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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: May 20, 2009

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Mouring, Bulecza-Banks, Daniel, Letcher, Lingo, Rieger) ⁰⁴
Office of the General Counsel (Jaeger) ²⁰ ^{BT}

RE: Docket No. 080249-WS – Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

AGENDA: 06/2/09 – Regular Agenda – Proposed Agency Action Except For Issues Nos. 20 and 22 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Argenziano

CRITICAL DATES: 5-Month Effective Date Waived Through 6/2/09

SPECIAL INSTRUCTIONS: This item should immediately follow the item for Docket No. 090006 – 2009 Leverage Formula.

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Case Background

Utilities, Inc. (UI or parent), is an Illinois corporation which owns approximately 80 utility subsidiaries throughout 16 states, including 16 water and wastewater utilities within the State of Florida. Currently, UI has four separate rate case dockets pending before the Public Service Commission (Commission). These dockets are as follows:

<u>Docket No.</u>	<u>Utility Subsidiary</u>
080247-SU	Utilities Inc. of Eagle Ridge
080248-SU	Tierra Verde Utilities, Inc.
080249-WS	Labrador Utilities, Inc.
080250-SU	Mid-County Services, Inc.

Labrador Utilities Inc. (Labrador or Utility) is a Class B utility providing water and wastewater service to approximately 897 water and 892 wastewater customers in Pasco County. Water and wastewater rates were last established for this Utility in 2004.¹

On August 28, 2008, Labrador filed an Application for Rate Increase at issue in the instant docket. The Utility had a few deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and December 4, 2008, was established as the official filing date. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is the historical 12-month period ended December 31, 2007.

By Order No. PSC-08-0751-PCO-WS, issued November 13, 2008, the Commission approved interim rates designed to generate annual revenues of \$253,624 for water and \$392,060 for wastewater. This represents a revenue increase on an annual basis of \$97,862 (62.83 percent) for water and \$29,611 (8.17 percent) for wastewater. The interim rates are subject to refund with interest, pending the conclusion of the rate case. The Utility requested final rates designed to generate annual revenues of \$302,283 for water and \$543,677 for wastewater. This represents a revenue increase of \$146,521 (94.07 percent) for water and \$181,228 (50.00 percent) for wastewater.

By letter dated April 21, 2009, the Utility waived the 5-month statutory deadline for this case through June 2, 2009. This recommendation addresses the revenue requirement and rates that should be approved on a prospective basis. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

¹ See Order No. PSC-04-1281-PAA-WS, issued December 28, 2004, in Docket No. 030443-WS, In re: Application for rate increase in Pasco County by Labrador Utilities, Inc.

Discussion of Issues

Issue 1: Is the quality of service provided by Labrador Utilities, Inc. satisfactory?

Recommendation: Yes. The overall quality of service provided by Labrador Utilities, Inc. is satisfactory. (Rieger)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C), the Commission determines the overall quality of service provided by a utility by evaluating three separate components of water and wastewater operations, including the quality of the utility's product, the operating condition of the utility's plants and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers are reviewed. We have also considered the Utility's current compliance with the regulations of the Department of Environmental Protection (DEP).

Quality of Utility's Product

In Pasco County, the water and wastewater programs are regulated by the DEP Southwest District Office. Labrador is current in all of the required chemical analyses and the Utility has met all required standards for both water and wastewater. The quality of drinking water delivered to the customers and the wastewater effluent quality are both considered to be satisfactory by the DEP.

Operational Condition of Plants and Facilities

As detailed in a Consent Order agreement between Labrador and DEP, effective on October 29, 2008, the Utility was assessed civil penalties and Departmental reimbursement costs totaling \$17,100, to complete the resolution of items identified in an August 17, 2006, DEP warning letter concerning Labrador's wastewater treatment facility. The warning letter alleged violations concerning: (a) raw sewage overflow conditions which occurred five times during November 2004 through June 2006; (b) a four-inch effluent transmission line to the restricted access spray field which had broken six times between October 2004 and March 2005; and (c) in June 2006, DEP personnel had detected a foul odor that permeated beyond the boundaries of the facility, and in July 2006, DEP received 37 signed and notarized affidavits of odor nuisances from residents neighboring the facility. Prior to the effective date of the consent order, Labrador corrected the problems identified in the warning letter to the satisfaction of DEP and paid the penalty on November 5, 2008.

A staff field investigation of Labrador was conducted on December 2, 2008. Staff found no apparent problems with the operations of either the water or wastewater treatment facilities. The conditions of these facilities are currently in compliance with DEP rules and regulations. Based on a review of the maintenance records and a physical inspection, the general condition of the facilities appeared to be adequate. Therefore, staff believes that the operating condition of the utility's water and wastewater plants is satisfactory.

The Utility's Attempt to Address Customer Satisfaction

Test Year Complaints. The Utility received approximately 41 customer complaints during the test year (2007) and approximately the same number in 2008. The majority of the water complaints during this time dealt with laundered clothing being discolored, sediment and discoloration in the water, taste, odor, and low or no water pressure. In all cases, it appears that the Utility responded properly to ascertain the nature of the problems. Although not always successful in resolving all the problems, in some instances they were correctable and the Utility made the appropriate repairs or determined that the customer was responsible for correcting the problem. In other situations, particularly concerning color, taste, and odor, it appeared that a correction could not be made readily. These problems appeared to have occurred sporadically and had sometimes subsided by the time Labrador's staff responded to the call. When discolored laundry was the problem, the Utility provided rust and iron stain remover to the customer to be used to rewash the discolored clothing.

For wastewater, the main complaints received during the 2007 test year were about odor emanating from the wastewater treatment plant which occurred on two separate occasions. The odor resulted from equipment electrical failures which were corrected.

Commission Complaints. One customer at the March 5, 2009, customer meeting referred to an unresolved billing problem that another customer was experiencing. A billing complaint against the Utility was lodged with the Commission on February 2, 2009. The Utility's untimely response was provided to the Commission on March 11, 2009. The complaint was subsequently resolved and closed on March 16, 2009, with an apparent rule violation noted in the file for failure to provide a response to the Commission within 15 days.

Since 2006, there have been eleven complaints filed with the Commission. There are currently no active complaints on file; however, the Utility failed to respond to the Commission within 15 days as required by Rule 25-22.032(6)(b), F.A.C., in five of the eleven complaints. In the previous rate case,² it was noted that during 2004, late responses were a problem in three of six complaints received. Labrador had assured the Commission that on a going-forward basis, the Utility would take steps to timely file any required responses to Commission complaints. With the Utility's assurance that future responses would be provided on a timely basis, the Commission found that the Utility's response to customer complaints was satisfactory. When asked about the apparent ongoing problem with late responses, the Utility indicated in an April 22, 2009, letter to the Commission that, in a few instances in the last three years, the Utility has waited until the complaint was resolved before filing a response to the customer's complaint. The Utility now understands that it must respond to the customer complaints within 15 working days even if the complaint is not resolved by that time.

Customer Correspondences. The Commission received a petition on February 16, 2009, signed by 541 customers protesting the rate increase. Staff sent out a February 26, 2009, response letter to the individual who sent the petition explaining that the Commission is required, pursuant to Chapter 367, F.S., to set rates that are just, reasonable, compensatory, and not

² See Order No. PSC-04-1281-PAA-WS, issued December 28, 2004 (pages 4-5), in Docket No. 030443-WS, In re: Application for rate increase in Pasco County by Labrador Utilities, Inc.

unfairly discriminatory. The letter indicated that staff will examine the financial and engineering information filed by the Utility as part of its rate increase. In addition, the Commission has received over fifteen pieces of correspondence that reflected concern over the effect of the proposed rate increases, as well as concerns about the quality of the water and wastewater service provided by Labrador. Copies of several recent letters to the DEP, the Utility, and the Commission have been received citing problems with low water pressure, sewer plant odor, and sewage spills. In its review, the DEP has not found any significant problems to warrant additional investigations.

Customer Meeting. A customer meeting was held on March 5, 2009, inside Labrador's service territory at the Forest Lake Estates Community Clubhouse near Zephyrhills, Florida. Over 450 customers attended the evening meeting, and twenty customers spoke. Citing affordability concerns, the attendees were generally against the proposed rate increases for water and wastewater. Water quality in particular was cited as a reason for not justifying the rate increases. Although it was acknowledged that the water provided by the Utility met DEP health and safety standards, general consensus among the attendees was that the water was considered unfit to consume and not worth the rate increases because of the frequent taste, odor, and discoloration problems. Several rust colored, used filters from home filtering devices and some water and sediment samples were provided by customers as physical evidence to prove the questionable quality of the water. One customer indicated that quality had not improved since the last rate case, while others made comments about public noticing concerning Boil Water Advisories, customer billing complaint response problems, and lawsuits against the Utility, as well as the recent odor control improvements made at the wastewater treatment plant.

Labrador's Response To Quality Of Service Concerns. In light of the customer concerns, Labrador has indicated to staff that it is in full compliance with all water quality monitoring requirements. It points out that the DEP monitoring rules are very comprehensive and are designed to identify the presence of contaminants that may pose a health risk to the consumer. The Utility does acknowledge that iron in small concentration, as found at Forest Lake Estates, is not considered a contaminant and is not a health issue. However, iron in very minute concentrations, depending on water chemistry, can produce color, taste, and particulates in water supplies. Distribution systems with long detention times will sometimes result in iron precipitating out of solution and can result in clothes becoming discolored. The Utility believes that the sequestering agent that it currently uses is more effective at keeping iron in solution. The Utility notes that the Forest Lake Co-Op's office is aware of its flushing schedule and has communicated the schedule to the residents through the community channel. Fire hydrants located at the farthest points of the distribution system are used to remove iron that has precipitated out of the water due to long detention times. When the Utility receives complaints about iron being evident, it provides Red Out or Red-be-Gone products to assist customer in removing the iron from clothes or fixtures.

In reference to Boil Water Advisories, the Utility's records indicate that the last system-wide water outage occurred on December 16, 2007, and was due to an equipment failure at the water treatment plant. The customers were notified by posting signs at the entrances to Forest Lake Estates as required by rule. Additionally, a Public Notice was mailed to all customers. Labrador, at the request of Forest Lakes Estates, has agreed in the future to notify the general

manager of Forest Lakes Estates directly whenever an outage occurs so that a message would be displayed on the community channel. In addition, Labrador will utilize a reverse-911 telephone calling system to deliver a recorded message to customers. Also, in case of repairs to the distribution system, either planned or unplanned, customers are provided with boil water advisories by using door hangers delivered to the affected customers only.

