

State of Florida



Public Service Commission

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DATE: November 23, 2004

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Merchant, Edwards, Greene, Willis, Lingo, Stallcup)
Office of the General Counsel (C. Keating) *inc* *will* *JDJ*

RE: Docket No. 030443-WS — Application for rate increase in Pasco County by Labrador Utilities, Inc.

AGENDA: 12/07/04 — Regular Agenda — Proposed Agency Action Except Issues 21 and 22 — Interested Persons May Participate

CRITICAL DATES: 1/03/05 (5-Month Effective Date (PAA Rate Case))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\030443.RCM.DOC

DOCUMENT NUMBER-DATE

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Case Background

Labrador Utilities, Inc. (Labrador or utility) is a Class B water and wastewater utility located approximately one mile east of Zephyrhills, in Pasco County. The utility provides service to 903 customers in the Forest Lake Estates Mobile Home Park (MH Park) and to the Forest Lake R.V. Resort (RV Resort). For the year ended December 31, 2003, the utility's total revenues were \$181,836, with a total operating loss of \$162,305.

By Order No. PSC-03-0638-PAA-WS, issued May 27, 2003, in Docket No. 020484-WS, In re: Application for transfer of facilities and Certificates Nos. 616-W and 530-S from Labrador Services, Inc. to Labrador Utilities, Inc. in Pasco County, the Commission approved a certificate transfer to Labrador Utilities, Inc.

On October 27, 2003, the utility filed an application for approval of an interim rate increase pursuant to Section 367.082, Florida Statutes. By Order No. PSC-04-0200-PCO-WS, issued February 24, 2004, in this docket, the Commission approved an interim rate increase of \$141,117 (or 267.67%) for water and \$146,292 (or 117.95%) for wastewater based on the historical test year ended June 30, 2003.

On June 30, 2004, the utility filed its application for a final rate increase pursuant to Sections 367.081 and 367.082, Florida Statutes. However, the information submitted did not satisfy the minimum filing requirements (MFRs) for a general rate increase. Subsequently, on August 3, 2004, the utility satisfied the MFRs and this date was designated as the official filing date, pursuant to Section 367.083, Florida Statutes. The utility has requested that the Commission process this case under the Proposed Agency Action (PAA) procedure. By Order No. PSC-04-0719-PCO-WS, issued July 23, 2004, the Commission granted intervenor status to the Forest Lake Estates Co-Op, Inc. (Co-Op).

The test year for setting final rates is the historical year ended December 31, 2003. Labrador has requested water and wastewater revenues of \$199,958 and \$389,475, respectively. This represents an increase of \$144,477 (or 260.41%) for water and \$260,380 (or 201.70%) for wastewater.

This recommendation addresses the revenue requirement and rates that should be approved on a prospective basis. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes.

Discussion of Issues

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

Recommendation: Yes. The utility's overall quality of service is satisfactory. However, staff recommends that Labrador develop a plan and test all of its meters by June 30, 2005, and make any necessary meter repairs or adjustments. Pursuant to Rule 25-30.267, Florida Administrative Code, the utility shall maintain a log of all meters tested. Further, staff also requests that the utility provide a copy of the meter log and a status report that reflects the number of meters tested by month, including the number that were repaired or replaced as a result of the tests. The log and updated reports should be filed with the Commission by April 15, July 15, and October 15, 2005. (Merchant, G. Edwards)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code, in every water and wastewater rate case, the Commission shall determine the overall quality of service provided by the utility by evaluating (1) the quality of the product, (2) the operating conditions of the plant and facilities, and (3) the utility's attempt to address customer satisfaction.

Quality of the Utility's Product:

Staff has reviewed both the utility and the Department of Environmental Protection (DEP) records and has communicated with DEP staff. It appears that the finished products of both the water and wastewater plants comply with regulatory standards. Thus, staff believes that the quality of the finished product for both water and wastewater treatment plants should be considered satisfactory.

Operating Condition of the Water and Wastewater Facilities

Based on staff's field inspection and other investigations, the utility's plants and the distribution and collection systems appear to comply with DEP environmental regulatory standards. However, DEP staff indicated to Commission staff that as of August 24, 2004, the utility needed minor improvements in several areas related to the wastewater facilities. The utility's representative later indicated to staff that all of the deficiencies listed by DEP had been corrected. On October 25, 2004, staff called DEP to confirm the utility's status regarding the improvements performed, and the inspector confirmed that the utility had completed all of the improvements. Based on the above, staff recommends that the operating condition of the water and wastewater facilities should be considered satisfactory.

The Utility's Attempt to Address Customer Satisfaction

On August 24, 2004, staff conducted a customer meeting in Zephyrhills, Florida at the Forest Lake Estates Clubhouse. In the afternoon, staff met at the clubhouse with several members of the Co-Op and the Forest Lake Estates Non-Shareholder Homeowners' Association. During that meeting, customers expressed concerns regarding the consumption-based rates, the level and fairness of interim rates, the seasonality of the residents, how an interim refund would be calculated, the distribution of rates between the mobile home residents compared to the RV Resort, the reported consumption listed on bills, meter reading, the utility's response time to

customer complaints, and the odor from the wastewater treatment plant. Staff explained how the Commission determines interim rates and how interim refunds are made. Staff also discussed how consumption-based rates are set. This included the proration of the base facility charge based on meter size, conservation rate structures, the residential wastewater gallonage cap, and the gallonage charge differential between residential and general service customers. These same issues were discussed at the evening session of the customer meeting.

Over 250 persons attended the evening customer meeting, and twenty-seven people spoke. The main concerns addressed at the evening meeting dealt with the wastewater plant odor, water consumption and meter readings, the utility's response to customer complaints, and the level of the final requested increase. Staff discusses the customers' concerns in our analysis below.

Plant Odor

One customer complained of odors coming from the wastewater treatment plant. On two separate occasions, staff visited the wastewater facilities and each time there were no strong odors emanating from the wastewater plant. Staff believes that the odors were consistent with the normal odors that would be encountered when one is close to any wastewater treatment plant.

Water Consumption and Meter Readings

Many customers complained about inaccurate levels of consumption listed on their bills and meter readings. Several customers showed staff utility bills that indicated zero usage for a month when the customers used the water service regularly. Customers also had concerns about the utility's meter reading personnel and inaccurate meter readings reflected on the monthly bills. Several customers stated that the water consumption shown on their bills was much higher than what they thought they had used. Two customers questioned whether their meters were read properly because the meter sight glass was covered with dirt or the meter was underwater.

The morning after the customer meeting, staff and utility personnel visited several homes and looked at the meters. We visited the home with the dirt-covered meter and found that with a sweep of the hand across the sight glass, the dirt was removed and the meter was easily read. We then visited a home where the meter was underwater. The utility personnel pumped the water out and stated that water covering a meter is not uncommon when the water table is high or a sprinkler system is used just before the meter is read. The meter readers carry portable pumps to use where water is present. Additionally, they check to see if the water appears to be ground water or a symptom of leaking water pipes.

Regarding the complaints about inaccurate meter readings and consumption levels, the utility responded that because it has always had flat rates, inaccuracies often went unchecked in the billing system. This also impacted the reported level for excess unaccounted water. For its systems with measured rates, Utilities, Inc. normally generates a variance report on unusual or excessive consumption levels. Utilities, Inc. also relies on customer contact for feedback on questionable billings. In the Labrador system, the utility has been unable to generate this monthly variance report. Further, as soon as consumption-based rates are implemented, the utility states that this report will be produced and reviewed each month.

Staff also requested that the utility investigate the meter and consumption complaints by testing a representative sample of meters at homes in the service area. The utility was to perform 5-gallon bucket tests on 53 meters chosen by staff, which was 4% of the customer base. As a result of the tests, the utility acknowledged that there were 3 inaccurate meters, which the utility replaced. The utility also discovered that 3 meters were installed backwards by the prior owner and the utility reinstalled the meters properly. The utility was unable to test 6 meters because the water was shut-off inside the residence. Thus, of the 47 meters tested, only 41 were accurate, which correlates to a 13% error rate for the sample. Staff believes that this error rate could be indicative of a system-wide problem. Accordingly, staff recommends that Labrador develop a plan and test all of its meters by June 30, 2005, and make any necessary repairs or adjustments. Pursuant to Rule 25-30.267, Florida Administrative Code, the utility shall maintain a log of all meters tested. Further, staff also requests that the utility provide a copy of the meter log and a status report that reflects the number of meters tested by month, including the number that were repaired or replaced as a result of the tests. The log and updated reports should be filed with the Commission by April 15, July 15, and October 15, 2005.

Response to Customer Complaints

One customer stated that the utility did not promptly address customer complaints. To investigate this concern, staff reviewed the customer complaint logs of the utility, DEP, and the Commission. In its MFRs, the utility listed 17 customer complaints that were received by the utility during the test year. Those complaints related to low water pressure, odor, no water service, wastewater backups or clogged lines needing repair, sand draining down the street, fill dirt needed for repairs, and a lift station alarm sounding. Staff reviewed the utility's records and it appears that the complaints were handled in a proper and timely manner. Staff also reviewed the DEP records and found no customer complaints on file.

The Commission's records indicate that 10 complaints were received from the utility's customers during the last 3 years (January, 2002 to October, 2004). The complaints received in early 2002 related to excess chlorine and low water pressure. Staff notes that these complaints were handled timely by the utility, but were filed prior to the purchase of the system by Utilities, Inc. in May, 2002. The remaining 6 complaints were filed in 2004. One dealt with a water outage, in which the customer stated that he received no notice for boil water requirements. Staff reviewed the utility's response and it appears that the utility properly notified DEP, as well as the customers, of the boil water requirements. The other 5 complaints related to the interim rate increase and the reported consumption data reflected on the bills. Of the 6 complaints filed in 2004 with the Commission, staff notes that the utility responded late to 3 and failed to respond to 1.

Staff contacted the utility regarding the late responses to customer complaints. By e-mail dated November 18, 2004, the utility stated that due to administrative oversights, the responses to these complaints were not filed with the Commission by the due date. On a going-forward basis, the utility has created a filing system to track all Commission complaints received. Further, the utility stated that two employees will check the log daily to ensure that responses are filed on time. Labrador has assured staff that they will take these steps to timely file any required responses to Commission complaints.

While the utility has not promptly responded to the customer complaints that it has received in 2004, staff is satisfied with its efforts taken to ensure prompt responses in the future. Further, staff notes that there have only been 10 complaints filed with the Commission in the last 3 years and none were filed in 2003. With the utility's assurance that future responses will be provided on a timely basis, staff recommends that the utility's response to customer complaints should be considered satisfactory.

Summary

Based on staff's analysis of the water and wastewater facilities, it appears that all systems are operating properly and in compliance with DEP standards. In addition, staff believes that the utility is actively attempting to respond promptly to customers concerns. Therefore, staff recommends that the utility's overall quality of service should be considered satisfactory. However, staff recommends that Labrador develop a plan and test all of its meters by June 30, 2005, and make any necessary repairs or adjustments. Pursuant to Rule 25-30.267, Florida Administrative Code, the utility shall maintain a log of all meters tested. Further, staff also requests that the utility provide a copy of the meter log and a status report that reflects the number of meters tested by month, including the number that were repaired or replaced as a result of the tests. The log and updated reports should be filed with the Commission by April 15, July 15, and October 15, 2005.

