

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in  
water/wastewater rates in Pasco County by  
Labrador Utilities, Inc.

DOCKET NO. 140135-WS  
ORDER NO. PSC-15-0208-PAA-WS  
ISSUED: May 26, 2015

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman  
LISA POLAK EDGAR  
RONALD A. BRISÉ  
JULIE I. BROWN  
JIMMY PATRONIS

NOTICE OF PROPOSED AGENCY ACTION  
ORDER GRANTING AN INCREASE IN WATER AND WASTEWATER RATES  
AND  
FINAL ORDER ON FOUR YEAR RATE REDUCTION AND PROOF OF ADJUSTMENTS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the four-year reduction in rates and requirement to file proof of adjustments, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code, (F.A.C.).

Background

Labrador Utilities, Inc. (Labrador or Utility) is a Class B utility providing water and wastewater services to approximately 862 water and 859 wastewater customers in Pasco County. Water and wastewater rates were last established for this Utility in its 2011 rate case.<sup>1</sup>

On September 15, 2014, Labrador filed its application for the rate increase in the instant docket. The Utility's application did not meet the minimum filing requirements (MFRs). On November 17, 2014, Labrador provided corrections to its MFRs, but the MFRs were still deficient. On December 2, 2014, Labrador filed additional corrections and the MFRs were determined to be complete. Therefore, the official filing date was established as December 2, 2014. The Utility requested that the application be processed using the Proposed Agency Action

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

(PAA) procedure and requested interim rates. The test year established for final rates is the simple-average period ended December 31, 2013. The Utility requested final revenue increases of \$97,036 (37.03 percent) for water and \$287,175 (70.71 percent) for wastewater.

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

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

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

This order addresses Labrador's request for final rates. We have jurisdiction pursuant to Section 367.081, F.S.

### Quality Of Service

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

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

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

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

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

The Utility’s Attempt to Address Customer Satisfaction

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

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

Table 1

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

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

Complaints were also reviewed for the four years prior to the test year. We received 7 complaints, DEP received 1 complaint, and the Utility recorded 170 for this time period. Based on the records of the Utility and this Commission, it appears that the Utility has responded in a timely manner to each of these complaints. Additionally, the Co-op created a questionnaire,

solicited responses from the customers of the Utility, and submitted those responses to the Office of Commission Clerk. We have reviewed these responses and have found that they are consistent with the concerns presented at the customer meeting and in the customer comments.

For the wastewater system, the records indicate that the complaints about odor coming from the WWTP have decreased greatly since the odor control project was completed in 2013. There were an average of five odor complaints per year from 2009 through 2011, twenty-one odor complaints in 2012, seven odor complaints in 2013, one at the customer meeting, and none were mentioned in customer comment cards submitted.

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

In addition to addressing the water dissatisfaction, our prior order found that the quality of service for the wastewater system was marginal, and reduced the Utility's return on equity (ROE) for wastewater by 25 basis points.<sup>3</sup> The reason for this determination was the Utility's failure to address customer dissatisfaction regarding odor complaints from the WWTP. It should be noted that the state of the current water complaints and the Utility's response is very similar to the state of the wastewater odor complaints in the previous rate case.

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

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

<sup>3</sup> Id.

Conclusion

Labrador has not made sufficient efforts to engage its customers to discuss and resolve their continuing dissatisfaction with the quality of the water since its last rate case. Therefore, we find that the overall quality of service provided by Labrador shall be considered satisfactory for the wastewater services, and marginal for water services provided to customers. Additionally, there shall be a 25 basis point ROE reduction for Labrador's water treatment plant and facilities.

Audit Adjustments to Rate Base

In its response to Commission staff's audit reports and other correspondence, Labrador agreed to the audit adjustments as set forth in the tables below. The adjustments are hereby approved.

Table 2

<u>Audit Adjustments Agreed to by Labrador</u>		
<u>Water - Labrador Audit Findings</u>	<u>Plant</u>	<u>Accum. Depr.</u>
Finding No. 1 - To reflect prior COAs	\$0	\$533
Finding No. 3 - To correct capitalized salaries	(1,698)	0
Finding No. 5 - To correct CWIP transfer	(2,630)	2,908
Finding No. 6 - To reverse debit balances in A/D	0	(1,571)
Subtotal Water - Labrador Adjustments	<u>(\$4,328)</u>	<u>\$1,870</u>
<u>Water - Affiliate Audit Findings</u>		
Finding No. 1 - To correct transportation allocation	(\$13,693)	\$14,379
Finding No. 4 - To reflect prior COAs	(6,297)	9,985
Finding No. 5 - To correct allocations of common plant	(5,665)	0
Subtotal Water - Affiliate Adjustments	<u>(\$25,655)</u>	<u>\$24,364</u>
Total Water Audit Adjustments	<u>(\$29,983)</u>	<u>\$26,234</u>

Table 3

Audit Adjustments Agreed to by Labrador		
<u>Wastewater - Labrador Audit Findings</u>	<u>Plant</u>	<u>Accum. Depr.</u>
Finding No. 1 - To reflect prior COAs	\$0	\$4,450
Finding No. 2 - UPIS Capitalized Salary Adjustment	0	921
Finding No. 6 - To reverse debit balances in A/D	0	(53,135)
Finding No. 7 - To correct ADIT balance	<u>0</u>	<u>0</u>
Subtotal Wastewater - Labrador Adjustments	<u>\$0</u>	<u>(\$47,764)</u>
<u>Wastewater - Affiliate Audit Findings</u>		
Finding No. 1 - To correct transportation allocation	(\$13,601)	\$14,282
Finding No. 4 - To reflect prior COAs	(6,258)	9,912
Finding No. 5 - To correct allocations of common plant	<u>4,644</u>	<u>0</u>
Subtotal Wastewater - Affiliate Adjustments	<u>(\$15,215)</u>	<u>\$24,194</u>
Total Wastewater Audit Adjustments	<u>(\$15,215)</u>	<u>(\$23,570)</u>

Project Phoenix Adjustments

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

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

UI Generic Docket

In Docket No. 110153-SU, as part of a proposed settlement of Proposed Agency Action protests, UI, with the consent and support of OPC, petitioned this Commission to open a generic

<sup>4</sup> Order No. PSC-08-0812-PAA-WS, issued December 16, 2008, in Docket No. 070695-WS, In re: Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company.

<sup>5</sup> Order No. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

<sup>6</sup> Audit Control No. 14-197-4-1, Work Paper No. 22-4.6.1, in Docket No. 140060-WS.

docket to address the protested issue relating to the Utility's Phoenix Project.<sup>7</sup> These protested issues were subsequently addressed by Order No. PSC-14-0521-FOF-WS in the UI Generic Docket.<sup>8</sup> In the UI Generic Docket, we clarified our treatment of divestitures going forward, so that any adjustments related to UI divested systems were net of any UI acquisitions. We also reiterated our position that the appropriate depreciable life for the Phoenix Project is ten years and that remaining depreciable life shall be used in the calculation of depreciation expense.<sup>9</sup>

At the time the Phoenix Project was placed in service, UI had 296,950 total ERCs. The Utility filed an update of closed and pending acquisitions on February 13, 2015. As of that date, there were 297,085 ERCs.<sup>10</sup> According to the Utility, an acquisition closed on January 13, 2015, and several additional pending acquisitions are under contract pending approval by the Louisiana and New York regulatory authorities. Given these acquisitions, an adjustment to the investment is no longer necessary given that UI will exceed the level of total ERCs existing when the Phoenix Project was placed in service. As such, the adjustment identified in Affiliate Audit Finding No. 2 is no longer necessary.

