range of return on equity. To establish the proper refund amount, staff calculated revised interim revenue requirements 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.

Using the principles discussed above, staff calculated an adjusted interim revenue requirement of $302,026 for water. The adjusted water interim revenue requirement of $302,026 is higher than the interim revenue requirement of $264,917 granted in the Interim Order. As a result, no refund is necessary for water. Furthermore, using the principles discussed above, staff calculated an adjusted interim revenue requirement of $588,604 for wastewater. The adjusted wastewater interim revenue requirement of $588,604 is higher than the interim revenue requirement of $410,128 granted in the Interim Order. As a result, no refund is necessary for wastewater. Based on the above, staff recommends that the corporate undertaking amount of $68,706 be released.

[36] Order No. PSC-14-0695-FOF-WS, issued December 15, 2014, in Docket No. 140135-WS, In re: Application for increase in water/wastewater rates in Pasco County by Labrador Utilities, Inc.

**Issue 18**: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

**Recommendation**: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for regulatory assessment fees (RAFs) and 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. Labrador 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. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Bruce, T. Brown)

**Staff Analysis**: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reduction is $13,657 for water and $13,424 for wastewater. Using Labrador's current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedule Nos. 4-A and 4-B.

The Utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Labrador should also be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease, and the reduction in the rates due to the amortized rate case expense.

**Issue 19**: Should Labrador be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated primary accounts with the Commission approved adjustments?

**Recommendation**: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Labrador should provide proof, within 90 days of the final order in this docket, that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records. The Utility's support documentation should include a list, by issue, of all rate base and cost of capital Commission-ordered adjustments and a reference to where the corresponding bookkeeping entries can be found in the general ledger that is provided. (Polk)

**Staff Analysis**: To ensure that the Utility adjusts its books in accordance with the Commission's decision, Labrador should provide proof, within 90 days of the final order in this docket, that the adjustments to all the applicable NARUC USOA accounts have been made to the Utility's books and records.

The Utility's support documentation should include a list, by issue, of all rate base and cost of capital Commission-ordered adjustments and a reference to where the corresponding bookkeeping entries can be found in the general ledger that is provided. All support documentation should follow the guidelines set forth in Rule 25-30.450, F.A.C., which states:

> In each instance, the utility must be able to support any schedule submitted, as well as any adjustments or allocations relied on by the utility. The work sheets, etc., supporting the schedules and data submitted must be organized in a systematic and rational manner so as to enable Commission personnel to verify the schedules in an expedient manner and minimum amount of time. The supporting work sheets, etc., shall list all reference sources necessary to enable Commission personnel to trace to original source of entry into the financial and accounting system and, in addition, verify amounts to the appropriate schedules.

**Issue 20**: Should this docket be closed?

**Recommendation**: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open until the Utility provides proof of adjustments to all applicable NARUC USOA accounts and for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively, and the corporate undertaking should be released. (Mapp, Crawford)

**Staff Analysis**: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order should be issued. The docket should remain open until the Utility provides proof of adjustments to all applicable NARUC USOA accounts and for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively, and the corporate undertaking should be released.

 

**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 | $73,246 | $1,008,236 | $48,541 | $1,056,777 |
| 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) | 20,140 | (355,036) | 37,415 | (317,621) |
| 5 | CIAC | (342) | 0 | (342) | 0 | (342) |
| 6 | Amortization of CIAC | 64 | 0 | 64 | 0 | 64 |
| 7 | Net Debit Deferred Income Taxes | 0 | 1,644 | 1,644 | (1,644) | 0 |
| 8 | CWIP | 94,653 | (94,653) | 0 | 0 | 0 |
| 9 | Net Acquisition Adjustment | (257,102) | 257,102 | 0 | 0 | 0 |
| 10 | Working Capital Allowance | 0 | 25,633 | 25,633 | (6,570) | 19,063 |
| 11 | **Rate Base** | $397,627 | $283,109 | $680,736 | $77,742 | $758,478 |

