

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 110264-WS  
ORDER NO. PSC-12-0206-PAA-WS  
ISSUED: April 19, 2012

The following Commissioners participated in the disposition of this matter:

RONALD A. BRISÉ, Chairman  
LISA POLAK EDGAR  
ART GRAHAM  
EDUARDO E. BALBIS  
JULIE I. BROWN

NOTICE OF REISSUED PROPOSED AGENCY ACTION  
ORDER GRANTING INCREASE IN WASTEWATER RATES  
IN PASCO COUNTY  
AND FINAL ORDER ON INTERIM REFUNDS, FOUR YEAR RATE REDUCTION,  
AND PROOF OF ADJUSTMENTS

BY THE COMMISSION:

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

On April 17, 2012, Order No. PSC-12-0206-PAA-WS was issued in this docket. Certain scrivener's errors were identified after the order's publication. To correct the errors, Order No. PSC-12-0206-PAA-WS is hereby amended and reissued as set forth herein, and the protest period is extended to 21 days from the date of issuance of this Order.

BACKGROUND

Labrador Utilities, Inc. (Labrador or Utility) is a Class B utility providing water and wastewater service to approximately 767 water and 754 wastewater customers in Pasco County. Water and wastewater rates were last established for this Utility in its 2008 rate case.<sup>1</sup>

<sup>1</sup> See Order Nos. PSC-09-0462-PAA-WS, issued January 22, 2009, and PSC-09-0711-AS-WS, issued October 26, 2009, in Docket No. 080249-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

DOCUMENT NUMBER DATE

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FPSC-COMMISSION CLERK

On September 27, 2011, Labrador filed its application for a rate increase in this docket. The Utility's application did not meet the minimum filing requirements (MFRs). On October 31, 2011, the Utility provided corrections to its MFRs, and thereafter the MFRs were determined to be complete. The official filing date was established as October 31, 2011. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for final rates is the simple-average period ended December 31, 2010. The Utility requested final revenue increases of \$106,066 (42.5 percent) for water and \$103,778 (23.3 percent) for wastewater.

By Order No. PSC-11-0573-PCO-WS, issued December 12, 2011 (Interim Order), we authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, Florida Statutes (F.S.). The approved interim revenue requirement for water was \$285,793, which represents an increase of \$39,180 or 15.89 percent. The approved interim revenue requirement for wastewater was \$495,882, which represents an increase of \$53,416 or 12.07 percent.

On October 6, 2011, the Office of Public Counsel (OPC) filed a Notice of Intervention in this docket, and an order acknowledging intervention was issued on October 7, 2011.<sup>2</sup>

On January 18, 2012, Forest Lake Estates Co-op, Inc. (Forest Lake or Co-op) filed a Motion for Intervention, which was denied on March 26, 2012.<sup>3</sup>

On March 6, 2012, Forest Lake filed a Motion to Dismiss or Abate (Motion) the instant case. On March 9, 2012, OPC and the Utility filed their respective responses to the Motion. No party requested oral argument on the motion, pursuant to Rule 25-22.0022, F.A.C., but we did allow argument from all interested persons on the motion as well as other issues in our staff's recommendation at our March 27, 2012 Agenda Conference.

This Order addresses Forest Lake's Motion to Dismiss, and Labrador's request for final rates. We have jurisdiction pursuant to Section 367.081, F.S.

#### MOTION TO DISMISS

On June 10, 1999, Forest Lake and Labrador Services, Inc., the predecessor in interest to Labrador, executed a commercial lease of the property on which Labrador operates its water and wastewater plants and an irrigation spray field. On February 22, 2012, in the matter of Forest Lake Estates Coop, Inc. v. Labrador Utilities, Inc., Pasco Circuit Case No. 51-08-CA-4033-ES/B, the Co-op filed a Motion for Leave to Amend its Complaint against Labrador. The amended complaint included a count requesting judicial recognition of the Co-op's termination of the Commercial Lease and the entry of an eviction judgment against Labrador. To date, the Court has not issued an order addressing the merits of Forest Lake's complaint.

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<sup>2</sup> See Order No. PSC-11-0445-PCO-WS.

<sup>3</sup> See Order No. PSC-12-0139-PCO-WS.

In its Motion to Dismiss or Abate, Forest Lake argues that the rate case should be dismissed because the Utility no longer has any legally enforceable rights to use of the land under the Commercial Lease since the Co-op has now terminated the lease. Alternatively, Forest Lake argues that the rate case should be abated until the issue of the Utility's rights under the Commercial Lease, if any, is resolved in the Pasco Circuit Court litigation. In support of its argument, the Co-op stated that we have consistently ruled that utilities must provide proof of compliance with Section 367.1213, F.S. and Rule 25-30.433, F.A.C., prior to receiving a rate increase. Forest Lake cites four Commission decisions that it claims support that contention.<sup>4</sup>

On March 9, 2012, OPC filed its response to the Co-op's Motion. OPC asserts that if Labrador voluntarily elects to extend the five-month statutory deadline for this case, we could issue an order abating all activities until the lease litigation is resolved. OPC further asserts that if we order the abatement, Labrador would be authorized to continue to collect from ratepayers the interim rate increase authorized by this Commission until such time as the lease litigation is resolved. OPC also contends that if the litigation is resolved in favor of the Utility, the abatement would end and the case would resume at the point it was abated. If the litigation is resolved in favor of the Co-op, the case would be dismissed and the docket closed after the Utility refunded the interim rate increase to the customers with interest. OPC asserts that if Labrador refuses to extend the five-month statutory deadline until the lease litigation is resolved, we should dismiss Labrador's rate increase filing as being fatally flawed, and refund to customers the interim rate increase with interest.

On March 9, 2012, Labrador filed its response to the Co-op's Motion. Labrador states that the Lease provides that rents increase every six (6) years based upon an increase in the Consumer Price Index. According to the Utility, neither it nor Forest Lake realized the increase in rent occurred in June 2011, until the Co-op realized it in August 2011, and advised Labrador accordingly. In January 2012, Labrador states that Forest Lake advised it in writing that it was in default for failure to pay the increased amount of the Lease payments. Labrador contends that, due to the manner in which the rent payments were broken down on the demand letter, the letter was misread and Labrador sent the Co-op a check for \$3,744.00, which was actually only for Parcel 3. The Utility stated that Forest Lake subsequently returned that check because Labrador omitted the \$1,497.60 due on Parcels 1 and 2, and then demanded that Labrador immediately quit, surrender, and return to Forest Lake all of the leased premises.

Labrador argues that the Co-op's assertion that the Utility has no legally enforceable rights under the Lease is incorrect. Until a court rules otherwise, Labrador asserts, it continues to

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<sup>4</sup> See Order Nos. PSC-00-2054-PAA-WS, issued October 27, 2000, in Docket No. 990939-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc. (utility received rate increase and was ordered to obtain a long-term lease for land); PSC-94-0075-FOF-WS, issued January 21, 1994, in Docket No. 921261-WS, In re: Application for rate increase in Lee County by Harbor Utilities Company, Inc. (utility received rate increase and was ordered to provide documentary support of land ownership); PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 01-0869-WS, In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc. (utility received rate increase and was ordered to purchase or lease land within six months); PSC-00-2117-PAA-SU, issued November 7, 2000, in Docket No. 000090-SU, In re: Application for limited proceeding rate increase in Lee County by Useppa Island Utility, Inc. (utility received rate increase and was ordered to provide deeds showing the correct land description within 90 days of the order)

enjoy all of its rights under the Lease. As such, Labrador contends that it is in complete compliance with Section 367.1213, F.S., and Rule 25-30.433(10), F.A.C. Furthermore, Labrador contends that if the Lease is terminated, the Utility would exercise its rights of eminent domain pursuant to Section 361.04 and 361.07, F.S., and thereby maintain its rights to the water and wastewater treatment plant lands and spray irrigation site.

#### Standard of Review

A motion to dismiss challenges the legal sufficiency of the facts alleged in a petition to state a cause of action. Meyers v. City of Jacksonville, 754 So. 2d 198, 202 (Fla. 1st DCA 2000). The standard to be applied in disposing of a motion to dismiss is whether, with all the allegations in the petition assumed to be true, the petition states a cause of action upon which relief can be granted. Id. When making this determination, only the petition and documents incorporated therein can be reviewed, and all reasonable inferences drawn from the petition must be made in favor of the petitioner. Varnes v. Dawkins, 624 So. 2d 349, 350 (Fla. 1st DCA 1993); Flye v. Jeffords, 106 So. 2d 229 (Fla. 1st DA 1958), overruled on other grounds, 153 So. 2d 759, 765 (Fla. 1st DCA 1963).

#### Analysis

Section 367.1213, F.S., states:

A utility under the Water and Wastewater System Regulatory Law must own the land or possess the right to continued use of the land upon which treatment facilities are located. The commission shall adopt rules in accordance with this section.

Rule 25-30.433(10), F.A.C., states:

A utility is required to own the land upon which the utility treatment facilities are located, or possess the right to the continued use of the land, such as a 99-year lease. The Commission may consider a written easement or other cost-effective alternative.

Since the Co-op's complaint is currently pending in Circuit Court, and no final judgment has been issued, it appears that the Utility enjoys all of its rights under the Lease at this time, in compliance with Section 367.1213, F.S., and Rule 25-30.433(10), F.A.C. Further, we disagree with Forest Lake's interpretation of the four Commission decisions cited in its Motion. First, in those cases we did not withhold a rate increase until the land was secured, but rather approved a rate increase and required the land be secured by a time certain. Second, this case is distinguishable in that Labrador presently appears to have the land secured until otherwise ruled on by the Court, and ultimately enjoys the right of Eminent Domain should the Lease be terminated by the Court.

Based on the above, we deny Forest Lake's Motion to Dismiss or Abate. Labrador's petition for a rate increase adequately states a cause of action upon which we can grant relief. Since this rate proceeding is being addressed as a Proposed Agency Action (PAA), a substantially interested person would have the opportunity to protest the PAA and raise the question of land ownership in an evidentiary proceeding. In order to keep abreast of the case, however, we direct Labrador to provide us quarterly status reports on the course of the Circuit Court litigation.

#### QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), F.A.C., we determine the overall quality of service provided by a utility by evaluating three separate components of water and wastewater operations. These components include the quality of the utility's product, the operating condition of the utility's plants and facilities, and the utility's attempt to address customer satisfaction. We review comments or complaints received by the Commission and utility from customers, as well as the Utility's current compliance with the regulations of the Department of Environmental Protection (DEP) and the Water Management District.

#### Quality of Utility's Product and Operational Condition of Plants and Facilities

In Pasco County, the water and wastewater programs are regulated by the Southwest Florida Water Management District (SWFWMD) and the DEP. Labrador's General Water Use Permit was issued by the SWFWMD on February 15, 2011, and will expire on February 15, 2021. On March 9, 2010, the DEP conducted a Sanitary Survey of the Labrador water treatment plant (WTP) with no deficiencies noted during the inspection.

Labrador's wastewater permit was issued on March 23, 2010, and will expire on March 22, 2015. On October 6, 2010, the DEP conducted a compliance inspection of the Labrador wastewater treatment plant (WWTP). The WWTP was found to be in compliance, although deficiencies related to reporting and excess vegetation covering the spray field were noted. In addition, DEP strongly recommended replacing the charcoal filter media before the seasonal residents arrived. Labrador indicated that the filter media is routinely replaced.

