

FLORIDA PUBLIC SERVICE COMMISSION

Item 5

VOTE SHEET

May 5, 2015

FILED MAY 05, 2015
DOCUMENT NO. 02576-15
FPSC - COMMISSION CLERK

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

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

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

APPROVED

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

Recommendation: Yes. Based on the audit adjustments agreed to by the Utility and staff, adjustments should be made to rate base as set forth in the analysis portion of staff's memorandum dated April 23, 2015.

APPROVED

COMMISSIONERS ASSIGNED: All Commissioners

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

[Handwritten signatures in blue ink]

[Handwritten signature in blue ink with circled text: (Issues 5+13)]

REMARKS/DISSENTING COMMENTS:

See Oral Modifications attached (DNs 02421-15 and 02530-15).

Staff given administrative authority to make fallout adjustments.
Chairman Graham dissents on Issues 5 and 13.

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

(Continued from previous page)

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

Recommendation: Yes. Adjustments should be made to reduce accumulated depreciation by \$1,684 for water and \$1,655 for wastewater and reduce depreciation expense by \$1,684 for water and \$1,655 for wastewater.

APPROVED

Issue 4: Should any adjustments be made to Labrador's pro forma plant? *with these supported amounts and staff's recommended retirements, this* ~~\$67,791~~ ~~\$47,749~~

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

APPROVED

as modified

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

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

APPROVED

as modified

Find the U+U percentage to be 79.94%, as requested by OPC, for wastewater treatment plant.

Chairman Graham dissents.

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

(Continued from previous page)

Issue 6: What is the appropriate working capital allowance?

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

APPROVED

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

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

\$746,909

\$1,792,795

APPROVED

as modified

Issue 8: What is the appropriate return on equity?

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

APPROVED

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

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

APPROVED

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

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

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

APPROVED

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

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

APPROVED

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

Recommendation: Yes. Based on the audit adjustments agreed to by Labrador and staff, adjustments should be made to net operating income as set forth in the analysis portion of staff's memorandum dated April 23, 2015.

APPROVED

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

\$86,733

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

APPROVED

as modified

*Modify legal fees to \$29,459 and
accounting and consultant fees to*

\$49,813.

Chairman Graham dissents.

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

(Continued from previous page)

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

Recommendation: Yes. The operating expenses for the test year should be increased by \$13,266 for water and decreased by \$10,337 for wastewater.

APPROVED

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

Recommendation: The following revenue requirement should be approved.

	Test Year Revenue	\$ Increase/ (Decrease)	Revenue Requirement	% Increase/ (Decrease)
Water	\$263,502	\$51,633 \$46,178	\$315,135 \$309,680	49.60% 17.52%
Wastewater	\$407,248	\$200,546 \$187,764	\$607,794 \$595,012	49.24% 46.11%

APPROVED as modified

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

Recommendation: The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A through 4-D of staff’s memorandum dated April 23, 2015. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within ten days of the date of the notice.

APPROVED

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

(Continued from previous page)

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

Recommendation: The appropriate refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. The revised revenue requirements for the interim collection period should be compared to the amount of interim revenues granted. Based on this methodology, no refund is necessary for water or wastewater. As a result, the corporate undertaking amount of \$68,706 should be released.

APPROVED

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

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B of staff's memorandum dated April 23, 2015, to remove rate case expense grossed up for regulatory assessment fees (RAFs) and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Labrador should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

APPROVED

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

(Continued from previous page)

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

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

APPROVED

Issue 20: Should this docket be closed?

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

APPROVED
as modified

Give staff administrative
authority to make fallout
adjustments.