Rate Base

Issue 2: Are any adjustments necessary to plant?

Recommendation: Yes. The following adjustments should be made: (Greene)

	<u>Plant</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>
Misc. Plant (AE 1 & 2) – Water	(\$16,684)	(\$1,628)	(\$3,680)
Misc. Plant (AE 1 & 2) – Wastewater	(\$6,654)	\$11,954	(\$559)
Remove Averaging Adjustment & Correct 2003 year end balance – Water	(\$41,566)	(\$32,563)	\$0
Remove Averaging Adjustment & Correct 2003 year end balance – Wastewater	\$18,676	(\$22,324)	\$0
Reflect 2004 Pro forma Expense – Water	\$0	\$600	(\$1,200)
Reflect 2004 Pro forma Exp. – Wastewater	\$0	(\$1,479)	\$2,959

Staff Analysis: The staff auditors reviewed the utility's rate base accounts to determine the appropriate balances for 2003 and pro forma 2004 plant at the end of the year. The audit report contained several recommended adjustments, the majority of which the utility agreed to make. Listed below are the adjustments per the audit, additional staff adjustments and staff's total recommended adjustments.

Miscellaneous Plant

In Audit Exceptions No. 1 and 2, the staff auditors recommended several adjustments to remove misclassified plant and unsupported plant, particularly all of the reported transportation plant. The utility agreed that adjustments should be made to these accounts, with the exception of a \$534 reduction to transportation plant. The utility submitted an invoice to support this plant item, but the copy quality was poor. Nevertheless, the invoice amount did not agree with the \$534 amount charged to Labrador. As such, staff agrees with the auditor that the total transportation equipment account was unsupported. Staff notes that the auditor did not allocate the adjustment to transportation equipment between water and wastewater. Thus, staff has reflected the proper allocation in our recommended adjustment. Below are staff's recommended average adjustments, which are reflected as adjustments to rate base. The year-end adjustments are shown to allow the utility to correct its books.

	<u>Year End Adjustment per Staff</u>	<u>Average Adjustment per Staff</u>
Miscellaneous Plant – <u>Exceptions No. 1 and 2</u>		
Plant – Water	(\$21,510)	(\$16,684)
Plant – Wastewater	(\$3,972)	(\$6,654)
Accumulated Depreciation – Water	(\$6,756)	(\$1,628)
Accumulated Depreciation – Wastewater	\$20,610	\$11,954
Depreciation Expense – Water	(\$3,680)	\$0
Depreciation Expense – Wastewater	(\$559)	\$0

Pro forma 2004 Plant Additions

In its MFRs, the utility requested pro forma plant additions of \$135,801 for water and \$164,157 for wastewater. In Audit Disclosures No. 1 and 2, the auditors recommended adjustments to reflect actual costs above those projected, and removed those projects that were improperly supported. The auditor recommended total pro forma plant additions of \$22,510 for water and \$153,183 for wastewater. In addition, the auditors stated that the utility should have included retirements to Account Nos. 311, 330 and 333, for the 2004 pro forma plant improvements. The utility agreed that retirements should be made to these accounts.

Staff asked the utility to provide a detailed description of each pro forma plant item, including its purpose, a statement as to why it should be considered in this rate case, copies of all signed contracts directly related to the addition of each plant project, and the projected in-service date for each project. In its response, the utility included a description, justification, projected cost, and expected completion date for each project. Staff notes that the utility requested recovery of 17 pro forma plant additions of which 13 are in service and four are projected to be completed in January, 2005.

After reviewing the utility's response, staff believes that the utility's requested pro forma plant additions are reasonable and prudent. Staff notes that none of the pro forma plant additions are required by DEP. These additions appear to be normal recurring plant items. Further, staff believes that to add only plant and accumulated depreciation related to the pro forma plant on a year-end basis ignores the additional year of depreciation received from the 2003 plant carried forward to 2004. Staff believes that it is reasonable to allow recovery of the 2004 pro forma plant and accumulated depreciation, but those amounts should be reflected on an average basis. Further, the incremental depreciation on 2003 additions should be included in accumulated depreciation. Staff believes that this is a fair presentation because the utility has little growth, the plant additions appear prudent, and the additional year of depreciation expense funded by rates has been reflected. Staff's recommended adjustments are shown below:

Pro forma Plant Additions – <u>Disclosure No. 1 & 2</u>	P/F per <u>Utility</u>	P/F per <u>Staff</u>	Staff <u>Adjustments</u>
Pro forma Plant – Water	\$135,800	\$65,651	(\$70,150)
Pro forma Plant – Wastewater	\$164,158	\$97,760	(\$66,372)
Accumulated Depreciation – Water	(\$6,761)	\$1,149	\$7,910
Accumulated Depreciation – Wastewater	(\$11,015)	(\$5,133)	\$5,882
Depreciation Expense – Water	\$6,761	\$3,148	(\$3,613)
Depreciation Expense – Wastewater	\$11,015	\$5,133	(\$5,882)

Summary

Below is a summary of staff's recommended adjustments to plant, accumulated depreciation and depreciation expense.

	<u>Plant</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>
Misc. Plant (AE 1 & 2) – Water	(\$16,684)	(\$1,628)	(\$3,680)
Misc. Plant (AE 1 & 2) – Wastewater	(\$6,654)	\$11,954	(\$559)
Remove Averaging Adjustment & Correct 2003 year end balance – Water	(\$41,566)	(\$32,563)	\$0
Remove Averaging Adjustment & Correct 2003 year end balance – Wastewater	\$18,676	(\$22,324)	\$0
Reflect 2004 Pro forma Expense – Water	\$0	\$600	(\$1,200)
Reflect 2004 Pro forma Exp. – Wastewater	\$0	(\$1,479)	\$2,959

Issue 3: Should any adjustments be made to the utility's common plant allocations?

Recommendation: Yes. To properly reflect Labrador's portion of Water Services Corporation's (WSC) allocated rate base, plant should be decreased by \$895 and \$860 for water and wastewater, respectively. Additionally, Utilities, Inc. of Florida's (UIF) allocated common plant should be decreased by \$2,841 for water and \$3,341 for wastewater, and accumulated depreciation should be decreased by \$791 and \$922 for water and wastewater, respectively. WSC's common operation and maintenance (O&M) expenses should be reduced by \$3,940 and \$3,785 for water and wastewater, respectively. (Greene)

Staff Analysis: WSC is a Utilities, Inc. (UI) subsidiary that provides administrative services to UI's operating subsidiaries. WSC allocates common rate base and expenses based on customer equivalents (CEs) primarily, but does utilize other methodologies to allocate computer costs and insurance expenses. UIF also allocates common plant and accumulated depreciation based on a percentage of Labrador's CEs to total Florida CEs. In its MFRs, the utility reflected allocated WSC rate base of \$6,871 for water and \$6,900 for wastewater. The allocation of UIF common plant and accumulated depreciation was \$14,025 and \$3,706, respectively, for water, and \$14,086 and \$3,723, respectively, for wastewater. Staff believes adjustments are necessary to the WSC and UIF allocations to Labrador, as set forth below.

WSC

First, staff believes UI overstated the number of CEs for Labrador and its other Florida subsidiaries. CEs are calculated by multiplying the number of customers for each system by a customer factor. The utility uses a factor of 1.0 for a water or wastewater only customer and 1.5 for a water and wastewater customer. Using this methodology, UI determined Labrador's 2003 CEs to be 1,757 (1,171 customers multiplied by 1.5). After reviewing the utility's methodology, staff believes that the utility erred in counting Labrador's customers. The utility counted the RV Resort as 274 customers, because the utility bills the RV Resort based on the number of lots under the current rate structure. However, service is provided to the 274 lots of the RV Resort through one 6-inch master-meter. Staff believes that instead of counting lots behind the meter, it is more reasonable to use meter equivalents prior to applying the utility's customer factor. Thus, the RV Resort should be counted as 50 ERCs, which is the meter equivalency factor for a 6-inch meter pursuant to Rule 25-30.055(1)(b), Florida Administrative Code.

Additionally, the utility erred in using the 1.5 factor when the utility services water only customers, as well as water and wastewater customers. In its annual report, Labrador reflects 972 water meter equivalents and 947 wastewater meter equivalents. In order to properly spread costs to customers and calculate the proper CEs, staff believes that the utility should use factors of 1.5 for its 972 water and wastewater meter equivalents and 1.0 for its 25 water only meter equivalents. Thus, applying the utility's allocation factors to the number of meter equivalents in its annual report, staff recommends that Labrador's total CEs should be 1,446. To be consistent with this methodology, staff recommends that the total CEs for UI's Florida subsidiaries should also be calculated using meter equivalents. Using the annual reports on file with the Commission, staff calculated UI's total Florida subsidiaries' CEs to be 64,130.

Second, staff believes UI used an improper cutoff date to determine which subsidiaries should be included in the allocation process. UI uses a June 30 cutoff date for this purpose. UI asserted that a cutoff date after June 30 would unfairly allocate expenses to a subsidiary that was owned for less than six months. UI stated that it previously considered including newly acquired companies based on the date of acquisition, using a weighted average, but rejected that method as too cumbersome. Staff believes that a June 30 cutoff for determining the CEs for each system does not adequately spread each year's common costs. Since the test year in this docket is December 31, 2003, staff believes it would be inappropriate to exclude the additional CEs from the allocation process because resources were expended for those customers during 2003. Staff notes that UI acquired Utilities, Inc. of Pennbrooke and Utilities, Inc. of Hutchinson Island after June 30. The total CEs for these systems are 1,908. We have added these CEs to the total Florida CEs in order to spread the costs allocated to Labrador.

Third, UI allocated excess liability insurance based on a weighted factor of the number of miles of sewer mains, gallons of water sold, and operator's salary. In response to staff's discovery, Labrador stated that its MFR Schedule E-14 incorrectly reflected gallons of water sold and that the correct gallons sold for 2003 was 33,888,000 as shown on MFR schedule E-2. Regarding operator salaries, staff notes that UI excluded operator salaries for the additional Florida utilities acquired after June 30, 2003. Staff believes it would create a mismatch if the sewer mains, water sold, and salaries for the additional utilities were not considered in the allocation process. Accordingly, staff reflected the correct amounts for gallons of water sold and the incremental salaries related to the systems acquired after June 30, 2003.

Fourth, WSC allocated worker's compensation insurance based on operator salaries only. This insurance also applies to office employees. Staff believes it is appropriate to allocate this insurance based on operator and office salaries and has made adjustments accordingly.

By applying the above adjustments to the utility's allocation methodology, staff recommends that WSC rate base should be decreased by \$895 and \$860 for water and wastewater, respectively. Staff notes that this adjustment is based on net plant and no further adjustments are required to accumulated depreciation and depreciation expense. In addition, staff recommends that WSC common O&M expenses should be reduced by \$3,940 and \$3,785 for water and wastewater, respectively.

UIF

UIF allocates common plant and accumulated depreciation based on a percentage of Labrador's CEs to total Florida customers, calculated by UIF as 2.84%. This 2.81 percentage is calculated by dividing Labrador's CEs (2,344) by total UIF CEs (83,520). Based on the recommended adjustments to CEs discussed above regarding WSC allocations, we believe that corresponding adjustments to UIF's allocated common plant are necessary. Staff has recalculated the percentage and recommends applying 1.95% to UIF common plant and accumulated depreciation.

