State of Florida

# Public Service Commission

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-M-E-M-O-R-A-N-D-U-M-

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**DATE:** February 21, 2013

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Accounting and Finance (Fletcher, Maurey)
Division of Economics (Bruce, Daniel, Hudson)
Division of Engineering (McRoy)
Office of the General Counsel (Tan, Teitzman)

ALM JWD TJS PD

**RE:** Docket No. 120078-SU – Application for staff-assisted rate case in Brevard County by TKCB.

**AGENDA:** 03/05/13 – Regular Agenda – Proposed Agency Action – Except Issue Nos. 11 and 13 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Graham

**CRITICAL DATES:** 09/06/13 (15-Month Effective Date (SARC))

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\AFD\WP\120078.RCM.DOC

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## Case Background

TKCB (TKCB or Utility) is a Class C utility currently providing wastewater service to 295 mobile home lots in the Sun Lake Village Estates manufactured home community (formerly Sun Lake Estates) in Cocoa, Florida. The Utility is located in the St. Johns River Water Management District. Water service is provided by the City of Cocoa (City). The Utility began providing wastewater service in 1984 as the Sun Lake Estates Homeowners Association (HOA) and became TKCB in November 1986. The Commission granted the Utility Certificate No. 562-S to provide wastewater service in 2011.[1]

The Commission has the authority to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.).

[1] See Order No. PSC-11-0522-FOF-SU, issued November 7, 2011, in Docket No. 100442-SU, In re: Application for certificate to provide wastewater service in Brevard County by TKCB.

## Discussion of Issues

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

**Recommendation**: Yes. The Utility is in the process of correcting all deficiencies noted by DEP. The Utility should file a completion letter with the Commission by July 1, 2013. (McRoy)

**Staff Analysis**: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the quality of service a utility provides by evaluating the quality of the utility's product, the operational condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. The Utility's compliance with the DEP regulations and customer comments or complaints received by the Commission are also reviewed.

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

The Utility's wastewater treatment plant (WWTP) is regulated by the DEP Central District Office located in Orlando, Florida. On May 22, 2012, DEP conducted a compliance inspection of the WWTP and it was found to be out of compliance. The four deficiencies noted in the report were: sand and grit in the surge tank; slight seepage of wastewater from the concrete structure; damage/missing north fence surrounding the percolation ponds; and failure to submit the groundwater monitoring reports for the third and fourth quarters of 2011 and the first quarter of 2012.

The Utility responded to DEP in a letter dated July 23, 2012. The Utility indicated the following actions were taken in response to the May 22, 2012 compliance inspection report: grit and sand were removed from the surge tank; the leak in the concrete repaired; and, a temporary perimeter fence was installed. All actions were completed by the date of its letter. The ground water monitoring reports have also been sent to DEP as well. The permanent perimeter fencing will be completed from funds received through its proposed rate increase. Finally, TKCB indicated the permanent fence replacement will be completed by June 2013.

Based on the Utility's response to DEP's inspection report, it appears the Utility is in the process of correcting all deficiencies noted by DEP. The Utility is currently meeting all other required standards for wastewater operation and maintenance. A field inspection of the Utility's service area was conducted by Commission staff on December 13, 2012. Based on the physical inspection, the general condition of the facilities appears to be adequate. In addition, staff contacted DEP and they indicated that TKCB is being operated in a satisfactory manner.

The Utility's Attempt to Address Customer Satisfaction

A customer meeting was held on December 13, 2012, at the Merritt Island Public Library in Merritt Island, Florida. No customers attended or spoke at the meeting. Staff reviewed the Commission's complaint tracking system and found no complaints. Staff recommends that the Utility's attempts to address customer concerns be considered satisfactory.

Conclusion

Staff recommends that TKCB's quality of product, operating condition of its facilities, and its attempt to address customer satisfaction be considered satisfactory. However, staff does note that certain maintenance items (fencing), required by DEP, must be completed by June 2013.