Christopher Cooney

Attachments: 140135-WS Labrador Rate Schedule 4-D.DOCX

From: Braulio Baez
Sent: Thursday, April 30, 2015 9:47 AM
To: Tom Ballinger
Cc: Lisa Harvey; Kate Hamrick; Selena Chambers; Charlie Beck; Mary Anne Helton; Terri Fleming; Carlotta Stauffer; Rachel Arnold; Laura King
Subject: RE: Request to make oral modification to Item # 5 on the May 5, 2015 Commission Conference, Docket # 140135

Approved

Sent from my T-Mobile 4G LTE Device

----- Original message -----

From: Tom Ballinger <TBallinger@PSC.STATE.FL.US>
Date: 04/30/2015 9:44 AM (GMT-05:00)
To: Braulio Baez <BBaez@PSC.STATE.FL.US>
Cc: Lisa Harvey <LSHarvey@PSC.STATE.FL.US>, Kate Hamrick <KHamrick@psc.state.fl.us>, Selena Chambers <SChamber@psc.state.fl.us>, Charlie Beck <cbeck@psc.state.fl.us>, Mary Anne Helton <MHelton@PSC.STATE.FL.US>, Terri Fleming <TFleming@PSC.STATE.FL.US>, Carlotta Stauffer <CStauffer@PSC.STATE.FL.US>, Rachel Arnold <RArnold@PSC.STATE.FL.US>, Laura King <LKing@PSC.STATE.FL.US>
Subject: Request to make oral modification to Item # 5 on the May 5, 2015 Commission Conference, Docket # 140135

After filing the above recommendation, it came to my attention that Schedule 4-D (see attached) was inadvertently omitted. The schedule is a fall out of the recommended waste water rates and does not impact the overall staff recommendation. Please let me know if you approve of this request.

Tom Ballinger
Director, Division of Engineering
Florida Public Service Commission
(850) 413-6680

LABRADOR UTILITIES, INC. TEST YEAR ENDED DECEMBER 31, 2013 MONTHLY WASTEWATER RATES					SCHEDULE NO. 4-D DOCKET NO. 140135-WS
	UTILITY CURRENT RATES (1)	COMMISSION APPROVED INTERIM	UTILITY REQUESTED RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
Residential					
Base Facility Charge - All Meter Sizes	\$22.62	\$27.25	\$38.32	\$27.81	\$1.15
Charge per 1,000 Gallons- Residential					
10,000 gallon cap	\$10.09	\$12.15	\$17.09		
6,000 gallon cap				\$19.46	\$0.80
General Service					
Base Facility Charge by Meter Size					
5/8"	\$22.62	\$27.25	\$38.32	\$27.81	\$1.15
3/4"	\$33.94	\$40.88	\$57.48	\$41.72	\$1.72
1"	\$56.55	\$68.13	\$95.80	\$69.53	\$2.87
1-1/2"	\$113.08	\$136.25	\$191.60	\$139.05	\$5.74
2"	\$180.92	\$218.00	\$306.56	\$222.48	\$9.19
3"	\$361.87	\$436.00	\$574.80	\$444.96	\$18.38
4"	\$565.42	\$681.26	\$958.00	\$695.25	\$28.71
6"	\$1,130.82	\$1,362.51	\$1,916.00	\$1,390.50	\$57.43
8"	\$1,843.97	\$2,180.02	\$3,065.00	\$2,224.80	\$91.88
Charge per 1,000 Gallons - General Service	\$12.10	\$14.58	\$20.50	\$23.35	\$0.96
Typical Residential 5/8" x 3/4" Meter Bill Comparison					
2,000 Gallons	\$42.80	\$51.55	\$72.50	\$66.73	
6,000 Gallons	\$83.16	\$100.15	\$140.86	\$144.57	
10,000 Gallons	\$123.52	\$148.75	\$209.22	\$144.57	
1) The Utility filed a 2014 Price Index that became effective October 19, 2014.					

Angela Charles

From: Selena Chambers
Sent: Monday, May 04, 2015 3:18 PM
To: Commissioners & Staffs; Braulio Baez; Apryl Lynn; Lisa Harvey; Tom Ballinger; Andrew Maurey; Jim Dean; Charlie Beck
Cc: CLK - Agenda Staff; Jacqueline Moore; Kate Hamrick; Penny Buys; Kyesha Mapp; Jennifer Crawford; Mary Anne Helton; Cheryl Bulecza-Banks; Terri Fleming; Selena Chambers; Laura King
Subject: FW: Request for Oral Modification to Item 5 on May 5, 2015 Commission Conference, Docket No. 140135-WS, Application for increase in water and wastewater rates by Labrador Utilities, Inc.
Attachments: Request for oral modification to Labrador Utilities, Inc. - Schedules.docx
Importance: High

Please see the approved request and the attached addition to Item 5.