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Using the recalculated percentage, staff recommends that plant should be reduced by \$2,841 for water and \$3,341 for wastewater. Accumulated depreciation should be reduced by \$791 and \$922 for water and wastewater, respectively.

Summary

To properly reflect Labrador's portion of WSC's allocated rate base, plant should be decreased by \$895 and \$860 for water and wastewater, respectively. Additionally, UIF's allocated common plant should be decreased by \$2,841 for water and \$3,341 for wastewater. Accumulated depreciation should be decreased by \$791 and \$922 for water and wastewater, respectively. Labrador's share of WSC common O&M expenses should be reduced by \$3,940 and \$3,785 for water and wastewater, respectively.

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

Recommendation: Labrador's used and useful percentages should be as follows:

Water Treatment Plant	100.00%
Wastewater Treatment Plant	79.94%
Reuse Facilities	100.00%
Water Distribution and Wastewater Collection Systems	100.00%

Wastewater rate base should be reduced by \$146,215 to reflect that 20.06% of treatment and disposal equipment should be considered non-used and useful. Corresponding adjustments should also be made to reduce wastewater depreciation expense and property tax expense by \$10,985 and \$2,292, respectively. (Merchant, G. Edwards).

Staff Analysis: In its filing, the utility stated that its water and wastewater treatment plants, distribution and collection systems, and reuse facilities are 100% percent used and useful. Staff has analyzed the utility's request and our recommendation is discussed below.

Water Treatment Plant

The utility calculated the used and useful percentage for the water treatment plant by taking the peak demand, adding a fire flow allowance, and dividing the sum by the firm reliable capacity of the plant. The peak demand is based on the average of the 5 highest days of the peak month of January during the test year. The required fire flow allowance is 500 gallons per minute (gpm) to be maintained for two hours, or 60,000 gallons per day (gpd). The utility stated that its firm reliable capacity for the water plant is 288,000 gpd. This is based on the assumption that if its larger 440 gpm well is taken off-line, its smaller 200 gpm well would be used for 24 hours per day. Additionally, the utility did not include a growth margin in its calculation. Without fire flow or a growth allowance, the utility's calculation reflected 100% used and useful.

Staff has reviewed the utility's calculation, and we believe it is consistent with the Commission's practice of calculating used and useful for a water treatment plant. While staff's calculation would reflect minor adjustments, the result is still 100%. Based on the above, staff recommends that the water treatment plant should be deemed 100% used and useful.

Wastewater Treatment Plant

Pursuant to Rule 25-30.432, Florida Administrative Code, used and useful percentages for a wastewater treatment plant shall be calculated by comparing test year flows to the DEP permitted capacity, using the same method of measuring flows. The rule further states that the Commission will consider other factors including growth, infiltration and inflow, whether the service area is built-out, whether the permitted capacity differs from the design capacity, differences between components, and whether flows have decreased.

In its MFRs, the utility provided a used and useful calculation of 77% for the wastewater treatment plant. It divided the maximum month average daily flow (MMADF) of 166,065 gpd by the DEP permitted capacity 216,000 gpd MMADF. Notwithstanding this calculation, the utility believes that the plant should be considered 100% used and useful. The utility stated that the wastewater treatment plant capacity is substantially less than the design criterion and believes that the community is virtually built-out. Further, the facilities, as purchased, were designed to serve the community at build-out.

Rule 25-30.432, Florida Administrative Code, does allow the Commission to consider the design criteria of a plant and whether the service area is built-out when determining used and useful. However, the utility's MFRs did not provide any supporting arguments, other than the statement that its wastewater plant design capacity is greater than its permitted capacity. Staff does not believe that this statement provides sufficient support for deviating from a calculation based on a comparison of flows with the permitted capacity.

Staff has reviewed the utility's original calculation, which includes the proper MMADF of 166,065 gpd in the numerator and permitted capacity of 216,000 gpd in the denominator. Staff has also reviewed the utility's calculations for infiltration and inflow and we agree that the levels are reasonable and that no adjustment is necessary.

Based on staff's field investigation, we disagree with the utility's statement that the service territory is built-out. The Co-Op owns an 11.6 acre parcel of land, which is vacant and zoned as a future commercial site. Vacant lots are also located in the MH Park. Based on the above, staff believes that there is potential for growth in the service area. Accordingly, staff believes that it is appropriate to include a growth allowance in the used and useful calculation. The utility's MFRs stated that insufficient data was available to perform a regression analysis of growth, because it has only owned the system since 2002. As such, staff took the test year growth of 7 customers and applied the average consumption of 189 gpd per equivalent residential connection (ERC). After applying the 5-year statutory growth allowance, staff recommends that the growth allowance should be 6,615 gpd (7 ERCs x 189 gpd/ERC x 5 years).

Based on the above, staff recommends that the wastewater treatment plant should be deemed 79.94% used and useful. Wastewater rate base should be reduced by \$146,215 to reflect that 20.06% of treatment and disposal equipment is not used and useful. Corresponding adjustments should also be made to reduce depreciation expense and property tax expense by \$10,985 and \$2,292, respectively.

Reuse

According to Section 367.0817(3), Florida Statutes, the prudent costs of a reuse project shall be recovered in rates. The utility's reuse facilities consist of two percolation ponds, a slow drip field, and a non-public access sprayfield. Based on staff's review, the utility's reuse facilities appear to be prudent and should be considered 100% used and useful.

Water Distribution and Wastewater Collection Systems

In its MFRs, the utility stated that the MH Park community is virtually built-out, having only one non-metered lot and 66 vacant lots (7% of the total lots) at the end of the test year. The RV Resort has 274 lots which are served by a master-meter. Labrador believes that the distribution and collection systems are 100% used and useful. The utility stated that all residential wastewater customers are water customers; therefore, only one calculation was necessary for the distribution and collection systems.

Staff calculated the used and useful percentage for the distribution and collection systems by adding the average number of the test year lots of 1,099 and the 35 ERCs for growth, discussed above. We then divided the sum by the total number of lots of 1,168, which results in 97.09% used and useful. Consistent with Commission practice, any percentage above 95% should be considered 100%. (See Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS. In re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties, at p. 75). Based on the above, staff recommends that the used and useful percentage for water distribution and wastewater collection systems should be 100%.

Summary

Staff recommends that Labrador's used and useful percentages should be as follows:

Water Treatment Plant	100.00%
Wastewater Treatment Plant	79.94%
Reuse Facilities	100.00%
Water Distribution and Wastewater Collection Systems	100.00%

Wastewater rate base should be reduced by \$146,215 to reflect that 20.06% of treatment and disposal equipment is not used and useful. Corresponding adjustments should also be made to reduce wastewater depreciation expense and property tax expense by \$10,985 and \$2,292, respectively.

Issue 5: What is the appropriate working capital allowance?

Recommendation: The appropriate amount of working capital is \$9,968 for water and \$16,321 for wastewater. (Greene)

Staff Analysis: Rule 25-30.433(2), Florida Administrative Code, requires that Class B utilities use the formula method (one-eighth of O&M expenses) to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula method and requested \$13,341 for water and \$20,226 for wastewater. In other issues, staff has recommended several adjustments to the utility's O&M expenses. Due to those adjustments, staff recommends that working capital of \$9,968 and \$16,321 should be approved for water and wastewater, respectively. This reflects a decrease of \$3,373 for water and \$3,905 for wastewater.

Issue 6: What is the appropriate rate base?

Recommendation: Consistent with staff's recommended adjustments in other issues, the appropriate simple average rate base for the test year ended December 31, 2003, is \$379,797 for water and \$939,190 for wastewater. (Greene)

Staff Analysis: Consistent with staff's recommended adjustments in other issues, the appropriate simple average rate base for the test year ended December 31, 2003, is \$379,797 for water and \$939,190 for wastewater. Staff's recommended water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B, respectively. The adjustments are shown on Schedule 1-C.

Cost of Capital

Issue 7: Are any adjustments necessary to Labrador's capital structure and what is the appropriate return on equity and weighted cost of capital for the test year ended December 31, 2003?

Recommendation: Total UI short-term debt of \$1,047,000 at a cost rate of 4.95% should be included in Labrador's capital structure at its prorated share. Deferred taxes should be increased by \$30,746 to reflect the special tax depreciation allowance on historical and recommended pro forma plant. The appropriate cost of equity should be 11.35%, with a range of 10.35% to 12.35%, and the overall cost of capital should be 8.63%, with a range of 8.24% to 9.02%. (Greene)

Staff Analysis: In its MFRs, the utility used the debt and equity ratios of its parent, UI, to prorate Labrador's share of the parent's capital. The utility did not include short-term debt in its capital structure. Using the Commission's 2003 leverage formula, the utility reflected a cost of capital of 11.92% for equity, and requested an overall cost of capital of 9.11%.

The utility and staff agree that Labrador's cost of capital should include an allocated share of the short-term debt from UI's capital structure. UI's short-term debt balance was \$1,047,000 with a cost rate of 4.95%. Using the general ledger average balances and the interest rate requirements stated on the debt agreement, staff recommends that short-term debt should be included in Labrador's allocated capital structure at a cost rate of 4.95%.

In its MFRs, the utility did not reflect the special tax depreciation allowance related to its requested pro forma plant in its deferred taxes. To correct this, staff recommends that deferred taxes should be increased by \$30,746 to reflect the impact of the utility's claim of a special tax depreciation allowance on historical plant, as well as for staff's recommended balance on pro forma plant.

The current leverage formula was approved by Order No. PSC-04-0587-PAA-WS, issued June 10, 2004, in Docket No. 040006-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. Based on the current leverage formula and the utility's equity ratio, staff recommends the appropriate cost of equity should be 11.35%, with a range of 10.35% to 12.35%. Based on the above, staff recommends that the overall cost of capital should be 8.63%, with a range of 8.24% to 9.02%. Staff's recommended cost of capital is shown on Schedule No. 2.

Net Operating Income

Issue 8: Should an adjustment be made to employee salaries and benefits?

Recommendation: Yes. Employee salaries should be decreased by \$4,197 for water and \$4,032 for wastewater. Corresponding adjustments should also be made to reduce pensions and benefits by \$122 for water and \$117 for wastewater and employee insurance costs by \$625 and \$600 for water and wastewater, respectively. Corresponding reductions of \$255 and \$245 should also be made to payroll taxes for water and wastewater, respectively. (Greene)

Staff Analysis: In its MFRs, the utility reflected adjusted employee salaries of \$23,142 for water and \$10,054 for wastewater. In addition, Labrador made pro forma adjustments to employee salaries and benefits by 3%. This results in an increase of \$2,511 for water and \$2,124 for wastewater.

Each year, the utility allocates salaries and benefits by computing a weighted average factor of CEs for each UI system for which an employee performs services. It then allocates the salary and benefits for each employee by this factor. In Issue 3, staff recommended adjustments to CEs for Labrador and all Florida subsidiaries of UI.

Based on staff's adjustments to CEs as discussed in Issue 3, we believe corresponding adjustments to salaries, benefits, and insurance costs are necessary to reflect the appropriate test year salary levels. Employee salaries should be decreased by \$4,197 for water and \$4,032 for wastewater. Corresponding adjustments should also be made to reduce pensions and benefits by \$122 for water and \$117 for wastewater and employee insurance costs by \$625 and \$600 for water and wastewater, respectively. Corresponding reduction of \$255 and \$245 should also be made to payroll taxes for water and wastewater, respectively.