**Issue 2**: What are the used and useful percentages of the Utility's wastewater treatment plant and collection system?

**Recommendation**: Staff's field inspection confirmed the service area is built out, and there are no plans for expansion. Pursuant to Rule 25-30.432, F.A.C., staff recommends that the wastewater treatment plant and collection system be considered 100 percent used and useful (U&U). (McRoy)

**Staff Analysis**: Pursuant to Rule 25-30.432, F.A.C., the U&U percentage of a wastewater treatment plant is based on the plant flows and a growth allowance less excessive inflow and infiltration (I&I) divided by the permitted capacity of the plant. Other factors, such as whether the service area is built out and whether the plant flows have decreased due to conservation may also be considered.

The Utility's service area is plotted for 295 mobile home connections. During the test year the Utility indicated 275 lots were being served. Staff's field inspection confirmed the service area is built out, and there are no plans for expansion. Pursuant to Rule 25-30.432, F.A.C., staff recommends that the wastewater treatment plant and collection system be considered 100 percent U&U because the service area is built out.

**Issue 3**: What is the appropriate average test year rate base for TKCB?

**Recommendation**: The appropriate average test year rate base for TKCB is $52,477. (Hudson)

**Staff Analysis**: Rate base for this Utility has never been established. Staff selected a test year ended April 30, 2012, for this rate case. Due to the lack of adequate and verifiable information, staff was unable to substantiate the Utility's original rate base components except for land. The Utility has been in existence since 1984. Therefore, staff believes TKCB's plant assets would be almost fully depreciated. At a minimum, it is believed that rate base is less than operation and maintenance (O&M) expenses and would warrant a recommendation for the operating ratio margin as addressed in Issue 7. Staff's adjustments to rate base reflect documented plant recorded during the test year and requested pro forma plant additions. A summary of verifiable components and the recommended adjustments are discussed below.

Utility Plant in Service (UPIS): The Utility reflected $0 in this account during the test year. Staff has reclassified $2,574 for a surge pump recorded in Account No. 720 – materials and supplies to this account. UPIS was reduced by $1,287 for an averaging adjustment. Also, the Utility is requesting a pro forma adjustment to replace a fence. Staff believes this request is reasonable and prudent and would allow the Utility to achieve compliance with the requirement from DEP. As discussed in Issue 1, the fence replacement should be completed by June 2013. The Utility should be required to submit a copy of the final invoices and cancelled checks for the fence replacement. Therefore, this account was increased by $7,400. The net result of staff's recommended adjustments is a UPIS balance of $8,687.

Land: The Utility recorded $30,000 for land. NARUC, Class C, Accounting Instruction, No. 3 requires that all utility plant be recorded at original cost, which is defined as "the cost of such property to the person first devoting it to public service." Based on official records with the Brevard County Clerk of Court, staff's auditor was able to determine that the original cost of TKCB's land is $36,203. Staff has increased land by $6,203. Staff recommends land of $36,203.

Non-Used and Useful Plant: As discussed in Issue 2, TKCB's WWTP and collection system are 100 percent U&U. Therefore, a U&U adjustment is not necessary.

Accumulated Depreciation: The Utility reflected $0 for accumulated depreciation. Staff has increased this account by $86 to reflect accumulated depreciation for the surge tank reclassified from expenses. Staff has decreased this account by $43 to reflect an averaging adjustment. Also, staff has increased accumulated depreciation by $137 for the pro forma fence addition. Based on the foregoing, staff recommends accumulated depreciation of $180.

Working Capital Allowance: Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the O&M expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of $7,767 (based on O&M expense of $62,138/8).

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year average rate base is $52,477. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

**Issue 4**: What is the appropriate return on equity and overall rate of return for TKCB?

**Recommendation**: The appropriate return on equity (ROE) is 8.74 percent with a range of 7.74 percent to 9.74 percent. The appropriate overall rate of return is 8.74 percent. (Hudson)

**Staff Analysis**: The Utility's capital structure has been reconciled with staff's recommended rate base. Consistent with the Commission-approved leverage formula currently in effect, the appropriate ROE is 8.74 percent.[2] Staff recommends an ROE of 8.74 percent with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.74 percent.