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

#### Creation of a Regulatory Asset or Liability

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

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<sup>7</sup> Order No. PSC-12-0346FOF-SU, issued July 5, 2012, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.

<sup>8</sup> Order No. PSC-14-0521-FOF-WS, issued September 30, 2014, in Docket No. 120161-WS, In re: Analysis of Utilities, Inc.'s financial accounting and customer service computer system.

<sup>9</sup> Order No. PSC-14-0521-FOF-WS, p.11.

<sup>10</sup> Document No. 00959-15, filed February 13, 2015.

<sup>11</sup> Order No. PSC-12-0346-FOF-SU; pp. 2, 9.

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

### Conclusion

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

### Pro Forma Plant Adjustments

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

### WTP Ground Storage Tank Replacement

The ground storage tank was inspected in January 2010, and the report indicated several repairs should be made to the tank. The Utility estimated the tank to be 33 years old based on its review of its files and DEP inspections reports. Labrador asserted that replacing the ground storage tank would be less expensive than repairing the tank. Plus, repairing the tank would require taking the tank off-line which would cause long interruptions of water services to Labrador's customers. The Utility provided multiple bids for replacing the ground storage tank with a tank similar to the existing tank, a tank made of stainless steel, and a tank made of glass-fused steel. The lowest bid, which was for a tank made of glass-fused steel, was \$178,576. The project was awarded in February 2015 and will be completed by the end of June 2015. The retirement of the ground storage tank associated with this replacement is \$36,519. As such, plant shall be reduced by \$10,785 which represents the difference between our retirement of \$36,519 and the Utility's retirement amount of \$25,734. We find that the pro forma addition is reasonable and prudent because the cost to replace is less than the cost to repair, customer interruptions will be less during the replacement than during the repair, and the new tank will be more reliable than the repaired tank.

### WWTP Rotary Drum Replacement

The documentation for this pro forma project indicated that the existing rotary drum is no longer repairable and does not perform as intended. A rotary drum continuously removes debris from the raw wastewater stream prior to the first treatment unit. The rotary drum is estimated to be over 30 years old and at the end of its service life. A new rotary drum was placed in service in October 2014. The project costs \$49,700 and the retirement associated with this replacement is \$19,658. As such, plant shall be increased by \$119 which represents the difference between our retirement of \$19,658 and the Utility's retirement amount of \$19,777. We find that this pro forma addition is reasonable and prudent because the old rotary drum was at the end of its service life and unrepairable, and the new rotary drum will provide reliable wastewater service to Labrador's customers.



WWTP Odor Control

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

Adjustments shall be made to the water and wastewater plant, accumulated depreciation, depreciation expense, property taxes and ADIT. The tables below illustrate these adjustments.

Table 4

Pro Forma Water Plant Adjustments				
<u>Project</u>	<u>MFR Amount</u>	<u>Invoices Amount</u>	<u>Commission Adjustments</u>	<u>Approved Total</u>
Ground Storage Tank	<u>\$100,000</u>	<u>\$178,576</u>	<u>\$78,576</u>	<u>\$178,576</u>

Table 5

Pro Forma Wastewater Plant Adjustments				
<u>Project</u>	<u>MFR Amount</u>	<u>Invoices Amount</u>	<u>Commission Adjustments</u>	<u>Approved Total</u>
Odor Control Equip.	<u>\$624,064</u>	<u>\$576,496</u>	<u>(\$47,568)</u>	<u>\$576,496</u>
Rotary Drum Screen	<u>50,000</u>	<u>49,700</u>	<u>(300)</u>	<u>49,700</u>
Total	<u>\$674,064</u>	<u>\$626,196</u>	<u>(\$47,868)</u>	<u>\$626,196</u>

Table 6

Water Accumulated Depreciation Adjustments					
<u>Project</u>	<u>Annual Depreciation</u>	<u>Retirements</u>	<u>Total TY Adjustment</u>	<u>Adj Per MFR A-3</u>	<u>Comm. Adjustment</u>
Ground Storage Tank	<u>(\$4,826)</u>	<u>\$36,519</u>	<u>(\$31,693)</u>	<u>(\$23,031)</u>	<u>\$8,662</u>

Table 7

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

Table 8

Water Depreciation Expense					
Project	Cost	Service Life	Dep Exp	MFR Amounts	Comm. Adjustment
Ground Storage Tank	<u>\$178,576</u>	37	<u>\$4,826</u>	<u>\$2,007</u>	<u>\$2,819</u>
Retirement	<u>(\$6,519)</u>	37	<u>(\$987)</u>	<u>(\$696)</u>	<u>(\$291)</u>
					<u>\$2,528</u>

Table 9

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

Table 10

Water Pro Forma Property Taxes					
Project	Net Plant	Millage	Commission Amount	MFR Amount	Comm. Adjustment
Ground Storage Tank	<u>\$173,750</u>	0.0168154	<u>\$2,805</u>	<u>\$869</u>	<u>\$1,936</u>

Table 11

Wastewater Pro Forma Property Taxes					
Project	Net Plant	Millage	Commission Amount	MFR Amount	Comm. Adjustment
Odor Control Equip.	<u>\$544,468</u>	0.0168154	<u>\$8,789</u>	<u>\$10,552</u>	<u>(\$1,762)</u>
Rotary Drum Screen	<u>46,939</u>	0.0168154	<u>758</u>	<u>845</u>	<u>88</u>
Total	<u>\$591,407</u>		<u>\$9,547</u>	<u>\$11,397</u>	<u>(\$1,850)</u>

Table 12

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

Table 13

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

Conclusion

Based on the information above, we find that the appropriate amount of pro forma plant additions is \$178,576 for water and \$626,196 for wastewater. With these supported amounts and our retirements, this results in an increase of \$67,791 for water and a decrease of \$47,749 for wastewater from the amount requested in the Utility’s MFRs. Using the depreciable lives pursuant to Rule 25-30.140, F.A.C., corresponding adjustments shall be made to decrease accumulated depreciation for water and wastewater by \$8,662 and \$2,540, respectively. Depreciation expense shall be increased by \$2,528 for water and decreased by \$1,560 for wastewater. In addition, pro forma property taxes shall be increased by \$1,936 for water and decreased by \$1,850 for wastewater. Further, ADITs shall increase by \$872 for water and decreased of \$3,666 for wastewater. Finally, test year expenses shall be reduced by \$161 to remove maintenance expense associated with the retired ground storage tank.

Used and Useful Percentages

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

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., defines Excessive Unaccounted for Water (EUW) as “unaccounted for water in excess of 10 percent of the amount produced.” Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the utility.

In determining whether adjustments to plant and operating expenses are necessary, we considered the reasons for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible.<sup>13</sup> EUW is calculated by subtracting both the gallons used for other services, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year. Labrador produced 21,456,000 gallons of water and sold 17,421,000 gallons of water to customers. The Utility recorded 500,000 gallons of water used for other uses. The result  $([21,456,000 - 17,421,000 - 500,000] / 21,456,000)$  for unaccounted for water is 16.4 percent, which yields EUW of 6.4 percent.