Prior to the summer of 2008, reoccurring wastewater treatment plant odors were a problem and a source of customer complaints. The problem was so prevalent that plant odors were cited in the August 17, 2006, DEP warning letter discussed above, and is the source of an existing lawsuit levied against the Utility by the property owners for failure to maintain the wastewater treatment plant. The Utility responded to the problem by constructing a containment structure with a charcoal filtering device. Staff notes that this odor control system has been functioning since the summer of 2008 with apparent satisfactory results. The DEP is satisfied with the improvement and the lawsuit has been put in abeyance pending the results of the wastewater treatment plant operating throughout the busy winter season when the service area is fully occupied. Labrador has indicated to staff that it believes that the odor complaints are a thing of the past provided it continues to operate the charcoal filter equipment on a continuous basis, which it intends to do.

Summary. Staff believes that the Utility's efforts to respond to customer concerns show its willingness to adequately address customer satisfaction. While many customers either use bottled water or have some form of point-of-use treatment in order to obtain a product that meets their expectations, it appears that Labrador is making reasonable efforts to maintain a good aesthetic quality of water. Although there have been situations that have inconvenienced customers, staff believes that treating the water used for all purposes by all customers to the highest customer aesthetic expectation can come at significant cost to customers. For systems with challenging water quality aesthetics, point-of-use treatment systems are often the most cost effective mechanism to achieve customer aesthetic quality objectives. In reference to the Utility's five untimely responses to customer complaints lodged at the Commission, staff has identified a show cause issue for the apparent violations of Rule 25-22.032(6)(b), F.A.C.

Conclusion

Staff recommends that Labrador's quality of product, operating condition of its plants and facilities, and its attempt to address customer satisfaction are satisfactory. Therefore, staff recommends that the overall quality of service provided by Labrador Utilities, Inc., be found to be satisfactory.

Issue 2: Should the audit adjustments to rate base and operating expenses to which the Utility agrees, be made?

Recommendation: Yes. Based on audit adjustments agreed to by the Utility and staff, the following adjustments should be made. (Mouring)

Audit Finding	Water	Wastewater
No. 1 – Reduce plant	\$2,864	-
No. 1 – Increase plant	-	\$2,864
No. 1 – Reduce Accumulated Depreciation	-	\$13,794
No. 1 – Increase Accumulated Depreciation	\$19,972	-
No. 2 – Reduce plant	\$15,338	-
No. 2 – Reduce Accumulated Depreciation	\$2,324	\$320
No. 3 – Reduce plant and Accumulated Depreciation	\$13,005	\$6,913
No. 4 – Reduce plant	-	\$440
No. 6 – Remove O&M Expenses related to Sandalhaven	-	\$2,910
No. 7 – Reduce Rental Expense	\$12,053	\$11,794
No. 8 – Reduce Prior Rate Case Expense	\$3,016	\$2,952

In addition, staff auditors performed an affiliate transactions (AT) audit of Utilities, Inc., the parent company of Labrador, and its sister companies. Based on Audit Finding No. 5 in the AT audit, transportation expense should be decreased by \$257 for water and \$247 for wastewater.

Staff Analysis: In its response to the staff's audit report, Labrador agreed to the audit findings and audit adjustment amounts listed below. Staff recommends the following adjustments to rate base.

Audit Finding	Water	Wastewater
No. 1 – Reduce plant	\$2,864	-
No. 1 – Increase plant	-	\$2,864
No. 1 – Reduce Accumulated Depreciation	-	\$13,794
No. 1 – Increase Accumulated Depreciation	\$19,972	-
No. 2 – Reduce plant	\$15,338	-
No. 2 – Reduce Accumulated Depreciation	\$2,324	\$320
No. 3 – Reduce plant and Accumulated Depreciation	\$13,005	\$6,913
No. 4 – Reduce plant	-	\$440
No. 6 – Remove O&M Expenses related to Sandalhaven	-	\$2,910
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In addition, staff auditors performed an AT audit of Utilities, Inc., the parent company of Labrador and its sister companies. Based on Audit Finding No. 5 in the AT audit, transportation expense should be decreased by \$257 for water and \$247 for wastewater.

Issue 3: Should any adjustments be made to test year plant-in-service?

Recommendation: Yes. Water plant should be reduced by \$5,000. (Mouring)

Staff Analysis: Based on Audit Finding No. 4, the Utility included a 2006 invoice for \$8,000 to Account No. 311 – Pumping Equipment, which represents the expense to terminate a repair agreement. After speaking with the Utility, it was explained that the invoice represents \$3,000 of preparation work that was done as well as a \$5,000 fee for lost revenue by the subcontractor. Staff believes that the \$5,000 cost for lost revenue should be borne by the Utility, as it was a result of the Utility’s decision to terminate the repair agreement and have the repair work done by another subcontractor. Thus, staff believes that plant should be reduced by \$5,000. The corresponding adjustments to accumulated depreciation and depreciation expense are addressed in Issue 11.

Issue 4: What are the used and useful percentages of the Utility's water and wastewater systems?

Recommendation: The used and useful percentages for the Utility's water and wastewater systems should be considered 100 percent used and useful. (Rieger)

Staff Analysis: In its application, the Utility asserts that the water and wastewater treatment plants, as well as the water distribution and wastewater collection systems, are all 100 percent used and useful. It maintains that the service territory the treatment plants are designed to serve is built out and there is no apparent potential for expansion. The service area consists of the 894-lot Forest Lakes Estates Mobile Home Park (four vacant lots remaining) and the 274-lot Forest Lakes RV Resort (fully occupied while in season). Within the service area of the Utility, there is an 11.6 acre parcel of land which is vacant and is currently zoned as a future commercial site. This area, which is owned by Forest Lakes Estates Cooperative, is in the process of being rezoned as a 90-unit RV park.

In the last rate case, the water treatment plant, distribution and collection systems, and reuse system were found to be 100 percent used and useful. The wastewater treatment plant was found to be 79.94 percent used and useful.³

Water Treatment Plant and Storage

The water treatment system has two wells, rated at 750 gallons per minute (gpm) and 200 gpm. Before it is pumped into the distribution system, raw water is treated with liquid chlorine for disinfection and a sequestration chemical for iron control. The ground storage tank has usable capacity of 30,600 gallons. The single maximum day in the test year of 217,000 gallons occurred on February 23, 2007. It does not appear that there was a fire, line break, or other unusual occurrence on that day. The Utility's records indicate unaccounted for water of 10.89 percent of the amount produced; therefore, the peak day demand should be reduced by 666 gallons to reflect the excessive unaccounted for water. Fire hydrants are located throughout the service area; therefore, a fire flow allowance of 500 gpm for 2 hours should be included in the used and useful analysis pursuant to Rule 25-30.4325(1)(c), F.A.C. Because the system is built out, the Utility did not request a growth allowance to be included to the used and useful calculation, pursuant to Rule 25-30.431, F.A.C. The firm reliable capacity of the water system is 192,000 gallons per day (gpd), pursuant to Rule 25-30.4325(6)(b), F.A.C. Pursuant to Rule 25-30.4325, F.A.C., the water treatment plant is 100 percent used and useful. In addition, because the usable storage capacity is less than the peak day demand, the storage tank should be considered 100 percent used and useful, pursuant to Rule 25-30.4325(8), F.A.C.

Wastewater Treatment Plant

Pursuant to Rule 25-30.432, F.A.C., the wastewater treatment plant used and useful determination in the prior order was based on the DEP permitted maximum monthly average daily flow. The current DEP permitted capacity for the wastewater treatment plant is based on three-month average daily flows (TMADF). The wastewater treatment plant, which uses

³ See Order No. PSC-04-1281-PAA-WS, issued December 28, 2004, in Docket No. 030443-WS, In re: Application for rate increase in Pasco County by Labrador Utilities, Inc.

extended aeration for treatment, has a rated capacity of 216,000 gpd based on TMADF. The treated effluent is disposed of on a 34.7 acre slow-rate restricted public access sprayfield. The TMADF during the test year was 84,778 gpd. It appears that there is no excessive infiltration and inflow in the collection system. The Utility did not request an allowance for growth pursuant to Rule 25-30.431, F.A.C., because the area served by the existing plant is built out. Based on the TMADF flow during the test year, the wastewater treatment plant is 39 percent used and useful. However, the Utility believes that this facility should be considered 100 percent used and useful because the plant was designed to serve full occupancy at design flows of 280 gpd/equivalent residential connection (ERC) which would require 250,000 gpd capacity. The actual flows are closer to 80 gpd/ERC in the peak month assuming 95 percent occupancy.

Staff agrees with the Utility that the plant was appropriately sized to meet the projected needs of the community that it was intended to serve, including the 90-unit RV park that is proposed for the vacant property discussed earlier. Based on current average usage of 45 gpd/ERC for the existing RV park, the proposed RV park would generate flows of 4,050 gpd. There appears to be no timetable for the construction of the proposed RV park addition. Owner representatives of the property have indicated that further development is dependant on the economy. Other than the vacant property considered to be developed as an RV park, there are no other vacant properties available to be developed within the Utility's service area. Rule 25-30.432, F.A.C., allows consideration of whether the service area is built out in determining the used and useful amount. Staff recommends that the wastewater treatment plant should be considered 100 percent used and useful.

Water Distribution and Wastewater Collection Systems

The used and useful calculations for the water distribution and wastewater collection systems are determined by the number of customers connected to the systems divided by the capacity of the systems. Consideration is given for growth; however, in this case, growth is not considered a factor since the systems are built out. The distribution and collection systems were designed to serve the existing customers; therefore, the water distribution and wastewater collection systems should be considered 100 percent used and useful.

Issue 5: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is \$18,499 for water and \$30,027 for wastewater. (Mouring)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of O&M expenses, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the one-eighth of O&M expenses method. Staff has recommended adjustments to Labrador's O&M expenses. As a result, staff recommends that working capital of \$18,499 for water and \$30,027 for wastewater be approved. This reflects a decrease of \$3,491 for water and \$4,073 for wastewater to the Utility's requested working capital allowance of \$21,990 for water and \$34,100 for wastewater.