**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 | $653,285 | $2,740,160 | ($63,083) | $2,677,077 |
| 2 | Land and Land Rights | 0 | 0 | 0 | 0 | 0 |
| 3 | Non-used and Useful Components | 0 | 0 | 0 | 0 | 0 |
| 4 | Accumulated Depreciation | (876,820) | (16,983) | (893,803) | 86,895 | (806,908) |
| 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 | 1,617 | 1,617 | (1,617) | 0 |
| 9 | Working Capital Allowance | 0 | 38,148 | 38,148 | (9,371) | 28,777 |
| 10 | **Rate Base** | $1,211,620 | $674,502 | $1,886,122 | $12,824 | $1,898,946 |

**Labrador Utilities, Inc.**
**Capital Structure-Simple Average**
**Test Year Ended 12/31/13**

**Schedule No. 2**
**Docket No. 140135-WS**

| | Description | Total Capital | Specific Adjust-ments | Subtotal Adjusted Capital | Prorata Adjust-ments | Capital Reconciled to Rate Base | Ratio | Cost Rate | Weighted Cost |
|---|---|---|---|---|---|---|---|---|---|
| **Per Utility** | | | | | | | | | |
| 1 | Long-term Debt | $180,000,000 | $0 | $180,000,000 | ($178,709,368) | $1,290,632 | 50.28% | 6.64% | 3.34% |
| 2 | Short-term Debt | 3,100,000 | 0 | 3,100,000 | (3,077,773) | 22,227 | 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 | (173,106,458) | 1,250,167 | 48.70% | 10.43% | 5.08% |
| 5 | Customer Deposits | 3,833 | 0 | 3,833 | 0 | 3,833 | 0.15% | 6.00% | 0.01% |
| 6 | Deferred Income Taxes | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 7 | **Total Capital** | $357,460,458 | $0 | $357,460,458 | ($354,893,599) | $2,566,859 | 100.00% | | 8.50% |
| **Per Staff** | | | | | | | | | |
| 8 | Long-term Debt | $180,000,000 | $0 | $180,000,000 | ($178,675,879) | $1,324,121 | 49.83% | 6.64% | 3.31% |
| 9 | Short-term Debt | 3,100,000 | 0 | 3,100,000 | (3,077,196) | 22,804 | 0.86% | 2.82% | 0.02% |
| 10 | Preferred Stock | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 11 | Common Equity | 174,356,625 | 0 | 174,356,625 | (173,074,018) | 1,282,607 | 48.27% | 10.43% | 5.03% |
| 12 | Customer Deposits | 3,833 | 0 | 3,833 | 0 | 3,833 | 0.14% | 2.00% | 0.00% |
| 13 | Deferred Income Taxes | 0 | 24,058 | 24,058 | 0 | 24,058 | 0.91% | 0.00% | 0.00% |
| 14 | **Total Capital** | $357,460,458 | $24,058 | $357,484,516 | ($354,827,092) | $2,657,424 | 100.00% | | 8.37% |

| | LOW | HIGH |
|---|---|---|
| RETURN ON EQUITY | 9.43% | 11.43% |
| OVERALL RATE OF RETURN | 7.89% | 8.85% |

**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:** | $264,903 | $94,183 | $359,086 | ($95,584) | $263,502 | $51,633 | $315,135 |
| | | | | | | | 19.60% | |
| | **Operating Expenses** | | | | | | | |
| 2 | Operation & Maintenance | $202,275 | $2,785 | $205,060 | ($52,560) | $152,500 | | $152,500 |
| 3 | Depreciation | 40,877 | 3,961 | 44,838 | 2,704 | 47,542 | | 47,542 |
| 4 | Amortization | 0 | 0 | 0 | (116) | (116) | | (116) |
| 5 | Taxes Other Than Income | 31,188 | (732) | 30,456 | (2,625) | 27,831 | 2,324 | 30,154 |
| 6 | Income Taxes | (19,913) | 40,778 | 20,865 | (16,934) | 3,931 | 18,555 | 22,486 |
| 7 | **Total Operating Expense** | 254,427 | 46,792 | 301,219 | (69,532) | 231,687 | 20,879 | 252,566 |
| 8 | **Operating Income** | $10,476 | $47,391 | $57,867 | ($26,052) | $31,815 | $30,755 | $62,570 |
| 9 | **Rate Base** | $397,627 | | $680,736 | | $758,478 | | $758,478 |
| 10 | **Rate of Return** | 2.63% | | 8.50% | | 4.19% | | 8.25% |