Issue 9: Should adjustments be made to purchased power expense?

Recommendation: Yes. To remove out-of-period costs from test year expenses, the utility should reduce purchased power expense by \$514 for water and \$1,471 for wastewater. Wastewater purchased power should also be reduced by \$4,045 to reflect the cost savings associated with combining two electric meters into one service meter for the wastewater treatment plant. (Greene)

Staff Analysis: In Audit Exception No. 6, staff auditors recommended reductions to purchased power expense to remove out-of-period expenses. As a result, the staff auditors recommended reductions to purchased power expense of \$514 and \$1,471 for water and wastewater, respectively. In its response, Labrador agreed with the auditors' recommendation. Based on the above, staff recommends that purchase power expense should be reduced by \$514 for water and \$1,471 for wastewater.

In Audit Disclosure No. 3, staff auditors stated that in May 2004, upon completion of several electric service modifications at the wastewater treatment plant, the utility consolidated its two electric service meters into one meter with the Withlacoochee River Electric Cooperative. Prior to the consolidation, the utility was billed under two different rate structures at the wastewater plant. Afterward, it was billed under one rate structure. The auditors recommended that staff review the effect of the above changes on a going-forward basis.

Staff has analyzed the impact of the consolidated meter and calculated an estimated monthly savings of \$310, before taxes. These savings are very similar to those calculated by the utility, as reflected in the utility's response to staff's data requests. After adding taxes, staff believes that wastewater purchased power expense on a going-forward basis will be reduced by \$4,045 annually. Thus, we recommend this known and measurable change be reflected in test year expenses.

Issue 10: Should an adjustment be made for excessive unaccounted water?

Recommendation: Yes. Labrador has 6.33% excessive unaccounted water. Therefore, purchased power and chemicals should be reduced by \$814. (Merchant, G. Edwards)

Staff Analysis: It is Commission practice to allow 10% of total water treated as an acceptable level of unaccounted water. In most instances, the chemical and electrical costs associated with unaccounted water in excess of 10% have been reduced by the Commission so that ratepayers do not bear those excessive costs.

In its MFRs, the utility indicated that the test year unaccounted water was 16.33%, and that the utility believes that 12.50% is an acceptable level for unaccounted water. However, it made no reduction to chemicals or purchased power expenses. Further, the utility stated that because current rates are flat, the utility has no information upon which to investigate excess unaccounted water levels. Since meters are now being read and consumption-based rates will be implemented in this case, the utility will be able to better address variances in water pumped compared to water sold. Staff notes that an excess unaccounted water adjustment has no impact on the calculation of used and useful water plant because the utility's demand was much greater than its firm reliable capacity.

Staff believes that while the 12.5% goal advocated by the utility for unaccounted water has merit, utilities should be encouraged to aggressively seek a goal of 10% or less. Water conservation is becoming increasingly important and staff believes that utilities should make extra effort to track water sales, record water losses, and be vigilant to reduce those excessive amounts of unaccounted water. See 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. Based on the above, staff recommends that the adjusted expenses for purchased power and chemicals should be reduced by 6.33%, or \$814.

Issue 11: Should an adjustment be made to the utility's land lease expense?

Recommendation: Yes. For rate setting purposes, the utility's annual land lease expense should be \$25,920. The utility's test year land lease expense should be reduced by \$7,811 for water and \$8,419 for wastewater. (Greene)

Staff Analysis: In 1989, Mr. Henri Viau acquired ownership of the Forest Lake Estates, Inc., (MH Park), and Forest Lake Village, Inc., (RV Resort), communities and the water and wastewater facilities that provided service to these communities.

On June 10, 1999, Mr. Viau sold the community and land, exclusive of the utility facilities, to the Forest Lake Estates Co-Op, Inc. (Co-Op). At that time, the Co-Op consisted of homeowners in approximately 240 of the nearly 900 lots in the MH Park. The transaction included the land under the lots in the MH Park and the RV Resort, as well as the land under the water and wastewater facilities. The Co-Op had until January 1, 2000, to exercise an option to purchase the utility facilities. When the time period expired without the Co-Op exercising its option, Mr. Viau filed for water and wastewater certificates with the Commission. By Order No. PSC-01-1483-PAA-WS, issued July 16, 2001, in Docket No. 000545-WS, In Re: Application for original certificates to operate a water and wastewater utility in Pasco County by Labrador Services, Inc., the Commission granted original certificates to Labrador.

Section 367.1213, Florida Statutes, requires water and wastewater utilities to either own or possess the right to continued use of the land on which treatment facilities are located. As part of the certificate review process, Mr. Viau entered into a lease agreement with the Co-Op for 99 years commencing on June 10, 1999, for \$3,500 per month or \$42,000 per year. In 2002, the utility's assets were sold to UI, and UI took assignment of the lease from Mr. Viau. On June 4, 2002, an application was filed for authority to transfer Labrador Services, Inc.'s facilities and certificates to Labrador Utilities, Inc. By Order No. PSC-03-0638-PAA-WS, issued May 27, 2003, in Docket No. 020484-WS, In Re: Application for transfer of facilities and Certificates Nos. 616-W and 530-S from Labrador Services, Inc. to Labrador Utilities, Inc. in Pasco County, the Commission approved the transfer of the facilities and certificates of Labrador Services, Inc. to Labrador Utilities, Inc. In that order, the Commission acknowledged the existence and amount of the lease.

Staff notes that the rates previously established and grandfathered by the original certificate docket were not cost-based. As such, this lease expense has never been included in rates nor has the Commission ever considered the reasonableness of the lease amount.

Staff and the utility agree that the date the land was devoted to public service was 1986 for the water and wastewater treatment plants and 1997 for the sprayfield. These are the dates the facilities were first permitted by DEP. Staff asked the utility for documentation showing the original cost of the land for those two years or an appraisal if documentation could not be found. The utility responded that it was having an appraisal performed to support the original cost.

To date, staff has not received an appraisal, so we contacted the Pasco County's Tax Appraisal Office to obtain information on recent lot sales adjacent to the utility's facilities. Staff

found three land sales in the area ranging from \$30,400 for 2.6 acres to \$56,500 for 17.5 acres, which occurred during 2002 and 2004. These 3 sales were zoned agricultural. Staff notes that the utility's water and wastewater treatment facilities and sprayfield are also zoned agricultural by the Pasco County Tax Appraisal Office and we believe the above sales are comparable. According to the tax office, agricultural zoned lots located near the utility's facilities were sold for \$4,400 to \$11,600 per acre in 2003.

Based on the above, staff calculated an average price per acre of \$8,478 for 2003. This price was discounted for the percentage change in the Consumer Price Index (CPI). Using the change in the CPI from 1986 to 2003, the 7.0 acre parcel would have a value of \$36,155. Additionally, the utility states that 60.0 acres of its sprayfield are used and useful. However, the DEP states that the utility's sprayfield consists of 34.7 acres and only that portion of the property should be the subject of the lease payment. Based on the change in the CPI from 1997 to 2003, staff believes that a reasonable value for the 34.7 acre parcel would be \$262,462. Since the utility neither provided documentation on the original cost of its facilities and sprayfield nor provided staff with an appraisal, staff recommends that a reasonable estimate of the original value of land for the water and wastewater treatment plants and its sprayfield is \$298,617.

In Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, In Re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc., the Commission found that the maximum lease amount should be the annual rate of return, based on the utility's capital structure, times the original cost of the land when placed in service. Staff has recommended that the utility's approved rate of return should be 8.63%. Thus, the utility's land lease expense should be \$25,920. In order to effectively spread costs to all customers, lease expense should be allocated \$13,219 and \$12,701 for water and wastewater, respectively. This is the same allocation methodology used by the utility for its lease expense.

Based on the above, for rate setting purposes, the utility's annual land lease expense should be \$25,920. The utility's test year lease expense should be reduced by \$7,811 for water and \$8,419 for wastewater.

Issue 12: What is the appropriate amount of rate case expense?

Recommendation: The appropriate rate case expense for this docket is \$68,988. This expense is to be recovered over four years for an annual expense of \$17,247. Thus, rate case expense should be reduced by \$3,861 and \$4,260 for water and wastewater, respectively. (Greene)

Staff Analysis: In its MFRs, the utility reflected a \$100,554 estimate for rate case expense to process this case. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as an estimated amount to complete the case. The utility submitted a revised estimated rate case expense through completion of the PAA process of \$93,280. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses for the current rate case. Staff believes that the revised estimate is reasonable with three exceptions, as discussed below.

Staff's first adjustment relates to rate case expense incurred to correct deficiencies in the MFR filing. Staff reviewed the utility's responses to staff's data requests and calculated that the attorneys spent 7.10 hours and WSC employees spent 40 hours correcting MFR deficiencies and revising the utility's filing. Staff recommends a reduction of \$1,704 and \$434 in attorney fees and expenses, respectively. WSC in-house fees should also be reduced by \$2,180. Staff believes that the costs associated with correcting MFR deficiencies are duplicative and unreasonable. Accordingly, staff recommends that these costs should be removed from rate case expense.

Second, the utility's attorneys estimated \$12,000 in fees and \$1,000 in expenses to complete the rate case. Staff reviewed these requested legal expenses, and we believe that 40 hours is a reasonable amount for responses to data requests, review of the PAA recommendation, and travel to agenda. This amounts to \$9,600 of rate case expense. Regarding miscellaneous expenses, staff has analyzed the attorneys' estimate, and we believe that a reasonable cost for one person traveling from Orlando to Tallahassee, including meals, vehicle mileage and 1 day's lodging, is \$414. We also believe that \$150 is a reasonable estimate for any additional photocopies. Staff notes that the filing fee of \$4,000 was included in both the miscellaneous legal expenses and as a separate line item. To avoid double counting these amounts, staff recommends it should be removed from legal fees. Thus, staff recommends that, in total, \$8,974 should be removed from the requested rate case expense for legal fees.

Third, the utility submitted documentation supporting actual WSC in-house fees of \$18,651 and an estimate of remaining costs to complete of \$12,800, for a total of \$31,451. We believe that the utility made a mathematical error in calculating its actual fees. Staff recalculated the utility's actual hours worked per employee and we believe that the actual fees should be \$13,627. This results in a reduction of \$5,024. Additionally, the utility estimated that 250 hours would be incurred to complete the case for WSC employees. Staff reviewed the utility's estimate and we believe that 92 hours is reasonable to allow the utility to respond data requests, review the PAA recommendation, and travel to agenda. By applying the individual employee rates, staff recommends that the estimated WSC fees to complete should be \$5,217. Thus, the utility's requested of expense of \$12,800 should be reduced by \$7,583. Adding in the adjustment for MFR deficiencies, staff recommends a total adjustment to WSC in-house fees of \$14,787.

For miscellaneous rate case expenses, the utility requested \$2,990 in actual and estimated costs to complete. Staff has reviewed the utility's request and we believe that a reasonable cost for one person traveling from Illinois to Florida, including meals, flight, car rental, parking, and lodging, is \$750. We also believe that \$327 is a reasonable estimate for any additional postage for notices. Accordingly, staff recommends that miscellaneous expenses of \$2,459 are reasonable and should be allowed. As such, the utility's requested miscellaneous expenses should be reduced by \$532 as unsupported and unreasonable rate case expense.