Issue 6: What is the appropriate rate base for the test year period ending December 31, 2007?

Recommendation: Consistent with other recommended adjustments, the appropriate rate base is \$526,443 for water and \$1,388,078 for wastewater. (Mouring)

Staff Analysis: Based on staff's recommended adjustments, the appropriate rate base is \$526,443 for water and \$1,388,078 for wastewater. The schedules for water and wastewater rate base are attached as Schedules No. 1-A and 1-B, respectively. The adjustments to water and wastewater rate bases are shown on Schedule No. 1-C.

Issue 7: What is the appropriate return on equity?

Recommendation: The appropriate return on equity is 11.13 percent based on staff's recommended 2009 leverage formula and an equity ratio of 42.59 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Mouring, Fletcher)

Staff Analysis: The return on equity (ROE) requested in the Utility's filing is 11.70 percent. This return is based on the application of the Commission's leverage formula approved in Order No. PSC-07-0472-PAA-WS, and an equity ratio of 42.59 percent.⁴ Staff believes the Utility's proposed ROE of 11.70 percent should be updated to reflect measurable changes in the equity cost rate for the water and wastewater industry.

Based on the Commission's 2008 leverage formula⁵ and an equity ratio of 42.59 percent, staff calculated an ROE of 12.34 percent. It has been Commission practice to use the most recent leverage formula in effect at the time of the Commission's vote to approve final rates. Staff believes a departure from this practice is appropriate in this case. Because of the drastic change in economic conditions since the 2008 leverage formula was set, staff believes the Commission should take into account the proposed 2009 leverage formula as it results in a material change in ROE of over 100 basis points. Staff notes that this recommendation is within 57 basis points of the Utility's requested ROE of 11.70 percent.

Staff's recommended 2009 leverage formula is being considered by the Commission at this same agenda. Using the recommended 2009 leverage formula, staff calculated an ROE of 11.13 percent. The recommendation regarding the 2009 leverage formula is consistent with the methodology used in the current leverage formula which was adopted by the Commission in December 2008 after a hearing. With Labrador's equity ratio of 42.59 percent, the resulting ROE difference between the approved 2008 leverage formula and the recommended 2009 leverage formula is 121 basis points. Due to this substantial difference, staff believes that its recommended 2009 leverage formula should be utilized to set the ROE in this rate case. **Staff realizes this is a departure from Commission practice as discussed above. However, because ratemaking is inherently prospective in nature, staff believes the substantive measurable changes in the equity cost rate warrants such a departure. In the event the Commission does not approve the recommended 2009 leverage formula, staff requests that the Commission grant staff administrative authority to calculate the fall-out revenue requirements and rates based on the ROE that the Commission approves for Labrador.**

Based on the above, staff recommends that the appropriate ROE is 11.13 percent. Staff also recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

⁴ See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-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.

⁵ See Order No. PSC-08-0846-FOF-WS, issued December 31, 2008, in Docket No. 080006-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), F.S.

Issue 8: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure?

Recommendation: Based on the resolution of the previous issues, the appropriate weighted average cost of capital, including the proper components, amounts, and cost rates associated with the capital structure, is 8.22 percent. (Mouring)

Staff Analysis: As shown on MFR Schedule D-1, Labrador originally proposed an overall cost of capital of 8.47 percent for the test year ending December 31, 2007. Based on the resolution of the preceding issues, staff's recommended capital structure yields an overall cost of capital of 8.22 percent. Schedule No. 2 contains staff's recommended capital structure.

Issue 9: Should an adjustment to Contractual Services - Other be made?

Recommendation: Yes. Contractual Services - Other should be decreased by \$671 for water and \$656 for wastewater. (Mouring)

Staff Analysis: In its filing, the Utility reflected an adjusted test year amount of \$8,595 for water and \$8,410 for wastewater, respectively, for Contractual Services - Other. The amounts represent an increase of \$7,699 or 859.23 percent for water and an increase of \$7,517 or 841.78 percent for wastewater over the prior test year. Labrador noted the reason for this increase as follows: “[t]emporary employment has increased the cost of other contractual services.” In addition, on MFR Schedules B-7 and B-8, Lines 1 through 3, the Utility reflects an increase of \$27,551 for water and \$34,730 for wastewater for Salaries & Wages - Employees. Labrador noted that the reason for these increases are due to the hiring of additional employees.

In its second data request, staff requested that the Utility provide support for its increase in temporary employment. The Utility was asked to identify each temporary position employed during the test year and provide a detail of the duties performed and the associated cost. In its response, Labrador failed to provide a detail of the duties performed and the associated cost. The Utility stated that only \$1,327 (\$1,502 booked plus the credit adjustment of \$175 from the allocation adjustment) of the \$17,005 is related to temporary employment.

On April 27, 2009, the Utility submitted additional information to staff wherein it provided further explanation of the costs included in the Contractual Services-Other account. Based on subsequent telephone conversations with Labrador, staff believes the Utility was able to provide general ledger support that \$15,678 of the \$17,005 was related to expenses included in Contractual Services and not specifically related to temporary employment services. Staff believes that the Utility’s increase of \$1,327 for temporary employment in Contractual Services-Other for the test year, in addition to the substantial increases in salaries and wages, is unsupported because it failed to provide the duties and responsibilities of those temporary employees. Therefore, staff recommends that Contractual Services-Other be decreased by \$671 (\$1,327X50.54 percent) for water and \$656 (\$1,327X49.46 percent) for wastewater. These adjustments are consistent with recent Commission decisions for two sister companies of Labrador.⁶

⁶ At the May 5, 2009, Agenda Conference, the Commission approved similar adjustments in Docket Nos. 080248-SU, In re: Application for increase in wastewater rates in Pinellas by Tierra Verde Utilities, Inc., and 080250-SU, In re: Application for increase in wastewater rates in Pinellas by Mid-County Services, Inc.

Issue 10: Should an adjustment be made to remove the Utility's Consumer Price Index (CPI) adjustments to O&M expenses?

Recommendation: Yes. O&M expenses should be reduced by \$1,943 for water and \$4,249 for wastewater to reflect the removal of the Utility's adjustments for CPI. (Mouring)

Staff Analysis: In the Utility's test year approval letter dated May 30, 2008, Labrador stated that its historic test year ending December 31, 2007, is representative of a normal full year operation. However, on Schedule B-3, the Utility made adjustments to increase its sludge removal expense, purchased power, chemicals, materials and supplies, contractual services for accounting, contractual services for legal, contractual services for testing, contractual services for other, rental expense, transportation, insurance - other, bad debt expense, and miscellaneous expense by applying the Commission's current index of 2.39 percent.⁷

Because Labrador stated its test year ending December 31, 2007, is representative of a normal full year of operation, staff believes the Utility failed to justify why any of the O&M expenses should be increased by the index. Staff does not believe Labrador has adequately supported its CPI adjustments to the O&M expenses. In addition, staff notes that the increase in purchased power is a pass-through item pursuant to Section 367.081(4)(b), F.S., and is not subject to the Commission's current index.

Based on the above, staff recommends that the Utility's O&M expenses be decreased by \$1,943 for water and \$4,249 for wastewater to reflect the removal of Labrador's CPI adjustments. This is consistent with prior Commission decisions for sister companies of Labrador.⁸

⁷ See Order No. PSC-08-0104-PAA-WS, issued February 18, 2008, in Docket No. 080005-WS, In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.

⁸ See Order Nos. PSC-07-0082-PAA-SU, p. 11, issued January 29, 2007, in Docket No. 060255-SU, In re: Application for increase in wastewater rates in Pinellas County by Tierra Verde Utilities, Inc.; and PSC-07-0130-SC-SU, p. 26, issued February 15, 2007, in Docket No. 060256-SU, In re: Application for increase in wastewater rates in Seminole County by Alafaya Utilities, Inc.

Issue 11: What is the appropriate amount of rate case expense?

Recommendation: The appropriate rate case expense is \$128,655. This expense should be recovered over four years for an annual expense of \$32,164. Thus, rate case expense should be reduced by \$9,990 for water and \$9,775 for wastewater, respectively. (Mouring)

Staff Analysis: The Utility included in its MFRs, an estimate of \$207,715 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 April 2, 2009, the Utility submitted a revised estimated rate case expense through completion of the PAA process of \$212,445.

	MFR <u>Estimated</u>	<u>Actual</u>	Additional <u>Estimated</u>	<u>Total</u>
Legal and Filing Fees	\$76,865	\$22,595	\$66,865	\$89,460
Consultant Fees – MS&A	45,000	62,075	2,360	64,435
Consultant Fees – M&R	4,500	2,589	1,863	4,452
WSC Fees – In House	60,700	17,276	20,173	37,449
Filing Fee	4,000	0	0	0
Travel – WSC	3,200	53	3,147	3,200
Miscellaneous	12,000	338	11,662	12,000
Temp. Employee - WSC	0	91	73	164
Notices	<u>1,450</u>	<u>668</u>	<u>617</u>	<u>1,285</u>
Total Rate Case Expense	<u>\$207,715</u>	<u>\$105,685</u>	<u>\$106,760</u>	<u>\$212,445</u>

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses 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 our review, staff believes several adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. Based on staff's review of invoices and the Utility's consultants, a combined amount of \$3,733 was billed for correcting the MFR deficiencies and revising the Utility's filing. The amount associated with deficiency corrections (\$3,733) was identified in staff's review of the invoices. According to the invoices, Christian Marcelli of Rose, Sundstrom & Bentley, LLP, billed the Utility 3.9 hours related to the correction of MFR deficiencies. Based on Mr. Marcelli's hourly rate of \$275 per hour, the total amount billed to Labrador was \$1,073 (\$275 X 3.9 hours). Additionally, Maria Bravo of Milian, Swain & Associates, billed the Utility 19 hours related to the correction of MFR deficiencies. Based on her hourly rate of \$140 per hour, the total amount billed to the Utility came to \$2,660 (\$140 X 19 hours). The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate

filing costs.⁹ Accordingly, staff recommends that \$3,733 (\$1,073+\$2,660) be removed as duplicative and unreasonable rate case expense.