#### Infiltration and Inflow

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

#### Used and Useful Plant

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

#### Water Treatment Plant

In Docket No. 110264-WS, we determined that Labrador's WTP was 100 percent U&U.<sup>14</sup> There has been no change in circumstances; therefore, in accordance with our policy, the WTP shall continue to be 100 percent U&U.

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<sup>13</sup> Operating expenses include purchased electrical power and chemicals costs.

<sup>14</sup> Order No. PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

### Ground Storage Tank

In Docket No. 110264-WS, we determined that Labrador's ground storage tank was 100 percent U&U. There has been no change in circumstances; therefore, in accordance with our policy, the ground storage tank shall continue to be 100 percent U&U.<sup>15</sup>

### Wastewater Treatment Plant

Pursuant to Rule 25-30.432, F.A.C., the U&U percentage of the WWTP was calculated by taking the Three Month Rolling Average Daily Flow (3MRADF) plus a growth allowance minus the excessive I&I and then dividing the sum by the permitted capacity of the plant. Labrador's test year 3MRADF was 64,863 gpd. There has been no growth in the past five years; therefore, the growth allowance is zero gpd. In addition, the excessive I&I is calculated to be zero percent. The WWTP's permitted capacity is 216,000 gpd per 3MRADF. The calculation  $[(64,863-0+0)/216,000]$  results in a 30 percent U&U. Labrador believes that this facility should be considered 100 percent U&U because the plant was designed to serve full occupancy at design flows of 280 gpd/ERC which would require 250,000 gpd capacity. The actual flows are closer to 58 gpd/ERC in the peak three-month period assuming 95 percent occupancy.

However, based upon comments from the Co-op and OPC during our May 05, 2015 Agenda Conference, we believe that the vacant parcel, addressed above, may be available for development in the future. In Docket No. 110264-WS, we determined that Labrador's WWTP was 79.94 percent U&U.<sup>16</sup> There has been no change in circumstances; therefore, in accordance with our policy, the wastewater treatment plant shall continue to be 79.94 percent U&U.

### Water Distribution and Wastewater Collection Systems

We found the distribution and collection systems to be 100 percent U&U by Order No. PSC-12-0206-PAA-WS.<sup>17</sup> There has been no change in circumstances; therefore, in accordance with our policy, the water distribution system and wastewater collection system shall continue to be considered 100 percent U&U.

### Conclusion

Labrador's water treatment plant, ground storage tank, and water distribution and wastewater collection systems shall be considered 100 percent used and useful. Labrador's wastewater treatment plant shall be considered 79.94 percent used and useful. As such, wastewater rate base shall be reduced by \$294,397 to reflect the amount associated with non-used and useful wastewater treatment plant. Further, depreciation expense shall be decreased by \$11,492 for wastewater and property taxes shall be reduced by \$4,380 for wastewater. A 6.4 percent adjustment to purchased power and chemicals shall be made for excessive unaccounted for water. No adjustments shall be made for excessive infiltration and inflow.

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<sup>15</sup> Id.

<sup>16</sup> Id.

<sup>17</sup> Id.

### Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of Operation and Maintenance (O&M) expense, to calculate working capital allowance. The Utility has properly filed its allowance for working capital using the one-eighth of O&M expense method. We made adjustments to Labrador's O&M expense, which are reflected on Schedule No. 3-C. As a result, working capital allowances shall be \$18,809 for water and \$28,528 for wastewater. This reflects a decrease of \$6,824 to the Utility's requested working capital allowance for water and a decrease of \$9,620 for wastewater.

### Rate Base

In its MFRs, the Utility requested a rate base of \$680,736 for water and \$1,886,122 for wastewater. Based on our adjustments, the appropriate rate base is \$746,656 for water and \$1,498,149 for wastewater. Our adjustments made above result in an increase of \$65,920 for water and a decrease of \$387,973 for wastewater. The schedules for rate base are attached as Schedule Nos. 1-A and 1-B, and the adjustments are shown on Schedule No. 1-C.

### Return on Equity

The Utility requested an ROE of 10.43 percent. Based on this Commission's leverage formula currently in effect and an equity ratio of 48.17 percent, the appropriate ROE is 10.43 percent for wastewater.<sup>18</sup> An allowed range of plus or minus 100 basis points shall be recognized for ratemaking purposes. As previously discussed, there shall be a 25-basis point reduction to the ROE for water due to the Utility's marginal quality of service for water. This reduction results in ROE for water of 10.18 (10.43 - .25) percent.

### Accumulated Deferred Income Taxes

In its filing, Labrador reflected a debit accumulated deferred income taxes (ADIT) balance of \$3,261, of which \$1,644 was attributed to water and \$1,617 was attributed to wastewater. Several adjustments are necessary to reflect the appropriate ADIT balance for the Utility as discussed below.

According to Audit Finding No. 7, the Utility failed to remove an acquisition adjustment as we ordered in Order No. PSC-03-0638-PAA-WS, issued May 27, 2003. Removing the acquisition adjustment of \$62,401 results in an adjustment of \$11,741 [(\$62,401 x 37.63 percent)/2] and a test year average credit ADIT balance of \$8,480 (\$11,741 - \$3,261). Labrador also included a debit ADIT amount of \$18,372 associated with a net operating loss (NOL). For the purpose of setting rates, the debit amount associated with the NOL shall not be included in the ADIT balance unless the NOL is included in the calculation of the per book income tax expense. Because the Utility did not include the NOL in its income tax expense, the debit

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

amount of \$18,372 shall be removed from the Utility's net credit ADIT balance. Further, the Utility did not include any adjustments related to pro forma ADITs in its filing. Based on our decision regarding pro forma plant above, there shall be a corresponding pro forma ADIT decrease of \$2,794 (\$3,666 - \$872).

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

#### Weighted Average Cost Of Capital

In its filing, the Utility requested an overall cost of capital of 8.50 percent, however, we shall adjust the cost rates for short-term debt and customer deposits.

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

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

Based upon the proper components, amounts, and cost rates associated with the capital structure, the weighted average cost of capital for the test year ended December 31, 2013, shall be 8.23 percent for water and 8.35 percent for wastewater. As previously discussed, there shall be a 25-basis point reduction in ROE for water only. Schedule No. 2 details our approved overall cost of capital.

#### Test Year Revenues

In its MFRs, Labrador's adjusted test year revenues were \$262,050 for water and \$406,120 for wastewater. The water revenues include \$260,529 of service revenues and \$1,521 of miscellaneous revenues. The wastewater revenues include \$405,217 of service revenues and \$903 of miscellaneous revenues. In order to determine the appropriate test year service revenues, we adjusted the test year billing determinants to reflect actual gallons sold, removed prior period billing determinants, and removed duplicate bills. The Utility had two rate adjustments outside of the test year. Therefore, we annualized test year revenues by applying the rates in effect as of October 19, 2014, to our billing determinants.<sup>19</sup> Accordingly, test year

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<sup>19</sup> The Utility filed a 2014 Price Index that became effective October 19, 2014.

service revenues shall be \$261,981 for water and \$406,345 for wastewater. This results in an increase of \$1,452 (\$261,981 - \$260,529) for water and \$1,128 (\$406,345 - \$405,217) for wastewater test year service revenues. Based on the above, the appropriate test year revenues for Labrador's water and wastewater systems, including miscellaneous revenues, are \$263,502 and \$407,248, respectively.