Labrador is currently in compliance with all of the required chemical analyses and has met all required standards for both water and wastewater operations. The Utility has no outstanding consent orders or warning letters. Our staff conducted a field investigation of Labrador on January 18, 2012, and found no apparent problems with the operations of either the water or wastewater facilities. From a review of the maintenance records and a physical inspection, our staff believed the general condition of the facilities appeared to be adequate. However, as we explain below, the customers who attended the January 18, 2012 customer meeting, and those who attended our Agenda Conference on March 27, 2012, expressed great dissatisfaction with the quality of service Labrador provides, particularly with respect to the wastewater treatment plant and the odor emanating from it. On the basis of their comments and the utility's responses to our questions at the Agenda Conference, we find that the quality of drinking water delivered to the customers, and the operating condition of the Utility's water plant and facilities are satisfactory, but the wastewater effluent quality and the operational condition of WWTP and facilities are only marginal.

The Utility's Attempt to Address Customer Satisfaction

A customer meeting was held on January 18, 2012, inside Labrador's service territory at the Forest Lake Estates Community Clubhouse near Zephyrhills, Florida. Over 300 customers attended the evening meeting, and 22 customers spoke. Citing affordability concerns, the attendees were generally against the proposed rate increases for water and wastewater. Water quality, and odor at the WWTP in particular, were cited as reasons for not justifying the rate increases. Although it was acknowledged that the water provided by the Utility met DEP health and safety standards, general consensus among the attendees was that the water was considered unfit to consume and not worth the rate increases because of the frequent taste, odor, and discoloration problems. One rust-colored, used filter from a home filtering device and one water sample was provided by customers as physical evidence to prove the questionable quality of the water. Several customers indicated that quality had not improved since the last rate case, while one customer made comments about public noticing concerning Precautionary Boil Water Notices (PBWNs).

In reference to PBWNs, the Utility's records indicate that the last system-wide water outage occurred on December 3, 2010, and was due to a water main leak in the community. When PBWNs are required, the Utility indicates that the customers are notified by multiple methods of communications. For all PBWNs, no matter how many customers are affected, an outbound telephone message is made to all affected customers who have an active phone number posted on their account. The message format includes identifying that the caller is Labrador Utilities with important information. This is followed by specific information regarding the PBWN and concludes with the toll-free customer service number to call if the customer has any questions. Once the PBWN is rescinded, another reverse 911 call is issued to the same customers notifying them that the PBWN is no longer in effect.

Since 2010, there have been 4 complaints filed with this Commission. Two of the complaints related to improper bills, one complaint related to outages, and the other related to quality of service. There are currently no active complaints on file. The Utility's complaint log for the test year (2010) indicated that approximately 40 customer complaints were received. The majority of the water complaints during this time dealt with laundered clothing being discolored, sediment and discoloration in the water, taste, odor, and low or no water pressure. For wastewater, the main complaints received by the Utility during the test year were about odor emanating from the wastewater treatment plant. We also received a petition on December 15, 2011, signed by 114 customers as well as approximately 25 letters that reflected concern over the effect of the proposed rate increases and the quality of the water and wastewater service provided by Labrador.

The water treatment system

According to the Utility, a polyphosphate sequestrate is added to the water supply at the treatment plant in order to keep the iron in the source water from precipitating out of the water. The Utility believes this has proven to be an effective means of addressing the color in the water when coupled with a periodic flushing program. The Utility flushes the remote locations in the distribution system on a monthly basis. In order to verify that adequate polyphosphate is being

added, Utility staff monitor the concentration of phosphate in the water at least weekly. In addition, Labrador believes it is responsive to individual customer complaints by visiting the customer, identifying the issue, and then taking appropriate action to remedy the situation. In some cases, the Utility provides the customer with an iron removal product, at no cost to the customer, to assist in removing iron deposits from clothing.

Currently, the Utility has no plans to make additional capital improvements to the water treatment process, primarily because all of the parameters indicate compliance with DEP's rules and regulations. The Utility stated it would certainly entertain discussions with the customers regarding potential enhancements to the current treatment methodology, provided there was a willingness on the part of the customer base to support such expenditures with full understanding of the impact to their water rates. We note, however, as indicated by the Utility's responses to our questions at the Agenda Conference, the Utility has made little effort to engage the customers in those discussions. While we find the quality of water and the operational condition of its water treatment facilities to be satisfactory, we believe that Labrador needs to more actively engage its customers in efforts to resolve their continuing dissatisfaction with the quality of the water.

#### The wastewater treatment system

According to DEP, two odor complaints were received in 2010 and no complaints were received for 2011 and 2012. DEP has indicated that it has not found any significant problems to warrant additional investigations.

The Utility indicated that it has taken several steps to try to control odors resonating from the WWTP. The carbon media in the filtration units are routinely changed out to maintain the functionality of the carbon media. Chemical feed equipment was installed at the master lift station to reduce the production of hydrogen sulfide gas at the WWTP headworks. The Utility indicated that it has been using Bioxide for over two years with, it believes, great success. A cover was installed over the rotating screen at the headworks and the grit chute was modified so that the chute drops into a hole in the lid of the dumpster in order to minimize odors. The dumpster is emptied on a frequent basis in order to avoid the material removed by the rotating screen from becoming malodorous.

In order to improve visibility and ease of maintenance, the Utility installed clear plastic covers on both equalization tanks at the plant headworks. The lighter panels allow a single person to perform necessary maintenance that previously required two people. In addition, the Utility installed forced air ventilation and charcoal filtration at the equalization tanks. Finally, modifications were made to the operation of a clarifier to improve the sludge return process and prevent sludge from accumulating on the bottom of the clarifier tank for lengthy periods. Process blowers are maintained so that the treatment plant will work properly and prevent septic conditions from developing.

The entire development is constructed in close proximity to the WWTP. Furthermore, several of the homes' rear lot lines are adjacent to the WWTP property line placing them extremely close to the plant. To better identify the extent of the odor problem, Labrador has

directed its chemical supplier to take monthly measurements of sulfide concentrations in the air along the perimeter of the WWTP fence line in order to quantify the amount of sulfides present. The vendor has consistently done so with essentially zero sulfides occurring.

In Labrador's last rate case,<sup>5</sup> we approved a settlement agreement between Labrador and OPC in which the Utility agreed to work with customer representatives to study the WWTP odor problem, and if necessary, propose cost effective measures to address the odor problem. In April 2011, Utility staff met on site with Forest Lake Estates Co-op's ("FLEC") attorney and engineering consultant, who toured the plant and lift station in order to observe the operation of the facilities and identify if plant operations were contributing to the production of malodors. If the consultant observed the presence of malodors, the consultant was to offer recommendations in his report that addressed the situation. The engineering consultant issued a report suggesting that a further, detailed study be conducted to evaluate the specific nature of the odor problem and possible methods to correct it.

From the Utility's responses to our questions at the Agenda Conference, three facts are clear. First, the Utility discounted the engineer's report because the engineer was retained by FLEC, and because the report was very general in its analysis. Second, the Utility indicated that it has not conducted, and does not currently plan to conduct, any further study of its own regarding odor from the treatment plant. Third, the Utility has not made any meaningful attempt to engage the customers in exploring other solutions to the odor problem. While the Utility has taken some steps to address the odor concerns raised by customers, we do not believe enough has been done to identify potential solutions. More effort should be made to engage the customers in discussing potential options and associated costs. Based on the above, we believe therefore that quality of service for the wastewater system is marginal.

### Conclusion

With respect to Labrador's water service, we find that the overall quality of service is satisfactory based on the quality of its product, the operating condition of its plants and facilities, and its attempt to address customer satisfaction, although we expect the Utility to further engage the customers in efforts to address their continuing concerns with the quality of the product. With respect to Labrador's wastewater service, the Utility has failed to adequately address customer dissatisfaction with the odors coming from the treatment plant. As we will discuss further in this Order, the Utility has not conducted adequate study of the problem and possible solutions to it, and the Utility has failed to engage the customers in the search for a resolution. Therefore, we find that the overall quality of wastewater service provided is marginal.

### RATE BASE

#### Audit Adjustments Agreed to by the Utility

Labrador has agreed to the audit adjustments as set forth in the tables below.

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<sup>5</sup> See Order No. PSC-09-0711-AS-WS, issued October 26, 2009, in Docket No. 080249-WS, In re: Application for rate increase in Pasco County by Labrador Utilities, Inc., pp. 5-10

Labrador Audit Adjustments	Description of Adjustments
Finding No. 1	Reflect appropriate plant retirements that were not recorded by the Utility.
Finding No. 2	Correct error in the Utility's depreciation restatement.
Finding No. 3	Reflect the appropriate accumulated depreciation.
Finding No. 4	Correct allocations from headquarters – rate base.
Finding No. 5	Reflect appropriate amount for permit expenses.
Finding No. 9	Reflect appropriate non-recurring expense.
Finding No. 10	Correct error in Utility's recording of sludge hauling expense.
Finding No. 11	Reflect the appropriate rate case expense.
Finding No. 12	Reflect the appropriate purchased power expense.
Finding No. 13	Correct error in Utility's expense included in plant
Finding No. 14	Correct allocations from headquarters – net operating income.
Finding No. 15	Correct allocations for pro forma for pay increase.
Finding No. 16	Correct removal of operations & maintenance (O&M) expenses.
Finding No. 17	Correct prepaid – other expenses.

Based on the audit adjustments Labrador has agreed to, we find that the adjustments set forth in the tables below shall be made to rate base and net operating expense.

Water							
Labrador Audit Adjustments	Plant	Accum. Depreciation	Depreciation Expense	Ammort. Expense	Working Capital	O&M Expense	TOTI
Finding No. 1	(\$3,049)	(\$3,530)	(\$105)				
Finding No. 3		(\$1,190)					
Finding No. 4	(\$1,721)	(\$582)					
Finding No. 5						(\$8,784)	
Finding No. 9						(\$1,400)	
Finding No. 11						(\$7,461)	
Finding No. 12						(\$338)	
Finding No. 13	(\$517)						
Finding No. 14			(\$182)			(\$884)	(\$37)
Finding No. 16						(\$106)	(\$48)
Finding No. 17				(\$71)			
Adjustment Totals	(\$5,287)	(\$5,302)	(\$287)	(\$71)	\$0	(\$18,973)	(\$85)

Wastewater							
Labrador Audit Adjustments	Plant	Accum. Depreciation	Depreciation Expense	Ammort. Expense	Working Capital	O&M Expense	TOTI
Finding No. 1	(\$12,903)	(\$17,773)	(\$766)				
Finding No. 4	(\$1,693)	(\$573)					
Finding No. 5						(\$1,085)	
Finding No. 10						(\$11,441)	
Finding No. 11						(\$7,344)	
Finding No. 12						(\$1,454)	
Finding No. 13	(\$29)						
Finding No. 14			(\$180)			(\$873)	(\$37)
Finding No. 16						(\$105)	(\$47)
Finding No. 17				(\$70)			
Adjustment Totals	(\$14,625)	(\$18,346)	(\$946)	(\$70)	\$0	(\$14,958)	(\$84)

### Phoenix Project Adjustment

The purpose of the Phoenix Project is to improve accounting, customer service, customer billing, and financial and regulatory reporting functions of UI and its subsidiaries. The Phoenix Project became operational in December 2008. Since 2009, we have approved recovery of the cost of the Phoenix Project in 11 UI rate cases.<sup>6</sup> In those cases, UI allocated the Phoenix Project costs based on each subsidiary's equivalent residential connections (ERCs) to UI's total ERCs.