The second adjustment relates to the Utility's estimated legal fees to complete the rate case. Labrador estimated 215.3 hours or \$66,865 in fees to complete the rate case. However, the list of tasks to complete the case provided by the Utility's legal counsel came to 100.3 hours. The specific amounts of time associated with each item are listed below:

Estimate To Complete Through PAA Process

<u>Description</u>	<u>Hours</u>	<u>Fees</u>
Unbilled time through 3/31/09	16.3	\$5,216
Telephone conferences and communications with client regarding rate case issues	15.0	4,800
Respond to staff's data requests; Telephone conferences with client, consultants and staff regarding same	8.0	2,560
Review audit report; Conference with client regarding response to same; prepare response to same	NA	NA
Review and assist in responding to customer complaints and issues raised at customer meeting	3.5	1,120
Review Staff's recommendations; Conferences with client and consultants regarding same	6.0	1,920
Prepare for and travel to Tallahassee to attend Agenda	15.0	4,800
Telephone conferences and communications with client and consultants	10.0	3,200
Review PAA Order; Conference with clients and consultants	7.0	2,240
Telephone conferences and communications with client, consultants and Commission staff	6.0	1,920
Draft revised tariff sheets, notice of new rates and other implementing documentation	3.5	1,120
Letter, telephone conferences and communications with Commission Staff	5.0	1,600
Miscellaneous post-PAA noticing and filing matters, COA's Final Rate Case Expense, reports, etc.	<u>5.0</u>	<u>1,600</u>
Total estimated fees	<u>100.3</u>	<u>\$32,096</u>

As discussed below, it is the Utility's burden to justify its requested costs. Staff believes that the estimated 100.3 hours is excessive, when compared to the estimated and actual hours billed to complete the 2007 rate for Miles Grant Water & Sewer Co., a sister company of Labrador.¹⁰ Miles Grant, also a water and wastewater subsidiary of Utilities, Inc. with substantial customer concern regarding the water quality, was granted 53.5 hours to perform virtually identical activities through the completion of that rate case and total hours billed of

⁹ See 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.

¹⁰ See Order No. PSC-08-0812-PAA-WS, p. 11-12, issued December 16, 2008, in Docket No. 070695-WS, In re: Application for rate increase in Martin County by Miles Grant Water and Sewer Co.

97.0. Staff believes that 53.5 hours is a reasonable amount of time to respond to data requests, conference with the client and consultants, review staff's recommendation, travel to the Agenda Conference, and attend to miscellaneous post-PAA matters. The actual hours billed to Labrador through March 20, 2009, total 55.7. Adding staff's estimate of 53.5 to complete the case would result in 109.2 hours for this rate case, which staff believes is reasonable. Therefore, staff believes the legal fees should be decreased by \$34,769 (\$66,865-\$32,096) to remove unsupported estimates, and further reduced by \$14,976 $((100.3-53.5) \times \$320)$ to reflect estimates more consistent with the Miles Grant rate case. It should be noted that the \$4,000 filing fee has been subsumed into legal fees.

The third adjustment relates to the 418 hours and \$20,173 of estimated costs to complete this case by WSC employees. Labrador asserts that additional hours were required for staff's auditors' requests, staff analyst's data requests, requests for additional information (RAI), Commission ordered adjustments (COA), and customer notices. However, the Utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. Labrador simply stated that the \$20,173 was for data requests, audit facilitation, RAIs, COAs, and customer notices. The hours needed were not broken down to estimate the hours needed to complete each item. In addition, there were no timesheets provided to show actual hours worked. Therefore, staff had no basis to determine whether the individual hours estimated were reasonable. Staff reviewed these requested expenses and believes the estimates reflect an overstatement. As discussed below, it is the Utility's burden to justify its requested costs. Staff believes that 154.1 hours is reasonable to allow Labrador to respond to data requests, facilitate the audit, review the PAA recommendation and travel to Agenda. By applying the individual employee rates and the average number of hours worked by WSC employees, staff recommends that the estimated WSC fees to complete the case should be \$7,368. Thus, the Utility's requested expense of \$20,173 should be decreased by \$12,805. In those cases where rate case expense has not been supported by detailed documentation, the Commission practice has been to disallow some portion or remove all unsupported amounts.¹¹

It is the Utility's burden to justify its requested costs. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Further, the Commission has broad discretion with respect to the allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den. 529 So. 2d 694 (Fla. 1988).

The fourth adjustment addresses WSC travel expenses. In its MFRs, Labrador estimated \$3,200 for travel. However, the only supported travel expenses totaled \$53. Based on several previous UI rates cases, it is staff's experience for PAA rate cases that UI does not send a

¹¹ See Order Nos. PSC-94-0075-FOF-WS, issued January 21, 1994, in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. Staff notes that, in all of these cases, the Commission removed the entire unsupported amounts.

representative from their Illinois office to attend the Agenda Conference; therefore, staff recommends that rate case expense be decreased by \$3,147.

The fifth adjustment relates to WSC expenses for FedEx Corporation (FedEx), copies and other miscellaneous costs. In its MFRs, the Utility estimated \$12,000 for these items. Staff is concerned by the amount of requested costs for FedEx expense. UI has requested, and received authorization from the Commission, to keep its records outside the state in Illinois, pursuant to Rule 25-30.110(2)(b), F.A.C. However, when a Utility receives this authorization, it is required to reimburse the Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. In the 1992 rate case of the Utility's sister company, Mid-County Services, Inc. (Mid-County), the Commission found that Mid-County also requested recovery of the actual travel costs it paid for the Commission auditors.¹² Because the Utility's books are maintained out-of-state, the auditors had to travel out of state to perform the audit. The Commission has consistently disallowed this cost in rate case expense.¹³ Staff believes that the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. Labrador typically ships its MFRs, answers to data requests, and other rate case related documents, to its law firm located in central Florida. Then, the documents are submitted to the Commission. Staff does not believe that the ratepayers should bear the related costs of having the records located out of state. This is a decision of the shareholders of the Utility, and therefore, they should bear the related costs. Therefore, staff recommends that miscellaneous rate case expense be decreased by \$12,000.

In summary, staff recommends that Labrador's revised rate case expense be decreased by \$83,790 for MFR deficiencies, and for unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$128,655. A breakdown of rate case expense is as follows:

<u>Description</u>	<u>MFR Estimated</u>	<u>Utility Revised Actual & Estimated</u>	<u>Staff Adjustments</u>	<u>Total</u>
Legal Fees	\$76,865	\$89,460	(50,818)	\$38,643
Consultant Fees-MS&A	45,000	64,435	(5,020)	59,415
Consultant Fees-M&R	4,500	4,452	0	4,452
Temp. Employee - WSC	0	164	0	164
WSC In-House Fees	60,700	37,449	(12,805)	24,644
Filing Fee (included in legal fees)	4,000	0	0	0
WSC Travel	3,200	3,200	(3,147)	53
Miscellaneous	12,000	12,000	(12,000)	0
Customer Notices & Postage	1,450	1,285	0	1,285
Total Rate Case Expense	<u>\$207,715</u>	<u>\$212,445</u>	<u>(83,790)</u>	<u>\$128,655</u>
Annual Amortization	<u>\$51,929</u>	<u>\$53,111</u>	<u>(20,948)</u>	<u>\$32,164</u>

¹² See Order No. PSC-93-1713-FOF-SU, p. 19, issued November 30, 1993, in Docket No. 921293-SU, In Re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc.

¹³ See Order Nos. 25821, issued February 27, 1991, in Docket No. 910020-WS, In re: Petition for rate increase in Pasco County by UTILITIES, INC. OF FLORIDA, and 20066, issued September 26, 1988, in Docket No. 870981-WS, In re: Application of MILES GRANT WATER AND SEWER COMPANY for an increase in Water and Sewer Rates in Martin County.

In its MFRs, Labrador requested total rate case expense of \$207,715, which amortized over four years would be \$51,929. The Utility included in its MFRs \$26,246 ($\$51,929 \times 0.5054$) and \$25,683 ($\$51,929 \times 0.4946$) for rate case expense in the test year for water and wastewater, respectively. Thus, rate case expense should be decreased by \$9,990 and \$9,775 for water and wastewater, respectively.

The recommended total rate case expense should be amortized over four years, pursuant to Section 367.0816, F.S. Based on the data provided by Labrador and the recommended adjustments discussed above, staff recommends annual rate case expense of \$32,164, or \$16,256 for water and \$15,907 for wastewater.

Issue 12: Should any further adjustments be made to test year net depreciation expenses?

Recommendation: Yes. Net depreciation expense should be decreased by \$748 for water and increased by \$255 for wastewater. The corresponding adjustments include a decrease to accumulated depreciation of \$375 for water and \$12 for wastewater. (Mouring)

Staff Analysis: In accordance with the plant and accumulated depreciation adjustments made in staff's Audit Finding No. 1, depreciation expense should be reduced for water by \$45 and increased depreciation expense for wastewater by \$611. According to staff's Audit Finding No. 2, the Utility included depreciation expenses of \$198 for wastewater franchise fees for the year 2007, but did not include depreciation expense of the same amount for the water franchise fees. Thus, depreciation expense for water should be increased by \$198. Also, according to staff's Audit Finding No. 3, to remove the cumulative effect of the audit staff's retirement entries on the Utility's filing, depreciation expense should be reduced by \$651 for water and \$344 for wastewater. In accordance with staff's recommendation in Issue 3, water accumulated depreciation and depreciation expense should be decreased by \$375 and \$250, respectively. Finally, according to staff's Audit Finding No. 4, the Utility had a double entry of \$440 for Treatment & Disposal Equipment that could not be supported and should be removed from the wastewater plant, along with corresponding reductions to accumulated depreciation of \$12 and depreciation expense of \$12 for wastewater.

In its filing, Labrador reflected net depreciation expense of \$34,311 for water and \$64,020 for wastewater. Based on the recommended adjustments above, staff recommends that depreciation expense should be decreased by \$748 ($\$198 - \$651 - \$250 - \45) for water and increased by \$255 ($\$611 - \$344 - \12) for wastewater. The corresponding adjustments include a decrease to accumulated depreciation of \$375 for water and \$12 for wastewater. All adjustments related to net depreciation expense are shown on Schedule 3-C.

Issue 13: What is the test year water and wastewater operating income before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, the test year operating loss is \$21,762 for water and the test year operating income is \$28,899 for wastewater. (Mouring)

Staff Analysis: The issue is subject to resolution of other issues related to revenues and operating expenses and rate base, and is primarily a "fall-out" number. As shown on Schedule Nos. 3-A and 3-B, after applying staff's adjustments, the Utility's net operating loss is \$21,762 for water and test year operating income of \$28,899 for wastewater. Staff's adjustments to operating income are shown on Schedule No. 3-C.