Thank you,

Selena Chambers

Executive Assistant to
Braulio Baez, Executive Director
Florida Public Service Commission
850.413.6053

From: Selena Chambers **On Behalf Of** Braulio Baez
Sent: Monday, May 04, 2015 3:10 PM
To: Andrew Maurey; Braulio Baez; Lisa Harvey
Cc: Kate Hamrick; Tom Ballinger; Jim Dean; Mary Anne Helton
Subject: RE: Request for Oral Modification to Item 5 on May 5, 2015 Commission Conference, Docket No. 140135-WS, Application for increase in water and wastewater rates by Labrador Utilities, Inc.

Approved.

From: Andrew Maurey
Sent: Monday, May 04, 2015 2:50 PM
To: Braulio Baez; Lisa Harvey
Cc: Selena Chambers; Kate Hamrick; Tom Ballinger; Jim Dean; Mary Anne Helton
Subject: Request for Oral Modification to Item 5 on May 5, 2015 Commission Conference, Docket No. 140135-WS, Application for increase in water and wastewater rates by Labrador Utilities, Inc.

From: Cheryl Bulecza-Banks
Sent: Monday, May 04, 2015 12:14 PM
To: Andrew Maurey
Subject: Request for Oral Modification to Item 5 on May 5, 2015 Commission Conference, Docket No. 140135-WS, Application for increase in water and wastewater rates by Labrador Utilities, Inc.

As a result of information filed by Labrador Utilities, Inc. (Labrador or Utility) late last week, staff requests approval to make an oral modification to Item 5 scheduled for the May 5, 2015 Commission Conference. Staff's proposed modification relates to the balances for construction work in process transfers, plant retirements, and accumulated depreciation addressed in staff's recommendation regarding Labrador's application for a file and suspend rate case. The modifications affect Issue 2 (Audit Adjustments – Rate Base), 4 (Pro Forma Plant), and 12 (Audit Adjustments – Expense) and fall out Issues 7 (Rate Base), 15 (Revenue Requirement), 16 (Rates) and 17 (Interim Refund.) Staff requests administrative authority to adjust rates after the Commission vote on all issues in this case.

Issue 2: Should the audit adjustments to rate base, to which Labrador and staff agree, be made? (page 5)

There is no change in the recommendation statement.

Table 2-1
 Audit Adjustments Agreed to by Labrador

<u>Water - Labrador Audit Findings</u>	<u>Plant</u>	<u>Accum. Depr.</u>
Finding No. 1 - To reflect prior COAs	\$0	\$533 (\$533)
Finding No. 3 - To correct capitalized salaries	(1,698)	0
Finding No. 5 - To correct CWIP transfer	(2,630) (2,682)	2,908 (602)
Finding No. 6 - To reverse debit balances in A/D	0	(1,570)
Subtotal Water - Labrador Adjustments	(\$4,328) (\$4,380)	\$1,870 (\$2,705)
<u>Water - Affiliate Audit Findings</u>		
Finding No. 1 - To correct transportation allocation	(\$13,693)	\$14,379 (\$14,379)
Finding No. 4 - To reflect prior COAs	(6,297)	9,985 (9,985)
Finding No. 5 - To correct allocations of common plant	(5,665)	0
Subtotal Water - Affiliate Adjustments	(\$25,655)	\$24,364 (\$24,364)
Total Water Audit Adjustments	(\$29,983) (\$30,035)	\$26,234 (\$27,069)