### Allocation of Phoenix Project Costs

In the instant case, UI allocated 0.56 percent of its costs to Labrador based on the ratio of Labrador's total ERCs to UI's total ERCs. Based on total Phoenix Project costs of \$21,545,555, Labrador calculated its allocated share to be 0.56 percent, or \$120,655.

### 2009 Divestitures of UI Subsidiaries

In 2009, UI divested several Florida subsidiaries including Miles Grant Water and Sewer Company, Utilities, Inc. of Hutchinson Island, and Wedgefield Utilities, Inc., as well as other subsidiaries in other states. In Order No. PSC-10-0585-PAA-WS, we found that allocating costs according to ERCs is an appropriate methodology to spread the cost of the Phoenix Project, but it did not believe the Phoenix Project costs previously allocated to the divested subsidiaries should be reallocated to the surviving utilities.<sup>7</sup> Because no added benefit was realized by the remaining subsidiaries, we found that it was not fair, just, or reasonable for ratepayers to bear any

<sup>6</sup> See Docket Nos. 090531-WS, 090462-WS, 090402-WS, 090392-WS, 080250-SU, 080249-WS, 080248-SU, 080247-SU, 070695-WS, 070694-WS, and 070693-WS.

<sup>7</sup> See Order No. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, p. 10.

additional allocated Phoenix Project costs. Thus, we ruled that the divested subsidiaries' allocation amounts shall be deducted from the total cost of the Phoenix Project before any such costs are allocated to the remaining UI subsidiaries.

Staff Affiliate Audit Finding No. 7

In Order No. PSC-10-0407-PAA-SU, we established the total cost of the Phoenix Project as of December 31, 2008, at \$21,617,487 and required UI to deduct \$1,724,166 from the total cost of the Phoenix Project to account for the divestiture of several subsidiaries resulting in a remaining balance of \$19,893,321.<sup>8</sup> In this case, our auditors determined that the Utility did not make the adjustment for the Phoenix Project that we ordered. According to Affiliate Audit Finding No. 7, Labrador showed the Phoenix Project balance at December 31, 2008, to be \$21,545,555. The difference between the Utility's balance and our recognized balance is \$1,652,234 (\$21,545,555 - \$19,893,321). Therefore, the UI balance for the Phoenix Project shall be reduced by \$1,652,234 to account for the divestiture of subsidiary utilities through 2009. The effect on the filing is a decrease to water and wastewater plant by \$4,664 and \$4,589, respectively. Corresponding adjustments shall also be made to decrease accumulated depreciation by \$700 for water and \$688 for wastewater. Depreciation expense shall also be decreased by \$466 for water and \$459 for wastewater. The depreciation calculation is based on a depreciation life of ten years for the Phoenix Project.

In its response to Affiliate Audit Finding No. 7, Labrador disagreed with the finding and argued that the full balance of the Phoenix Project should be included at the UI level, with 0.56 percent allocated to Labrador. The Utility argued that it is incorrect to reduce the Phoenix Project balance for sold companies as none of the Phoenix system was sold in conjunction with the divested companies. Labrador contended that reducing the Phoenix Project balance for the remaining subsidiaries creates an improper gain on sale situation in the amount of \$1,652,234 because it effectively includes the allocated amount of the Phoenix Project costs with the sale of the divested utilities. The Utility contends such an adjustment is contrary to Section 367.0813, F.S. Labrador maintains that the total Phoenix Project balance is currently in-service and benefiting current ratepayers and it is arbitrary and inappropriate to reduce the balance.

We have already determined in prior UI rate cases that the Phoenix Project balance shall be reduced to account for the divestitures of subsidiary UI systems.<sup>9</sup> Moreover, the Utility's response to the audit adjustment mischaracterizes the adjustment related to the Phoenix Project. The adjustment is not related to gain on sale. The adjustment is made to prevent UI from allocating additional cost to Florida utility systems. The additional cost UI has proposed to allocate to Labrador is the result of UI's unilateral decision to sell assets unrelated to the provision of regulated water and wastewater service by Labrador. UI's proposed incremental

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<sup>8</sup> See Order No. PSC-10-0407-PAA-SU, issued on September 22, 2010, in Docket No. 090381-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, p.6.

<sup>9</sup> Staff notes, however, that the Phoenix Project cost is a protested issue in a docket concerning another UI subsidiary. See Order No. PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.

increase in the Phoenix Project allocation is not related to additional investment in its computer system to improve its functionality or extend its useful life. Instead, this proposed increase in allocation is designed to offset an unrelated business decision. Without any added benefit or an extension of its useful life, it is inappropriate for UI to attempt to raise water and wastewater rates in Florida simply because it sold systems in other states.

#### 2010 Divestitures of UI Subsidiaries

In 2010, UI divested four additional systems and subsidiaries in North Carolina, South Carolina, and Florida. The four divested systems collectively represent 9,518 ERCs. UI planned to divest a fifth subsidiary, Montague in New Jersey, which was under contract to be sold. However, the sale of the Montague subsidiary did not close, and as such, the 1,019 ERCs related to Montague shall not be included in the ERC percentage calculation. For purpose of this adjustment, the net number of ERCs related to the divested systems is 8,499, or 3.14 percent of the total number of ERCs for UI.

Consistent with our prior decisions, the adjustment to deduct the proportional amount of the divested companies from the total cost of the Phoenix Project shall also be made for the subsequent divestitures. The total cost of the Phoenix Project for UI shall be reduced by an additional 3.14 percent, or \$678,237, to account for the divestiture of subsidiaries through 2010. The effect on the filing is a decrease to water and wastewater plant of \$1,914 and \$1,884, respectively. Corresponding adjustments shall also be made to decrease both accumulated depreciation and depreciation expense by \$287 for water and \$283 for wastewater.

#### Amortization / Depreciation Period

In Staff Affiliate Audit Finding No. 8, our auditors discovered that the Utility did not change the depreciation life for the Phoenix Project from eight to ten years as directed in Order No. PSC-10-0407-PAA-SU. In its response to Affiliate Audit Finding No. 8, Labrador disagreed with the audit finding and argued that we have no basis for changing the amortization period for the Phoenix Project to ten years. The Utility contended that an eight year life has already been established in previous dockets and is the life used for all other computer software booked to the same account as the Phoenix Project.

In previous UI cases, we approved a six-year amortization period for the Phoenix Project.<sup>10</sup> In subsequent UI cases, we found that an eight-year amortization period was more appropriate for a software project of this magnitude.<sup>11</sup> In 2010, we set the amortization period for the Phoenix Project to ten years in five separate rate cases involving Labrador sister companies.<sup>12</sup> There were three factors we considered in our decision to increase the amortization

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<sup>10</sup> See Docket Nos. 070695-WS, 070694-WS, and 070693-WS.

<sup>11</sup> See Docket Nos. 080250-SU, 080249-WS, 080248-SU, and 080247-SU.

<sup>12</sup> See Order Nos. PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381-SU, In re: Application for Increase in wastewater rates in Seminole County by Utilities Inc. of Longwood; and PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; and PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-

period. First, the Phoenix Project was specifically tailor-made to meet all of UI’s needs. This project is not “off the shelf” software, but software designed to fulfill long-term accounting, billing, and customer service needs specific to UI and its affiliates and subsidiaries. Second, we concluded that Phoenix Project software will be used for at least ten years. UI’s former Legacy accounting system had been used for 21 years. Third, in a 2008 docket involving a UI subsidiary in Nevada,<sup>13</sup> UI responded that any amortization period between four and ten years would be in compliance with Generally Accepted Accounting Principles (GAAP). Similarly, UI has stated to us that its own research revealed that computer software could be amortized over a period of anywhere from four to ten years.<sup>14</sup> We find that ten years is the appropriate amortization period in this case.

Based on the above, we find that the appropriate depreciation period for Labrador is ten years, which results in a necessary reduction to accumulated depreciation of \$3,090 and \$3,040 for water and wastewater, respectively. Accordingly, depreciation expense shall be reduced by \$1,567 for water and \$1,543 for wastewater.

Conclusion

Based on the Phoenix Project balance for Labrador and the adjustment for the divestitures, we find that the total cost of the Phoenix Project for UI shall be reduced by \$2,330,471. The resulting UI Phoenix Project balance for ratemaking purposes is \$19,215,083. The appropriate amount of Labrador’s allocated share of the Phoenix Project is \$107,605. Our adjustments to Labrador’s Phoenix Project balances are summarized in the following table.

Staff Adjustment	Simple Average Plant		Simple Average Accumulated Depreciation		Depreciation Expense	
	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>
Affiliate Audit Finding No. 7	(\$4,664)	(\$4,589)	\$700	\$688	(\$466)	(\$459)
2010 Divestitures Adjustment	(1,914)	(1,884)	287	283	(287)	(283)
Affiliate Audit Finding No. 8	0	0	3,090	3,040	(1,567)	(1,543)
Total	<u>(\$6,578)</u>	<u>(\$6,473)</u>	<u>\$4,077</u>	<u>\$4,011</u>	<u>(\$2,320)</u>	<u>(\$2,285)</u>

Accordingly, we find that plant shall be reduced by \$6,578 for water and \$6,473 for wastewater. In addition, accumulated depreciation shall be reduced by \$4,077 for water and \$4,011 for wastewater. Depreciation expense shall be decreased by \$2,320 for water and \$2,285 for wastewater.

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WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; and PSC-10-0585-PAA-WS, issued September 22, 2010, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida; and PSC-1-0514-PAA-WS, issued November 3, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.

<sup>13</sup> Modified Final Order, issued January 15, 2009, in Docket No. 08-06036.

<sup>14</sup> See December 2, 2008, Commission Conference Transcript, Page 26, Line 3, through Page 27, Line 19.

### Accumulated Depreciation

In its MFRs, the Utility recorded adjustments of \$179 for water and \$1,826 for wastewater to annualize accumulated depreciation for assets placed in service during the test year. Labrador also made corresponding adjustments to increase depreciation expense by \$179 for water and \$1,826 for wastewater. Accumulated depreciation is based on when an asset is placed into service. It is not appropriate to annualize accumulated depreciation on a pro forma basis because the annualized amount includes a period of time when the asset was not in service during the test year. Further, Labrador failed to make matching adjustments to annualize any other rate base items such as amortization of CIAC. Consistent with our decision in Order No. PSC-02-1657-PAA-WU, the proposed adjustments to accumulated depreciation and depreciation expense shall be removed from the Utility's filing.<sup>15</sup> Accordingly, accumulated depreciation shall be decreased by \$179 for water and \$1,826 for wastewater. Corresponding adjustments shall be made to decrease depreciation expense by \$179 and \$1,826 for water and wastewater, respectively.

### Used and Useful Plant

In its application, the Utility asserts that the WTP and WWTP, as well as the water distribution and wastewater collection systems, are all 100 percent used and useful (U&U). Labrador maintains that the service territory the treatment plants are designed to serve is built out and there is no apparent potential for expansion. The service area consists of the 894-lot Forest Lakes Estates Mobile Home Park and the 274-lot Forest Lakes RV Resort. Within the service area of the Utility, there are four vacant lots in the mobile home park and a vacant 11.6 acre parcel of land which is owned by Forest Lakes Estates Cooperative. A 90-unit RV park was being considered but, the project has been placed on hold.