Issue 14: What is the appropriate revenue requirement?

Recommendation: The following revenue requirement should be approved:

	<u>Test</u> <u>Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue</u> <u>Requirement</u>	<u>% Increase</u>
Water	\$155,762	\$109,212	\$264,974	70.11%
Wastewater	\$362,449	\$143,109	\$505,558	39.48%

(Mouring)

Staff Analysis: The issue is a summary computation that is subject to the resolution of other issues related to rate base, and cost of capital, and is primarily a “fall-out” number. The computation of the revenue requirement is shown on Schedules No. 3-A and 3-B. This results in a revenue requirement of \$264,974 which represents an increase of \$109,212 or 70.11 percent for water and \$505,558 which represents an increase of \$143,109 or 39.48 percent for wastewater.

Issue 15: What are the appropriate rate structures for the Utility's water and wastewater systems?

Recommendation: The appropriate rate structure for the Utility's water system is the base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery allocations should be set at 40 percent. The appropriate rate structure for the utility's wastewater system is the base facility charge (BFC)/gallonage charge rate structure. The BFC cost recovery allocation should be set at 50 percent. Residential wastewater consumption should remain capped for billing purposes at 6 kgal per month. The general service wastewater gallonage charge should be 1.2 times the corresponding residential gallonage charge. (Lingo)

Staff Analysis: The current rate structure for the Utility's water system is the base facility charge (BFC)/uniform gallonage charge rate structure, with a monthly BFC of \$6.55. Customers are also charged \$3.27 for each 1,000 gallons (kgal) used. This rate structure is considered usage-sensitive, because customers are charged for all gallons consumed. The residential customer base is seasonal, with an average consumption per customer of 1.9 kgal per month. Staff takes several things into consideration when designing rates, including the current rate structure, characteristics of the Utility's customer base, various conditions of the Utility's Consumptive Use Permit, and current and anticipated climatic conditions in the Utility's service area. Staff's recommended rate structure, plus two alternative rate structures, is shown on Table 15-1 on the following page. A complete discussion of staff's rate structure methodology is contained in Attachment B.

Based on the foregoing, the information contained on Table 15-1, and the discussion contained in Attachment B, staff recommends that the appropriate rate structure for the Utility's water system is the BFC/uniform gallonage charge rate structure. The BFC cost recovery allocation should be set at 40 percent. The appropriate rate structure for the Utility's wastewater system is the base facility charge (BFC)/gallonage charge rate structure. The BFC cost recovery allocation should be set at 50 percent. Residential wastewater consumption should remain capped for billing purposes at 6 kgal per month. The general service gallonage charge should be 1.2 times greater than the corresponding residential gallonage charge.

TABLE 15-1

LABRADOR UTILITIES, INC.			
STAFF'S RECOMMENDED AND ALTERNATIVE RATE STRUCTURES			
FOR THE WATER SYSTEM			
<u>Current Rate Structure and Rates</u>		<u>Recommended Rate Structure and Rates</u>	
BFC/uniform kgal		BFC/uniform kgal BFC = 40%	
BFC	\$6.55	BFC	\$9.15
All kgals	\$3.27	All kgals	\$6.98
<u>Typical Monthly Bills</u>		<u>Typical Monthly Bills</u>	
<u>Cons (kgal)</u>		<u>Cons (kgal)</u>	
0	\$6.55	0	\$9.15
2	\$13.09	2	\$23.11
3	\$16.36	3	\$30.09
5	\$22.90	5	\$44.05
7	\$29.44	7	\$58.01
10	\$39.25	10	\$78.95
<u>Alternative 1</u>		<u>Alternative 2</u>	
BFC/uniform kgal BFC = 35%		BFC/uniform kgal BFC = 30%	
BFC	\$8.00	BFC	\$6.86
All kgal	\$7.57	All kgal	\$8.17
<u>Typical Monthly Bills</u>		<u>Typical Monthly Bills</u>	
<u>Cons (kgal)</u>		<u>Cons (kgal)</u>	
0	\$8.00	0	\$6.86
2	\$23.14	2	\$23.20
3	\$30.71	3	\$31.37
5	\$45.85	5	\$47.71
7	\$60.99	7	\$64.05
10	\$83.70	10	\$88.56

Issue 16: Are repression adjustments to the utility's water and wastewater systems appropriate in this case, and, if so, what are the appropriate adjustments to make for this utility?

Recommendation: Yes, repression adjustments are appropriate. Residential water consumption should be reduced by 7.9 percent, resulting in a consumption reduction of approximately 1,603 kgal. Total residential water consumption for ratesetting is 18,594 kgals, which represents a 6.6 percent reduction in overall consumption. The resulting water system reductions to revenue requirements are \$292 in purchased power expense, \$190 in chemicals expense, and \$22 in regulatory assessment fees (RAFs). The post-repression revenue requirement for the water system is \$263,456.

Residential wastewater consumption should be reduced by 7.4 percent, resulting in a consumption reduction of approximately 1,413 kgal. Total residential wastewater consumption for ratesetting is 17,596 kgals, which represents a 6.4 percent reduction in overall consumption. The resulting wastewater system reductions to revenue requirements are \$1,978 in purchased power expense, \$1,516 in chemicals expense, \$2,190 in sludge removal expense, and \$256 in RAFs. The post-repression revenue requirement for the wastewater system is \$500,806.

In order to monitor the effects of both the changes in revenues and rate structure, the utility should be ordered to file monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed for each system. In addition, the reports should be prepared, for both the water and wastewater systems, by customer class and meter size. **The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect.** To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision. (Lingo)

Staff Analysis: Using staff's database of utilities that have previously had repression adjustments made, staff calculated repression adjustments for this utility based upon the recommended increases in revenue requirements for the test year, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases.¹⁴

Based on staff's analysis, repression adjustments to the utility's water and wastewater systems are appropriate. Residential water consumption should be reduced by 7.9 percent, resulting in a consumption reduction of approximately 1,603 kgal. Total residential water consumption for ratesetting is 18,594 kgals, which represents a 6.6 percent reduction in overall consumption. The resulting water system reductions to revenue requirements are \$292 in purchased power expense, \$190 in chemicals expense, and \$22 in RAFs. The post-repression revenue requirement for the water system is \$263,456.

¹⁴ Order No. PSC-01-2385-PAA-WU, issued December 10, 2001, in Docket No. 010403-WU, In re: Application for staff-assisted rate case in Highlands County by Holmes Utilities, Inc.; Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc.

Residential wastewater consumption should be reduced by 7.4 percent, resulting in a consumption reduction of approximately 1,413 kgal. Total residential wastewater consumption for ratesetting is 17,596 kgals, which represents a 6.4 percent reduction in overall consumption. The resulting wastewater system reductions to revenue requirements are \$1,978 in purchased power expense, \$1,516 in chemicals expense, \$2,190 in sludge removal expense, and \$256 in RAFs. The post-repression revenue requirement for the wastewater system is \$500,806.

In order to monitor the effects of both the changes in revenues and rate structure, the utility should be ordered to file monthly reports detailing the number of bills rendered, the consumption billed, and the revenues billed for each system. In addition, the reports should be prepared, for both the water and wastewater systems, by customer class and meter size. **The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect. The filing requirements for these repression reports have traditionally been on a quarterly basis. In this case, the utility submitted itemized cost information to staff which suggested that providing the reports on a semi-annual, rather than a quarterly, basis would result in material cost savings. Therefore, staff recommends that the reporting period be changed from quarterly to semi-annually. However, staff does not believe reporting periods should be longer than a semi-annual basis. As staff designs more aggressive conservation-oriented rate structures, we believe it is important to obtain information regarding consumption changes on a frequent basis.** To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

Issue 17: What are the appropriate rates for this utility?

Recommendation: The appropriate monthly water rates are shown on Schedule 4-A, and the corresponding appropriate monthly wastewater rates are shown on Schedule 4-B. Excluding miscellaneous service revenues, the recommended water rates are designed to produce revenues of \$263,456, while the recommended wastewater rates are designed to produce revenues of \$500,806. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given no less than 10 days after the date of the notice. (Lingo, Mouring)

Staff Analysis: Excluding miscellaneous service revenues, the recommended water rates shown on Schedule No. 4-A are designed to produce revenues of \$263,456. Approximately 40 percent (or \$105,382) of the water monthly service revenues is recovered through the base facility charges, while approximately 60 percent (or \$158,073) represents revenue recovery through the consumption charges. Excluding miscellaneous service revenues, the recommended wastewater rates shown on Schedule No. 4-B are designed to produce revenues of \$500,806. Approximately 50 percent (or \$250,403) of the wastewater monthly service revenues is recovered through the base facility charges, while approximately 50 percent (or \$250,403) represents revenue recovery through the consumption charges.

The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

Issue 18: Should the Utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

Recommendation: Yes. Labrador should be authorized to revise its miscellaneous service charges. The Utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within 10 days of the date the order is final, Labrador should be required to provide notice of the tariff changes to all customers. The Utility should provide proof the customers have received notice within 10 days after the date that the notice was sent. The appropriate charges are reflected below.

Water Miscellaneous Service Charges

	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$21	\$42
Normal Reconnection	\$21	\$42
Violation Reconnection	Actual Cost	Actual Cost
Premises Visit (in lieu of disconnection)	\$21	\$42

Wastewater Miscellaneous Service Charges

	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$21	\$42
Normal Reconnection	\$21	\$42
Violation Reconnection	Actual Cost	Actual Cost
Premises Visit (in lieu of disconnection)	\$21	\$42

(Mouring)

Staff Analysis: The miscellaneous service charges were approved for Labrador on July 15, 2001, and have not changed since that date. The Utility believes these charges should be updated to reflect current costs. Staff agrees with this update. In addition, Labrador provided the following cost estimates for the expenses associated with connections, reconnections, and premises visits:

<u>During Business Hours</u>		<u>After Hours</u>	
Item:	Cost:	Item:	Cost:
Labor (\$31.50/hr. X 0.5 hours)	\$15.63	Labor (\$31.50/hr. X 0.5 hours) ¹⁵	\$35.16
Transportation	<u>5.00</u>	Transportation	<u>6.00</u>
Total	<u>\$20.63</u>	Total	<u>\$41.16</u>

Staff recommends that Labrador be allowed to increase its water and wastewater miscellaneous service charges from \$15 to \$21 and from \$15 to \$42 for after hours, and to

¹⁵ Represents time-and-a-half wage and the additional time it takes an employee to get to the customer's property after hours.

modify its Premises Visit (in lieu of disconnection) charge. The current and recommended water and wastewater charges are shown below.