**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:** | $406,290 | $287,005 | $693,295 | ($286,047) | $407,248 | $200,546<br>49.24% | $607,794 |
| | **Operating Expenses** | | | | | | | |
| 2 | Operation & Maintenance | $286,328 | $18,853 | $305,181 | ($74,968) | $230,213 | | $230,213 |
| 3 | Depreciation | 69,563 | 34,739 | 104,302 | (2,891) | 101,411 | | 101,411 |
| 4 | Amortization | 0 | 0 | 0 | (114) | (114) | | (114) |
| 5 | Taxes Other Than Income | 38,644 | 27,025 | 65,669 | (15,030) | 50,639 | 9,025 | 59,664 |
| 6 | Income Taxes | 0 | 57,808 | 57,808 | (72,198) | (14,390) | 72,070 | 57,679 |
| 7 | **Total Operating Expense** | 394,535 | 138,425 | 532,960 | (165,202) | 367,758 | 81,094 | 448,852 |
| 8 | **Operating Income** | $11,755 | $148,580 | $160,335 | ($120,845) | $39,490 | $119,452 | $158,942 |
| 9 | **Rate Base** | $1,211,620 | | $1,886,122 | | $1,898,946 | | $1,898,946 |
| 10 | **Rate of Return** | 0.97% | | 8.50% | | 2.08% | | 8.37% |

**Labrador Utilities, Inc.**
**Adjustments to Rate Base**
**Test Year Ended 12/31/13**

**Schedule No. 1-C**
**Docket No. 140135-WS**

| | Explanation | Water | Wastewater |
|---|---|---|---|
| | Plant In Service | | |
| 1 | Reflect uncontested rate base audit adjustments. - Issue 2 | ($30,035) | ($15,215) |
| 2 | Reflect supported pro forma plant additions. - Issue 4 | 78,576 | (47,868) |
| | Total | $48,541 | ($63,083) |
| | Accumulated Depreciation | | |
| 1 | Reflect uncontested rate base audit adjustments. - Issue 2 | $27,069 | $82,700 |
| 2 | Reflect Pheonix project adjustments. - Issue 3 | 1,684 | 1,655 |
| 3 | Reflect supported pro forma plant additions. - Issue 4 | 8,662 | 2,540 |
| | Total | $37,415 | $86,895 |
| | Accumulated Depreciation | | |
| | To reflect net credit ADIT balance in capital structure. - Issue 9 | ($1,644) | ($1,617) |
| | Working Capital | | |
| | To reflect the appropriate working capital allowance. - Issue 6 | ($6,570) | ($9,371) |