Table 2-2

Audit Adjustments Agreed to by Labrador

<u>Wastewater - Labrador Audit Findings</u>	<u>Plant</u>	<u>Accum. Depr.</u>
Finding No. 1 - To reflect prior COAs	\$0	\$4,450 (\$4,450)
Finding No. 2 - UPIS Capitalized Salary Adjustment	0	921 (921)
Finding No. 6 - To reverse debit balances in A/D	0	(53,135)
Finding No. 7 - To correct ADIT balance	0	0
Subtotal Wastewater - Labrador Adjustments	<u>\$0</u>	<u>(\$47,764)</u> <u>(\$58,506)</u>
<u>Wastewater - Affiliate Audit Findings</u>		
Finding No. 1 - To correct transportation allocation	(\$13,601)	\$14,282 (\$14,282)
Finding No. 4 - To reflect prior COAs	(6,258)	9,912 (9,912)
Finding No. 5 - To correct allocations of common plant	4,644	0
Subtotal Wastewater - Affiliate Adjustments	<u>(\$15,215)</u>	<u>\$24,194</u> <u>(\$24,194)</u>
Total Wastewater Audit Adjustments	<u>(\$15,215)</u>	<u>(\$23,570)</u> <u>(\$82,700)</u>

Issue 4: Should any adjustments be made to Labrador's pro forma plant? (page 8)

Recommendation: Yes. The appropriate amount of pro forma plant additions is \$178,576 for water and \$626,196 for wastewater. With these supported amounts and staff's recommended retirements, this ~~This~~ results in an increase of \$67,791 ~~\$78,576~~ for water and a decrease of \$47,749 ~~\$47,868~~ for wastewater from the Utility's requested amounts. Corresponding adjustments to water and wastewater accumulated depreciation result in decreases of \$8,662 and \$2,540, respectively. Depreciation expense should also be increased by \$2,528 for water and decreased by \$1,560 for wastewater. Additionally, pro forma property taxes should be increased by \$1,936 for water and decreased by \$1,850 for wastewater. Accumulated deferred income taxes (ADITs) should be increased by \$872 for water and be decreased by \$3,666 for wastewater. Finally, test year expenses should be reduced by \$161 to remove maintenance expense associated with the retired ground storage tank. (P. Buys, Galloway, Smith)

Page 8 – second paragraph

WTP Ground Storage Tank Replacement

The ground storage tank was inspected in January 2010, and the report indicated several repairs should be made to the tank. The Utility estimated the tank to be 33 years old based on its review of its files and DEP inspections reports. Labrador asserted that replacing the ground storage tank would be less expensive than repairing the tank. Plus, repairing the tank would require taking the tank off-line which would cause long interruptions of water services to Labrador's customers. The Utility provided multiple bids for replacing the

ground storage tank with a tank similar to the existing tank, a tank made of stainless steel, and a tank made of glass-fused steel. The lowest bid, which was for a tank made of glass-fused steel, was \$178,576. The project was awarded in February 2015 and will be completed by the end of June 2015. The retirement of the ground storage tank associated with this replacement is \$36,519. As such, plant should be reduced by \$10,785 which represents the difference between staff's recommended retirement of \$36,519 and the Utility's retirement amount of \$25,734. Staff believes that the pro forma addition is reasonable and prudent because the cost to replace is less than the cost to repair, customer interruptions will be less during the replacement than during the repair, and the new tank will be more reliable than the repaired tank.

Page 8 – third paragraph

WWTP Rotary Drum Replacement

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

Page 11 – Conclusion

Conclusion

Based on the information above, staff recommends that the appropriate amount of pro forma plant additions is \$178,576 for water and \$626,196 for wastewater. With these supported amounts and staff's recommended retirements, this ~~This~~ results in an increase of \$67,791 ~~\$78,576~~ for water and a decrease of \$47,749 ~~\$47,868~~ for wastewater from the amount requested in the Utility's MFRs. Using the depreciable lives pursuant to Rule 25-30.140, F.A.C., corresponding adjustments should be made to decrease accumulated depreciation for water and wastewater by \$8,662 and \$2,540, respectively. Depreciation expense should be increased by \$2,528 for water and decreased by \$1,560 for wastewater. In addition, pro forma property taxes should be increased by \$1,936 for water and decreased by \$1,850 for wastewater. Further, ADITs should increase by \$872 for water and decreased of \$3,666 for wastewater. Finally, test year expenses should be reduced by \$161 to remove maintenance expense associated with the retired ground storage tank.