Water and Wastewater Miscellaneous Service Charges

	<u>Current Charges</u>		<u>Staff Recommended</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	N/A	\$21	\$42
Normal Reconnection	\$15	N/A	\$21	\$42
Violation Reconnection	Actual Cost	N/A	Actual Cost	Actual Cost
Premises Visit (in lieu of disconnection)	\$10	N/A	\$21	\$42
Premises Visit	N/A	N/A	\$21	\$42

Labrador’s miscellaneous service charges have not been updated in approximately 8 years, and costs for fuel and labor have risen substantially since that time. Further, the Commission’s price index has increased approximately 65 percent in that period of time. The Commission has expressed concern with miscellaneous service charges that fail to compensate utilities for the cost incurred. By Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, involving Southern States Utilities Inc., the Commission expressed “concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs” and directed staff to “examine whether miscellaneous service charges should be indexed in the future and included in index applications.”¹⁶ Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, F.A.C. However, few utilities request that their miscellaneous service charges be indexed. Staff applied the approved price indices from 1990 through 2008 to Labrador’s \$15 miscellaneous service charge and the result was a charge of \$23.88. Therefore, staff believes a \$21 charge is reasonable and is cost based.

The Utility’s current tariff includes a Premises Visit (in lieu of disconnection) charge. This charge is levied when a service representative visits a premise for the purpose of discontinuing service for non-payment of a due and collectible bill and does not discontinue service, because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. Staff recommends the “Premises Visit In Lieu of Disconnection” charge should be replaced with what will be called “Premises Visit.” In addition to those situations described in the definition of the current Premises Visit In Lieu of Disconnection, the new Premises Visit charge will also be levied when a service representative visits a premises at a customer’s request for complaint resolution or for other purposes and the problem is found to be the customer’s responsibility. This charge is consistent with Rule 25-30.460(1)(d), F.A.C. In addition, by Order No. PSC-05-0397-TRF-WS, issued April 18, 2005, the Commission approved a Premises Visit Charge to be levied when a service representative visits a premises at the customer’s request for a complaint and the problem is found to be the customer’s

¹⁶ See Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

responsibility.¹⁷ Based on the foregoing, staff recommends the Premises Visit (in lieu of disconnection) be eliminated and the Premises Visit charge be approved.

In summary, staff recommends the Utility's miscellaneous service charge of \$21 and after hours charge of \$42, be approved because the increased charges are cost-based, reasonable, and consistent with fees the Commission has approved for other utilities. The Utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within ten days of the date the order is final, the Utility should be required to provide notice of the tariff changes to all customers. Labrador should provide proof the customers have received notice within ten days after the date the notice was sent.

¹⁷ See Docket 050096-WS, In re: Request for revision of Tariff Sheets 14.0 and 15.1 to change request for meter test by customer and premise visit charge, by Marion Utilities, Inc.

Issue 19: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenue requirement granted. Based on this calculation, no refund is required for wastewater. However, the Utility should be required to refund 2.32 percent (or \$5,857 of annual revenues) of water revenues granted under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the corporate undertaking should be released upon staff's verification that the required refunds have been made. (Mouring)

Staff Analysis: By Order No. PSC-08-0751-PCO-WS, issued November 13, 2008, the Commission approved an interim revenue requirement of \$253,624 for water and \$392,060 for wastewater. This represented an increase of \$97,862 or 62.83 percent for water and \$29,611 or 8.17 percent for wastewater.

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 are 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 simple average test year ending December 31, 2007. Labrador's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs and the floor of the last authorized range for equity earnings.

Using the principles discussed above, staff calculated a revised interim revenue requirement of \$247,767 for water and \$488,721 for wastewater utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. The wastewater revenue of \$488,721 is greater than the interim revenues of \$392,060 granted in Order No. PSC-08-0751-PCO-WS, and, as such, no wastewater interim refund should be made. However, the water revenue of \$247,767 is less (a 2.32 percent or \$5,857 difference) than the interim order revenue requirement of \$253,624. This results in a 2.32 percent refund of interim rates, after miscellaneous revenues have been removed. The Utility should be required to refund 2.32 percent of water revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C.

Issue 20: 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?

Recommendation: The rates should be reduced as shown on Schedules Nos. 4-A and 4-B to remove \$17,131 for water and \$16,764 for wastewater for rate case expense, grossed-up for RAFs, which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (Mouring)

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for regulatory assessment fees which is \$17,131 for water and \$16,764 for wastewater. The decreased revenue will result in the rate reduction recommended by staff on Schedules Nos. 4-A and 4-B.

The Utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. Labrador should provide proof of the date notice was given no less than 10 days after the date of the notice.

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 for the reduction in the rates due to the amortized rate case expense.

Issue 21: Should the Utility be required to show cause, in writing within 21 days, why it should not be fined for its apparent failure to comply with the requirements of Rule 25-22.032(6)(b), F.A.C., which requires that the Utility provide to the Commission staff, within 15 working days after the Commission staff sends the complaint to the Utility, a written response to the customer's complaint?

Recommendation: Yes, the Utility should be ordered to show cause in writing, within 21 days of the show cause order, why it should not be fined \$1,000 for its apparent failure to comply with Rule 25-22.032(6)(b), F.A.C., in that in five of eleven customer complaints, the Utility did not meet the 15-day filing deadline. The order to show cause should incorporate the conditions stated below in the staff analysis. (Jaeger, Rieger)

Staff Analysis: In Order No. PSC-04-1281-PAA-WS, issued December 28, 2004,¹⁸ The Commission noted that in the year 2004, in three of six complaints received, the Utility took longer than 15 working days to provide Commission staff with a written response to the customers' complaints in apparent violation of Rule 25-22.032(6)(b), F.A.C. As noted in Issue 1 in this recommendation, staff noted that a billing complaint against the Utility was lodged with the Commission on February 2, 2009. However, the Utility did not submit its response until March 11, 2009, and an apparent rule violation was noted in the file for failure to provide a response to the Commission staff within 15 days.

Further, staff notes that since 2006, there have been 11 complaints filed with the Commission. While all the complaints have been resolved, the Utility failed to respond to the Commission within 15 working days as required by Rule 25-22.032(6)(b), F.A.C., in five of the eleven complaints. The following table reflects the required due dates and date that Labrador filed its response.

Complaint No.	Due Date	Date Filed
825973W	3/4/09	3/17/09
821447W	2/19/09	3/11/09
0716977W	11/21/06	12/8/06
0716874W	11/20/06	12/8/06
0700880W	6/28/06	7/7/06

In Order No. PSC-04-1281-PAA-WS, pages 4-5, in regards to late-filed responses in 2004, the Commission noted the following:

By e-mail dated November 18, 2004, the Utility stated that due to administrative oversights, the responses to these complaints were not filed with this Commission

¹⁸ In Docket No. 030443-WS, In re: Application for rate increase in Pasco County by Labrador Utilities, Inc.

by the due date. On a going-forward basis, the Utility has created a filing system to track all Commission complaints received. Further, the Utility stated that two employees will check the log daily to ensure that responses are filed on time. Labrador has assured us that they will take these steps to timely file any required responses to Commission complaints.

Based on this assurance, the Commission found that the Utility's responses to customer complaints was satisfactory and did not initiate a show cause proceeding for these apparent violations.

Now, in an April 22, 2009, letter to the Commission, the Utility states that it has waited until the complaint was resolved before filing a response to the customers' complaints. Although the Utility states that it now understands that it must respond to the Commission within 15 working days for customer complaints, staff believes that these violations warrant more than a warning.

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds, that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Section 367.161(1), F.S., authorizes the Commission to assess a penalty of not more than \$5,000 for each offense if a utility is found to have knowingly refused to comply with, or to have willfully violated, any provision of Chapter 367, F.S., or any lawful order of the Commission. By failing to comply with the above-noted requirements of Rule 25-22.032(6)(b), F.A.C., in five of the eleven complaints, the Utility's acts were "willful" in the sense intended by Section 367.161, F.S. In Commission Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL entitled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "willful" implies an intent to do an act, and this is distinct from an intent to violate a statute or rule. Id. at 6.

Staff believes that the circumstances in this case are such that show cause proceedings are warranted. Staff notes that in Order No. PSC-04-1281-PAA-WS, the Utility had been warned of its violations and had advised the Commission that it would correct the problems. This has apparently not happened.

Based on this continued pattern of disregard for the Commission's rule and orders, staff recommends that Labrador be made to show cause in writing, within 21 days of the date of the show cause order, why it should not be fined \$1,000 for its apparent violations of Rule 25-22.032(6)(b), F.A.C. Staff recommends that the show cause order incorporate the following conditions:

1. Should Labrador file a timely written response that identifies material facts that are in dispute, if any, and makes a request for a hearing pursuant to Sections 120.569 and 120.57(1), F.S., a further proceeding will be scheduled before a final determination of this matter is made;

2. A failure to file a timely written response to the show cause order should constitute an admission of the facts herein alleged and a waiver of the right to a hearing on this issue;
3. In the event that Labrador fails to file a timely response to the show cause order, the fine should be deemed assessed with no further action required by the Commission;
4. If the utility responds to the show cause order by remitting the fine, this show cause matter should be considered resolved.

Further, the Utility should be put on notice that failure to comply with Commission orders, rules, or statutes will again subject the Utility to show cause proceedings and fines of up to \$5,000 per day per violation for each day the violation continues as set forth in Section 367.161, F.S.

Issue 22: Should the Utility be required to provide proof that it has adjusted its books for all 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 for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made. (Mouring)

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 for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made.