Staff is recommending the operating ratio margin for the instant docket. Therefore, a determination of the ROE and overall rate of return is not essential for calculating an operating income. However, it is important to establish the overall rate of return on a going forward basis for earnings surveillance. The ROE and overall rate of return are shown on Schedule No. 2.

[2] See Order Nos. PSC-12-0339-PAA-WS, issued June 28, 2012, and PSC-12-0372-CO-WS, issued July 20, 2012, in Docket No. 120006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

**Issue 5**: What is the appropriate amount of test year revenue?

**Recommendation**: The appropriate test year revenue for TKCB is $69,473. (Bruce, Hudson)

**Staff Analysis**: TKCB recorded total test year revenue of $64,108. The Utility recorded its revenue on a cash basis rather than an accrual basis. Accounting Instruction No. 2 of the National Association of Regulatory Utility Commissioners Uniform System of Accounts instructs that the book of accounts be kept on an accrual basis. The revenue recorded only reflects cash payments on accounts and not actual billing. Also, the City of Cocoa bills and collects the revenues for TKCB and removes its billing fee from those revenues prior to remitting the balance. TKCB's recorded revenue does not include the revenues retained by the City of Cocoa for its billing fee. Staff adjusted test year revenue by $5,365 to include actual billings and the City of Cocoa's billing fee. Staff recommends test year revenue of $69,473. Test year revenue is shown on Schedule No. 3-A.

**Issue 6**: What is the appropriate amount of test year operating expense?

**Recommendation**: The appropriate amount of test year operating expense for TKCB is $66,621. (Hudson)

**Staff Analysis**: TKCB recorded operating expenses of $59,728 during the test year ended April 30, 2012. The test year O&M expenses have been reviewed and invoices, canceled checks, and other supporting documentation have been examined. Staff made several adjustments to the Utility's operating expenses, as summarized below:

Salaries and Wages – Employees (701) – TKCB recorded $0 for salaries and wages – employees. The Utility's bookkeeper is an employee of Atlantis Investments, a related party. The bookkeeper is responsible for performing general office duties, bookkeeping, and accounting services for the Utility. The Utility is allocated $250 per month or $3,000 annually for the bookkeeper's services. Staff believes this amount is reasonable for the specified duties. Therefore, staff increased this account by $3,000. Staff recommends salaries and wages – employees of $3,000.

Salaries and Wages – Officers (703) – TKCB recorded $15,200 in this account. The Utility's president is also the president and owner of Atlantis Investments. The president's duties for the Utility consist of performing administrative duties and managing accounting, customer service, contract vendors and service operations. Staff evaluated an appropriate salary for the president using the American Water Works Association's 2008 Utility Compensation Survey. The president's functions best matched those of an accounting manager/controller position. The average salary for the accounting manager/controller position was $40,326. The president works approximately 26 hours per month on Utility business. On an annual basis, this results in approximately 15 percent (312 hours/2,080 annual hours) of his time. Staff applied the 15 percent to the average salary for the accounting manager/controller position and adjusted for inflation. This results in a president's salary of $6,311. Therefore, staff decreased this account by $8,889. Staff recommends salaries and wages – officers of $6,311.

Purchased Power (715) – TKCB recorded purchased power expense of $10,895. Pursuant to Audit Finding No. 5, staff decreased purchased power expense by $85 to reflect the appropriate purchased power expense for the test year. Staff recommends purchased power expense for the test year of $10,810.

Chemicals (718) – The Utility recorded chemical expense of $284. Pursuant to Audit Finding No. 5, staff decreased chemical expense by $58 to reclassify a circuit breaker to Acct. No. 720 – material and supplies. Also, staff increased this account by $33 and $20 to reflect chemicals reclassified from Acct. No. – 720 materials and supplies and Acct. No. 736 – contractual services other, respectively. During the test year, the Utility only recorded seven months of purchases of chlorine. TKCB's operator indicated he buys approximately 10 gallons of chlorine monthly at $32.50. Staff annualized the chlorine expense and the appropriate amount is $389. This account includes $279 for chlorine during the test year. Therefore, staff has increased this account by $110 to reflect the appropriate chemicals expense. Staff recommends chemicals expense for the test year of $389.