In summary, staff recommends that the utility's revised rate case expense should be reduced by \$24,293 for MFR deficiencies and unreasonable rate case expense. The appropriate total rate case expense is \$68,988. A breakdown of the allowance of rate case expense is as follows:

	MFR Estimated	Utility Revised Actual & Estimated	Staff Adjustments	Total
Filing Fee	\$4,000	\$4,000	\$0	\$4,000
Legal Fees	45,000	49,816	(8,974)	40,842
Consultant Fees	12,000	5,023	0	5,023
WSC In-house Fees	22,304	31,451	(14,787)	16,664
Miscellaneous Expense	<u>19,250</u>	<u>2,990</u>	<u>(532)</u>	<u>2,459</u>
Total Rate Case Expense	<u>\$100,554</u>	<u>\$93,280</u>	<u>(\$24,293)</u>	<u>\$68,988</u>
Amortization	<u>\$25,139</u>			<u>\$17,247</u>

The recommended total rate case expense should be amortized over four years, pursuant to Section 367.016, Florida Statutes. Based on the data provided by the utility and the staff recommended adjustments mentioned above, staff recommends annual rate case expense of \$17,247, or \$8,796 for water and \$8,451 for wastewater.

In its MFRs, the utility requested total rate case expense of \$100,554, which amortized over four years would be \$25,139. The utility actually included \$12,657 and \$12,711 for rate case expense in the test year for water and wastewater, respectively. Thus, rate case expense should be reduced by \$3,861 and \$4,260 for water and wastewater, respectively.

Issue 13: Are any adjustments necessary to taxes other than income?

Recommendation: Yes. Test year regulatory assessment fees should be increased by \$151 and \$350 for water and wastewater, respectively. Also, property taxes should be increased by \$2,810 for water and \$7,213 for wastewater. (Greene)

Staff Analysis: In Audit Exception 8, the auditors determined that that the utility understated its regulatory assessment fees and personal property tax expense. The utility agreed with these adjustments. Accordingly, staff recommends that test year regulatory assessment fees should be increased by \$151 and \$350 for water and wastewater, respectively and property taxes should be increased by \$2,810 for water and \$7,213 for wastewater.

Issue 14: What is the test year water and wastewater operating income before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, staff recommends that test year water and wastewater operating income before any provision for increased revenues should be (\$27,725) and (\$35,010) for water and wastewater, respectively. (Greene)

Staff Analysis: Staff recommends that the test year net operating income/loss before any revenue increase should be (\$27,725) and (\$35,010) for water and wastewater, respectively. Staff's recommended NOI is reflected on attached Schedules Nos. 3-A and 3-B with adjustments shown on Schedule No. 3-C

Revenue Requirement

Issue 15: What is the appropriate revenue requirement?

Recommendation: The following revenue requirement should be approved. (Greene)

	Test Year Revenues	\$ Increase	Revenue Requirement	% Increase
Water	\$55,451	\$101,594	\$157,075	183.12%
Wastewater	\$129,095	\$194,905	\$324,000	150.98%

Staff Analysis: Labrador requested final rates designed to generate annual revenues of \$199,958 and \$389,475 for water and wastewater, respectively. These revenues exceed test year revenues by \$144,477 (260.41%), and \$260,380 (201.70%) for water and wastewater, respectively.

Based upon staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates that are designed to generate a water revenue requirement of \$157,075, and a wastewater revenue requirement of \$324,000. These revenues exceed staff's adjusted test year revenues by \$10,594, or 183.12%, for water, and \$194,905, or 150.98%, for wastewater. These increases will allow the utility the opportunity to recover its expenses and earn an 8.63% return on its investment in water and wastewater rate base.

Rates and Rate Structure

Issue 16: What are the appropriate equivalent residential connections (ERCs) and gallons to be used for ratesetting for the water and wastewater systems?

Recommendation: The appropriate ERCs to be used for ratesetting purposes for the water and wastewater systems are 10,806 ERCs and 10,554 ERCs, respectively. The appropriate consumption, before repression, to be used for ratesetting purposes is 35,780.027 thousand gallons (kgals) for the water system and 26,252.130 kgals for the wastewater system. (Lingo)

Staff Analysis: Staff's analysis of this issue and our resulting recommendation is contained on Attachment A.

Issue 17: Should the utility's current rate structures for its water and wastewater systems be changed, and, if so, what are the appropriate rate structures for the respective systems?

Recommendation: The current flat rate structures for the water and wastewater systems should both be changed to the traditional base facility charge (BFC) / gallonage charge rate structure. The BFC cost recovery for the water system (pre-repression) should be set at 43%, while the BFC cost recovery for the wastewater system should be set at 40%. The water system should have uniform gallonage charges, while the wastewater system's General Service gallonage charges should be 20% greater than the corresponding rates for Residential Service. (Lingo)

Staff Analysis: Staff's analysis of this issue and our resulting recommendation is contained on Attachment B.

Issue 18: Are adjustments to reflect repression of consumption appropriate, and, if so, what are the appropriate adjustments for the respective water and wastewater systems?

Recommendation: Yes, adjustments to reflect repression of consumption are appropriate. For the water system, staff recommends a consumption reduction of approximately 7,684.4 kgals, resulting in total water consumption for ratesetting of 28,095.6 kgals. For the wastewater system, consumption should be reduced by 5,824.8 kgals; resulting in appropriate wastewater consumption to be used for ratesetting of 20,741.6 kgals. In order to monitor the effects of both the changes in rate structures and the revenue changes, the utility should prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning the first billing period after the approved rates go into effect. (Lingo)

Staff Analysis: Staff recommends an approximate reduction in water consumption for ratesetting of approximately 21.5%, and a corresponding reduction in wastewater consumption for ratesetting of approximately 21.9%. Staff's analysis of this issue and our resulting recommendation is contained on Attachment C.

Issue 19: What are the appropriate monthly rates for service for this utility?

Recommendation: The appropriate monthly rates are shown on Schedules Nos. 4-A and 4-B. Staff's recommended rates are designed to produce revenues of \$155,928 for water and \$321,337 for wastewater, excluding miscellaneous service charge revenues. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Lingo, Greene)

Staff Analysis: Staff's recommended revenue requirement is \$157,075 for water and \$324,000 for wastewater. After excluding miscellaneous service charges of \$1,147 and \$2,663 for water and wastewater, respectively, the revenue to be recovered through rates is \$155,928 for water and \$321,337 for wastewater.

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

Issue 20: In determining whether any portion of the interim revenue increases granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding pro forma adjustments and rate case expense. This revised revenue requirements for the interim collection period should be compared to the amount of interim revenues granted. Based on this calculation, the utility should be required to refund 29.84% of water interim revenues. This results in a refund of \$4.87 for each MH Park customer and \$890.38 for the RV Resort per month for the period interim rates have been in effect. Since the revised wastewater revenues for the interim collection period are greater than the interim revenues, no interim refund is required for wastewater. The water refund should be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code. (Greene)

Staff Analysis: By Order No. PSC-04-0200-PCO-WS, issued February 24, 2004, the Commission authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, Florida Statutes. The approved interim revenue requirements are shown below:

	Revenue <u>Requirement</u>	Revenue <u>Increase</u>	Percentage <u>Increase</u>
Water	\$193,837	\$141,117	267.67%
Wastewater	\$270,324	\$146,292	117.95%

According to Section 367.082(4), Florida Statutes, any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceedings 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 in which interim rates are in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim rates was the twelve-month period ended June 30, 2003, and the test period for final rates is the twelve-month period ended December 31, 2003. Labrador's approved interim rates did not include any provision for pro forma or projected operating expenses or plant. The interim increases were designed to allow recovery of actual interest costs and the floor of the last authorized range for equity earnings. To establish the proper refund amount, staff has calculated revised interim revenue requirements utilizing the same data used to establish final rates. Rate case expense, four pro forma projects not in service as of November 30, 2004, and the repression adjustment were excluded because those items are prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, staff has calculated the interim revenue requirement for the interim collection period to be \$136,342 for water and \$305,626 for wastewater. The water revenue levels are less than the interim revenues and the wastewater revenue levels are greater than the interim levels. Therefore, staff recommends a refund of

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29.84% of interim rates for water. This results in a refund of \$4.87 for each MH Park customer and \$890.38 for the RV Resort per month for the period interim rates have been in effect. Since the wastewater revenues for the interim collection period are greater than the interim revenues granted in Order No. PSC-04-0200-PCO-WS, no wastewater interim refund is required.

The water refund should be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. The utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

Issue 21: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

Recommendation: The rates should be reduced as shown on Schedule No. 4 to remove \$9,210 for water and \$8,849 for wastewater for rate case expense, grossed-up for regulatory assessment fees (RAFs), which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (Greene)

Staff Analysis: Section 367.0816, Florida Statutes, requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs, which is \$9,210 for water and \$8,849 for wastewater. The decreased revenues will result in the rate reduction recommended by staff on Schedule No. 4.

At the conclusion of the four-year amortization period, the utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

If the utility files documents reflecting 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 increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

Other Issues

Issue 22: Should the utility be required to provide proof that it has adjusted its books for all Commission approved adjustments?

Recommendation: Yes. To ensure that the utility adjusts its books in accordance with the Commission's decision, Labrador should provide proof, within 90 days of the issuance date of a final order in this docket, that the adjustments for all the applicable primary accounts have been made. (Greene)

Staff Analysis: To ensure that the utility adjusts its books in accordance with the Commission's decision, Labrador should provide proof, within 90 days of the issuance date of a final order in this docket, that the adjustments for all the applicable primary accounts have been made.

Issue 23: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action issues files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. Staff should be given administrative authority to verify that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and that the refund has been completed and verified by staff. Once these actions are complete, the corporate undertaking should be released. When the PAA issues are final and the refund, tariff, and notice actions are complete, this docket may be closed administratively. (C. Keating)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action issues files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. Staff should be given administrative authority to verify that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and that the refund has been completed and verified by staff. Once these actions are complete, the corporate undertaking should be released. When the PAA issues are final and the refund, tariff, and notice actions are complete, this docket may be closed administratively.