Issue 12: Should the audit adjustments to operating expense, to which Labrador and staff agrees, be made? (page 21)

There is no change in the recommendation statement.

Table 12-1
Audit Adjustments Agreed to by Labrador

<u>Labrador Audit Findings</u>	Water O&M	Waste- water O&M	Water Dep Exp	Waste- water Dep Exp	Water TOTI	Waste- water TOTI
Finding No. 1 - To reflect prior Commission-Ordered Adjustments	\$0	\$0	(\$6)	(\$3)	\$0	\$0
Finding No. 2 - To correct capitalized salaries	0	0	0	(443)	0	0
Finding No. 3 - To correct capitalized salaries	739	0	(112)	0	0	0
Finding No. 5 - To correct Construction Work In Progress transfer	0	0	(2,709) 1,204	0	0	0
Finding No. 9 - To amortize abandoned projects expense	(38,366)	(37,714)	0	0	0	0
Finding No. 10 - To amortize lawsuit expense	(4,311)	(4,237)	0	0	0	0
Subtotal - Labrador Adjustments	<u>(\$41,938)</u>	<u>(\$41,951)</u>	<u>(\$2,827)</u> <u>\$1,086</u>	<u>(\$446)</u>	<u>\$0</u>	<u>\$0</u>
<u>Affiliate Audit Findings</u>						
Finding No. 1 - To correct transportation allocation	(\$1,234)	(\$1,226)	\$488	\$484	\$0	\$0
Finding No. 4 - To reflect prior Commission-Ordered Adjustments	0	0	285	286	0	0
Finding No. 8 - To correct allocated payroll, benefits, & tax expenses	(8,365)	(7,665)	0	0	(178)	(131)
Subtotal - Affiliate Adjustments	<u>(\$9,599)</u>	<u>(\$8,891)</u>	<u>\$773</u>	<u>\$770</u>	<u>(\$178)</u>	<u>(\$131)</u>
Total Audit Adjustments	<u>(\$51,537)</u>	<u>(\$50,842)</u>	<u>(\$2,054)</u> <u>\$1,859</u>	<u>\$324</u>	<u>(\$178)</u>	<u>(\$131)</u>

FALL OUT ISSUES

Issue 7: What is the appropriate rate base for the test year period ended December 31, 2013? (page 16)

Recommendation:

Consistent with other recommended adjustments, the appropriate rate base for the test year ended December 31, 2013, is \$746,909 \$758,478 for water and \$1,792,795 \$1,898,946 for wastewater. (Galloway, Smith)

Staff Analysis: In its MFRs, the Utility requested a rate base of \$680,736 for water and \$1,886,122 for wastewater. Based on staff's recommended adjustments, the appropriate rate base is \$746,909 \$758,478 for water and \$1,792,795 \$1,898,946 for wastewater. Staff's adjustments recommended in the preceding issues result in an increase of \$66,173 \$77,742 for water and a decrease of \$93,327 an increase of \$12,824 for

wastewater. The schedules for rate base are attached as Schedule Nos. 1-A and 1-B, and the adjustments are shown on Schedule No. 1-C.

Issue 15: What is the appropriate revenue requirement for the test year ended December 31, 2013? (page 35)

Recommendation: The following revenue requirement should be approved.

	Test Year Revenue	\$ Increase/ (Decrease)	Revenue Requirement	% Increase/ (Decrease)
Water	\$263,502	\$46,178	\$309,680	17.52%
		\$51,633	\$315,135	19.60%
Wastewater	\$407,248	\$187,764	\$595,012	46.11%
		\$200,546	\$607,794	49.24%

(Polk)

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

Consistent with staff’s recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates designed to generate a water revenue requirement of \$309,680 ~~\$315,135~~ and a wastewater revenue requirement of \$595,012 ~~\$607,794~~. The recommended water revenue requirement exceeds staff’s adjusted test year revenue by \$46,178 ~~\$51,633~~, or 17.52 ~~19.60~~ percent, for water. The recommended wastewater revenue requirement exceeds staff’s adjusted test year revenue by \$187,764 ~~200,546~~ or 46.11 ~~49.24~~ percent. These recommended pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn 8.25 percent return on its water rate base and 8.37 percent return on its wastewater rate base.