Issue 23: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively, and the corporate undertaking should be released. (Jaeger, Mouring)

Staff Analysis: No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and that the interim refund has been completed and verified 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 12/31/07			Schedule No. 1-A Docket No. 080249-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	\$650,138	\$60,514	\$710,652	(\$36,207)	\$674,445
2	Land and Land Rights	123	198	321	0	321
3	Non-used and Useful Components	0	0	0	0	0
4	Construction Work In Progress	21,496	(21,496)	0	1,267	1,267
5	Accumulated Depreciation	(155,978)	(7,514)	(163,492)	(4,268)	(167,760)
6	CIAC	(342)	0	(342)	0	(342)
7	Amortization of CIAC	13	0	13	0	13
8	Acquisition Adjustment	(312,292)	312,292	0	0	0
9	Working Capital Allowance	<u>0</u>	<u>21,990</u>	<u>21,990</u>	<u>(3,491)</u>	<u>18,499</u>
10	Rate Base	<u>\$203,158</u>	<u>\$365,984</u>	<u>\$569,142</u>	<u>(\$42,699)</u>	<u>\$526,443</u>

Labrador Utilities, Inc. Schedule of Wastewater Rate Base Test Year Ended 12/31/07			Schedule No. 1-B Docket No. 080249-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	\$1,769,496	\$59,218	\$1,828,714	(\$4,489)	\$1,824,225
2 Land and Land Rights	120	193	313	0	313
3 Non-used and Useful Components	0	0	0	0	0
4 Construction Work In Progress	20,518	(20,518)	0	0	0
5 Accumulated Depreciation	(480,174)	(7,352)	(487,526)	21,039	(466,487)
6 CIAC	0	0	0	0	0
7 Amortization of CIAC	0	0	0	0	0
8 Acquisition Adjustment	0	0	0	0	0
9 Working Capital Allowance	<u>0</u>	<u>34,100</u>	<u>34,100</u>	<u>(4,073)</u>	<u>30,027</u>
10 Rate Base	<u>\$1,309,960</u>	<u>\$65,641</u>	<u>\$1,375,601</u>	<u>\$12,477</u>	<u>\$1,388,078</u>

Labrador Utilities, Inc. Adjustments to Rate Base Test Year Ended 12/31/07		Schedule No. 1-C Docket No. 080249-WS	
Explanation	Water	Wastewater	
Plant In Service			
1 To reflect the appropriate balances per prior order. (issue 3)	(\$2,864)	\$2,864	
2 To remove organizational costs. (issue 3)	(15,338)	0	
3 To reflect the appropriate retirement of assets. (issue 3)	(13,005)	(6,913)	
4 To remove imprudent costs. (issue 3)	<u>(5,000)</u>	<u>(440)</u>	
Total	<u>(\$36,207)</u>	<u>(\$4,489)</u>	
Accumulated Depreciation			
1 To reflect the appropriate balances per prior order. (issue 3)	(\$19,972)	\$13,794	
2 To remove organizational costs. (issue 3)	2,324	320	
3 To reflect the appropriate retirement of assets. (issue 3)	13,005	6,913	
4 To remove imprudent costs. (issue 3)	<u>375</u>	<u>12</u>	
Total	<u>(\$4,268)</u>	<u>\$21,039</u>	
Working Capital			
To reflect the appropriate working capital allowance.	<u>(\$3,491)</u>	<u>(\$4,073)</u>	

Labrador Utilities, Inc. Capital Structure-Simple Average Test Year Ended 12/31/07						Schedule No. 2 Docket No. 080249-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	(\$178,959,049)	\$1,040,951	53.53%	6.65%	3.56%	
2 Short-term Debt	7,750,000	0	7,750,000	(7,705,182)	44,818	2.30%	2.44%	0.06%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	139,282,132	0	139,282,132	(138,476,656)	805,476	41.42%	11.70%	4.85%	
5 Customer Deposits	0	0	0	0	0	0%	6.00%	0.00%	
6 Deferred Income Taxes	<u>53,498</u>	<u>0</u>	<u>53,498</u>	<u>0</u>	<u>53,498</u>	<u>2.75%</u>	0.00%	<u>0.00%</u>	
7 Total Capital	<u>\$327,085,630</u>	<u>\$0</u>	<u>\$327,085,630</u>	<u>(\$325,140,887)</u>	<u>\$1,944,743</u>	<u>100.00%</u>		<u>8.46%</u>	
Per Staff									
8 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,975,684)	\$1,024,316	53.50%	6.65%	3.56%	
9 Short-term Debt	7,750,000	0	7,750,000	(7,705,898)	44,102	2.30%	2.44%	0.06%	
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11 Common Equity	139,282,132	0	139,282,132	(138,489,527)	792,605	41.40%	11.13%	4.61%	
12 Customer Deposits	0	0	0	0	0	0%	6.00%	0.00%	
13 Deferred Income Taxes	<u>53,498</u>	<u>0</u>	<u>53,498</u>	<u>0</u>	<u>53,498</u>	<u>2.79%</u>	0.00%	<u>0.00%</u>	
14 Total Capital	<u>\$327,085,630</u>	<u>\$0</u>	<u>\$327,085,630</u>	<u>(\$325,171,109)</u>	<u>\$1,914,521</u>	<u>100.00%</u>		<u>8.22%</u>	
						LOW	HIGH		
RETURN ON EQUITY						<u>10.13%</u>	<u>12.13%</u>		
OVERALL RATE OF									
RETURN						<u>7.81%</u>	<u>8.64%</u>		

Labrador Utilities, Inc. Statement of Water Operations Test Year Ended 12/31/07						Schedule No. 3-A Docket No. 080249-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$172,175</u>	<u>\$130,108</u>	<u>\$302,283</u>	<u>(\$146,521)</u>	<u>\$155,762</u>	<u>\$109,212</u> 70.11%	<u>\$264,974</u>
Operating Expenses							
2 Operation & Maintenance	165,660	10,262	175,922	(27,930)	147,992		147,992
3 Depreciation	20,973	13,338	34,311	(748)	33,563		33,563
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	61,555	(34,384)	27,171	(6,593)	20,578	4,915	25,492
6 Income Taxes	<u>(23,472)</u>	<u>40,141</u>	<u>16,669</u>	<u>(41,278)</u>	<u>(24,609)</u>	<u>39,247</u>	<u>14,638</u>
7 Total Operating Expense	<u>\$224,716</u>	<u>\$29,357</u>	<u>\$254,073</u>	<u>(\$76,549)</u>	<u>\$177,524</u>	<u>\$44,161</u>	<u>\$221,685</u>
8 Operating Income	<u>(\$52,541)</u>	<u>\$100,751</u>	<u>\$48,210</u>	<u>(\$69,972)</u>	<u>(\$21,762)</u>	<u>\$65,050</u>	<u>\$43,289</u>
9 Rate Base	<u>203,158</u>		<u>569,142</u>		<u>526,443</u>		<u>526,443</u>
10 Rate of Return	<u>-25.86%</u>		<u>8.47%</u>		<u>-4.13%</u>		<u>8.22%</u>

Labrador Utilities, Inc. Statement of Wastewater Operations Test Year Ended 12/31/07						Schedule No. 3-B Docket No. 080249-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$388,315</u>	<u>\$155,362</u>	<u>\$543,677</u>	<u>(\$181,228)</u>	<u>\$362,449</u>	<u>\$143,109</u> 39.48%	<u>\$505,558</u>
Operating Expenses							
2 Operation & Maintenance	\$222,952	\$49,849	\$272,801	(\$32,584)	\$240,217		\$240,217
3 Depreciation	50,966	13,054	64,020	255	64,275		64,275
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	0	50,045	50,045	(8,155)	41,890	6,440	48,330
6 Income Taxes	<u>0</u>	<u>40,293</u>	<u>40,293</u>	<u>(\$53,125)</u>	<u>(12,832)</u>	<u>51,429</u>	<u>38,597</u>
7 Total Operating Expense	<u>\$273,918</u>	<u>\$153,241</u>	<u>\$427,159</u>	<u>(\$93,609)</u>	<u>\$333,550</u>	<u>\$57,869</u>	<u>\$391,419</u>
8 Operating Income	<u>\$114,397</u>	<u>\$2,121</u>	<u>\$116,518</u>	<u>(\$87,619)</u>	<u>\$28,899</u>	<u>\$85,241</u>	<u>\$114,139</u>
9 Rate Base	<u>\$1,309,960</u>		<u>\$1,375,601</u>		<u>\$1,388,078</u>		<u>\$1,388,078</u>
10 Rate of Return	<u>8.73%</u>		<u>8.47%</u>		<u>2.08%</u>		<u>8.22%</u>

Labrador Utilities, Inc Adjustment to Operating Income Test Year Ended 12/31/07		Schedule 3-C Docket No. 080249-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
To remove Utility's requested final revenue increase.	<u>(\$146,521)</u>	<u>(\$181,228)</u>	
<u>Operation and Maintenance Expense</u>			
1 To remove expenses related to the Sandalhaven system. (Issue 3)	\$0	(\$2,910)	
2 To reflect the appropriate rental expense. (Issue 3)	(12,053)	(11,794)	
3 To reflect the appropriate transportation expense. (Issue 3)	(258)	(247)	
4 To reflect the appropriate prior rate case expense. (Issue 3)	(3,016)	(2,952)	
5 Temporary Employees – K Services. (Issue 9)	(671)	(656)	
6 To reflect the appropriate pro forma O&M expenses. (Issue 10)	(1,943)	(4,249)	
7 To reflect the appropriate rate case expense. (Issue 11)	<u>(9,990)</u>	<u>(9,775)</u>	
Total	<u>(\$27,930)</u>	<u>(\$32,584)</u>	
<u>Depreciation Expense - Net</u>			
1 To reflect the appropriate balances per prior order. (issue 3)	(\$45)	\$611	
2 To remove organizational costs. (issue 3)	198	0	
3 To reflect the appropriate retirement of assets. (issue 3)	(651)	(344)	
4 To remove imprudent costs. (issue 3)	<u>(250)</u>	<u>(12)</u>	
Total	<u>(\$748)</u>	<u>\$255</u>	
<u>Taxes Other Than Income</u>			
RAFs on revenue adjustments above.	<u>(\$6,593)</u>	<u>(\$8,155)</u>	