Material and Supplies (720) – TKCB recorded miscellaneous expense of $4,622. Staff recommends the following adjustments.

Table 6-1

| | Adjustment Description | |
|---|---|---|
| 1. | To reclassify cost for circuit breaker from Acct. No. 720. | $58 |
| 2. | To reclassify labor cost for plant site cleaning to Acct. No. 736 | (110) |
| 3. | To capitalize wastewater surge pumps. | (2,574) |
| 4. | To reclassify chemical expense to Acct. No. 718 | (33) |
| 5. | To remove expense for lack of support documentation. | (30) |
| | Total | ($2,689) |

Based on staff's net decrease of $2,689, staff recommends a miscellaneous expense balance of $1,933.

Contractual Services - Billing (730) – The Utility recorded $0 for contractual services – billing. TKCB has a contract with the City of Cocoa Utilities Department (COC) for customer billing services. The Utility's wastewater bills are based on customer's monthly water consumption with the COC. The COC's fee for the test year was $0.98 per bill. The fee was increased to $1.01 effective January 1, 2012. Staff annualized the increase and it results in contractual services - billing of $3,091 (12 months x 255 average bills x $1.01). Staff recommends contractual services – billing of $3,091.

Contractual Services – Testing (735) – TKCB recorded contractual services – testing expense of $4,787. Staff decreased this account by $85 to reflect the appropriate test year testing expense. Staff recommends contractual services – testing of $4,702.

Contractual Services - Other (736) – The Utility recorded miscellaneous expense of $21,093. The contract operator's fee increased during the test year. Staff increased this account by $1,000 to reflect the appropriate contractor operator fee. TKCB recorded labor for cleaning at the wastewater plant site to Account No. 720 – materials and supplies. Staff increased this account by $110 to reclassify the expense to the appropriate account. Staff decreased this account by $1,350 to remove an expense for weed spraying that is not related to utility operations. Staff decreased this account by $145 to reclassify transportation expense to Account No. 750 – transportation. Also, staff decreased this account by $20 to reclassify chemical expenses to Account No. 718 – chemicals. As a result of the DEP compliance inspection of the WWTP, the Utility was required to remove sand and grit from its surge tank. The Utility provided an estimate of $3,280 for the surge tank cleaning. Surge tank cleaning is typically performed about every five years. Therefore, staff amortized this cost over five years and increased this account by $656. Staff's net adjustment to this account is an increase of $251. Staff recommends a miscellaneous expense balance of $21,344.

Rent Expense (740) – TKCB recorded rent expense of $0 for the test year. The Utility shares office space with a related party, Atlantis Investments. TKCB currently does not record any expense related to sharing this office space. The office space is 1,288 square feet (sq.ft.). Staff researched the cost of commercial office space near the office of the Utility. Staff determined the average per sq. ft. lease cost for office space was $13.40. This results in office space rent of $17,259 (1,288 sq.ft. x $13.40)

TKCB also shares the electric, water, and telephone services. Staff obtained the invoices from the Utility for the electric, water, and telephone services for the test year to determine an appropriate allocation for these services to the Utility. Based on the invoices, staff calculated electric, water and telephone services to be $2,487, $579, and $2,906, respectively. The total cost associated with the office is $23,232 ($17,259+$2,487+$579+$2,906). As discussed above, TKCB's president spends 15 percent of his time using the office space for Utility business, annually. This results in an allocation for rent expense of $3,485 ($23,232 x 15 percent). As a result, staff recommends rent expense for the test year of $3,485.

Transportation Expense (750) – The Utility recorded $0 for transportation expense for the test year. Staff increased transportation expense by $145 to reclassify transportation expense from Acct. 736 – contractual services – other. Staff recommends transportation expense for the test year of $145.