Issue 16: What are the appropriate rate structures and rates for Sanlando’s water and wastewater systems? (page 36)

Rates will be revised based on the Commission’s vote in this case.

Issue 17: In determining whether any portion of the water and/or wastewater interim increases granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any? (page 39)

Last paragraph

Using the principles discussed above, staff calculated an adjusted interim revenue requirement of \$296,570 ~~\$302,026~~ for water. The adjusted water interim revenue requirement of \$296,570 ~~\$302,026~~ is higher than the interim revenue requirement of \$264,917 granted in the Interim Order. As a result, no refund is necessary for water. Furthermore, using the principles discussed above, staff calculated an adjusted interim revenue requirement of \$575,822 ~~\$588,604~~ for wastewater. The adjusted wastewater interim revenue requirement of \$575,822 ~~\$588,604~~ is higher than the interim revenue requirement of \$410,128 granted in the Interim

Order. As a result, no refund is necessary for wastewater. Based on the above, staff recommends that the corporate undertaking amount of \$68,706 be released.

Labrador Utilities, Inc.
Schedule of Water Rate Base
Test Year Ended 12/31/13

Schedule No. 1-A
Docket No. 140135-WS

	Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Staff Adjustments	Staff Adjusted Test Year
1	Plant in Service	\$934,990	\$73,246	\$1,008,236	\$37,808	\$1,046,044
2	Land and Land Rights	540	(3)	537	0	537
3	Non-used and Useful Components	0	0	0	0	0
4	Accumulated Depreciation	(375,176)	20,140	(355,036)	36,579	(318,457)
5	CIAC	(342)	0	(342)	0	(342)
6	Amortization of CIAC	64	0	64	0	64
7	Net Debit Deferred Income Taxes	0	1,644	1,644	(1,644)	0
8	CWIP	94,653	(94,653)	0	0	0
9	Net Acquisition Adjustment	(257,102)	257,102	0	0	0
10	Working Capital Allowance	<u>0</u>	<u>25,633</u>	<u>25,633</u>	<u>(6,570)</u>	<u>19,063</u>
11	Rate Base	<u>\$397,627</u>	<u>\$283,109</u>	<u>\$680,736</u>	<u>\$66,173</u>	<u>\$746,909</u>

Labrador Utilities, Inc.
Schedule of Wastewater Rate Base
Test Year Ended 12/31/13

Schedule No. 1-B
Docket No. 140135-WS

Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$2,086,875	\$653,285	\$2,740,160	(\$62,964)	\$2,677,196
2 Land and Land Rights	0	0	0	0	0
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(876,820)	(16,983)	(893,803)	(19,375)	(913,178)
5 CIAC	0	0	0	0	0
6 Amortization of CIAC	0	0	0	0	0
7 CWIP	1,565	(1,565)	0	0	0
8 Net Debit Deferred Income Taxes	0	1,617	1,617	(1,617)	0
9 Working Capital Allowance	<u>0</u>	<u>38,148</u>	<u>38,148</u>	<u>(9,371)</u>	<u>28,777</u>
10 Rate Base	<u>\$1,211,620</u>	<u>\$674,502</u>	<u>\$1,886,122</u>	<u>(\$93,327)</u>	<u>\$1,792,795</u>