Labrador Utilities, Inc. Schedule of Water Rate Base			Schedule No. 1-A Test Year Ended 12/31/03		
<u>Description</u>	<u>Test Year Per Utility</u>	<u>Utility Adjust- ments</u>	<u>Adjusted Test Year Per Utility</u>	<u>Staff Adjust- ments</u>	<u>Staff Adjusted Test Year</u>
1 Plant in Service	\$471,086	\$103,751	\$574,837	(\$61,986)	\$512,851
2 Land and Land Rights	0	0	0	0	0
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(106,032)	(4,191)	(110,223)	(32,800)	(143,023)
5 CIAC	0	0	0	0	0
6 CWIP	24,313	(24,313)	0	0	0
7 Working Capital Allowance	<u>0</u>	<u>13,341</u>	<u>13,341</u>	<u>(3,373)</u>	<u>9,968</u>
8 Rate Base	<u>\$389,367</u>	<u>\$88,588</u>	<u>\$477,955</u>	<u>(\$98,158)</u>	<u>\$379,797</u>

Labrador Utilities, Inc. Schedule of Wastewater Rate Base				Schedule No. 1-B Test Year Ended 12/31/03	
<u>Description</u>	<u>Test Year Per Utility</u>	<u>Utility Adjust- ments</u>	<u>Adjusted Test Year Per Utility</u>	<u>Staff Adjust- ments</u>	<u>Staff Adjusted Test Year</u>
1 Plant in Service	\$1,257,522	\$194,691	\$1,452,213	\$7,821	\$1,460,034
2 Land and Land Rights	0	0	0	0	0
3 Non-used and Useful Components	0	0	0	(146,215)	(146,215)
4 Accumulated Depreciation	(302,950)	(77,073)	(380,023)	(10,927)	(390,950)
5 CIAC	0	0	0	0	0
6 CWIP	28,861	(28,861)	0	0	0
7 Working Capital Allowance	<u>0</u>	<u>20,226</u>	<u>20,226</u>	<u>(3,905)</u>	<u>16,321</u>
8 Rate Base	<u>\$983,433</u>	<u>\$108,983</u>	<u>\$1,092,416</u>	<u>(\$153,226)</u>	<u>\$939,190</u>

Labrador Utilities, Inc.		Schedule No. 1-C	
Adjustments to Rate Base		Docket No. 030443-WS	
Test Year Ended 12/31/03			
Explanation	Water	Wastewater	
<u>Plant in Service</u>			
Correct plant additions & retirements for 2003 (AE 1 & AE 2)- Average	(\$16,684)	(\$6,654)	
To remove average adjustments and correct 2003 year-end balance	(41,566)	18,676	
To reflect the appropriate WSC allocated rate base	(895)	(860)	
To reflect the appropriate UIF allocated plant	(2,841)	(3,341)	
Total	(\$61,986)	\$7,821	
<u>Non-used and Useful</u>			
To reflect net non-used and useful adjustment	0	(146,215)	
<u>Accumulated Depreciation</u>			
Correct plant additions & retirements for 2003 (AE 1 & AE 2)- Average	(\$1,628)	\$11,954	
To remove average adjustments and correct 2003 year-end balance	(32,563)	(22,324)	
To reflect 2004 depreciation expense	600	(1,479)	
To reflect the appropriate UIF allocated plant	791	922	
Total	(\$32,800)	(\$10,927)	
<u>Working Capital</u>			
Adjust working capital based on staff's adjusted O&M expenses	(\$3,373)	(\$3,905)	

Labrador Utilities, Inc. Statement of Water Operations Test Year Ended 12/31/03				Schedule No. 3-A Docket No. 030443-WS			
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$54,659</u>	<u>\$145,299</u>	<u>\$199,958</u>	\$	<u>\$55,481</u>	<u>\$101,594</u> 183.12%	<u>\$157,075</u>
2 Operating Expenses							
Operation & Maintenance	\$104,012	\$205	\$104,217	(\$24,472)	\$79,745		\$79,745
3 Depreciation	27,335	(4,341)	22,994	(4,880)	18,114		18,114
4 Amortization	(7,029)	7,029	0	0	0		0
5 Taxes Other Than Income	8,750	6,716	15,466	(3,796)	11,670	4,572	16,242
6 Income Taxes	(16,976)	30,728	13,752	(40,076)	(26,324)	36,510	10,186
7 Total Operating Expense	<u>116,092</u>	<u>40,337</u>	<u>156,429</u>	<u>(73,223)</u>	<u>83,206</u>	<u>41,081</u>	<u>124,287</u>
8 Operating Income	<u>(\$61,433)</u>	<u>\$104,962</u>	<u>\$43,529</u>	<u>(\$71,254)</u>	<u>(\$27,725)</u>	<u>\$60,513</u>	<u>\$32,789</u>
9 Rate Base	<u>\$389,367</u>		<u>\$477,955</u>		<u>\$379,797</u>		<u>\$379,797</u>
10 Rate of Return	<u>-15.78%</u>		<u>9.11%</u>		<u>-7.30%</u>		<u>8.63%</u>

Labrador Utilities, Inc. Statement of Wastewater Operations Test Year Ended 12/31/03							Schedule No. 3-B Docket No. 030443-WS	
Description		Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1	Operating Revenues:	<u>\$127,177</u>	<u>\$262,298</u>	5	<u>(\$260,380)</u>	<u>\$129,095</u>	<u>\$194,905</u> 150.98%	<u>\$324,000</u>
	Operating Expenses							
2	Operation & Maintenance	\$159,685	\$4,947	\$164 32	(\$34,068)	\$130,564		\$130,564
3	Depreciation	84,255	(20,304)	63 51	(8,585)	55,366		55,366
4	Amortization	231	(231)	0	0	0		0
5	Taxes Other Than Income	17,739	11,981	29,720	(6,691)	23,029	8,771	31,799
6	Income Taxes	<u>(27,326)</u>	<u>58,937</u>	<u>31,611</u>	<u>(76,465)</u>	<u>(44,854)</u>	<u>70,042</u>	<u>25,189</u>
7	Total Operating Expense	<u>234,584</u>	<u>55,330</u>	<u>289,914</u>	<u>(125,809)</u>	<u>164,105</u>	<u>78,813</u>	<u>242,918</u>
8	Operating Income	<u>(\$107,407)</u>	<u>\$206,968</u>	<u>\$99,561</u>	<u>(\$134,571)</u>	<u>(\$35,010)</u>	<u>\$116,092</u>	<u>\$81,082</u>
9	Rate Base	<u>\$983,433</u>		<u>\$1,092,416</u>		<u>\$939,190</u>		<u>\$939,190</u>
10	Rate of Return	<u>-10.92%</u>		<u>9.11%</u>		<u>-3.73%</u>		<u>8.63%</u>

Labrador Utilities, Inc.
Adjustment to Operating Income
Test Year Ended 12/31/03

Schedule 3-C
Docket No. 030443-WS

Explanation	Water	Wastewater
<u>Operating Revenues</u>		
1 Remove requested final revenue increase	<u>(\$144,477)</u>	<u>(\$260,380)</u>
<u>Operation and Maintenance Expense</u>		
1 To reflect the appropriate WSC allocated costs.	(\$3,940)	(\$3,785)
2 Adjust salaries for change in CEs.	(4,197)	(4,032)
3 Adjust pension and benefits for change in CEs.	(122)	(117)
4 Adjust employee insurance cost for change in CEs	(625)	(600)
5 Remove out-of-period costs from purchased power (AE 6)	(514)	(1,471)
6 Adjust purchased power for consolidated meter savings	0	(4,045)
7 Adjust chemicals & purchased power for excessive unaccounted water	(814)	0
8 To reflect annual rent expense	(7,811)	(8,419)
9 Reflect adjusted rate case expense	(3,861)	(4,260)
10 To reflect adjustments for repression (chemicals & purchased power)	<u>(2,589)</u>	<u>(7,338)</u>
Total	<u>(\$24,472)</u>	<u>(\$34,068)</u>
<u>Depreciation Expense - Net</u>		
1 To correct plant additions and retirements for 2003 (AE 1 & AE 2)	(\$3,680)	(\$559)
2 To reflect 2004 depreciation expense	(1,200)	2,959
3 Non-used and useful depreciation	0	<u>(10,985)</u>
Total	<u>(\$4,880)</u>	<u>(\$8,585)</u>
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above	(\$6,501)	(\$11,717)
2 Remove non-used and useful property tax expense	0	(2,292)
3 To reduce payroll taxes on above salary adjustments.	(255)	(245)
4 To correct test year RAFs.	151	350
5 Correct test year personal property taxes (AE 8)	<u>2,810</u>	<u>7,213</u>
Total	<u>(\$3,796)</u>	<u>(\$6,691)</u>

Labrador Utilities, Inc. Capital Structure-Simple Average Test Year Ended 12/31/03						Schedule No. 2 Docket No. 030443-WS		
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$116,575,577	(\$115,654,518)	\$921,059	\$0	\$921,059	58.65%	7.32%	4.29%
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	80,296,797	(79,662,276)	634,521	0	634,521	40.41%	11.92%	4.82%
5 Customer Deposits	0	0	0	0	0	0.00%	6.00%	0.00%
6 Deferred Income Taxes	<u>14,791</u>	<u>0</u>	<u>14,791</u>	<u>0</u>	<u>14,791</u>	<u>0.94%</u>	0.00%	<u>0.00%</u>
10 Total Capital	<u>\$196,887,165</u>	<u>(\$195,316,794)</u>	<u>\$1,570,371</u>	<u>\$0</u>	<u>\$1,570,371</u>	<u>100.00%</u>		<u>9.11%</u>
Per Staff								
11 Long-term Debt	\$116,575,577	\$0	\$116,575,577	(\$115,825,508)	\$750,069	56.87%	7.32%	4.16%
12 Short-term Debt	0	1,047,000	1,047,000	(1,040,263)	6,737	0.51%	4.95%	0.03%
14 Common Equity	80,296,797	0	80,296,797	(79,780,153)	516,644	39.17%	11.35%	4.45%
15 Customer Deposits	0	0	0	0	0	0.00%	6.00%	0.00%
16 Deferred Income Taxes	<u>14,791</u>	<u>30,746</u>	<u>45,537</u>	<u>0</u>	<u>45,537</u>	<u>3.45%</u>	0.00%	<u>0.00%</u>
20 Total Capital	<u>\$196,887,165</u>	<u>\$1,077,746</u>	<u>\$197,964,911</u>	<u>(\$196,645,925)</u>	<u>\$1,318,986</u>	<u>100.00%</u>		<u>8.63%</u>
Staff Adjustments						LOW	HIGH	
Reflect short-term debt in capital structure		<u>\$1,047,000</u>		RETURN ON EQUITY		<u>10.35%</u>	<u>12.35%</u>	
Adjust deferred taxes for bonus depreciation		<u>\$30,746</u>		OVERALL RATE OF RETURN		<u>8.24%</u>	<u>9.02%</u>	

Labrador Utilities, Inc.
Water Monthly Service Rates
Fest Year Ended 12/31/03

Schedule No. 4-A
Docket No. 030443-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	4-year Rate Reductio
<u>Residential</u>					
Mobile Home Flat Rate	\$4.50	\$16.33	N/A	N/A	N
Base Facility Charge - 5/8" x 3/4" Meter Size:	N/A	N/A	\$7.75	\$6.28	\$0.
Gallorage Charge, per 1,000 Gallons	N/A	N/A	\$3.79	\$3.14	\$0
<u>General Service</u>					
1" Flat Rate	\$4.50	\$16.33	N/A	N/A	N
2" Irrigation	\$4.50	\$16.33	N/A	N/A	N
6" RV Resort Flat Rate	\$3.00	\$10.89	N/A	N/A	N
Base Facility Charge by Meter Size:					
5/8"	N/A	N/A	N/A	\$6.28	\$0
3/4"	N/A	N/A	N/A	\$9.42	\$0
1"	N/A	N/A	\$19.38	\$15.70	\$0
1 1/2"	N/A	N/A	N/A	\$31.40	\$1
2"	N/A	N/A	\$62.00	\$50.24	\$2
3"	N/A	N/A	N/A	\$100.48	\$5
4"	N/A	N/A	N/A	\$157.00	\$9
6" - RV Resort	N/A	N/A	\$387.50	\$314.00	\$18
Gallorage Charge, per 1,000 Gallons	N/A	N/A	\$3.79	\$3.14	\$0
<u>Irrigation</u>					
Base Facility Charge by Meter Size:					
2"	N/A	N/A	\$62.00	\$50.24	\$2
Gallorage Charge, per 1,000 Gallons	N/A	N/A	\$3.79	\$3.14	\$0
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
0 Gallons	\$4.50	\$16.33	\$7.75	\$6.28	
3,000 Gallons	\$4.50	\$16.33	\$19.12	\$15.70	
5,000 Gallons	\$4.50	\$16.33	\$26.70	\$21.98	
10,000 Gallons	\$4.50	\$16.33	\$45.65	\$37.68	