Labrador Utilities, Inc. Water Monthly Service Rates Test Year Ended 12/31/07			Schedule No. 4-A Docket No. 080249-WS		
	Rates Prior to Filing	Comm. Approved Interim	Utility Requested Final	Staff Recomm. Final	4-year Rate Reduction
<u>Residential and General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$6.55	\$10.69	\$12.75	\$9.15	\$0.59
3/4"	\$9.82	\$16.03	\$19.11	\$13.73	\$0.89
1"	\$16.37	\$26.72	\$31.86	\$22.88	\$1.48
1-1/2"	\$32.75	\$53.46	\$63.75	\$45.75	\$2.96
2"	\$52.39	\$85.52	\$101.99	\$73.20	\$4.73
3"	\$104.78	\$171.04	\$203.98	\$146.40	\$9.47
4"	\$163.71	\$267.24	\$318.71	\$228.75	\$14.79
6"	\$327.42	\$534.48	\$637.42	\$457.50	\$29.58
Gallonage Charge, per 1,000 Gallons	\$3.27	\$5.34	\$6.36	\$6.98	\$0.45
<u>Irrigation</u>					
Base Facility Charge by Meter Size					
2"	\$52.39	\$85.52	\$101.99	\$73.20	\$4.73
Gallonage Charge, per 1,000 Gallons	\$3.27	\$5.34	\$6.36	\$6.98	\$0.45
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$16.36	\$26.71	\$31.83	\$30.09	
5,000 Gallons	\$22.90	\$37.39	\$44.55	\$44.05	
10,000 Gallons	\$39.25	\$64.09	\$76.35	\$78.95	

Labrador Utilities, Inc.		SCHEDULE NO. 4-B				
Wastewater Monthly Service Rates		Docket No. 080249-WS				
Test Year Ended 12/31/07		Rates	Comm.	Utility	Staff	4-year
		Prior to	Approved	Requested	Recomm.	Rate
		Filing	Interim	Final	Final	Reduction
<u>Residential Service</u>						
Base Facility Charge All Meter Sizes:	\$12.56	\$13.59	\$18.85	\$22.24	\$0.74	
Gallonge Charge, per 1,000 Gallons (6,000 gallon cap)	\$9.71	\$10.51	\$14.57	\$11.78	\$0.39	
<u>General Service</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$12.56	\$13.59	\$18.85	\$22.24	\$0.74	
3/4"	\$18.84	\$20.38	\$28.28	\$33.36	\$1.11	
1"	\$31.40	\$33.97	\$47.14	\$55.60	\$1.84	
1-1/2"	\$62.81	\$67.96	\$94.29	\$111.20	\$3.69	
2"	\$100.49	\$108.72	\$150.86	\$177.92	\$5.90	
3"	\$200.98	\$217.44	\$301.73	\$355.84	\$11.80	
4"	\$314.03	\$339.76	\$471.45	\$556.00	\$18.44	
6"	\$628.06	\$679.51	\$942.90	\$1,112.00	\$36.87	
Gallonge Charge, per 1,000 Gallons	\$11.64	\$12.59	\$17.47	\$14.14	\$0.47	
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>						
3,000 Gallons	\$41.69	\$45.12	\$62.56	\$57.58		
5,000 Gallons	\$61.11	\$66.14	\$91.70	\$81.14		
6,000 Gallons	\$70.82	\$76.65	\$106.27	\$92.92		
(Wastewater Gallonge Cap 6,000 Gallons)						

LABRADOR UTILITIES, INC.
HISTORICAL TEST YEAR ENDED
DECEMBER 31, 2007

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DETERMINATION OF APPROPRIATE RATE STRUCTURES

- HISTORY OF CURRENT RATES**
- (1) The utility's rates were first established in Docket No. 000545-WS.¹⁹ The approved rates for the water system were monthly flat rates of \$4.50 per mobile home lot and \$3.00 per RV lot. The corresponding wastewater rates were monthly flat rates of \$10.50 and \$7.00, respectively.
 - (2) The utility's rate structure was changed to the BFC/gallage charge rate structure in Docket No. 030443-WS.²⁰ In that case, pre-repression BFC cost recovery percentages of 43% for the water system and 40% for the wastewater system were approved. The BFC/gallage charge rate structure is considered a usage-sensitive rate structure.
 - (3) The utility's subsequent request for rate relief in Docket No. 060262-WS was denied due to insufficient data provided by the utility to determine revenue requirements and set reasonable rates.²¹
- PRACTICES WITH THE WATER MANAGEMENT DISTRICTS**
- (4) The Commission has a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs or Districts). A guideline of the five Districts is to set the base facility charges such that they recover no more than 40% of the revenues to be generated from monthly service.²² The Commission follows the WMD guideline whenever possible.²³
 - (5) The utility is located in the Southwest Florida Water Management District in the Northern Tampa Bay Water Use Caution Area.²⁴
- WATER CONSERVATION INITIATIVE**
- (6) In response to growing water demands and water supply problems, coupled with one of the worst droughts in Florida's history, the Florida Department of Environmental Protection (FDEP) led a statewide Water Conservation Initiative (WCI) to find ways to improve efficiency in all categories of water use. In the WCI's final report, issued in April 2002, a high-priority recommendation was that the base facility charge portion of the bill usually should not represent more than 40% of the utility's total revenues.²⁵

¹⁹ Order No. PSC-01-1483-PAA-WS, issued July 16, 2001 in Docket No. 000545-WS, In re: Application for original certificates to operate a water and wastewater utility in Pasco County by Labrador Services, Inc.

²⁰ Order No. PSC-04-1281-PAA-WS, issued December 28, 2004 in Docket No. 030443-WS, In re: Application for rate increase in Pasco County by Labrador Utilities, Inc.

²¹ Order No. PSC-07-0129-SC-WS, issued February 14, 2007 in Docket No. 060262-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

²² Order No. PSC-02-0593-FOF-WS, issued April 30, 2002 in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.; 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.

²³ Order No. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In re: Application for rate increase in Martin County by Hobe Sound Water Company; Order No. PSC-01-0327-PAA-WU, issued January 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.; Order No. PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In re: Application for staff-assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc.; Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.

²⁴ E-mail correspondence from the Southwest Florida Water Management District dated May 7, 2009.

²⁵ Florida Department of Environmental Protection, Florida Water Conservation Initiative, April 2002.

LABRADOR UTILITIES, INC.
HISTORICAL TEST YEAR ENDED
DECEMBER 30, 2007

ATTACHMENT A
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DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

- WATER CONSERVATION INITIATIVE (cont.)** (7) Many participants in the WCI, including the Florida Department of Environmental Protection, the Florida Public Service Commission, the Florida Water Management Districts, the Florida Rural Water Association, the Florida Water Environment Association, and the Florida section of the American Water Works Association are signatories on the Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply (JSOC) and its associated Work Plan.²⁶
- FLORIDA STATUTES re: WATER CONSERVATION** (8) Section 373.227(1), Florida Statutes, states in part: "The Legislature recognizes that the proper conservation of water is an important means of achieving the economical and efficient utilization of water necessary, in part, to constitute a reasonable-beneficial use. The overall water conservation goal of the state is to prevent and reduce wasteful, uneconomical, impractical, or unreasonable use of water resources."
- CLIMATIC CONDITIONS** (9) Staff evaluates available drought information to better design rates that achieve conservation. Based on information from the U.S. Drought Monitor, the utility's service area is located in an area of severe drought.²⁷
- (10) Based on information from the National Weather Service's Climate Prediction Center, drought conditions are expected to intensify over the next several weeks in the utility's service area. It is expected that reliable improvement is forecast by the end of July based on the expected onset of the annual wet season during the latter half of the forecast period.²⁸
- WATER SYSTEM USAGE PATTERNS:** (11) The utility has a seasonal customer base. The average monthly consumption per residential customer is approximately 1.9 kgal. A review of the utility service area indicates that most of the customers' lawns are well kept. Many homes are well landscaped and well irrigated.
- WATER SYSTEM BFC COST RECOVERY:** (12) Staff performed detailed analyses of Labrador's billing data in order to evaluate various BFC cost recovery percentages. The goals of the evaluation were to select the rate design parameters that: 1) allow the utility to recover its revenue requirements; and 2) equitably distribute cost recovery among the utility's customers. Based on a detailed billing analysis of the residential class, approximately two-thirds of the bills and consumption have been accounted for at monthly consumption of 2 kgal or less.
- (13) As discussed in Issue 14, staff's preliminary recommended revenue requirement increase is 70.11%. In order to comply with the WMD and WCI guidelines regarding the percentage of BFC cost recovery, staff evaluated BFC cost recovery percentages at 40%, 35% and 30%. The results are presented in Table 15-1.

²⁶ Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply, February 2004; Work Plan to Implement Section 373.227, F.S. and the Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply, December 2004.

²⁷ U.S. Drought Monitor, May 12, 2009.

²⁸ National Weather Service Climate Prediction Center, Seasonal Drought Outlook, May 7, 2009.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

WATER SYSTEM BFC COST RECOVERY: (14) The results of the analysis in Table 15-1 indicate that customers' bills at monthly consumption of less than 2 kgal will be greater at a cost recovery percentage of 40%, compared to the other two rate structure alternatives considered. Staff believes this greater revenue stream is important to mitigate both the seasonality of the utility's residential customer base, and the low residential average monthly consumption of 1.9 kgal. This rate structure will achieve the guidelines of the WMDs and the WCI. Conversely, the BFC cost recovery at 40% results in lower bills at monthly consumption of 2 kgal or greater, compared to the bills produced by the other two alternative rate structures considered. Although staff recognizes the importance of sending strong conservation signals to those utilities located in Water Use Caution Areas, staff believes that, due to the nature of the customers' seasonality and low average monthly usage, the primary goal must be the revenue stability of the utility.

STAFF'S RECOMMENDATION FOR THE WATER SYSTEM: The appropriate rate structure for the water system is a continuation of the base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery allocation should be set at 40%.

WASTEWATER SYSTEM: (15) Based on the initial accounting allocation, approximately 35% of the utility's costs were recovered in the BFC. Staff believes no less than 50% of the revenue requirement recovery should be in the BFC. This is to recognize the capital intensive nature of wastewater treatment facilities.

(16) The current residential wastewater gallonage charge is capped at 6 kgal of usage per month. Based on the average water consumption of 1.9 kgal per month, staff does not believe it is appropriate to increase the residential gallonage cap.

(17) The general service gallonage charge should be set at 1.2 times greater than the residential gallonage charge rate, consistent with Commission practice.

STAFF'S RECOMMENDATION FOR THE WASTEWATER SYSTEM: The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The BFC cost recovery allocation should be set at 50%. Residential wastewater consumption should remain capped for billing purposes at 6 kgal per month. The general service gallonage charge rate should be 1.2 times greater than the corresponding residential rate.