Audit Adjustments to Net Operating Income

In its response to Commission staff's audit reports and other correspondence, Labrador agreed to the audit adjustments as set forth in the table below; they are approved herein.

Table 14

Audit Adjustments Agreed to by Labrador						
<u>Labrador Audit Findings</u>	Water O&M	Waste- water O&M	Water Dep Exp	Waste- water Dep Exp	Water TOTI	Waste- water TOTI
Finding No. 1 - To reflect prior Commission-Ordered Adjustments	\$0	\$0	(\$6)	(\$3)	\$0	\$0
Finding No. 2 - To correct capitalized salaries	0	0	0	(443)	0	0
Finding No. 3 - To correct capitalized salaries	739	0	(112)	0	0	0
Finding No. 5 - To correct Construction Work In Progress transfer	0	0	(2,709)	0	0	0
Finding No. 9 - To amortize abandoned projects expense	(38,368)	(37,714)	0	0	0	0
Finding No. 10 - To amortize lawsuit expense	(4,311)	(4,237)	0	0	0	0
Subtotal - Labrador Adjustments	<u>(\$41,939)</u>	<u>(\$41,951)</u>	<u>(\$2,827)</u>	<u>(\$446)</u>	<u>\$0</u>	<u>\$0</u>
<u>Affiliate Audit Findings</u>						
Finding No. 1 - To correct transportation allocation	(\$1,234)	(\$1,226)	\$488	\$484	\$0	\$0
Finding No. 4 - To reflect prior Commission-Ordered Adjustments	0	0	285	286	0	0
Finding No. 8 - To correct allocated payroll, benefits, & tax expenses	(8,365)	(7,665)	0	0	(178)	(131)
Subtotal - Affiliate Adjustments	<u>(\$9,599)</u>	<u>(\$8,891)</u>	<u>\$773</u>	<u>\$770</u>	<u>(\$178)</u>	<u>(\$131)</u>
Total Audit Adjustments	<u>(\$51,538)</u>	<u>(\$50,842)</u>	<u>(\$2,054)</u>	<u>\$324</u>	<u>(\$178)</u>	<u>(\$131)</u>



Rate Case Expense

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

Table 15

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

Pursuant to Section 367.081(7), F.S., we shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. We have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, the following adjustments to Labrador's rate case expense estimate shall be made.

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

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

We find that the circumstances and conditions in this case are similar to those in the Utility's last rate case, where we approved \$29,459 for the same attorney.<sup>20</sup> Given the frequency of Labrador's rate case filings and the fact that the complexity of this rate case is not any more challenging than the Utility's last rate case, we find that the Utility has not adequately demonstrated that the significant increase in legal fees were necessary to file and process this rate case. It appears to us that the legal consultant fees have increased to an amount that is unreasonable in comparison to the Utility's last rate case. Accordingly, legal fees and costs shall be reduced by \$9,693 (\$39,152 - \$29,459).

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

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

This consultant has worked with Labrador, and other UI systems, on numerous dockets before this Commission through the years. The consultant's familiarity with the Utility and this Commission, in addition to the similar circumstances and conditions in this case to the Utility's last rate case, has led us to find the request unreasonable. We previously approved \$49,813 for this accounting consultant in Labrador's last rate case.<sup>21</sup> Given the frequency of Labrador's rate case filings and the fact that the complexity of this rate case is not any more challenging than the Utility's last rate case, we do not believe that the Utility has adequately demonstrated the necessity for increased accounting consultant fees in the instant docket. Accordingly, accounting consultant fees and costs shall be reduced by \$17,300 (\$67,113 - \$49,813).

#### Engineering Consultant Fees – M&R Consultants

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

#### WSC In-House Staff Fees

We have previously disallowed WSC In-House Employee fees in several dockets involving the Utility's sister companies.<sup>22</sup> However, we subsequently allowed the inclusion of

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<sup>20</sup> Order No. PSC-12-0206-PAA-WS, issued April 17, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

<sup>21</sup> Id.

<sup>22</sup> See Order Nos. PSC-13-0085-PAA-WS, issued February 14, 2013, in Docket No. 110257-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; PSC-12-0667-PAA-WS, issued December 21, 2012, in Docket No. 120037-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke; PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador

this expense for its sister companies, Utilities, Inc. of Florida and Cypress Lakes Utilities, Inc., based on the removal of employee salaries from the total salaries and wages balance prior to any allocation.<sup>23</sup> Based on our review of the confidential salary information, the Utility failed to adjust the test year salary and wage expense to exclude capitalized time spent on the instant docket.

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

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

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

#### Filing Fee

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

#### WSC Travel Expense

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

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Utilities, Inc.; and PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.

<sup>23</sup> Order Nos. PSC-14-0025-PAA-WS issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida; and PSC-14-0283-PAA-WS issued May 30, 2014, in Docket No. 130212-WS, In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

### WSC FedEx Expense

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

### Customer Notices and Postage

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

We have historically approved recovery of noticing and postage, despite the lack of support documentation, based on a standard methodology to estimate the total expense using the number of customers and the estimated per unit cost of envelopes, copies, and postage.<sup>24</sup> The estimated cost of postage for the interim notice, combined initial and customer notice, and the final notice is approximately \$782 (764 customers x \$0.341 pre-sorted rate x 3 notices), the cost of copies is approximately \$840 (764 customers x \$0.10 per copy x 11 total pages), and the cost of envelopes is approximately \$115 (764 customers x \$0.05 x 3 notices). Based on these components, we find the total cost for these notices and postage is \$1,737 (\$782 + \$840 + \$115). As such, rate case expense shall be decreased by \$3,263 (\$5,000 - \$1,737) to allow for adequate expenses related to mailing notices.

### Additional Rate Case Expense

In addition to the rate case expense provided by the Utility, we decided in the Utilities, Inc., generic docket “that rate case expense shall be allocated to each UI Florida subsidiary based on the ratio of each subsidiaries’ ERCs to UI’s total Florida ERCs as of December 31, 2013.”<sup>25</sup> The Order specified that each subsidiary would be allowed to recover its allocated portion of rate case expense over four years, pursuant to Section 367.0816, F.S. Recovery of this expense shall be included as a separate line item within rate case expense as part of each subsidiaries’ next file and suspend rate case, limited proceeding, or staff-assisted rate case. Labrador’s portion of rate case expense from that docket is \$3,136, or \$784 on an annual basis.

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<sup>24</sup> See Order No. PSC-14-0025-PAA-WS issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

<sup>25</sup> Order No. PSC-14-0521-FOF-WS, issued September 30, 2014, in Docket No. 120161-WS, In re: Analysis of Utilities, Inc.’s financial accounting and customer service computer system, p. 19.