**Labrador Utilities, Inc.**
**Adjustment to Operating Income**
**Test Year Ended 12/31/13**

**Schedule No. 3-C**
**Docket No. 140135-WS**

| | Explanation | Water | Wastewater |
|---|---|---|---|
| | Operating Revenues | | |
| 1 | Remove requested final revenue increase. | ($97,036) | ($287,175) |
| 2 | Reflect the appropriate amount of annualized revenues. - Issue 11 | 1,452 | 1,128 |
| | Total | ($95,584) | ($286,047) |
| | | | |
| | Operation and Maintenance Expense | | |
| 1 | Corresponding O&M expense related to pro forma plant. - Issue 4 | ($161) | $0 |
| 2 | Reflect uncontested NOI audit adjustments. - Issue 12 | (51,537) | (50,842) |
| 3 | Reflect appropriate rate case expense. - Issue 13 | (14,323) | (14,080) |
| 4 | Further Adjustments to O&M expense. - Issue 14 | 13,464 | (10,046) |
| | Total | ($52,560) | ($74,968) |
| | | | |
| | Depreciation Expense - Net | | |
| 1 | Reflect Pheonix project adjustments. - Issue 3 | ($1,684) | ($1,655) |
| 2 | Reflect supported pro forma plant additions. - Issue 4 | 2,528 | (1,560) |
| 3 | Reflect uncontested audit adjustments. - Issue 12 | 1,859 | 324 |
| | Total | $2,704 | ($2,891) |
| | | | |
| | Amotization-Other Expense | | |
| | To reflect allocated gain on sale of vehicles. - Issue 14 | ($116) | ($114) |
| | | | |
| | Taxes Other Than Income | | |
| 1 | RAFs on revenue adjustments above. | ($4,301) | ($12,872) |
| 2 | Reflect supported pro forma plant additions. - Issue 4 | 1,936 | (1,850) |
| 3 | Reflect uncontested NOI audit adjustments. - Issue 12 | (178) | (131) |
| 4 | Reflect appropriate test year property taxes. - Issue 14 | (82) | (177) |
| | Total | ($2,625) | ($15,030) |

| LABRADOR UTILITIES, INC.<br>STAFF'S RECOMMENDED AND ALTERNATIVE<br>WATER RATE STRUCTURES AND RATES | | | | |
|---|---|---|---|---|
| Test Year Rate Structure and Rates (1) | | | Recommended Rate Structure and Rates | |
| Monthly BFC/Uniform Gallonage Rate Structure<br>BFC generated from current rates = 44% | | | Monthly BFC/Uniform Gallonage Rate Structure<br>BFC = 50% | |
| BFC | $10.48 | | BFC | $14.17 |
| Per kgal | $8.38 | | Per kgal | $9.00 |
| | | | | |
| Typical Monthly Bills | | | Typical Monthly Bills | |
| Consumption (kgals) | | | Consumption (kgals) | |
| 0 | $10.48 | | 0 | $14.17 |
| 1 | $18.86 | | 1 | $23.17 |
| 2 | $27.24 | | 2 | $32.17 |
| 6 | $60.76 | | 6 | $68.17 |
| 10 | $94.28 | | 10 | $104.17 |
| 20 | $178.08 | | 20 | $194.17 |
| Alternative 1 Rate Structure and Rates | | | Alternative 2 Rate Structure and Rates | |
| Monthly BFC/Uniform Gallonage Rate Structure<br>BFC = 45% | | | Monthly BFC/Uniform Gallonage Rate Structure<br>BFC =40% | |
| BFC | $12.75 | | BFC | $11.33 |
| Per kgal | $9.90 | | Per kgal | $10.80 |
| | | | | |
| Typical Monthly Bills | | | Typical Monthly Bills | |
| Consumption (kgals) | | | Consumption (kgals) | |
| 0 | $12.75 | | 0 | $11.33 |
| 1 | $22.65 | | 1 | $22.13 |
| 2 | $32.55 | | 2 | $32.93 |
| 6 | $72.15 | | 6 | $76.13 |
| 10 | $111.75 | | 10 | $119.33 |
| 20 | $210.75 | | 20 | $227.33 |

1) The Utility filed a 2014 Price Index that became effective October 19, 2014.