### Water Treatment Plant

Pursuant to Rule 25-30.4325, F.A.C., the U&U calculation for a WTP is determined by dividing the peak demand by the firm reliable capacity of the WTP. Because the system has storage facilities, the calculation is in gallons per day (gpd). Consideration of growth, fire flow requirements, unaccounted for water, and other factors may also be included.

Labrador's WTP has two wells. One is rated at 950 gallons per minute (gpm) and the other is rated at 200 gpm. Before being pumped into the distribution system, raw water is treated with liquid chlorine for disinfection and a sequestration chemical for iron control. Pursuant to Rule 25-30.4325(6)(b), F.A.C., we calculated the firm reliable capacity of the water system to be 192,000 gpd.

The single maximum day in the test year occurred on November 8, 2010; however, according to the Utility, significant tri-lateral flushing occurred on that day. The second

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<sup>15</sup> See Order No. PSC-02-1657-PAA-WU, issued November 26, 2002, in Docket No. 011621-WU, In re: Petition for a limited proceeding to implement an increase in water rates in Highlands County, by Placid Lakes Utilities, Inc.

maximum day in the test year of 168,000 gallons occurred on January 4, 2010. It does not appear that there was a fire, line break, or other unusual occurrence on that day. Fire hydrants are located throughout the service area; therefore, a fire flow allowance of 500 gpm for 2 hours shall be included in the U&U analysis pursuant to Rule 25-30.4325(1)(c), F.A.C. According to the Utility, the system is built out, and thus a growth allowance was not included in the U&U calculation.

The Utility's F-1 schedule in the MFRs indicates excessive unaccounted for water (EUW) of 1.70 percent. Pursuant to Rule 25-30.4325, F.A.C., EUW is unaccounted for water in excess of 10 percent of the amount pumped. However, according to our review of the Utility's Monthly Operation Reports (MORs) submitted to DEP showing gallons pumped compared with the Utility's reported gallons sold and other uses, the EUW is 2.10 percent or 1,442 gpd.

Pursuant to Rule 25-30.4325, F.A.C., we find that the WTP is 100 percent U&U based on a peak day of 168,000 gpd, a fire flow allowance of 120,000 gpd, EUW of 1,442 gpd, and firm reliable capacity of 192,000 gpd.

#### Ground Storage Tank

Rules 25-30.4325(8) and (9), F.A.C., provide that the U&U percentage for a storage tank is determined by dividing the peak demand by the usable capacity of the tank. A ground storage tank is considered 90 percent usable if the bottom of the tank is below the centerline of the pumping unit. The Utility has a 34,000-gallon ground storage tank. Pursuant to Rule 25-30.4325(9)(b), F.A.C., the usable capacity of the tank is 30,900 gpd. Because the usable storage capacity is less than the peak day demand, we find that the storage tank shall be considered 100 percent used and useful, pursuant to Rule 25-30.4325(8), F.A.C.

#### Wastewater Treatment Plant

The current DEP permitted capacity for the WWTP is based on three-month average daily flows (TMADF). The WWTP, which uses extended aeration for treatment, has a rated capacity of 216,000 gpd based on TMADF. The treated effluent is disposed of on a 34.7 acre slow-rate restricted public access spray field. The TMADF during the test year was 79,216 gpd. It appears that there is no excessive infiltration and inflow (I&I) in the collection system. The Utility did not include an allowance for growth because it asserts that the area served by the existing plant is built out. OPC argued that based on the TMADF flow during the test year, the wastewater treatment plant is 37 percent U&U, under Rule 25-30.432. In addition, OPC argued that the development was not built out as asserted by staff because there were four vacant lots and an 11.6 acre undeveloped parcel adjacent to the development. The Utility asserts that this facility should be considered 100 percent used and useful because the plant was designed to serve full occupancy at design flows of 280 gpd/equivalent residential connection (ERC) which would require 250,000 gpd capacity. The actual flows are closer to 69 gpd/ERC in the peak month assuming 95 percent occupancy.

Given the lack of documentation on the design criteria of the plant, the fact that the actual flows of the plant are currently closer to 69 gpd/ERC in the peak month, and the fact that there is currently a vacant parcel of land available for development in the future, we cannot agree that the wastewater treatment plant is 100 percent U&U. Since the U&U issue in Labrador's last rate case was settled by stipulation which had no precedential value, we find that it is appropriate to use the 79.94 percent U&U percentage for the wastewater treatment plant consistent with our determination in Labrador's 2003 rate case.<sup>16</sup>

#### Water Distribution and Wastewater Collection Systems

The U&U calculations for the water distribution and wastewater collection systems are determined by dividing the number of customers connected to the systems by the number of lots available for service. We find that the water distribution system shall be considered 100 percent U&U, and the wastewater collection system shall be considered 100 percent U&U.

#### Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of O&M expense, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the formula method. We have approved adjustments to Labrador's O&M expense, which are reflected elsewhere in this Order. As a result, we find it appropriate to approve working capital of \$19,641 for water and \$26,213 for wastewater. This reflects a decrease of \$6,033 for water and \$6,310 for wastewater to the Utility's requested working capital allowance of \$25,674, and \$32,523 for water and wastewater.

#### Appropriate Rate Base

In its MFRs, the Utility recorded rate base of \$703,973 for water and \$1,354,886 for wastewater. We have calculated Labrador's water and wastewater rate bases using the Utility's MFRs with adjustments as approved above. We find that the appropriate simple average rate base for the test year ended December 31, 2010, is \$695,633 for water and \$1,157,970 for wastewater. Our approved water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B, respectively. The adjustments are shown on Schedule No. 1-C.

### COST OF CAPITAL

#### Return on Equity

The ROE included in the Utility's filing is 10.51 percent. Based on the current leverage formula in effect and an equity ratio of 47.6 percent, the appropriate ROE is 10.51 percent. The ROE for water will be 10.51 percent, with an allowed range of plus or minus 100 basis points for

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<sup>16</sup> See Order No. 04-1281-PAA-WS, issued December 28, 2004 in Docket No. 030443, In re: Application for a rate increase in Pasco County by Labrador Utilities, Inc.

ratemaking purposes.<sup>17</sup> However, based on our finding that the Utility's quality of service for its wastewater treatment plant is marginal, we find it appropriate to reduce the Utility's ROE 25 basis points from the mid-point of the allowed range, to 10.26 percent for wastewater, until the Utility improves its quality of service. We expect Labrador to conduct a comprehensive odor control study of the treatment plant, and engage the customers in consideration of potential options and associated costs. We also expect the Utility to engage customers in further discussion of water quality and possible options for aesthetic water quality improvement as well. It shall be the Utility's responsibility to petition us for a change in ROE if and when it determines that in its opinion it has met our expectations.

### Overall Cost of Capital

In its filing, the Utility requested an overall cost of capital of 8.26 percent. Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2010, we find that a weighted average cost of capital of 8.23 percent is appropriate for water. However, due to the reduction in the ROE discussed above, the weighted average cost of capital for wastewater is 8.12 percent. Schedule No. 2A and Schedule 2B details our approved overall cost of capital for water and wastewater, respectively.

## NET OPERATING INCOME

### Tank maintenance and repair

On MFR Schedule B-11, Labrador provided an analysis of all maintenance projects greater than 2 percent of test year revenue during the test year, 2 years prior to the test year, and 1 year subsequent to the test year. In its analysis, the Utility requested a budgeted amount of \$46,204 for the cost to maintain and repair the water tank. The budgeted amount was amortized over 5 years and \$9,241 was included in water O&M expense. The basis for Labrador's budgeted amount was the cost incurred in April 2004 to repair and maintain the tank. The cost in 2004 included work to sandblast and recoat the tank inside and out, cut off the old roof, and install a new pre-fabricated roof with handrails.

A tank inspection report from Liquid Engineering, dated January 27, 2010, indicated that the condition of the interior of the tank was in fair condition, but was in need of repairs to continue functioning as designed. Liquid Engineering recommended that the tank be sandblasted and recoated in addition to making other minor repairs. We estimate that the appropriate cost to maintain and repair the water tank is \$30,138. This estimate is based on the actual cost of \$23,500 to sandblast and recoat the tank in April 2004. We used an inflation factor of 1.156093 to inflate the cost in 2004 to the cost in 2011. We calculated the estimated cost in 2011 to be \$27,168. We added the cost of the tank inspection (\$2,970) to the cost of sandblasting and recoating for a total estimated cost of \$30,138. In accordance with Rule 25-30.433(8), F.A.C., this cost shall be amortized over 5 years. Accordingly, the appropriate estimated annual cost is

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<sup>17</sup> See Order No. PSC-11-0287-PAA-WS, issued July 5, 2011, in Docket No. 110006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

\$6,028. Therefore, we find that the annual cost of water tank maintenance and repair shall be decreased by \$3,213 to reflect the appropriate estimated amount of water tank maintenance and repair expense.

### Salaries and Wages Expense

In its MFRs, Labrador included a pro forma adjustment to water and wastewater salaries and wages expense to reflect a 3 percent salary increase in April 2011. Given the tumultuous state of the economy, and the fact the Utility received a rate increase in 2009, we do not believe that any pay increase at this time should be borne by the ratepayers. We disallow the Utility's pro forma pay increase. This treatment is consistent with our recent decisions in the Aqua Utilities Florida, Inc. (AUF) and the Lake Utility Services, Inc. (LUSI) rate cases.<sup>18</sup> Therefore, we find that an adjustment to reduce Labrador's requested salaries and wages expense by the amount of the pro forma adjustment is appropriate. Salaries and wages expense shall be decreased by \$1,704 for water and \$1,677 for wastewater.

### Other O&M Expense Adjustments

In its filing, Labrador recorded miscellaneous expenses of \$29,056 for water and \$22,423 for wastewater. Also, the Utility recorded \$21,441 for sludge removal expense. We believe that adjustments are necessary as discussed below.

### Miscellaneous Expense

Labrador's miscellaneous expense includes allocated computer maintenance expenses from UI. In the test year, the computer maintenance expenses were \$5,280 for water and \$5,196 for wastewater. UI has experienced volatility in the amount of computer maintenance expense over the last five years from 2007-2011 as shown in the Table below:

<u>Year</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Misc. Expense Amount	\$1,022,146	\$1,208,569	\$1,778,919	\$1,914,523	\$1,389,050

Recognizing the volatility of computer maintenance expense, we find that we can smooth out those costs by applying a five-year average for those expenses for ratemaking purposes. We also find that it is appropriate to exclude the Phoenix project IT maintenance charges for UI divested systems, consistent with our treatment of the Phoenix costs per ERC. Based on the five-year average (2007-2011) and Labrador's .56 ERC allocation percentage, we find that miscellaneous expense shall be reduced by \$1,313 for water and \$1,292 for wastewater. Moreover, removing the Phoenix maintenance charges for divested systems share, we find that

<sup>18</sup>See Order Nos. PSC-11-02-0102-PAA-WS, issued March 5, 2012, in Docket No. 100330-WS, In re: Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.; and PSC-10-0514-PAA-WS, issued November 3, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.

computer maintenance expense shall be further reduced by \$42. and \$41. for water and wastewater, respectively.