Conclusion

Based upon our adjustments discussed above, Labrador’s revised rate case expense of \$142,797 shall be decreased by \$56,064, to reflect our adjustments and the additional rate case expense allocated from Docket No. 120161-WS, for a total of \$86,733. A breakdown of rate case expense is as follows:

Table 16

Commission Approved Rate Case Expense				
Description	MFR Estimated	Utility Revised Act.& Est.	Commission Adj.	Total
Legal Fees	\$40,000	\$39,152	(\$9,693)	\$29,459
Accounting Consultant Fees	66,000	67,113	(17,300)	49,813
Engineering Consultant Fees	4,950	2,588	0	2,588
WSC In-House Fees	95,000	23,845	(23,845)	0
Filing Fee	4,000	4,000	(4,000)	0
WSC Travel	1,000	1,000	(1,000)	0
WSC FedEx/Misc.	100	100	(100)	0
Cust. Notices and Postage	5,000	5,000	(3,263)	1,737
<b>Total</b>	<b>\$216,050</b>	<b>\$142,797</b>	<b>(\$59,200)</b>	<b>\$83,597</b>
Add'l RCE – Generic Dkt.				\$3,136
<b>Total w/Add'l RCE</b>				<b>\$86,733</b>

In its MFRs, the Utility requested total rate case expense of \$216,050. When amortized over four years, this represents an annual expense of \$54,013. Our approved total rate case expense of \$86,733 shall be amortized over four years, pursuant to Section 367.081(6), F.S. Based on the above, rate case expense shall be decreased by \$129,317 (\$216,050 – \$86,733). As a result, annual rate case expense shall be decreased by \$16,303 for water and \$16,027 for wastewater from the respective levels of expense included in the MFRs.

Adjustments to Operating Expenses

In its filing, Labrador recorded test year operating expenses of \$205,060 for water and \$305,181 for wastewater. Based on our review, several adjustments to the Utility’s operating expenses are necessary, as summarized below.

Expense Allocations between Water and Wastewater

In the Affiliate Audit for Utilities Inc., Commission staff auditors examined O&M expense allocations for Labrador. Commission staff auditors found that the Utility changed the methodology in which it allocated all but direct O&M expenses between water and wastewater.

In prior rate cases, the Utility used test year-end ERC factors to allocate O&M expenses between water and wastewater in accordance with our post-hearing decision in a sister utility's 2002 docket.<sup>26</sup> However, in the instant filing, the expenses were allocated based on business units. As a result, Commission staff auditors recalculated O&M water and wastewater balances based on the practice in prior rate cases and recommended that Labrador's water expenses be increased by \$14,160 and wastewater expenses shall be decreased by \$14,052.

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

#### Contractual Services-Other Expense

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

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

#### Miscellaneous Expense

We reviewed the Affiliate Audit Work Papers 43-7.5 for miscellaneous expenses which showed that multiple payments totaling \$46,259 were recorded for the Leadership Training Conference in Orlando, Florida at the Rosen Conference Center. The expense of leadership training is not necessarily impermissible on its face; however, the failure to provide detailed expense support documentation warrants an adjustment in this instance. The Utility was put on notice that detailed support of this expense was required. Therefore, these costs shall be disallowed consistent with our decision in a prior rate case where similar costs were removed due to inadequate detailed expense support documentation.<sup>27</sup> Therefore, Labrador's expenses

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<sup>26</sup> 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.

<sup>27</sup> Order No. PSC-14-0283-PAA-WS, issued May 30, 2014, in Docket No. 130212-WS, In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes, Inc.

shall be reduced by \$259 (.56 percent x \$46,259). The removal of these costs results in a decrease to miscellaneous expense of \$131 for water and \$128 for wastewater.

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

#### Pro Forma Expense for Televising and Clean Gravity Collection Expense

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

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

#### Chemicals

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

Excessive Unaccounted For Water (EUW)

Based on the 6.4 percent of unaccounted water, we find that the purchased power and chemicals expense shall be reduced collectively by \$497.

Land Lease Expense

The Utility initially recorded land lease expense of \$23,382 and \$30,528 in its MFRs for water and wastewater, respectively. It subsequently reduced these expenses to \$12,866 and \$12,648, respectively. Based on our approved cost of capital of 8.23 percent for water and 8.35 percent for wastewater, the appropriate amounts of land lease expenses are \$10,988 and \$18,168 for water and wastewater, respectively. As a result, we shall reduce the Utility's adjusted land lease expenses by \$472 for water and \$288 for wastewater.

Computer Maintenance Expense

In several recent rate cases involving Labrador's sister companies, we recognized the volatility of computer maintenance expense.<sup>28</sup> Due to this volatility, we have routinely used a five-year average as an appropriate basis for ratemaking purposes, and excluded the portion of Phoenix Project IT maintenance charges associated with UI divested systems, consistent with our treatment of the Phoenix Project costs per ERC at that time.<sup>29</sup>

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

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<sup>28</sup> See Order Nos. PSC-14-0335-PAA-WS, issued June 30, 2014, in Docket No. 130243-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities Inc.; PSC-14-0283-PAA-WS, issued May 30, 2014, in Docket No. 130212-WS, In re: Application for increase in water/wastewater rates in Polk County by Cypress Lakes Utilities, Inc.; PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

<sup>29</sup> See Order Nos. PSC-12-0667-PAA-WS, issued December 26, 2012, in Docket No. 120667-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke; PSC-12-0206-PAA-WS, issued April 17, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.; and PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.



Table 17

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

As mentioned above, we altered our treatment of divestitures, so that any adjustment related to UI divested systems was net of any UI acquisitions, and, based on 2015 total ERCs, a divestiture adjustment is no longer necessary. Accordingly, an adjustment to computer maintenance expense related to divestitures is no longer necessary.

#### Gain on Sale of Vehicles

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

#### Property Tax Adjustment Due to Change in Millage Rate

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

#### Conclusion

Based on the above, operating expenses shall be increased by \$13,220 for water and decreased by \$10,382 for wastewater to reflect the appropriate level of operating expenses, as shown in Table 18.

Table 18

Summary of Further Adjustments to Operating Expenses			
		Water	Wastewater
1	Audit Finding No. 6	\$14,160	(\$14,052)
2	Contractual Services - Other		
3	Internet Supplier	(39)	(39)
4	Other Outside Services	(51)	(51)
5	Miscellaneous Expense -Rosen Hotel	(131)	(128)
6	Land Lease Expense	(472)	(288)
7	Pro Forma Gravity Collection	0	6,020
8	Chemicals	734	(1,273)
9	Excessive Accounted for Water	(497)	0
10	Office Landscaping/Mowing	(33)	(32)
11	Computer Maintenance Expense	(252)	(248)
12	Gain on Sale of Vehicles	(116)	(114)
13	Property Tax Change in Millage Rate	(82)	(177)
		<u>\$13,220</u>	<u>(\$10,382)</u>

Revenue Requirement

We approve the following revenue requirement.

	Test Year Revenue	\$ Increase/ (Decrease)	Revenue Requirement	% Increase/ (Decrease)
Water	\$263,502	\$43,860	\$307,362	16.65%
Wastewater	\$407,248	\$133,626	\$540,874	32.81%

In its filing, Labrador requested revenue requirements to generate annual revenue of \$359,086 and \$693,295 for water and wastewater, respectively. These requested revenue requirements represent revenue increases of \$97,036, or approximately 37.03 percent, for water and \$287,175, or approximately 70.71 percent, for wastewater.