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

**SCHEDULE NO. 4-B**
**DOCKET NO. 140135-WS**

| - | UTILITY CURRENT RATES (1) | COMMISSION APPROVED INTERIM | UTILITY REQUESTED RATES | STAFF RECOMMENDED RATES | 4 YEAR RATE REDUCTION |
|---|---|---|---|---|---|
| **Residential and General Service (2)** | | | | | |
| Base Facility Charge | | | | | |
| 5/8" | $10.48 | $11.95 | $14.25 | $14.17 | $1.15 |
| 3/4" | $15.73 | $17.94 | $21.38 | $21.26 | $1.73 |
| 1" | $26.21 | $29.36 | $35.63 | $35.43 | $2.88 |
| 1-1/2" | $52.39 | $58.69 | $71.25 | $70.85 | $5.76 |
| 2" | $83.82 | $95.63 | $114.00 | $113.36 | $9.22 |
| 3" | $167.65 | $191.26 | $213.75 | $226.72 | $18.43 |
| 4" | $261.95 | $298.84 | $356.25 | $354.25 | $28.80 |
| 6" | $523.89 | $597.68 | $712.50 | $708.50 | $57.60 |
| Charge per 1,000 Gallons | $8.38 | $9.53 | $11.39 | $9.00 | $0.73 |
| **Irrigation** | | | | | |
| 2" | $83.82 | $95.63 | $114.00 | $113.36 | $9.22 |
| Charge per 1,000 Gallons - Irrigation | $8.38 | $9.53 | $11.39 | $9.00 | $0.73 |
| **Typical Residential 5/8" x 3/4" Meter Bill Comparison** | | | | | |
| 2,000 Gallons | $27.24 | $31.01 | $37.03 | $32.17 | |
| 6,000 Gallons | $60.76 | $69.13 | $82.59 | $68.17 | |
| 10,000 Gallons | $94.28 | $107.25 | $128.15 | $104.17 | |

1) The Utility filed a 2014 Price Index that became effective October 19, 2014.

2) The Utility's current residential rates only have an approved BFC for a 5/8" x 3/4" meter.

| LABRADOR UTILITIES, INC.<br>STAFF'S RECOMMENDED AND ALTERNATIVE<br>WASTEWATER RATE STRUCTURES AND RATES | | | | |
|---|---|---|---|---|
| Test Year Rate Structure and Rates(1) | | | Recommended Rate Structure and Rates | |
| Monthly BFC/Uniform Gallonage Rate Structure<br>BFC generated from current rates = 60% | | | Monthly BFC/Uniform Gallonage Rate Structure<br>BFC =50% | |
| BFC | $22.62 | | BFC | $27.81 |
| Per kgal | $10.09 | | Per kgal | $19.46 |
| (10 kgal cap) | | | (6 kgal cap) | |
| Typical Monthly Bills | | | Typical Monthly Bills | |
| Consumption (kgals) | | | Consumption (kgals) | |
| 0 | $22.62 | | 0 | $27.23 |
| 1 | $32.71 | | 1 | $47.27 |
| 2 | $42.80 | | 2 | $66.73 |
| 3 | $52.89 | | 3 | $86.19 |
| 4 | $62.98 | | 4 | $105.65 |
| 5 | $73.07 | | 5 | $125.11 |
| 6 | $83.16 | | 6 | $144.57 |
| 10 | $123.52 | | 10 | $144.57 |
| Alternative 1 Rate Structure and Rates | | | Alternative 2 Rate Structure and Rates | |
| Monthly BFC/Uniform Gallonage Rate Structure<br>BFC = 55% | | | Monthly BFC/Uniform Gallonage Rate Structure<br>BFC =45% | |
| BFC | $30.59 | | BFC | $25.03 |
| Per kgal | $17.52 | | Per kgal | $21.41 |
| (6 kgal cap) | | | (6 kgal cap) | |
| Typical Monthly Bills | | | Typical Monthly Bills | |
| Consumption (kgals) | | | Consumption (kgals) | |
| 0 | $30.59 | | 0 | $25.03 |
| 1 | $48.11 | | 1 | $46.44 |
| 2 | $65.63 | | 2 | $67.85 |
| 3 | $83.15 | | 3 | $89.26 |
| 4 | $100.67 | | 4 | $110.67 |
| 5 | $118.19 | | 5 | $132.08 |
| 6 | $135.71 | | 6 | $153.49 |
| 10 | $135.71 | | 10 | $153.49 |

1) The Utility filed a 2014 Price Index that became effective October 19, 2014.