#### Sludge Removal Expense

In Labrador's 2009 Annual Report, the sludge removal expense listed in Account 711 was \$32,860. In Labrador's filing for the 2010 test year, the Utility recorded sludge removal expense of \$21,441. As discussed above Labrador's estimated sludge removal expense would be approximately \$10,000 for 2011, and agreed with a reduction of \$11,441. However, Labrador's response to OPC's discovery states that the Utility incurred an actual amount of \$7,300 for sludge removal expense in 2011. Taking that information into consideration, we find that the Utility's requested level of sludge removal expense shall be further reduced by an amount of \$2,700 to reflect the 2011 sludge removal expense incurred by the Utility. We note that this adjustment is consistent with the adjustment made in a limited proceeding with Labrador's sister Utility, Cypress Lakes Utilities, Inc., in Order No. PSC-10-0682-PAA-WS.<sup>19</sup>

#### Summary

Based on the above, we find that O&M expense shall be reduced by \$1,355 for water and \$4,033 for wastewater to reflect the appropriate level of miscellaneous and sludge removal expenses.

#### Rate Case Expense

In its MFRs, Labrador requested \$267,603 for current rate case expense. Our staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On November 17, 2011, the Utility submitted a revised estimated rate case expense as of October 31, 2011, through completion of the PAA process of \$204,452.

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<sup>19</sup> See Order No. PSC-10-0682-PAA-WS, page 17, issued November 15, 2010, in Docket No. 090349-WS, In re: Application for limited proceeding rate increase in Polk County by Cypress Lakes Utilities, Inc.

	<u>MFR B-10 Estimated</u>	<u>Actual as of 10/31/11</u>	<u>Additional Estimated</u>	<u>Revised Total</u>
Legal Fees	\$82,325	\$4,046	\$31,249	35,295
Accounting Consultant Fees	67,250	\$13,225	36,588	49,813
Engineering Consultant Fees	3,900	338	2,900	3,238
WSC in-house Fees	87,928	21,715	68,191	89,906
Filing Fee	4,000	0	4000	4,000
WSC Travel	3,200	273	2,927	3,200
WSC Temp Employee Fees	2000	31	1969	2,000
WSC FedEx/Misc.	12,000	89	11,911	12,000
Notices	<u>5,000</u>	<u>499</u>	<u>4,501</u>	<u>5,000</u>
Total Rate Case Expense	<u>\$267,603</u>	<u>\$40,216</u>	<u>\$164,236</u>	<u>\$204,452</u>

Pursuant to Section 367.081(7), F.S., we shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. We have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. We have also reviewed our Orders in the Utility's 2003 and 2008 rate cases. Based on our review, we find that the following adjustments to Labrador's rate case expense estimate are appropriate.

Legal Consultant Fees

The Commission finds an adjustment is necessary to the hourly rate billed by the legal consultant. In the AUF rate case, we voted to decrease the hourly rate of the consultants to the rate authorized in the Utility's previous rate case. We believe the conditions in this case are similar to those in the AUF case, and thus the hourly billing rate for the legal consultant shall be set at the rate authorized in Labrador's 2008 rate case. The hourly billing rate in the instant case is \$340 for the partner and \$315 for the associate. In Labrador's 2008 rate case, the hourly billing rate for the partner was \$315 and \$290 for the associate. Applying the hourly billing rate from the last rate case to the total hours in the instant case equates to a difference of \$4,548. Accordingly, we shall reduce legal fees by \$4,548.

Accounting Consultant Fees

The Utility is requesting accounting consultant expenses of \$49,813 for 324 hours of work. In a data request, our staff asked the following:

- (a) For each individual person, in each firm providing consulting services to the applicant pertaining to this docket, provide the billing rate, and an itemized

description of work performed. Please provide detail of hours worked associated with each activity. Also provide a description and associated cost for all expenses incurred to date.

(b) For each firm or consultant providing services for the applicant in this docket, please provide copies of all invoices for services provided to date.

(c) If rate consultant invoices are not broken down by hour, please provide reports that detail by hour, a description of actual duties performed, and amount incurred to date.

Although our staff requested a detailed description of the actual duties performed, the reports submitted by the Utility for the accounting consultant's time reflect a very broad description of the work performed. The description of duties performed in the report simply states, "MFRs Preparation." In addition, the duties listed in the accounting consultant's estimate to complete appear duplicative of the duties that were reportedly performed by WSC in-house employees. For example, the duties listed include: respond to staff data requests; review interim order; review audit, discuss issues with client; review, research and prepare a response to OPC interrogatories; review staff recommendation, test revenue requirement including suppression calculations; review PAA Order, test revenue requirement including suppression calculations.

We do not believe that the Utility has adequately demonstrated that the accounting consultant fees, along with the significant increase in WSC in-house employee costs, are necessary to file the rate case. Further, it appears to us that rate case expense has increased to an amount that is unreasonable and excessive as compared to the rate case expense from the Utility's last two rate cases.

In Labrador's 2003 PAA rate case, the Utility requested a total rate case expense of \$100,554, and we approved an amount of \$68,988. In the 2003 case, Labrador did not include any expenses for an accounting consultant. The supporting documentation showed that 4 WSC in-house employees prepared the MFRs, responded to data and audit requests, and performed all other necessary non-legal duties related to the rate case. We approved expenses of \$16,664 for WSC in-house employees that reflected 335 hours worked to process the case.

In Labrador's 2008 rate case, the Utility initially requested total rate case expense of \$207,715 that included accounting consultant expense of \$45,000. The revised amount for accounting consultant expense increased to \$64,435. We disallowed all of the accounting consultant fees of \$64,435 in that case.<sup>20</sup> At our Commission Conference, we agreed with OPC's proposed adjustment to remove all accounting consultant fees.<sup>21</sup> In the 2008 case, OPC argued that the Utility added a substantial number of WSC in-house employees since the last rate case.<sup>22</sup>

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<sup>20</sup>See Order No. PSC-09-0462-PAA-WS, issued June 22, 2009, in Docket No. 080249-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

<sup>21</sup>See Transcript of June 2, 2009, Agenda Conference, pp. 134-135, in Docket No. 080249-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

<sup>22</sup>Id., pp.16-17.

In fact, the revised rate case schedule showed that 15 WSC in-house employees worked on the 2008 rate case compared to only 4 employees who worked on the 2003 rate case. OPC also argued that the addition of the \$20 million Project Phoenix, the cost of which is allocated to all UI subsidiaries, was intended to result in improved accounting and computer efficiencies.<sup>23</sup> OPC argued that the expenses for an accounting consultant to help Labrador prepare MFRs and respond to data requests, in addition to the increase in WSC in-house employees and the Project Phoenix costs, was unreasonable and duplicative, and as such, should not be borne by the ratepayers.<sup>24</sup> OPC argued that if we were to disallow the accounting consultant rate case expenses from a policy standpoint, it would bring the rate case expense back into line with the 2003 rate case.<sup>25</sup> We agreed and voted to approve our staff's recommendation for rate case expense with OPC's adjustments.<sup>26</sup>

We believe that the same scenario that OPC was concerned with in the 2008 rate case exists in this rate case. The number of WSC in-house employees working on the rate case and the related expense has increased since the prior rate case. In the 2008 rate case, Labrador requested WSC in-house expenses of \$37,470 for 853 hours worked. We approved WSC in-house expenses of \$24,644, and total rate case expense of \$69,241. In this case, the Utility is requesting WSC in-house expenses of \$89,906 for 1,921 hours worked. In its rate case expense schedule, Labrador indicated that 18 WSC in-house employees worked on the rate case. In addition, the Utility is requesting accounting consultant expenses of \$49,813 for 324 hours of work.

Based on the above, we find that the Utility has not demonstrated that both the accounting consultant time and the significant increase in WSC in-house accounting work are necessary to file and process its rate case. In addition, it appears that the accounting consultant services are duplicative of the duties performed by WSC in-house employees. The Utility has not sufficiently documented the accounting-related work performed by the outside consultant and the in-house employees. While an argument can be made that the Utility has failed to carry its burden of proof with respect to these costs, we recognize that the MFRs were prepared, document and audit requests were responded to, and the rate case was processed by someone on behalf of the Utility. We will discuss WSC in-house employees below, and because we will disallow the incremental time of WSC in-house employees we find that the accounting consultant fees in the amount of \$49,813 shall be recovered.

#### Engineering Consultant Fees

At the time the Utility submitted its revised rate case expense schedule, Labrador requested total engineering fees of \$3,238, which consisted of \$338 in actual costs and \$2,900 in estimated fees to complete the rate case. The estimate to complete the rate case included \$900 for 6 hours worked in the week of May 23, 2011, to prepare MFRs. The remaining expense

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<sup>23</sup> Id., pp. 21-22.

<sup>24</sup> Id.

<sup>25</sup> Id.

<sup>26</sup> See Vote Sheet from June 2, 2009, Agenda Conference, Issue 11, in Docket No. 080249-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

related to 8 hours for assisting with and responding to data requests, 4 hours to prepare for and attend the Commission Conference, and \$50 for expenses.

The only support provided for the work to be performed was the following statement on the revised MFR Schedule B-10: "U&U Analysis, Assist w/ MFRs, data requests, audit facilitation." We note that there would be no work remaining for engineering U&U Analysis, assisting with MFRs, responding to data requests, and audit facilitation. Also, any remaining data requests would be more appropriately addressed by WSC in-house employees. Based on the documentation provided by the Utility, we find that the appropriate amount of engineering consultant fees is \$1,238 (\$900 + \$338).

#### WSC In-House Employee Fees

In its revised rate case expense estimate, the Utility requested \$89,906 for expenses related to WSC in-house employees to process this case. Labrador reported that the total number of actual hours incurred by WSC in-house employees as of October 31, 2011, was 507, and estimated an additional 1,414 hours remaining to complete the rate case, for a total of 1,921 hours. Based on the Utility's requested number of hours and expenses for WSC in-house employees in Labrador's 2003 and 2008 rate cases, we find that the number of hours proposed by the Utility for WSC in-house employee fees is excessive, unreasonable, and unsupported.

The only support provided for the estimated hours remaining for WSC in-house employees was a notation in Revised MFR Schedule B-10 that listed the type of service rendered as "Assist w/MFRs, data requests, audit facilitation" for most employees. One WSC employee was designated as "Billing Analyst, Implementation of Rates." Regardless, the Utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. The hours needed to complete data requests and audit facilitation were not broken down to estimate the hours needed to complete each item. In addition, there were no timesheets provided to show actual hours worked for each task in this case. Therefore, we have no basis to determine whether the individual hours estimated are reasonable. We have reviewed these requested expenses and we believe the estimates are overstated. In those cases where rate case expense has not been supported by detailed documentation, our practice has been to disallow some portion or remove all unsupported amounts.<sup>27</sup>

Based on a review of the confidential salary information filed in the instant case, we believe that 100 percent of the compensation for the positions listed in the table below has been allocated to Labrador and its sister companies as salaries and wages for WSC employees and officers. The Utility included total salaries and wages for WSC employees and officers of \$95,883, or \$48,325 for water and \$47,558 for wastewater, in its O&M expense for the test year

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<sup>27</sup> See Order No. PSC-94-0075-FOF-WS, issued January 21, 1994, in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. We note that, in all of these cases, we removed the entire unsupported amounts.

ended December 31, 2010. In addition, we note that the positions that paid by the hour did not incur overtime for time spent on this rate case.