Consistent with our decisions concerning the underlying rate base, cost of capital, and operating income issues, we hereby approve rates designed to generate a water revenue requirement of \$307,362 and a wastewater revenue requirement of \$540,874. This water revenue requirement exceeds our adjusted test year revenue by \$43,860, or 16.65 percent. The wastewater revenue requirement exceeds our adjusted test year revenue by \$133,626 or 32.81 percent. These pre-repression revenue requirements will allow the Utility the opportunity to

recover its expenses and earn 8.23 percent return on its water rate base and 8.35 percent return on its wastewater rate base.

### Rate Structures And Rates

#### Water Rates

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

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

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

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

We approve a continuation of the BFC and uniform gallonage charge rate structure for all customers and a BFC allocation based on 50 percent of the water revenue requirement. Our approved rate structure and rates are shown on Schedule Nos. 4-A and 4-B.

### Wastewater Rates

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

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

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

### Conclusion

Based on the foregoing, the rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A through 4-D. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until Commission staff has approved the proposed customer notice and the notice has been received by the customers. The Utility shall provide proof of the date notice was given within ten days of the date of the notice.

### Interim Rate Refund

By Order No. PSC-14-0695-FOF-WS, we authorized the collection of interim water rates, and required the Utility to hold \$68,706 subject to refund in this docket of the current water and wastewater revenues subject to refund if necessary, pursuant to Section 367.082, F.S.<sup>30</sup> According to Section 367.082, F.S., any refund shall be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended December 31, 2013. Labrador's approved interim rates did not include any provisions for pro forma operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the lower limit of the last authorized range of return on equity. To establish the proper refund amount, we calculated revised interim revenue requirements utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, we calculated an adjusted interim revenue requirement of \$296,326 for water. The adjusted water interim revenue requirement of \$296,326 is higher than the interim revenue requirement of \$264,917 granted in the Interim Order. As a result, no refund is necessary for water. Furthermore, using the principles discussed above, we calculated an adjusted interim revenue requirement of \$523,722 for wastewater. The adjusted wastewater interim revenue requirement of \$523,722 is higher than the interim revenue requirement of \$410,128 granted in the Interim Order. As a result, no refund is necessary for wastewater. Based on the above, the corporate undertaking amount of \$68,706 shall be released.

### Four-Year Rate Reduction

Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for Regulatory Assessment Fees (RAFs). The total reduction is \$11,568 for water and \$11,372 for wastewater. Using Labrador's current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedule Nos. 4-A and 4-B.

The Utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Labrador shall also file a proposed customer notice setting forth the lower rates and the reason for the reduction. If the Utility files this reduction in conjunction

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<sup>30</sup> Order No. PSC-14-0695-FOF-WS, issued December 15, 2014, in Docket No. 140135-WS, In re: Application for increase in water/wastewater rates in Pasco County by Labrador Utilities, Inc.

with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and the reduction in the rates due to the amortized rate case expense.

Proof of Adjustments

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

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

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc. is granted as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that the schedules and attachments to this Order are incorporated by reference herein. It is further

ORDERED that Labrador Utilities, Inc. is hereby authorized to charge the new rates and charges as set forth herein as approved in the body of this Order. It is further

ORDERED that once the water and wastewater Pro Forma Plant Projects are completed, Labrador Utilities, Inc. shall provide invoices as they are received and processed. It is further

ORDERED that Labrador Utilities, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall 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. The rates shall not be implemented until Commission staff has approved the proposed customer notice. It is further

ORDERED that Labrador Utilities, Inc. shall provide proof of the date notice was given within ten days of the date of the notice. It is further

ORDERED that the corporate undertaking shall be released. It is further

ORDERED that in accordance with Section 367.0816, F.S., the Labrador Utilities, Inc.'s rates shall be reduced four years after the effective date of these new rates to reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for Regulatory Assessment Fees. It is further

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

ORDERED that Labrador Utilities, Inc. shall provide proof within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall remain open for Commission staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, verification that the Utility has provided proof that the adjustments for all the NARUC USOA primary accounts have been made and approved by Commission staff, and that the corporate undertaking has been released. Once these actions are complete, this docket shall be closed administratively.

ORDER NO. PSC-15-0208-PAA-WS

DOCKET NO. 140135-WS

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By ORDER of the Florida Public Service Commission this 26th day of May, 2015.



CARLOTTA S. STAUFFER

Commission Clerk

Florida Public Service Commission

2540 Shumard Oak Boulevard

Tallahassee, Florida 32399

(850) 413-6770

[www.floridapsc.com](http://www.floridapsc.com)

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

KRM

DISSENT BY: CHAIRMAN ART GRAHAM

CHAIRMAN GRAHAM dissents with respect to the determination of used and useful and rate case expense.



NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our action herein, except for the four-year rate reduction and requirement to file proof of adjustments, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 16, 2015. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

<b>Labrador Utilities, Inc. Schedule of Water Rate Base Test Year Ended 12/31/13</b>		<b>Schedule No. 1-A Docket No. 140135-WS</b>				
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Comm. Adjust- ments</b>	<b>Comm. Adjusted Test Year</b>	
1 Plant in Service	\$934,990	\$73,246	\$1,008,236	\$37,808	\$1,046,044	
2 Land and Land Rights	540	(3)	537	0	537	
3 Non-used and Useful Components	0	0	0	0	0	
4 Accumulated Depreciation	(375,176)	20,140	(355,036)	36,579	(318,457)	
5 CIAC	(342)	0	(342)	0	(342)	
6 Amortization of CIAC	64	0	64	0	64	
7 Net Debit Deferred Income Taxes	0	1,644	1,644	(1,644)	0	
8 CWIP	94,653	(94,653)	0	0	0	
9 Net Acquisition Adjustment	(257,102)	257,102	0	0	0	
10 Working Capital Allowance	<u>0</u>	<u>25,633</u>	<u>25,633</u>	<u>(6,824)</u>	<u>18,809</u>	
11 <b>Rate Base</b>	<u>\$397,627</u>	<u>\$283,109</u>	<u>\$680,736</u>	<u>\$65,920</u>	<u>\$746,656</u>	

<b>Labrador Utilities, Inc.</b>			<b>Schedule No. 1-B</b>		
<b>Schedule of Wastewater Rate Base</b>			<b>Docket No. 140135-WS</b>		
<b>Test Year Ended 12/31/13</b>					
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Comm. Adjust- ments</b>	<b>Comm. Adjusted Test Year</b>
1 Plant in Service	\$2,086,875	\$653,285	\$2,740,160	(\$62,964)	\$2,677,196
2 Land and Land Rights	0	0	0	0	0
3 Non-used and Useful Components	0	0	0	(294,397)	(294,397)
4 Accumulated Depreciation	(876,820)	(16,983)	(893,803)	(19,375)	(913,178)
5 CIAC	0	0	0	0	0
6 Amortization of CIAC	0	0	0	0	0
7 CWIP	1,565	(1,565)	0	0	0
8 Net Debit Deferred Income Taxes	0	1,617	1,617	(1,617)	0
9 Working Capital Allowance	<u>0</u>	<u>38,148</u>	<u>38,148</u>	<u>(9,620)</u>	<u>28,528</u>
10 <b>Rate Base</b>	<b><u>\$1,211,620</u></b>	<b><u>\$674,502</u></b>	<b><u>\$1,886,122</u></b>	<b><u>(\$387,973)</u></b>	<b><u>\$1,498,149</u></b>