Insurance Expense (755) – TKCB recorded $0 in this account. During the test year, the Utility did not have insurance. TKCB purchased a general liability policy in the amount of $512. Staff increased this account, accordingly. Staff recommends insurance expense for the test year of $512.

Regulatory Commission Expense (765) – The Utility recorded $327 of regulatory commission expense for the test year. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. The amount of $327 that TKCB included in this account represents legal expense incurred during its original wastewater certificate docket. The legal expense associated with the certificate docket is non-recurring. Staff reclassified the $327 to miscellaneous expense to be amortized over five years. The Utility is required by Rule 25-22.0407, F.A.C., to mail notices of the customer meeting and notices of final rates in this case to its customers. For noticing, staff estimated $221 for postage expense, $49 for printing expense, and $25 for envelopes. This results in $294 for the noticing requirement. The Utility paid a $1,000 rate case filing fee. Based on the above, staff recommends total rate case expense of $1,294 ($294+$1,000), which amortized over four years is $324. Therefore, staff recommends regulatory commission expense of $324.

Bad Debt Expense (770) – TKCB did not record any bad debt expense for the test year. The Utility's bad debt has been $2,516, $2,830, and $2,804 for 2009, 2010, and 2011. It is Commission practice to take the three-year average to determine a representative level of bad debt expense.[3] This results in bad debt expense of $2,712, and staff has increased this account, accordingly. Staff recommends bad debt expense of $2,712.

[3] See Order Nos. PSC-12-0102-FOF-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., PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation., and PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381, In re: Application for increase in wastewater rates in Seminole County by Utilities Inc. of Longwood.

Miscellaneous Expense (775) – TKCB recorded miscellaneous expense of $595. This account includes an amount associated with bank overdraft fees. Staff believes these fees should not be recovered from the general body of ratepayers. Therefore, staff reduced miscellaneous expense by $105 to remove the bank charges. Also, the Utility renewed its permit in 2010. TKCB provided documentation that the permit renewal costs were $4,500. Permits are renewed every five years. Staff increased miscellaneous expense by $900 ($4,500/5) to reflect the amortization of the permit renewal costs. Staff reclassified $327 of legal cost incurred during the Utility's certification docket from regulatory commission expense and amortized it over five years. As result, staff increased this account by $65 ($327/5). Staff's net adjustment to miscellaneous expense is an increase of $890 ($900-$105+$65). Staff recommends miscellaneous expense of $1,455.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expense should be increased by $2,410. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A and 3-B.

Depreciation Expense (Net of Amortization of CIAC) – The Utility did not record depreciation expense. Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff calculated test year depreciation expense of $171. Also, staff calculated depreciation expense for the pro forma plant addition of $274. TKCB has no CIAC to amortize. Based on the above, staff recommends net depreciation expense of $445.

Taxes Other Than Income (TOTI) – The Utility recorded a TOTI balance of $0. Based on test year revenues of $69,473 recommended in Issue 5, staff determined that RAFs should be $3,126 ($69,473x4.5 percent). Staff increased TOTI by $3,126 to reflect the appropriate RAFs. Staff also increased TOTI by $760 to reflect the appropriate property taxes. As discussed in Issue 8, revenues have been increased by $3,362 to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended return over O&M expense. As a result, TOTI should be increased by $151 to reflect RAFs of 4.5 percent on the change in revenues. Therefore, staff recommends TOTI of $4,038.

Income Tax – The Utility did not have any income tax expense for the test year. TKCB is a subchapter S corporation. The tax liability is passed on to the owners' personal tax returns. Therefore, staff did not make an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments results in operating expenses of $66,621. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The adjustments are shown on Schedule No. 3-C.

**Issue 7**: Should the Commission utilize the operating ratio methodology as an alternative means to calculate the revenue requirement for TKCB, and, if so, what is the appropriate margin?