WSC Job Title (No. of positions)	Rate Case Related Essential Functions, Duties, or Responsibilities
Administrative Assistant (2)	<ul style="list-style-type: none"> <li>-Under direct supervision of the Regional Director.</li> <li>-Performs complex and confidential administrative functions, including written correspondence, reports, spreadsheets and other documents.</li> <li>-Prepares or assists with the preparation of scheduled and/or ad hoc statistical and narrative reports; performs basic information gathering and analysis and/or forecasting, as specifically directed.</li> <li>-May assist other operational staff depending on work load.</li> </ul>
Customer Care Manager (1)	<ul style="list-style-type: none"> <li>-Provides training to all customer service employees in the areas of billing, tariff compliance, rate cases and quality customer service.</li> <li>-Performs other related duties as assigned.</li> </ul>
Director, Customer Care (1)	A Job Summary for this position was not provided in Volume III of the MFRs.
Director of Governmental Affairs (1)	<ul style="list-style-type: none"> <li>-Provides leadership and guidance to newer regulatory staff not familiar with the rate case process.</li> <li>-Performs other related duties as assigned.</li> </ul>
Regional Director (1)	<ul style="list-style-type: none"> <li>-Manages the preparation of all rate cases, pass-through and indexing activity, changes to service territory, and any other PSC related activities in coordination with the company's regulatory department.</li> </ul>
Regional Vice President (1)	<ul style="list-style-type: none"> <li>-Oversees all operations of the regional offices.</li> <li>-Serves as the regional ambassador and local company contact for customers, community organizations, state commissions, and representatives.</li> <li>-Performs other related duties as assigned.</li> </ul>
Regulatory Accounting Manager (1)	<ul style="list-style-type: none"> <li>-Manages regulatory team responsibilities such as, rate cases, limited proceedings, indicies/pass-throughs, etc.</li> <li>-Files large-dollar rate cases or upon request, supplies required regulatory information to consultants.</li> <li>-Supplies audit trail and documentation to easily support work product.</li> <li>-Performs all follow-up compliance issues in accordance with Commission order.</li> </ul>
Regulatory Staff Accountant I (3)	<ul style="list-style-type: none"> <li>-Assists and supports Regulatory Accountant II, Senior Regulatory Accountant and Manager on rate case filings and other proceedings.</li> <li>-Provides audit trail and documentation to easily support work product.</li> </ul>
Regulatory Staff Accountant II (1)	<ul style="list-style-type: none"> <li>-Prepares commission-ordered adjustments.</li> <li>-Files rate cases or, upon request, supplies regulatory information to consultants.</li> <li>-Follows all required steps to close rate cases.</li> <li>-Provides financial support documentation.</li> <li>-Assists with commission staff performed audits and discovery.</li> <li>-Provides audit trail and documentation to easily support work product.</li> </ul>
Senior Regulatory Accountant (1)	<ul style="list-style-type: none"> <li>-Directly assists manager with regulatory responsibilities such as rate cases, limited proceedings, indicies/pass-throughs, etc.</li> <li>-Prepares commission-ordered adjustments.</li> <li>-Files large-dollar rate cases or upon request, supplies required regulatory information to consultants.</li> <li>-Performs all follow-up compliance issues in accordance with Commission order.</li> <li>-Provides audit trail and documentation to easily support work product.</li> </ul>
Billing Manager (1)	<ul style="list-style-type: none"> <li>-Responsible for management of the Billing Department, including directing, planning, managing, staffing and organizing the billing and collection aspect of all Utilities, Inc. subsidiaries.</li> <li>-Validates and rate changes required by state tariffs.</li> </ul>

	<ul style="list-style-type: none"> <li>-Informs management by reviewing and analyzing special reports, summarizing information and identifying trends.</li> <li>-Performs other related duties as assigned.</li> </ul>
Regulatory Assistant (1)	<ul style="list-style-type: none"> <li>-Performs general administrative duties</li> <li>-Maintains various regulatory spreadsheets and reports.</li> <li>-Assists in organizing documentation requirements.</li> <li>-Compiles and creates library of resource materials for regulatory staff.</li> <li>-Assists regulatory staff with the timely completion of assignments and projects in accordance with established deadlines.</li> </ul>
Chief Operating Officer (1)	A Job Summary for this position was not provided in Volume III of the MFRs.
Regional Manager (1)	<ul style="list-style-type: none"> <li>-Oversees plant operations and maintenance, customer contact and capital planning.</li> <li>-Assists Regional Director in the development and implementation of operational and regional strategies.</li> <li>-Serves as contact for inquiries regarding operational issues; answers routine and ad hoc information requests that are regional or unit-specific in nature.</li> <li>-Acts as point of contact with developers, engineers, consultants, regulators, and customers.</li> <li>-Performs other related duties as assigned.</li> </ul>

By requesting rate case expense for the hours WSC in-house employees incurred to process the rate case, in addition to the expense for salaries and wages of these same WSC employees, the Utility is seeking double recovery of the allocated compensation for the positions listed in Table 14-2. Therefore, we find that all of the hours associated with WSC in-house fees of \$89,906 related to the instant rate case shall be disallowed.

WSC Travel Expenses

In its MFRs, Labrador estimated \$3,200 for travel. However, the documentation the Utility provided to support this expense did not demonstrate that this expense was related to this rate case. The time of travel on the receipts and invoices did not correlate to the time during which the customer meeting took place. Furthermore, based on several previous UI rates cases, it is our experience that for PAA rate cases, UI does not send a representative from its Illinois office to attend our Commission Conference. Therefore, we find that rate case expense shall be decreased by \$3,200.

WSC Temp Employee Fees

In its initial rate case expense estimate, Labrador requested WSC temporary employee costs of \$2,000. In its revised rate case expense schedule, the Utility reported it incurred \$31 in actual costs and estimated an additional expense of \$1,969 to complete the rate case. Labrador provided an invoice supporting \$31 of actual costs, but did not provide any support documentation for the \$1,969 of additional estimated costs. Accordingly, we find that \$1,969 shall be disallowed as unsupported rate case expense.

### WSC FedEx Expenses

The next adjustment relates to WSC expenses for FedEx Corporation (FedEx) and other miscellaneous costs. In its MFRs, the Utility estimated \$12,000 for these items. In support of these expenses, the Utility provided only \$81 in costs from FedEx invoices for services. There was no breakdown or support for the remaining \$11,911. Accordingly, we find that rate case expense shall be decreased by \$11,911.

### Customer Notices and Postage

The Utility included expenses of \$5,000 for customer notices and postage. In its revised rate case expense schedule, Labrador reflected actual charges incurred of \$499. In 2009 UI rate cases, we allowed expenses of \$0.05 per envelope, \$0.34 for postage,<sup>28</sup> and \$0.10 per copy. We find that it is appropriate to use the 2009 costs in order to remain consistent with our recent decision for Labrador's sister company, Lake Utility Services, Inc.<sup>29</sup>

Labrador is responsible for sending 4 notices: the interim notice, the initial notice, customer meeting notice, and notice of the final rate increase. The initial notice and customer meeting notice were combined in this docket. As such, we have estimated the postage cost for the notices to be approximately \$1,555 (1520 customers x \$0.34 pre-sorted rate x 3 notices). We have estimated envelope costs to be \$228 (1520 customers x \$0.05 per envelope x 3 notices), and copying costs to be \$912 (1520 customers x \$0.10 per copy x 6 pages).<sup>30</sup> Based on these components, we find that the total cost for customer notices and postage is \$2,695. Accordingly, rate case expense shall be decreased by \$2,035.

### Conclusion

It is the Utility's burden to justify its requested costs.<sup>31</sup> We have broad discretion with respect to the allowance of rate case expense. It would constitute an abuse of that discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.<sup>32</sup> In summary, we find that Labrador's revised rate case expense of \$204,452 shall be decreased by \$115,790 for excessive, unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$88,662. A breakdown of rate case expense is as follows:

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<sup>28</sup> UI has a presorted postage rate of \$0.341.

<sup>29</sup> See Order No. PSC-11-0514-PAA-WS, Issued November 03, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc. at p. 31.

<sup>30</sup> We anticipate that both the interim notice and final notice would be one page each while the combined initial and customer meeting notice would be four pages.

<sup>31</sup> See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982)

<sup>32</sup> See Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den., 529 So. 2d 694 (Fla. 1988)

<u>Description</u>	Utility		<u>Commission Adjustments</u>	<u>Total</u>
	<u>MFR Estimated</u>	<u>Revised Actual &amp; Estimated</u>		
Legal Fees	\$82,325	\$35,295	(\$4,548)	\$30,747
Accounting Consultant Fees	67,250	49,813	0	49,813
Engineering Consultant Fees	3,900	3,238	(2,000)	1,238
WSC In-house Fees	87,928	89,906	(89,906)	0
Filing Fee	4,000	4,000	0	4,000
Travel - WSC	3,200	3,200	(3,200)	0
Temp Employee Fess - WSC	2000	2,000	(1,969)	31
Miscellaneous	12,000	12,000	(11,862)	138
Notices, Postage	<u>5,000</u>	<u>5,000</u>	<u>(2,305)</u>	<u>2,695</u>
Total Rate Case Expense	<u>\$267,603</u>	<u>\$204,452</u>	<u>(\$115,790)</u>	<u>\$88,662</u>
Annual Amortization	<u>\$66,901</u>	<u>\$51,113</u>	<u>(\$28,947)</u>	<u>\$22,166</u>

In its MFRs, Labrador requested total rate case expense of \$267,603, which amortized over four years is \$66,901, or \$33,718 for water and \$33,183 for wastewater. Based on the adjustments approved above, total rate case expense shall be decreased by \$178,941 (\$267,603 - \$88,662), and the annual amortization amounts by \$22,547 for water and \$22,189 for wastewater. Labrador has failed to demonstrate that the requested level of expenses to prepare and process this case has more than tripled over the amount approved to process the 2008 rate case. To improve the efficiency of our evaluation of rate case expense, we direct the Utility to compile and present detailed records regarding the costs incurred by both in-house staff and outside consultants in all future cases.

#### REVENUE REQUIREMENT

We approve the following revenue requirement:

	<u>Test Year Revenue</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Water	\$249,568	\$51,303	\$300,871	20.56%
Wastewater	\$445,644	\$5,354	\$450,998	1.20%

In its filing Labrador requested revenue requirements to generate annual revenue of \$355,634 and \$549,422 for water and wastewater, respectively. These requested revenue requirements represent revenue increases of \$110,904, or approximately 45 percent, for water and \$110,312, or approximately 25 percent, for wastewater.

Consistent with our decisions concerning the underlying rate base, cost of capital, and operating income issues, we approve rates designed to generate a water revenue requirement of \$300,871 and a wastewater revenue requirement of \$450,998. The approved water revenue requirement exceeds our adjusted test year revenue by \$51,303, or 20.56 percent, for water. The recommended wastewater revenue requirement exceeds our adjusted test year revenue by \$5,354 or 1.20 percent. These approved pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn an 8.23 percent return on its investment in water rate base and 8.12 percent return on its investment in wastewater rate base.