<b>Labrador Utilities, Inc.</b>		<b>Schedule No. 1-C</b>	
<b>Adjustments to Rate Base</b>		<b>Docket No. 140135-WS</b>	
<b>Test Year Ended 12/31/13</b>			
<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>	
<u>Plant In Service</u>			
1 Reflect uncontested rate base audit adjustments	(\$29,983)	(\$15,215)	
2 Reflect supported pro forma plant additions	<u>67,791</u>	<u>(47,749)</u>	
Total	<u>\$37,808</u>	<u>(\$62,964)</u>	
<u>Non-Used &amp; Useful Component</u>			
To reflect the appropriate non-U&U component	<u>\$0</u>	<u>(\$294,397)</u>	
<u>Accumulated Depreciation</u>			
1 Reflect uncontested rate base audit adjustments	\$26,234	(\$23,570)	
2 Reflect Pheonix project adjustments	1,684	1,655	
3 Reflect supported pro forma plant additions	<u>8,662</u>	<u>2,540</u>	
Total	<u>\$36,579</u>	<u>(\$19,375)</u>	
<u>Accumulated Depreciation</u>			
To reflect net credit ADIT balance in capital structure	<u>(\$1,644)</u>	<u>(\$1,617)</u>	
<u>Working Capital</u>			
To reflect the appropriate working capital allowance	<u>(\$6,824)</u>	<u>(\$9,620)</u>	

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

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

Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
<b>Per Utility</b>								
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,709,368)	\$1,290,632	50.28%	6.64%	3.34%
2 Short-term Debt	3,100,000	0	3,100,000	(3,077,773)	22,227	0.87%	8.48%	0.07%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	174,356,625	0	174,356,625	(173,106,458)	1,250,167	48.70%	10.43%	5.08%
5 Customer Deposits	3,833	0	3,833	0	3,833	0.15%	6.00%	0.01%
6 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
7 <b>Total Capital</b>	<b><u>\$357,460,458</u></b>	<b><u>\$0</u></b>	<b><u>\$357,460,458</u></b>	<b><u>(\$354,893,599)</u></b>	<b><u>\$2,566,859</u></b>	<b><u>100.00%</u></b>		<b><u>8.50%</u></b>
<b>Per Commission</b>								
8 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,883,656)	\$1,116,344	49.73%	6.64%	3.30%
9 Short-term Debt	3,100,000	0	3,100,000	(3,080,774)	19,226	0.86%	2.82%	0.02%
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11 Common Equity	174,356,625	0	174,356,625	(173,275,281)	1,081,344	48.17%	10.43%	5.02%
12 Customer Deposits	3,833	0	3,833	0	3,833	0.17%	2.00%	0.00%
13 Deferred Income Taxes	<u>0</u>	<u>24,058</u>	<u>24,058</u>	<u>0</u>	<u>24,058</u>	<u>1.07%</u>	0.00%	<u>0.00%</u>
14 <b>Total Capital</b>	<b><u>\$357,460,458</u></b>	<b><u>\$24,058</u></b>	<b><u>\$357,484,516</u></b>	<b><u>(\$355,239,711)</u></b>	<b><u>\$2,244,805</u></b>	<b><u>100.00%</u></b>		<b><u>8.35%</u></b>
						<b><u>LOW</u></b>	<b><u>HIGH</u></b>	
					RETURN ON EQUITY	<u>9.43%</u>	<u>11.43%</u>	
					OVERALL RATE OF RETURN	<u>7.87%</u>	<u>8.84%</u>	

Labrador Utilities, Inc. Statement of Water Operations Test Year Ended 12/31/13						Schedule No. 3-A Docket No. 140135-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$264,903</u>	<u>\$94,183</u>	<u>\$359,086</u>	<u>(\$95,584)</u>	<u>\$263,502</u>	<u>\$43,860</u> 16.65%	<u>\$307,362</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$202,275	\$2,785	\$205,060	(\$54,585)	\$150,475		\$150,475
3 Depreciation	40,877	3,961	44,838	(1,209)	43,629		43,629
4 Amortization	0	0	0	(116)	(116)		(116)
5 Taxes Other Than Income	31,188	(732)	30,456	(2,625)	27,831	1,974	29,804
6 Income Taxes	<u>(19,913)</u>	<u>40,778</u>	<u>20,865</u>	<u>(14,534)</u>	<u>6,331</u>	<u>15,762</u>	<u>22,092</u>
7 <b>Total Operating Expense</b>	<u>254,427</u>	<u>46,792</u>	<u>301,219</u>	<u>(73,071)</u>	<u>228,148</u>	<u>17,736</u>	<u>245,884</u>
8 <b>Operating Income</b>	<u>\$10,476</u>	<u>\$47,391</u>	<u>\$57,867</u>	<u>(\$22,513)</u>	<u>\$35,354</u>	<u>\$26,125</u>	<u>\$61,478</u>
9 <b>Rate Base</b>	<u>\$397,627</u>		<u>\$680,736</u>		<u>\$746,656</u>		<u>\$746,656</u>
10 <b>Rate of Return</b>	<u>2.63%</u>		<u>8.50%</u>		<u>4.73%</u>		<u>8.23%</u>

Labrador Utilities, Inc. Statement of Wastewater Operations Test Year Ended 12/31/13						Schedule No. 3-B Docket No. 140135-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$406,290</u>	<u>\$287,005</u>	<u>\$693,295</u>	<u>(\$286,047)</u>	<u>\$407,248</u>	<u>\$133,626</u> 32.81%	<u>\$540,874</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$286,328	\$18,853	\$305,181	(\$76,959)	\$228,222		\$228,222
3 Depreciation	69,563	34,739	104,302	(14,384)	89,918		89,918
4 Amortization	0	0	0	(114)	(114)		(114)
5 Taxes Other Than Income	38,644	27,025	65,669	(19,410)	46,259	6,013	52,272
6 Income Taxes	<u>0</u>	<u>57,808</u>	<u>57,808</u>	<u>(60,412)</u>	<u>(2,604)</u>	<u>48,021</u>	<u>45,417</u>
7 <b>Total Operating Expense</b>	<u>394,535</u>	<u>138,425</u>	<u>532,960</u>	<u>(171,279)</u>	<u>361,681</u>	<u>54,034</u>	<u>415,715</u>
8 <b>Operating Income</b>	<u>\$11,755</u>	<u>\$148,580</u>	<u>\$160,335</u>	<u>(\$114,768)</u>	<u>\$45,567</u>	<u>\$79,592</u>	<u>\$125,159</u>
9 <b>Rate Base</b>	<u>\$1,211,620</u>		<u>\$1,886,122</u>		<u>\$1,498,149</u>		<u>\$1,498,149</u>
10 <b>Rate of Return</b>	<u>0.97%</u>		<u>8.50%</u>		<u>3.04%</u>		<u>8.35%</u>