**Recommendation**: Yes, the Commission, on its own motion, should utilize the operating ratio methodology for calculating the revenue requirement for TKCB. The margin should be 10 percent of O&M expense. (Hudson)

**Staff Analysis**: Section 367.0814(9), F.S., provides that the Commission may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a), and (3), F.S. Rule 25-30.456, F.A.C., provides, in part, an alternative to a staff assisted rate case as described in Rule 25-30.455, F.A.C. As an alternative, utilities with total gross annual operating revenue of less than $250,000 per system may petition the Commission for staff assistance in alternative rate setting.

Although TKCB did not petition the Commission for alternative rate setting under the aforementioned rule, staff believes that the Commission should exercise its discretion to employ the operating ratio methodology to set rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements. Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on a margin over TKCB's O&M expenses. This methodology has been applied in cases where the traditional calculation of revenue requirements would not provide sufficient revenue to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU,[4] the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates. This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. This criteria was applied again in Order No. PSC-97-0130-FOF-SU.[5] Most recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-12-0533-PAA-WU.[6]

In Order No. PSC-96-0357-FOF-WU, the Commission established criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria established by Order No. PSC-96-0357-FOF-WU, and how they apply to the Utility are discussed below:

1) Whether the Utility's O&M expense exceeds rate base. The operating ratio method substitutes O&M expense for rate base in calculating the amount of return. A Utility generally would not benefit from the operating ratio method if rate base exceeds O&M expense. The decision to use the operating ratio method depends on the determination of whether the primary risk resides in capital costs or operating expenses. In the instant case, the rate base is less than the level of O&M expense. The Utility's primary risk resides with covering its operating

[4] Issued March 13, 1996, in Docket No. 950641-WU, In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.
[5] Issued February 10, 1997, in Docket No. 960561-SU, In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.
[6] See Order No. PSC-12-0533-PAA-WU, issued October 9, 2012, in Docket No. 110238-WU, In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, LLC.

expense. Based on the staff's preliminary recommendation, the adjusted rate base for the test year is $52,477, while adjusted O&M expense is $62,138.

2) Whether the Utility is expected to become a Class B utility in the foreseeable future. According to Chapter 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenue of $250,000 or less. TKCB is a Class C utility and the recommended revenue requirement of $72,835 is substantially below the threshold level for Class B status ($200,000 per system). The Utility's service area has not had any significant growth in the last five years. Therefore, the Utility will not become a Class B utility in the foreseeable future.

3) Quality of service and condition of plant. As discussed in Issue 1, staff is recommending the quality of service be found satisfactory.

4) Whether the Utility is developer-owned. The current Utility owner is a developer. However, as noted in Order No. PSC-96-0357-FOF-WU,[7] the fact that a utility is developer-owned does not by itself disqualify a utility from utilizing the operating ratio methodology. If a developer-owned utility is in the early stages of growth, it may be inappropriate to employ the operating ratio methodology. In this particular case, the service territory is built out.

5) Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. The issue is whether or not purchased water and/or wastewater costs should be excluded in the computation of the operating margin. TKCB operates a wastewater treatment plant and collection system.

Based on staff's review of the Utility's situation relative to the above criteria, staff recommends that TKCB is a viable candidate for the operating ratio methodology.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-WU, the Commission determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. The important question is not what the return percentage should be, but what level of operating margin will allow the utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgment based upon the particular circumstances of the utility.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenue for the Utility to cover its interest expense. However, in this case, the Utility is not paying interest expense.

Second, use of the operating ratio methodology rests on the contention that the principal risk to the utility resides in operating cost rather than in capital cost of the plant. The fair return on a small rate base may not adequately compensate the utility owner for incurring the risk associated with covering the much larger operating cost. Therefore, the margin should adequately compensate the utility owner for that risk. Under the rate base method, the return to

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[7] See Order No. PSC-96-0357-FOF-WU, p.7.

TKCB amounts to only $4,586, which is enough to cover only an approximate 7.4 percent variance in O&M expense. Staff believes $4,586 may be an insufficient financial cushion.

Third, if the return on rate base method was applied, a normal return would generate such a small level of revenue that in the event revenue or expenses vary from staff's estimates, TKCB could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenue to protect against potential variability in revenue and expenses. The return on rate base method would provide the Utility only $4,586. If the Utility's operating expenses increase or revenue decreases, TKCB would not have the funds required for day-to-day operations.