Labrador Utilities, Inc.
Wastewater Monthly Service Rates
Test Year Ended 12/31/03

Schedule No. 4-B
Docket No. 030443-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-year Rate Reduction
<u>Residential</u>					
Mobile Home Flat Rate	\$10.50	\$22.79	N/A	N/A	N/A
Base Facility Charge - 5/8" x 3/4" Meter Size:	N/A	N/A	\$15.30	\$12.09	\$0.33
Gallage Charge, per 1,000 Gallons	N/A	N/A	\$7.72	\$9.34	\$0.26
<u>General Service</u>					
RV Park Flat Rate	\$7.00	\$15.19	N/A	N/A	N/A
Base Facility Charge by Meter Size:					
5/8"	N/A	N/A	N/A	\$12.09	\$0.33
3/4"	N/A	N/A	N/A	\$18.14	\$0.50
1"	N/A	N/A	\$38.25	\$30.23	\$0.83
1 1/2"	N/A	N/A	N/A	\$60.45	\$1.65
2"	N/A	N/A	N/A	\$96.72	\$2.64
3"	N/A	N/A	N/A	\$193.44	\$5.28
4"	N/A	N/A	N/A	\$302.25	\$8.26
6" - RV Resort	N/A	N/A	\$765.00	\$604.50	\$16.51
Gallage Charge, per 1,000 Gallons	N/A	N/A	\$9.27	\$11.21	\$0.31
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
0 Gallons	\$10.50	\$22.79	\$15.30	\$12.09	
3,000 Gallons	\$10.50	\$22.79	\$38.46	\$40.11	
5,000 Gallons	\$10.50	\$22.79	\$53.90	\$58.79	
6,000 Gallons and above	\$10.50	\$22.79	\$61.62	\$68.13	
(Residential Wastewater Gallage Cap - 6,000 Gallons)					

LABRADOR UTILITIES, INC.
HISTORICAL TEST YEAR ENDED DECEMBER 31, 2003

Attachment A
Page 1 of 3

DETERMINATION OF APPROPRIATE BILLING DETERMINANTS (PRE-REPRESSION)

[A] HISTORICAL BILLS AND KGALS FOR THE WATER SYSTEM

	Data Received from MFR Schedules E-2, p. 3 and E-14 Filed On:				Kgals Data from Utility's Responses to Staff's Data Requests Dated:	
	30-Jun-04		2-Aug-04		July 15, 2004	July 27, 2004
	<u>Bills</u>	<u>Kgals</u>	<u>Bills</u>	<u>Kgals</u>	<u>Kgals (1)</u>	<u>Kgals</u>
Mobile Homes = 1 ERC	9,886	29,110	9,924	27,589		
Irrigation 2" = 8						
ERCs	0	0	24	145		
Gen Serv 1" = 2.5 ERCs	0	0	36	1,376		
RV Park = 50 ERCs	<u>3,288</u>	<u>1,228</u>	<u>12</u>	<u>1,226</u>		
Totals:	13,174	30,338	9,996	30,336	33,888.102	33,888.092

(1) Per utility's response to Staff Data Request dated 7/15/04, no. 2 (f), the 33,888.102 kgals represent actual gallons sold.

OBSERVATIONS:

- 1) The utility did not materially revise the number of kgals sold in its revised 8/02/04 filing vs. its 6/30/04 original filing.
- 2) Revised MFR filing 8/02/04 contains the most recent information presented above regarding the number of bills.

[A] CONCLUSION: The appropriate historical bills and kgals for the water system, *before* adjustments, are **9,996** bills and **33,888.102** kgals.

[B] KGAL ADJUSTMENTS

Rainfall:	Preceding 30-year average 1972 - 2002:	54.12 inches	St. Leo, FL is the closest reporting station to
v.	Historical test year rainfall:	71.00 inches	Zephyrhills, FL.

[B] CONCLUSION: 1) 2003 rainfall is 31% greater than the average for the preceding 30 years. **Therefore, adjustments to test year water and wastewater kgals sold is appropriate.**

LABRADOR UTILITIES, INC.
HISTORICAL TEST YEAR ENDED DECEMBER 31, 2003

Attachment A
Page 2 of 3

DETERMINATION OF APPROPRIATE BILLING DETERMINANTS (PRE-REPRESSION)

[B] (cont.)	KGAL ADJUSTMENTS (cont.)
Predicted Normal 2003 Water Treated:	44,066.171 kgals
less: Predicted Actual 2003 Water Treated:	<u>42,178.715</u> kgals
equals: Predicted 2003 Normal > Actual:	1,887.456 kgals
plus: Actual 2003 Treated (per MORs):	<u>40,565.000</u> kgals
equals: Adjusted 2003 Treated:	42,452.456 kgals
less: Unaccounted-for Water (per MFR Sch F-1):	16.3%

[B] CONCLUSION: 2) Increase in test year water kgals sold to reflect weather adjustment is **1,579.235** kgals.

Irrigation 2": Irrigation meter was placed into service during mid-year 2003.
Additional kgals necessary to represent one full year of service = 312.7 kgals
(Response to Staff's data request dated September 1, 2004, no. 4.)

[B] CONCLUSION: 3) Increase in test year water kgals sold to reflect annualization of irrig. service 2" is **312.7** kgals.

[C] APPROPRIATE WATER AND WASTEWATER KGALS (PRE-REPRESSION)

Customer Class	Kgals from [A], [B] Above		Allocated Kgals Adjustment	Water Ratesetting
Mobile Home 5/8"	31,111.102	91.8%	1,449.823	32,560.925
Irrigation 2"	460.390	0.4%	6.883	467.273
General Service 1"	1,392.300	4.1%	64.883	1,457.183
RV Park 6"	<u>1,237.000</u>	3.7%	<u>57.646</u>	<u>1,294.646</u>
	34,200.792		1,579.235	35,780.027

Customer Class	Comments	Wastewater Ratesetting Kgals
Mobile Home 5/8"	Consolidated Factor = 75.8% at 6 kgal	24,681.181
Irrigation 2"	Not a wastewater customer	0.000
General Service 1"	Only 1 of the 3 water custs is a wwater cust	276.303
RV Park 6"	All kgals to wastewater	<u>1,294.646</u>
		26,252.130

LABRADOR UTILITIES, INC.
HISTORICAL TEST YEAR ENDED DECEMBER 31, 2003

Attachment A
Page 3 of 3

DETERMINATION OF APPROPRIATE BILLING DETERMINANTS (PRE-REPRESSION)

RECOMMENDATION:

Therefore, the appropriate ERCs to be used for ratesetting purposes for the water and wastewater systems are 10,806 ERCs and 10,554 ERCs, respectively. The appropriate Consumption, before repression, is 35,780.027 kgals for the water system and 26,252.130 kgals for the wastewater system.

LABRADOR UTILITIES, INC.
HISTORICAL TEST YEAR ENDED DECEMBER 31, 2003

Attachment B
Page 1 of 4

DETERMINATION OF APPROPRIATE RATE STRUCTURE

WATER SYSTEM

- | CURRENT RATES: | <p>1) The utility has flat rate structures for both its water and wastewater systems.</p> <p>2) The current rate structures were approved by Order No. PSC-01-1483-PAA-WS, issued July 16, 2001 in Docket No. 000545-WS, <u>In Re: Application for original certificates to operate a water and wastewater utility in Pasco County by Labrador Services, Inc.</u></p> <p>3) The utility's current monthly charges for service, which were approved in the above-mentioned Order, did not change when the utility was acquired by Labrador Utilities, Inc. The current rates are:</p> <table border="0" style="margin-left: 40px;"> <thead> <tr> <th></th> <th style="text-align: right;"><u>Water</u></th> <th style="text-align: right;"><u>Wastewater</u></th> <th style="text-align: right;"><u>Total Monthly</u></th> </tr> </thead> <tbody> <tr> <td>Mobile Homes (Residential)</td> <td style="text-align: right;">\$4.50</td> <td style="text-align: right;">\$10.50</td> <td style="text-align: right;">\$15.00</td> </tr> <tr> <td>Irrigation</td> <td style="text-align: right;">\$4.50</td> <td style="text-align: right;">\$10.50</td> <td style="text-align: right;">\$15.00</td> </tr> <tr> <td>General Service</td> <td style="text-align: right;">\$4.50</td> <td style="text-align: right;">\$10.50</td> <td style="text-align: right;">\$15.00</td> </tr> <tr> <td>RV Park (per unit, 275 units)</td> <td style="text-align: right;">\$3.00</td> <td style="text-align: right;">\$7.00</td> <td style="text-align: right;">\$10.00</td> </tr> </tbody> </table> | | <u>Water</u> | <u>Wastewater</u> | <u>Total Monthly</u> | Mobile Homes (Residential) | \$4.50 | \$10.50 | \$15.00 | Irrigation | \$4.50 | \$10.50 | \$15.00 | General Service | \$4.50 | \$10.50 | \$15.00 | RV Park (per unit, 275 units) | \$3.00 | \$7.00 | \$10.00 |
|--------------------------------------|--|-------------------|----------------------|-------------------|----------------------|----------------------------|--------|---------|---------|------------|--------|---------|---------|-----------------|--------|---------|---------|-------------------------------|--------|--------|---------|
| | <u>Water</u> | <u>Wastewater</u> | <u>Total Monthly</u> | | | | | | | | | | | | | | | | | | |
| Mobile Homes (Residential) | \$4.50 | \$10.50 | \$15.00 | | | | | | | | | | | | | | | | | | |
| Irrigation | \$4.50 | \$10.50 | \$15.00 | | | | | | | | | | | | | | | | | | |
| General Service | \$4.50 | \$10.50 | \$15.00 | | | | | | | | | | | | | | | | | | |
| RV Park (per unit, 275 units) | \$3.00 | \$7.00 | \$10.00 | | | | | | | | | | | | | | | | | | |
| PRIOR ORDERS AND F.A.C.: | <p>4) Rule 25-30.255(1), Florida Administrative Code, requires that each utility measure water sold on the basis of metered volume sales unless the Commission approves a flat service arrangement for that utility.</p> <p>5) As discussed in Order No. PSC-03-0638-PAA-WS, issued May 27, 2003 in Docket No. 020484-WS, <u>In Re: Application for transfer of facilities and Certificates Nos. 616-W and 530-S from Labrador Services, Inc. to Labrador Utilities, Inc. in Pasco County</u>, the Commission expressed concern about the continuation of a flat rate structure because it does not send the appropriate pricing signal to customers (p. 11).</p> <p>6) As also discussed in the above-referenced transfer Order, individual meters have been installed for all of the mobile home lots and the RV park is master-metered. According to the buyer (Labrador Utilities, Inc.), all meters were being read to obtain historical consumption information, and it was expected that a request for rate restructuring would be filed in 2003 (pp. 11-12).</p> | | | | | | | | | | | | | | | | | | | | |
| PRACTICES W/ WATER MGMT DIST. | <p>7) The Commission has a Memorandum of Understanding with the five Water Management Districts. A guideline of the five Districts, which has been adopted as a practice of the Commission, is to set the BFC charges such that they recover no more than 40% of the revenues to be generated from monthly service rates.</p> <p>8) The Commission has deviated from this practice when the seasonality of a utility's customer base is in conflict with the monthly revenue requirements of the utility to cover its operating costs. (See Order No. PSC-03-1440-FOF-WS, issued December 22, 2003 in Docket No. 020071-WS, <u>In Re: Application for rate increase in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida</u>, pp. 149-150.)</p> <p>9) The utility is located in the Southwest Florida Water Management District (SWFWMD or District). For those utilities located within a SWFWMD water use caution area, the District places a gallons per day usage target of 150 gallons per day per capita (gpcd).</p> | | | | | | | | | | | | | | | | | | | | |
| SEASONALITY: | <p>10) Labrador's current residential average monthly consumption is approximately 3.3 kgal, which equates to approximately 50 gpcd. The low gpcd is due largely to the seasonality of the customer base.</p> | | | | | | | | | | | | | | | | | | | | |

LABRADOR UTILITIES, INC.
HISTORICAL TEST YEAR ENDED DECEMBER 31, 2003

Attachment B
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DETERMINATION OF APPROPRIATE RATE STRUCTURE

WATER SYSTEM (cont.)