<b>Labrador Utilities, Inc.</b>		<b>Schedule No. 3-C</b>	
<b>Adjustment to Operating Income</b>		<b>Docket No. 140135-WS</b>	
<b>Test Year Ended 12/31/13</b>			
<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase.	(\$97,036)	(\$287,175)	
2 Reflect the appropriate amount of annualized revenues.	<u>1,452</u>	<u>1,128</u>	
Total	<u>(\$95,584)</u>	<u>(\$286,047)</u>	
<u>Operation and Maintenance Expense</u>			
1 Corresponding O&M expense related to pro forma plant.	(\$161)	\$0	
2 Reflect uncontested NOI audit adjustments	(51,538)	(50,842)	
3 Reflect appropriate rate case expense.	(16,303)	(16,027)	
4 Further Adjustments to O&M expense.	<u>13,418</u>	<u>(10,091)</u>	
Total	<u>(\$54,585)</u>	<u>(\$76,959)</u>	
<u>Depreciation Expense - Net</u>			
1 Reflect Pheonix project adjustments.	(\$1,684)	(\$1,655)	
2 Reflect supported pro forma plant additions.	2,528	(1,560)	
3 Remove non-U&U depreciation expense.	0	(11,492)	
4 Reflect uncontested audit adjustments.	<u>(2,054)</u>	<u>324</u>	
Total	<u>(\$1,209)</u>	<u>(\$14,384)</u>	
<u>Amotization-Other Expense</u>			
To reflect allocated gain on sale of vehicles.	<u>(\$116)</u>	<u>(\$114)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$4,301)	(\$12,872)	
2 Reflect supported pro forma plant additions.	1,936	(1,850)	
3 Remove non-U&U property taxes.	0	(4,380)	
4 Reflect uncontested NOI audit adjustments	(178)	(131)	
5 Reflect appropriate test year property taxes.	<u>(82)</u>	<u>(177)</u>	
Total	<u>(\$2,625)</u>	<u>(\$19,410)</u>	



LABRADOR UTILITIES, INC. COMMISSION APPROVED WATER RATE STRUCTURES AND RATES			
Test Year Rate Structure and Rates (1)		Approved Rate Structure and Rates	
Monthly BFC/Uniform Gallonage Rate Structure BFC generated from current rates = 44%		Monthly BFC/Uniform Gallonage Rate Structure BFC = 50%	
BFC	\$10.48	BFC	\$13.82
Per kgal	\$8.38	Per kgal	\$8.78
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$10.48	0	\$13.82
1	\$18.86	1	\$22.60
2	\$27.24	2	\$31.38
6	\$60.76	6	\$66.50
10	\$94.28	10	\$101.62
20	\$178.08	20	\$189.42

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

LABRADOR UTILITIES, INC.		SCHEDULE NO. 4-B			
TEST YEAR ENDED DECEMBER 31, 2013		DOCKET NO. 140135-WS			
MONTHLY WATER RATES					
	UTILITY CURRENT RATES (1)	APPROVED INTERIM	UTILITY REQUESTED RATES	APPROVED RATES	4 YEAR RATE REDUCTION
<b><u>Residential and General Service (2)</u></b>					
Base Facility Charge					
5/8"	\$10.48	\$11.95	\$14.25	\$13.82	\$0.52
3/4"	\$15.73	\$17.94	\$21.38	\$20.73	\$0.78
1"	\$26.21	\$29.36	\$35.63	\$34.55	\$1.31
1-1/2"	\$52.39	\$58.69	\$71.25	\$69.10	\$2.61
2"	\$83.82	\$95.63	\$114.00	\$110.56	\$4.18
3"	\$167.65	\$191.26	\$213.75	\$221.12	\$8.36
4"	\$261.95	\$298.84	\$356.25	\$345.50	\$13.06
6"	\$523.89	\$597.68	\$712.50	\$691.00	\$26.12
Charge per 1,000 Gallons	\$8.38	\$9.53	\$11.39	\$8.78	\$0.33
<b><u>Irrigation</u></b>					
2"	\$83.82	\$95.63	\$114.00	\$110.56	\$4.18
Charge per 1,000 Gallons	\$8.38	\$9.53	\$11.39	\$8.78	\$0.33
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>					
2,000 Gallons	\$27.24	\$31.01	\$37.03	\$31.38	
6,000 Gallons	\$60.76	\$69.13	\$82.59	\$66.50	
10,000 Gallons	\$94.28	\$107.25	\$128.15	\$101.62	
1) The Utility filed a 2014 Price Index that became effective October 19, 2014.					
2) The Utility's current residential rates only have an approved BFC for a 5/8" x 3/4" meter.					

<b>LABRADOR UTILITIES, INC.</b> <b>COMMISSION APPROVED</b> <b>WASTEWATER RATE STRUCTURES AND RATES</b>			
<b>Test Year Rate Structure and Rates(1)</b>		<b>Approved Rate Structure and Rates</b>	
<b>Monthly BFC/Uniform Gallonage Rate Structure</b> <b>BFC generated from current rates = 60%</b>		<b>Monthly BFC/Uniform Gallonage Rate Structure</b> <b>BFC =50%</b>	
BFC	\$22.62	BFC	\$24.74
Per kgal	\$10.09	Per kgal	\$17.32
(10 kgal cap)		(6 kgal cap)	
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
<b>Consumption (kgals)</b>		<b>Consumption (kgals)</b>	
0	\$22.62	0	\$24.74
1	\$32.71	1	\$42.06
2	\$42.80	2	\$59.38
3	\$52.89	3	\$76.70
4	\$62.98	4	\$94.02
5	\$73.07	5	\$111.34
6	\$83.16	6	\$128.66
10	\$123.52	10	\$128.66

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

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

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

	UTILITY CURRENT RATES (1)	APPROVED INTERIM	UTILITY REQUESTED RATES	COMMISSION APPROVED RATES	4 YEAR RATE REDUCTION
<b><u>Residential</u></b>					
Base Facility Charge - All Meter Sizes	\$22.62	\$27.25	\$38.32	\$27.81	\$1.15
Charge per 1,000 Gallons- Residential					
10,000 gallon cap	\$10.09	\$12.15	\$17.09		
6,000 gallon cap				\$19.46	\$0.80
<b><u>General Service</u></b>					
Base Facility Charge by Meter Size					
5/8"	\$22.62	\$27.25	\$38.32	\$27.81	\$1.15
3/4"	\$33.94	\$40.88	\$57.48	\$41.72	\$1.72
1"	\$56.55	\$68.13	\$95.80	\$69.53	\$2.87
1-1/2"	\$113.08	\$136.25	\$191.60	\$139.05	\$5.74
2"	\$180.92	\$218.00	\$306.56	\$222.48	\$9.19
3"	\$361.87	\$436.00	\$574.80	\$444.96	\$18.38
4"	\$565.42	\$681.26	\$958.00	\$695.25	\$28.71
6"	\$1,130.82	\$1,362.51	\$1,916.00	\$1,390.50	\$57.43
8"	\$1,843.97	\$2,180.02	\$3,065.00	\$2,224.80	\$91.88
Charge per 1,000 Gallons - General Service	\$12.10	\$14.58	\$20.50	\$23.35	\$0.96
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>					
2,000 Gallons	\$42.80	\$51.55	\$72.50	\$66.73	
6,000 Gallons	\$83.16	\$100.15	\$140.86	\$144.57	
10,000 Gallons	\$123.52	\$148.75	\$209.22	\$144.57	

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