In conclusion, staff believes the above factors show that the Utility needs a higher margin of revenue over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide TKCB with adequate cash flow to meet environmental requirements and to provide some assurance of safe and reliable service, staff recommends application of the operating ratio methodology at a margin of 10 percent of O&M expense for determining the revenue requirement.

**Issue 8**: What is the appropriate revenue requirement?

**Recommendation**: The appropriate revenue requirement is $72,835. (Hudson)

**Staff Analysis**: TKCB should be allowed an increase of $3,362 (4.84 percent). This will allow the Utility the opportunity to recover its expenses and a 10 percent cushion over its O&M expenses. The calculations are as follows:

Table 8-1

| | |
|---|---|
| Adjusted O&M Expense | $62,138 |
| Operating Margin Ratio | 10.00% |
| Operating Margin | $6,214 |
| Adjusted O&M Expense | 62,138 |
| Depreciation expense (Net) | 445 |
| Amortization | 0 |
| Taxes Other Than Income | 4,038 |
| Income Tax | 0 |
| Revenue Requirement | $72,835 |
| Less Adjusted Test Year Revenues | $69,473 |
| Annual Increase | $3,362 |
| Percent Increase/(Decrease) | 4.84% |

**Issue 9**: What is the appropriate rate structure for TKCB?

**Recommendation**: The appropriate rate structure should be a continuation of the base facility charge (BFC) and uniform gallonage charge rate structure. Staff recommends the residential wastewater gallonage cap be set at 6,000 gallons a month. Furthermore, staff recommends that the non-residential gallonage charge be 1.2 times greater than the residential gallonage charge. (Bruce)

**Staff Analysis**: TKCB's current rate structure consists of a traditional BFC and gallonage charge rate structure. The BFC is $12.50 and the gallonage charge is $2.65 per 1,000 gallons, with a maximum of 12,000 gallons charged to residential customers. These rates were grandfathered in by Order No. PSC-11-0522-FOF-SU.[8] The water service is provided by the City of Cocoa.

The Commission's preferred wastewater rate structure is a BFC and uniform rate structure. For this reason, staff recommends a continuation of the BFC and gallonage charge rate structure. It is Commission practice to set the residential wastewater gallonage cap such that approximately 80 percent of the gallons are at or below the cap.[9] Staff's review of the billing data indicates that 82 percent of the gallons sold are captured at 6,000 gallons. Therefore, the Utility's residential wastewater gallonage cap of 12,000 gallons should be changed to 6,000 gallons.

At this time, the Utility does not have any non-residential customers. Nonetheless, staff believes that in the event the Utility decides to add a non-residential customer to its service territory a rate should be in place. For this reason, staff recommends that the non-residential gallonage charge be 1.2 times greater than the residential charge. This is done in an effort to calculate a 20 percent differential between a utility's residential and non-residential customers. There is no cap for non-residential customers. The proposed BFC recovers approximately 50 percent of the recommended revenue requirement, consistent with Commission practice.

Based on the foregoing, the appropriate rate structure should be a continuation of the BFC and uniform gallonage charge rate structure. Staff recommends the residential wastewater gallonage cap be set at 6,000 gallons a month. Furthermore, staff recommends that the non-residential gallonage charge be 1.2 times greater than the residential charge.

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[8] See Order No. PSC-11-0522-FOF-SU, issued November 7, 2011, in Docket No. 100442-SU, In re: Application for certificate to provide wastewater service in Brevard County by TKCB.

[9] See Orders Nos.12350, issued August 10, 1983, in Docket No. 820073-WS, In re; Application of Seacoast Utilities, Inc. for an increase in water and sewer service rates to its customers in Palm Beach County, Florida; PSC-11-0015-PAA-WS, issued January 5, 2011, in Docket No. 090531-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities, Inc.