SEASONALITY (cont): 11) The seasonality of the utility's total customer base is shown below:

<u>Months of</u>	<u>No. of Months</u>	<u>Pct of Water Sold</u>
Jan - April plus Nov - Dec	6	65%
May - Oct	6	35%

CONCLUSION #1: To address the Commission's concerns as discussed in Order No. PSC-03-0638-PAA-WS, it is appropriate to eliminate Labrador's current flat rate structure in favor of a more usage sensitive rate structure. Because Labrador is not located within a water use caution area, and its gpdc is substantially less than the District's target of 150 gpdc for utilities located *within* water use caution areas, staff recommends that the current rate structure be changed to a traditional base facility charge (BFC) / uniform gallonage charge rate structure.

PRE-REPRESSION ANALYSIS"

- 12) The pre-repression revenue requirement represents an approximate 188% increase for the water system.
- 13) In situations such as this case where there are significant revenue requirement increases, it is important to design rates such that customers have the greatest control possible over their bills. This is accomplished by designing rates with lesser BFC cost recovery and greater gallonage cost recovery, resulting in lower price increases at lesser levels of consumption, and greater price increases as consumption increases.
- 14) An analysis of pre-repression 5/8" meter price increases at various BFC cost percentages is shown below. 10 kgal was selected as the cut-off for this analysis because over 95% of the water bills have been captured at the 10 kgal consumption level. **An analysis of MFR Schedule E-2 indicates that the utility requests a BFC cost recovery percentage of 42%.**

<u>Kgal</u>	<u>PCT CUM BILLS CAPTURED</u>	<u>PRE-REPRESSION PRICE INCREASES AT VARIOUS BFC COST RECOVERY PERCENTAGES</u>			
		<u>BFC=40%</u>	<u>BFC=43%</u>	<u>BFC=50%</u>	<u>BFC=55%</u>
0	37%	30%	40%	62%	79%
1		89%	96%	112%	124%
2		149%	153%	161%	168%
3	74%	208%	209%	211%	213%
5		327%	322%	310%	302%
7		445%	435%	409%	392%
10	96%	623%	604%	558%	527%

BFC percentages of 40% and 43% yielded both the smallest increases at 0 kgal and the greatest increases at 10 kgal, so the BFC cost recovery percentages of 50% and 55% were removed from consideration.

LABRADOR UTILITIES, INC.
HISTORICAL TEST YEAR ENDED DECEMBER 31, 2003

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DETERMINATION OF APPROPRIATE RATE STRUCTURE

WATER SYSTEM (cont.)

PRE- REPRESSION ANALYSIS (cont.)

- 15) In light of the concerns expressed by counsel for the RV park, staff also analyzed the anticipated price changes for the park. An analysis of the anticipated pre-repression price changes for the 6" meter based on BFC cost recovery percentages of 40% and 43% is shown below.

<u>Kgal</u>	PCT CUM BILLS <u>CAPTURED</u>	PRE-REPRESSION PRICE INCREASES AT VARIOUS BFC COST RECOVERY PERCENTAGES	
		<u>BFC=40%</u>	<u>BFC=43%</u>
14	8%	-60%	-57%
22		-57%	-55%
46		-49%	-48%
77		-39%	-38%
149	83%	-16%	-16%
254		18%	17%
352	100%	50%	47%

Based on the RV park's monthly consumption during the test year, staff's analysis indicates that either of the two rate structures analyzed would result in water system price decreases for the RV park for ten months of the year.

- 16) To address the overall seasonality issue, staff performed a month-to-month analysis of the utility's anticipated cash inflows from revenues vs. its anticipated average monthly expenses. Setting the BFC at either 40% or 43% resulted in cash shortfalls for four quarters of the year. However, **the pre-repression shortfall at a BFC of 43% represents a 17% reduction from the resulting shortfall based on a BFC of 40%.** Based on staff's repression recommendation in Issue 18 and in Attachment C, **staff believes that the number of months with shortfalls based on post-repression rates will be reduced by half.** Staff will perform a similar analysis based on post-repression rates and discuss the results in Attachment C.
- 17) In the utility's 2002 transfer to Labrador Utilities, Inc. (a subsidiary of Utilities, Inc.), statements on the transfer application cited economies of scale that would be available to the utility through the management and vendor resources of its corporate parent, Utilities, Inc. In particular, "Water Service Corp., [is] a subsidiary of UI that provide (sic) billing, accounting, operational and regulatory oversight, has been **able to pay all invoices received on behalf of the utility** and is current on all outstanding receivables. . . . Water Service Corp., . . . has been **able to pay all capital related expenditures** received on behalf of the utility." (Response to staff data request dated September 1, 2004, no. 2.) **Therefore, staff believes that the utility will not be harmed by the potential revenue shortfalls discussed in point no. 16 above.**

CONCLUSION #2: The pre-repression BFC cost recovery for the water system should be set at 43%.

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HISTORICAL TEST YEAR ENDED DECEMBER 31, 2003

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DETERMINATION OF APPROPRIATE RATE STRUCTURE

WASTEWATER SYSTEM

CONCLUSION #3:

The rate structure for the wastewater system should be changed to the traditional BFC / uniform gallonage charge, consistent with conclusion #1 on page 2 of this attachment.

- 1) An analysis of MFR Schedule E-2 indicates that the utility requests a BFC cost recovery percentage of 42%.
- 2) Setting the BFC cost recovery greater than 40% does not result in material cash shortfalls during any month of the test year.
- 3) Consistent with staff's analysis of the anticipated water system price impacts on the RV park, staff's analysis for the wastewater system indicates that, based on a BFC cost recovery of 40%, the RV park would receive price decreases during seven months of the year.

CONCLUSION #4:

The BFC cost recovery for the wastewater system should be set at 40%

- 4) Setting General Service wastewater gallonage charge rates 20% greater than the corresponding Residential Service rates is consistent with Commission practice. (See: Order No. PSC-96-1320-FOF-WS, issued October 30, 1996 in Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties, pp. 750, 753, 756, 764, 767, 789, 793. See: 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, pp. 178, 194, 210)

RECOMMENDATION:

The current flat rate structures for the water and wastewater systems should both be changed to the traditional base facility charge (BFC) / gallonage charge rate structure. The BFC cost recovery for the water system (pre-repression) should be set at 43%, while the corresponding BFC cost recovery for the wastewater system should be set at 40%. The water system should have uniform gallonage charges, and the wastewater system's General Service gallonage charges should be 20% greater than the corresponding rates for Residential Service.

LABRADOR UTILITIES, INC.
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Attachment C
Page 1 of 2

DETERMINATION OF APPROPRIATE REPRESSION ADJUSTMENT

ANALYSIS:

- 1) Based on staff's recommended consumption for mobile homes (Residential Service) of 32,560.925 kgals as discussed in Attachment A, the resulting average consumption for Residential Service is approximately 3.3 kgal per month.
- 2) An analysis of the utility's MFR Schedule E-14 for mobile homes indicates that approximately 41% of kgals and approximately 62% of customer bills are captured at 2 kgals of monthly consumption.
- 3) The Commission has found in prior cases that removing 2 kgal of nondiscretionary usage that is unlikely to be repressed is appropriate. (See Order No. PSC-03-0647-PSS-WS, issued May 28, 2003 in Docket No. 020407-WS, In Re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc., pp. 34-35.)
- 4) Based on information contained in our database of utilities receiving rate increases and decreases, reductions in consumption that may be expected when converting from a flat rate structure to metered consumption may range from approximately 45% to 60%.
- 5) Since the average monthly consumption for the utility's customers living in mobile homes is approximately 3.3 kgals, this indicates little discretionary usage, making repression of greater magnitudes unlikely. **Although the magnitude of the revenue requirement increase (183%) indicates that the current rates are far from compensatory, staff believes that, due to the low average consumption per customer, the anticipated consumption reductions will be somewhat less than the 45% cited in point no. 4 above.**

CONCLUSION #1:

The appropriate repression percentage to apply to mobile home (residential) consumption greater than 2 kgals is 40%.

- 6) The wastewater consumption associated with mobile home customers must also be repressed. The consolidated factor percentage at 6 kgals is 75.8%; therefore, the mobile home water consumption after the repression adjustment must be reduced by 24.2% to reflect the appropriate mobile home wastewater consumption to be used for ratesetting purposes. Six kgals represents the residential wastewater gallonage cap.
- 7) Consistent with Commission practice, in order to monitor the effects of both the changes in rate structure and the revenue changes, the utility should prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed. These reports shall be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning the first billing period after the approved rates go into effect. (See Order No. PSC-03-0008-PAA-WU, issued January 2, 2003 in Docket No. 020406-WU, In Re: Application for staff-assisted rate increase in Polk County by Pinecrest Ranches, Inc., p. 27.)

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DETERMINATION OF APPROPRIATE REPRESSION ADJUSTMENT

- 8) Staff performed post-repression cash flow analyses on the water and wastewater systems. Based on staff's recommended repression adjustments to the water and wastewater systems, the resulting rates creates a revenue shortfall during one month of the test year for each system. **Based on the utility's response to staff's data request discussed in Attachment B, point no. 17, staff does not believe that the revenue shortfalls described above will harm the utility.**

RECOMMENDATION:

Yes, an adjustment to reflect repression of consumption is appropriate. Mobile home (residential) consumption should be reduced by 40% for all consolidated factor usage greater than 2 kgals. This amounts to a consumption reduction of approximately 7,684.4 kgals, resulting in adjusted mobile home consumption of approximately 24,876.5 kgals, and total water consumption for ratesetting of 28,095.6 kgals. This represents an overall consumption reduction for the water system of 21.5%. The appropriate resulting wastewater consumption to be used for ratesetting is 20,741.6 kgals, representing an overall consumption reduction for the wastewater system of 21.9%. Consistent with Commission practice, in order to monitor the effects of both the changes in rate structure and the revenue changes, the utility should prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed. These reports shall be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning the first billing period after the approved rates go into effect.