## RATE STRUCTURE AND RATES

### Rate Structure

The current rate structure for the Utility's water system is the BFC/uniform gallonage charge rate structure, with a monthly BFC of \$9.16. Customers are also charged \$6.78 for each 1,000 gallons (kgal) used. This rate structure is considered usage-sensitive, because customers are charged for all gallons consumed. We take several things into consideration when designing rates, including the current rate structure, characteristics of the Utility's customer base, various conditions of the Utility's Consumptive Use Permit, and current and anticipated climatic conditions in the Utility's service area. We performed detailed analyses of Labrador's billing data in order to evaluate various BFC cost recovery percentages. The goals of the evaluation were to select the rate design parameters that: 1) allow the utility to recover its revenue requirement; and 2) equitably distribute cost recovery among the utility's customers. Based on a detailed billing analysis of the residential class, approximately 70 percent of all of the water bills have been accounted for at a monthly consumption of 2 kgal or less. This review indicates that the residential customer base is seasonal, with an average consumption per customer of 1.56 kgal per month. We therefore find that a continuation of the current rate structure with the BFC cost recovery allocation set at 40 percent is appropriate.

Our approved rate structure is shown below.

The current rate structure for the Utility's wastewater system is a BFC/uniform gallonage charge rate structure, with a monthly BFC of \$9.16. Customers are also charged \$9.98 for each 1,000 gallons (kgal) used with a maximum of 6,000 gallons for residential customers. General service wastewater gallonage charge is set at 1.2 times the corresponding residential gallonage charge. We find that a continuation of this current rate structure and an across-the-board increase is appropriate.

Based on the foregoing, we find that the appropriate rate structure for the Utility's water system is the BFC/uniform gallonage charge rate structure. The BFC cost recovery allocation shall be set at 40 percent. The appropriate rate structure for the Utility's wastewater system is the BFC/gallonage charge rate structure. The BFC cost recovery allocation shall be set at 50 percent. Residential wastewater consumption shall remain capped for billing purposes at 6 kgal per month. The general service gallonage charge shall be 1.2 times greater than the corresponding residential gallonage charge.

LABRADOR UTILITIES, INC. COMMISSION APPROVED RATE STRUCTURE FOR THE WATER SYSTEM			
Current Rate Structure and Rates		Approved Rate Structure and Rates	
BFC/uniform kgal		BFC/uniform kgal BFC = 40%	
BFC	\$9.16	BFC	\$10.57
All kgals	\$6.78	All kgals	\$8.43
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$9.16	0	\$10.57
2	\$22.72	2	\$26.43
3	\$29.50	3	\$35.86
5	\$43.06	5	\$52.72
7	\$56.62	7	\$69.58
10	\$76.96	10	\$94.87

Rates

Excluding miscellaneous service revenue, the water rates shown on Schedule No. 4-A are designed to produce revenue of \$300,871. Approximately 40 percent (or \$120,107) of the water monthly service revenue is recovered through the base facility charge, while approximately 60 percent (or \$180,161) represents revenue recovered through the consumption charge. Excluding miscellaneous service revenue, the recommended wastewater rates shown on Schedule No. 4-B are designed to produce revenue of \$450,998. Approximately 50 percent (or \$245,258) of the wastewater monthly service revenue is recovered through the base facility charge, while approximately 50 percent (or \$245,258) represents revenue recovered through the consumption charge.

The Utility shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice.

INTERIM RATE REFUND

In our Interim Order, we authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement for water is \$285,793, which represents an increase of \$39,180 or 15.89 percent. The approved

interim revenue requirement for wastewater is \$495,882, which represents an increase of \$53,416 or 12.07 percent.

According to Section 367.082, F.S., any refund shall be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect shall be removed. Rate case expense is an example of a cost that is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the simple average test year ended December 31, 2010. Labrador's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs and the floor of the last authorized range of return on equity.

Using the principles discussed above, we calculated a revised interim revenue requirement of \$289,173 for water and \$441,724 for wastewater utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. The revised water interim revenue requirement of \$289,173 is greater than the interim revenue requirement of \$285,793 granted in the Interim Order. This results in no required refund for water. The revised wastewater interim revenue requirement of \$439,486 is less than the interim revenue requirement of \$495,882 granted in the Interim Order. This results in a difference of \$56,396 or 11.37 percent.

Thus, the Utility shall be required to refund 11.37 percent of wastewater revenue collected under interim rates.. The refund shall be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility shall be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. The corporate undertaking shall be released upon our staff's verification that the required refunds have been made.

#### FOUR-YEAR RATE REDUCTION

Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs, which is \$11,818 for water and \$11,629 for wastewater. The decreased revenue will result in the rate reduction included on Schedule Nos. 4-A and 4-B.

The Utility shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice. Labrador shall provide proof of the date notice was given within 10 days of the date of the notice.

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

PROOF OF ADJUSTMENTS

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

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Labrador Utilities Inc.'s application for increased wastewater is granted as set out in the body of this Order. It is further

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

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

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

ORDERED that Labrador Utilities Inc. shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets. It is further

ORDERED that the rates shall not be implemented until Commission staff has approved the proposed customer notice. It is further

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

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

ORDERED that the rates shall be reduced four years after the effective date of the rates as shown in Schedule No. 4 of this Order to reflect the removal of the amortized rate case expense. It is further

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

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order shall be issued. It is further

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

ORDERED that this docket shall remain open. The docket shall be closed administratively upon Commission Staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by the staff, that the interim refund has been completed, and that the corporate undertaking has been released.

By ORDER of the Florida Public Service Commission this 19th day of April, 2012.



ANN COLE  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399  
(850) 413-6770  
[www.floridapsc.com](http://www.floridapsc.com)

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

MCB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein, except with respect to interim refunds, the four-year rate reduction, and proof of adjustments, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 10, 2012.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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

Labrador Utilities, Inc. Schedule of Water Rate Base Test Year Ended 12/31/2010				Schedule No. 1-A Docket No. 110264-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$962,062	(\$86,079)	\$875,983	(\$11,865)	\$864,118
2 Land and Land Rights	529	(253)	276	0	276
3 Accumulated Depreciation	(344,659)	147,003	(197,656)	9,558	(188,098)
4 CIAC	(342)	0	(342)	0	(342)
5 Amortization of CIAC	38	0	38	0	38
6 Acquisition Adjustments	(351,387)	351,387	0	0	0
7 Accum. Amort. o Acq. Adjust.	66,690	(66,690)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>25,674</u>	<u>25,674</u>	<u>(6,033)</u>	<u>19,641</u>
9 Rate Base	<u>\$332,931</u>	<u>\$371,042</u>	<u>\$703,973</u>	<u>(\$8,340)</u>	<u>\$695,633</u>

<b>Labrador Utilities, Inc.</b>				<b>Schedule No. 1-B</b>	
<b>Schedule of Wastewater Rate Base</b>				<b>Docket No. 110264-WS</b>	
<b>Test Year Ended 12/31/2010</b>					
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Commission Adjust- ments</b>	<b>Commission Adjusted Test Year</b>
1 Plant in Service	\$1,865,420	\$145,067	\$2,010,487	(\$21,098)	\$1,989,389
2 Land and Land Rights	0	271	271	0	271
3 Accumulated Depreciation	(609,112)	(79,283)	(688,395)	24,183	(664,212)
4 Working Capital Allowance	0	<u>32,523</u>	<u>32,523</u>	<u>(6,310)</u>	<u>26,213</u>
5 Rate Base	<u>\$1,256,308</u>	<u>\$98,578</u>	<u>\$1,354,886</u>	<u>(\$196,916)</u>	<u>\$1,157,970</u>

Labrador Utilities, Inc. Adjustments to Rate Base Test Year Ended 12/31/2010		Schedule No. 1-C Docket No. 110264-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 Adjustments from Staff Audit Findings to which the Utility agrees. (Issue 3)	(\$5,287)	(\$14,625)	
2 Reflect appropriate amount for Project Phoenix Divestitures. (Issue 4)	<u>(6,578)</u>	<u>(6,473)</u>	
Total	<u>(\$11,865)</u>	<u>(\$21,098)</u>	
<u>Non-Used &amp; Useful Component</u>			
Non-U&U component. (Issue 6)	<u>\$0</u>	<u>(\$193,690)</u>	
<u>Accumulated Depreciation</u>			
1 Adjustments from Staff Audit Findings to which the Utility agrees. (Issue 3)	\$5,302	\$18,346	
2 Reflect appropriate amount for Project Phoenix Divestitures. (Issue 4)	4,077	4,011	
3 Reverse pro forma adjustment to annualize accum. Depreciation. (Issue 5)	<u>179</u>	<u>1,826</u>	
Total	<u>\$9,558</u>	<u>\$24,183</u>	
<u>Working Capital</u>			
Reflect appropriate working capital. (Issue 7)	<u>(\$6,033)</u>	<u>(\$6,310)</u>	

Labrador Utilities, Inc. – Water System							Schedule No. 2A		
Capital Structure-Simple Average							Docket No. 110264-WS		
Test Year Ended 12/31/2010									
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Pro rata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
<b>Per Utility</b>									
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,998,935)	\$1,001,065	48.62%	6.65%	3.23%	
2 Short-term Debt	8,500,000	0	8,500,000	(8,452,816)	47,184	2.29%	7.36%	0.17%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	171,000,439	0	171,000,439	(170,049,358)	951,081	46.19%	10.51%	4.86%	
5 Customer Deposits	800	0	800	0	800	0.04%	6.00%	0.00%	
6 Deferred Income Taxes	<u>58,729</u>	<u>0</u>	<u>58,729</u>	<u>0</u>	<u>58,729</u>	<u>2.85%</u>	0.00%	<u>0.00%</u>	
7 <b>Total Capital</b>	<u>\$359,559,968</u>	<u>\$0</u>	<u>\$359,559,968</u>	<u>(\$357,501,109)</u>	<u>\$2,058,859</u>	<u>100.00%</u>		<u>8.26%</u>	
<b>Per Commission</b>									
8 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,101,716)	\$898,284	48.46%	6.65%	3.22%	
9 Short-term Debt	8,500,000	0	\$8,500,000	(8,457,581)	42,419	2.29%	7.36%	0.17%	
10 Preferred Stock	0	0	\$0	0	0	0.00%	0.00%	0.00%	
11 Common Equity	171,000,439	0	\$171,000,439	(170,147,067)	853,372	46.04%	10.51%	4.84%	
12 Customer Deposits	800	0	\$800	\$0	800	0.04%	6.00%	0.00%	
13 Deferred Income Taxes	<u>58,729</u>	<u>0</u>	<u>\$58,729</u>	<u>\$0</u>	<u>58,729</u>	<u>3.17%</u>	0.00%	<u>0.00%</u>	
14 <b>Total Capital</b>	<u>\$359,559,968</u>	<u>\$0</u>	<u>\$359,559,968</u>	<u>(\$357,706,364)</u>	<u>\$1,853,604</u>	<u>100.00%</u>		<u>8.23%</u>	
						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>9.51%</u>	<u>11.51%</u>		
OVERALL RATE OF RETURN						<u>7.77%</u>	<u>8.69%</u>		