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

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

Explanation	Water	Wastewater
<u>Plant In Service</u>		
1 Reflect uncontested rate base audit adjustments. - Issue 2	(\$30,035)	(\$15,215)
2 Reflect supported pro forma plant additions. - Issue 4	<u>67,791</u>	<u>(47,749)</u>
Total	<u>\$37,808</u>	<u>(\$62,964)</u>
<u>Accumulated Depreciation</u>		
1 Reflect uncontested rate base audit adjustments. - Issue 2	\$26,234	(\$23,570)
2 Reflect Pheonix project adjustments. - Issue 3	1,684	1,655
3 Reflect supported pro forma plant additions. - Issue 4	<u>8,662</u>	<u>2,540</u>
Total	<u>\$36,579</u>	<u>(\$19,375)</u>
<u>Accumulated Depreciation</u>		
To reflect net credit ADIT balance in capital structure. - Issue 9	<u>(\$1,644)</u>	<u>(\$1,617)</u>
<u>Working Capital</u>		
To reflect the appropriate working capital allowance. - Issue 6	<u>(\$6,570)</u>	<u>(\$9,371)</u>

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

Schedule No. 2
Docket No. 140135-WS

Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost		
Per Utility										
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,709,368)	\$1,290,632	50.28%	6.64%	3.34%		
2 Short-term Debt	3,100,000	0	3,100,000	(3,077,773)	22,227	0.87%	8.48%	0.07%		
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%		
4 Common Equity	174,356,625	0	174,356,625	(173,106,458)	1,250,167	48.70%	10.43%	5.08%		
5 Customer Deposits	3,833	0	3,833	0	3,833	0.15%	6.00%	0.01%		
6 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>		
7 Total Capital	<u>\$357,460,458</u>	<u>\$0</u>	<u>\$357,460,458</u>	<u>(\$354,893,599)</u>	<u>\$2,566,859</u>	<u>100.00%</u>		<u>8.50%</u>		
Per Staff										
8 Long-term Debt	\$180,000,000	\$0	\$180,000,000	\$178,735,158	\$1,264,842	49.80%	6.64%	3.31%		
9 Short-term Debt	3,100,000	0	3,100,000	(3,078,217)	21,783	0.86%	2.82%	0.02%		
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%		
11 Common Equity	174,356,625	0	174,356,625	(173,131,438)	1,225,187	48.24%	10.43%	5.03%		
12 Customer Deposits	3,833	0	3,833	0	3,833	0.15%	2.00%	0.00%		
13 Deferred Income Taxes	<u>0</u>	<u>24,058</u>	<u>24,058</u>	<u>0</u>	<u>24,058</u>	<u>0.95%</u>	0.00%	<u>0.00%</u>		
14 Total Capital	<u>\$357,460,458</u>	<u>\$24,058</u>	<u>\$357,484,516</u>	<u>(\$354,944,812)</u>	<u>\$2,539,704</u>	<u>100.00%</u>		<u>8.37%</u>		
						LOW	HIGH			
						RETURN ON EQUITY	<u>9.43%</u>	<u>11.43%</u>		
						OVERALL RATE OF RETURN	<u>7.89%</u>	<u>8.85%</u>		

**Labrador Utilities, Inc.
Statement of Water Operations
Test Year Ended 12/31/13**

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

Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$264,903</u>	<u>\$94,183</u>	<u>\$359,086</u>	<u>(\$95,584)</u>	<u>\$263,502</u>	<u>\$46,178</u> 17.52%	<u>\$309,680</u>
Operating Expenses							
2 Operation & Maintenance	\$202,275	\$2,785	\$205,060	(\$52,560)	\$152,500		\$152,500
3 Depreciation	40,877	3,961	44,838	(1,209)	43,629		43,629
4 Amortization	0	0	0	(116)	(116)		(116)
5 Taxes Other Than Income	31,188	(732)	30,456	(2,625)	27,831	2,078	29,909
6 Income Taxes	<u>(19,913)</u>	<u>40,778</u>	<u>20,865</u>	<u>(15,317)</u>	<u>5,548</u>	<u>16,595</u>	<u>22,143</u>
7 Total Operating Expense	<u>254,427</u>	<u>46,792</u>	<u>301,219</u>	<u>(71,827)</u>	<u>229,392</u>	<u>18,673</u>	<u>248,064</u>
8 Operating Income	<u>\$10,476</u>	<u>\$47,391</u>	<u>\$57,867</u>	<u>(\$23,757)</u>	<u>\$34,110</u>	<u>\$27,505</u>	<u>\$61,615</u>
9 Rate Base	<u>\$397,627</u>		<u>\$680,736</u>		<u>\$746,909</u>		<u>\$746,909</u>
10 Rate of Return	<u>2.63%</u>		<u>8.50%</u>		<u>4.57%</u>		<u>8.25%</u>