Labrador Utilities, Inc. – Wastewater System							Schedule No. 2B	
Capital Structure-Simple Average							Docket No. 110264-WS	
Test Year Ended 12/31/2010								
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Pro rata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
<b>Per Utility</b>								
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,998,935)	\$1,001,065	48.62%	6.65%	3.23%
2 Short-term Debt	8,500,000	0	8,500,000	(8,452,816)	47,184	2.29%	7.36%	0.17%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	171,000,439	0	171,000,439	(170,049,358)	951,081	46.19%	10.51%	4.86%
5 Customer Deposits	800	0	800	0	800	0.04%	6.00%	0.00%
6 Deferred Income Taxes	<u>58,729</u>	<u>0</u>	<u>58,729</u>	<u>0</u>	<u>58,729</u>	<u>2.85%</u>	0.00%	<u>0.00%</u>
7 <b>Total Capital</b>	<u>\$359,559,968</u>	<u>\$0</u>	<u>\$359,559,968</u>	<u>(\$357,501,109)</u>	<u>\$2,058,859</u>	<u>100.00%</u>		<u>8.26%</u>
<b>Per Commission</b>								
8 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,101,716)	\$898,284	48.46%	6.65%	3.22%
9 Short-term Debt	8,500,000	0	\$8,500,000	(8,457,581)	42,419	2.29%	7.36%	0.17%
10 Preferred Stock	0	0	\$0	0	0	0.00%	0.00%	0.00%
11 Common Equity	171,000,439	0	\$171,000,439	(170,147,067)	853,372	46.04%	10.26%	4.73%
12 Customer Deposits	800	0	\$800	\$0	800	0.04%	6.00%	0.00%
13 Deferred Income Taxes	<u>58,729</u>	<u>0</u>	<u>\$58,729</u>	<u>\$0</u>	<u>58,729</u>	<u>3.17%</u>	<u>0.00%</u>	<u>0.00%</u>
14 <b>Total Capital</b>	<u>\$359,559,968</u>	<u>\$0</u>	<u>\$359,559,968</u>	<u>(\$357,706,364)</u>	<u>\$1,853,604</u>	<u>100.00%</u>		<u>8.12%</u>
						<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY						<u>9.51%</u>	<u>11.51%</u>	=
OVERALL RATE OF RETURN						<u>7.77%</u>	<u>8.69%</u>	=

Labrador Utilities, Inc. Statement of Water Operations Test Year Ended 12/31/2010							Schedule No. 3-A Docket No. 110264-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement	
1 <b>Operating Revenues:</b>	\$244,730	\$110,904	\$355,634	(\$106,066)	\$249,568	\$51,303 20.56%	\$300,871	
<b>Operating Expenses</b>								
2 Operation & Maintenance	\$350,514	(\$145,121)	\$205,393	(\$48,263)	\$157,130		\$157,130	
3 Depreciation	49,180	(11,407)	37,773	(2,786)	34,987		34,987	
4 Amortization	0	0	0	0	0		0	
5 Taxes Other Than Income	73,988	(40,284)	33,704	(4,858)	28,846	2,309	31,155	
6 Income Taxes	<u>12,639</u>	<u>7,982</u>	<u>20,621</u>	<u>(18,741)</u>	<u>1,880</u>	<u>18,437</u>	<u>20,317</u>	
7 <b>Total Operating Expense</b>	<u>\$486,321</u>	<u>(\$188,830)</u>	<u>\$297,491</u>	<u>(\$74,648)</u>	<u>\$222,843</u>	<u>\$20,745</u>	<u>\$243,589</u>	
8 <b>Operating Income</b>	<u>(\$241,591)</u>	<u>\$299,734</u>	<u>\$58,143</u>	<u>(\$31,418)</u>	<u>\$26,725</u>	<u>\$30,558</u>	<u>\$57,282</u>	
9 <b>Rate Base</b>	<u>\$332,931</u>		<u>\$703,973</u>		<u>\$695,633</u>		<u>\$695,633</u>	
10 <b>Rate of Return</b>	<u>-72.56%</u>		<u>8.26%</u>		<u>3.84%</u>		<u>8.23%</u>	

Labrador Utilities, Inc. Statement of Wastewater Operations Test Year Ended 12/31/2010							Schedule No. 3-B Docket No. 110264-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Decrease	Revenue Requirement	
1 <b>Operating Revenues:</b>	\$439,110	\$110,312	\$549,422	(\$103,778)	\$445,644	\$5,354 1.20%	\$450,998	
<b>Operating Expenses</b>								
2 Operation & Maintenance	\$68,925	\$191,258	\$260,183	(\$50,478)	\$209,705		\$209,705	
3 Depreciation	68,100	18,040	86,140	(17,028)	69,112		69,112	
4 Amortization	0	0	0	0	0		0	
5 Taxes Other Than Income	0	51,505	51,505	(6,601)	44,904	241	45,144	
6 Income Taxes	<u>12,437</u>	<u>27,250</u>	<u>39,687</u>	<u>(8,595)</u>	<u>31,092</u>	<u>1,924</u>	<u>33,016</u>	
7 <b>Total Operating Expense</b>	<u>\$149,462</u>	<u>\$288,053</u>	<u>\$437,515</u>	<u>(\$82,703)</u>	<u>\$354,812</u>	<u>\$2,165</u>	<u>\$356,977</u>	
8 <b>Operating Income</b>	<u>\$289,648</u>	<u>(\$177,741)</u>	<u>\$111,907</u>	<u>(\$21,075)</u>	<u>\$90,832</u>	<u>\$3,189</u>	<u>\$94,021</u>	
9 <b>Rate Base</b>	<u>\$1,256,308</u>	=	<u>\$1,354,886</u>	=	<u>\$1,157,970</u>	=	<u>\$1,157,970</u>	
10 <b>Rate of Return</b>	<u>23.06%</u>	=	<u>8.26%</u>	=	<u>7.84%</u>	=	<u>8.12%</u>	

<b>Labrador Utilities, Inc.</b>		<b>Schedule No. 3-C</b>	
<b>Adjustment to Operating Income</b>		<b>Docket No. 110264-WS</b>	
<b>Test Year Ended 12/31/2010</b>			
<b>Explanation</b>		<b>Water</b>	<b>Wastewater</b>
<b>Operating Revenues</b>			
Remove requested final revenue increase.		( <u>\$106,066</u> )	( <u>\$103,778</u> )
<b>Operation and Maintenance Expense</b>			
1 Adjustments from Staff Audit Findings to which the Utility agrees. (Issue 3)		(\$19,224)	(\$22,372)
2 Reflect appropriate O&M expense for EUW adjustment. (Issue 6)		(175)	
3 Reflect appropriate amount of tank maint. & repair expense. (Issue 11)		(3,213)	
4 Audit Finding No. 15 - Remove 3% Salary Increase in April 2011. (Issue 12)		(1,704)	(1,677)
5 Reflect appropriate amount of miscellaneous and sludge removal expense.(Issue 14)		(1,355)	(4,033)
6 Reflect appropriate amount of rate case expense. (Issue 15)		( <u>22,547</u> )	( <u>22,189</u> )
Total		( <u>\$48,263</u> )	( <u>\$50,478</u> )
<b>Depreciation Expense - Net</b>			
1 Adjustments from Staff Audit Findings to which the Utility agrees. (Issue 3)		(\$287)	(\$946)
2 Reflect appropriate amount for Project Phoenix Divestitures. (Issue 4)		(2,320)	(2,285)
3 Reverse pro forma adjustment to annualize depreciation expense. (Issue 5)		(179)	(1,826)
4 Non-U&U depreciation expense. (Issue 6)		0	(11,972)
Total		( <u>\$2,786</u> )	( <u>\$17,028</u> )
<b>Taxes Other Than Income</b>			
1 RAFs on revenue adjustments above.		(\$4,773)	(\$4,670)
2 Adjustments from Staff Audit Findings to which the Utility agrees. (Issue 3)		(85)	(84)
3 Non-U&U property taxes. (Issue 6)		0	(1,847)
Total		( <u>\$4,858</u> )	( <u>\$6,601</u> )

<b>Labrador Utilities, Inc.</b>				<b>Schedule No. 4-A</b>	
<b>Water Monthly Service Rates</b>				<b>Docket No. 110264-WS</b>	
<b>Test Year Ended 12/31/2010</b>					
	<b>Rates Prior to Filing</b>	<b>Commission Approved Interim</b>	<b>Utility Requested Final</b>	<b>Commission Approved Final</b>	<b>4-Year Rate Reduction</b>
<b><u>Residential</u></b>					
Base Facility Charge, 5/8 Meter Size:	\$9.16	\$10.49	\$13.07	\$10.57	\$0.42
Gallonge Charge (per 1,000 gallons)	\$6.78	\$7.77	\$9.67	\$8.43	\$0.33
<b><u>General Service</u></b>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$9.16	\$10.49	\$13.07	\$10.57	\$0.42
3/4"	\$13.58	\$15.75	\$19.62	\$15.86	\$0.62
1"	\$22.63	\$26.24	\$32.68	\$26.43	\$1.04
1-1/2"	\$45.26	\$52.48	\$65.35	\$52.85	\$2.08
2"	\$72.42	\$83.97	\$104.57	\$84.56	\$3.32
3"	\$144.84	\$167.94	\$209.15	\$169.12	\$6.64
4"	\$226.30	\$262.39	\$326.78	\$264.25	\$10.38
6"	\$452.62	\$524.81	\$653.58	\$528.50	\$20.76
Gallonge Charge (per 1,000)	\$6.70	\$7.77	\$9.67	\$8.43	\$0.33
<b><u>Irrigation Service</u></b>					
Base Facility Charge, 2":	\$72.42	\$83.97	\$104.57	\$84.56	\$3.32
Gallonge Charge (per 1,000 gallons)	\$6.70	\$7.77	\$9.67	\$8.43	\$0.33
<b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>					
3,000 Gallons	\$29.50	\$33.80	\$42.08	\$35.86	
5,000 Gallons	\$43.06	\$49.34	\$61.42	\$52.72	
10,000 Gallons	\$76.96	\$88.18	\$109.77	\$94.87	

<b>Labrador Utilities, Inc.</b>		<b>Schedule No. 4-B</b>			
<b>Wastewater Monthly Service Rates</b>		<b>Docket No. 110264-WS</b>			
<b>Test Year Ended 12/31/2010</b>					
	<b>Rates Prior to Filing</b>	<b>Commission Approved Interim</b>	<b>Utility Requested Final</b>	<b>Commission Approved Final</b>	<b>4-Year Rate Reduction</b>
<b><u>Residential</u></b>					
Base Facility Charge, 5/8 Meter Size:	\$22.38	\$24.91	\$27.59	\$22.65	\$0.58
Gallonge Charge - Per kgal (10 kgal cap)	\$9.98	\$11.11	\$12.31	\$10.10	\$0.26
<b><u>General Service</u></b>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$22.38	\$24.91	\$27.59	\$22.65	\$0.58
1"	\$33.58	\$37.36	\$41.40	\$56.63	\$1.46
1-1/2"	\$55.96	\$62.27	\$69.00	\$113.25	\$2.92
2"	\$111.91	\$124.52	\$137.99	\$181.20	\$4.67
3"	\$179.07	\$199.24	\$220.79	\$362.40	\$9.34
4"	\$358.14	\$398.47	\$441.59	\$566.25	\$14.60
6"	\$559.59	\$622.62	\$689.97	\$1,132.50	\$29.20
8"	\$1,119.18	\$1,245.23	\$1,379.95	\$1,812.00	\$46.72
Gallonge Charge - Per 1,000 Gallons	\$11.98	\$13.33	\$14.77	\$12.12	\$0.31
<b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>					
3,000 Gallons	\$52.32	\$58.23	\$64.52	\$52.95	
5,000 Gallons	\$72.28	\$80.45	\$89.14	\$73.15	
10,000 Gallons	\$122.18	\$135.99	\$150.69	\$123.65	
(Wastewater Gallonge Cap - 10,000 Gallons)					