Labrador Utilities, Inc.
Statement of Wastewater Operations
Test Year Ended 12/31/13

Schedule No. 3-B
Docket No. 140135-WS

Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$406,290</u>	<u>\$287,005</u>	<u>\$693,295</u>	<u>(\$286,047)</u>	<u>\$407,248</u>	<u>\$187,764</u> 46.11%	<u>\$595,012</u>
Operating Expenses							
2 Operation & Maintenance	\$286,328	\$18,853	\$305,181	(\$74,968)	\$230,213		\$230,213
3 Depreciation	69,563	34,739	104,302	(2,891)	101,411		101,411
4 Amortization	0	0	0	(114)	(114)		(114)
5 Taxes Other Than Income	38,644	27,025	65,669	(15,030)	50,639	8,449	59,089
6 Income Taxes	<u>0</u>	<u>57,808</u>	<u>57,808</u>	<u>(70,856)</u>	<u>(13,048)</u>	<u>67,476</u>	<u>54,428</u>
7 Total Operating Expense	<u>394,535</u>	<u>138,425</u>	<u>532,960</u>	<u>(163,860)</u>	<u>369,100</u>	<u>75,925</u>	<u>445,026</u>
8 Operating Income	<u>\$11,755</u>	<u>\$148,580</u>	<u>\$160,335</u>	<u>(\$122,187)</u>	<u>\$38,148</u>	<u>\$111,838</u>	<u>\$149,986</u>
9 Rate Base	<u>\$1,211,620</u>		<u>\$1,886,122</u>		<u>\$1,792,795</u>		<u>\$1,792,795</u>
10 Rate of Return	<u>0.97%</u>		<u>8.50%</u>		<u>2.13%</u>		<u>8.37%</u>

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

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

Explanation	Water	Wastewater
<u>Operating Revenues</u>		
1 Remove requested final revenue increase.	(\$97,036)	(\$287,175)
2 Reflect the appropriate amount of annualized revenues. - Issue 11	<u>1,452</u>	<u>1,128</u>
Total	<u>(\$95,584)</u>	<u>(\$286,047)</u>
<u>Operation and Maintenance Expense</u>		
1 Corresponding O&M expense related to pro forma plant. - Issue 4	(\$161)	\$0
2 Reflect uncontested NOI audit adjustments. - Issue 12	(51,537)	(50,842)
3 Reflect appropriate rate case expense. - Issue 13	(14,323)	(14,080)
4 Further Adjustments to O&M expense. - Issue 14	<u>13,464</u>	<u>(10,046)</u>
Total	<u>(\$52,560)</u>	<u>(\$74,968)</u>
<u>Depreciation Expense - Net</u>		
1 Reflect Pheonix project adjustments. - Issue 3	(\$1,684)	(\$1,655)
2 Reflect supported pro forma plant additions. - Issue 4	2,528	(1,560)
3 Reflect uncontested audit adjustments. - Issue 12	<u>(2,054)</u>	<u>324</u>
Total	<u>(\$1,209)</u>	<u>(\$2,891)</u>
<u>Amotization-Other Expense</u>		
To reflect allocated gain on sale of vehicles. - Issue 14	<u>(\$116)</u>	<u>(\$114)</u>
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above.	(\$4,301)	(\$12,872)
2 Reflect supported pro forma plant additions. - Issue 4	1,936	(1,850)
3 Reflect uncontested NOI audit adjustments. - Issue 12	(178)	(131)
4 Reflect appropriate test year property taxes. - Issue 14	<u>(82)</u>	<u>(177)</u>
Total	<u>(\$2,625)</u>	<u>(\$15,030)</u>