**Issue 10**: What are the appropriate rates for TKCB?

**Recommendation**: The appropriate monthly wastewater rates are shown on Schedule No. 4. The recommended rates should be designed to produce revenues of $72,835. 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 10 days after the date of the notice. (Bruce)

**Staff Analysis**: The recommended rates should be designed to produce revenue of $72,835. Staff recommends a BFC of $13.10 and gallonage charge of $3.28.

Therefore, staff recommends that rates be designed to produce service revenues of $72,835. The appropriate rates for monthly service for residential and general wastewater service are shown on Schedule No. 4. 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. If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. 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 10 days after the date of the notice.

**Issue 11**: 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 wastewater rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for 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. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If TKCB 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. (Hudson)

**Staff Analysis**: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated operating margin, and the gross-up for RAFs which is $373. Using the Utility's current revenues, expenses, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule No. 4.

TKCB should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If TKCB 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.

**Issue 12**: Should the recommended rates be approved for TKCB on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility?

**Recommendation**: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. TKCB 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 temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's office no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Hudson)

**Staff Analysis**: This recommendation proposes an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. TKCB 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 temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

The Utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of $2,241. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond as security, the bond should contain wording to the effect that it will be terminated only under the following conditions:

1) The Commission approves the rate increase; or

2) If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If the Utility chooses a letter of credit as a security, it should contain the following conditions:

1) The letter of credit is irrevocable for the period it is in effect, and,

2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

1) No monies in the escrow account may be withdrawn by the Utility without the express approval of the Commission;

2) The escrow account shall be an interest bearing account;

3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;

4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;

5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;

6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;

7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;

8) The Commission Clerk must be a signatory to the escrow agreement; and

9) The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The Utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's office no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

**Issue 13**: Should TKCB be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all applicable NARUC Uniform System of Accounts (USOA) primary accounts associated with the Commission-approved adjustments?

**Recommendation**: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, TKCB should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made. (Hudson)

**Staff Analysis**: To ensure that the Utility adjusts its books in accordance with the Commission's decision, TKCB should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made.

**Issue 14**: Should this docket be closed?

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

**Staff Analysis**: If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Also, the docket should remain open to allow staff to verify that the pro forma items have been completed and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively.

**TKCB** — **SCHEDULE NO. 1-A**
**TEST YEAR ENDED 04/30/2012** — **DOCKET NO. 120078-SU**
**SCHEDULE OF WASTEWATER RATE BASE**

| | DESCRIPTION | BALANCE PER UTILITY | STAFF ADJUST. TO UTIL. BAL. | BALANCE PER STAFF |
|---|---|---|---|---|
| 1. | UTILITY PLANT IN SERVICE | $0 | $8,687 | $8,687 |
| 2. | LAND & LAND RIGHTS | 30,000 | 6,203 | 36,203 |
| 3. | NON-USED AND USEFUL COMPONENTS | 0 | 0 | 0 |
| 4. | CIAC | 0 | 0 | 0 |
| 5. | ACCUMULATED DEPRECIATION | 0 | (180) | (180) |
| 6. | AMORTIZATION OF CIAC | 0 | 0 | 0 |
| 7. | WORKING CAPITAL ALLOWANCE | 0 | 7,767 | 7,767 |
| 8. | WASTEWATER RATE BASE | $30,000 | $22,477 | $52,477 |

| TKCB | SCHEDULE NO. 1-B |
|---|---|
| TEST YEAR ENDED 04/30/2012 | DOCKET NO. 120078-SU |
| ADJUSTMENTS TO RATE BASE | |

| | | WASTEWATER |
|---|---|---|
| | UTILITY PLANT IN SERVICE | |
| 1. | To capitalize surge pump recorded as expense. | $2,574 |
| 2. | To reflect an averaging adjustment | (1,287) |
| 3. | To reflect pro forma fence addition. | 7,400 |
| | Total | $8,687 |
| | LAND AND LAND RIGHTS | |
| | To reflect the appropriate land balance per AF 3. | $6,203 |
| | ACCUMULATED DEPRECIATION | |
| 1. | To reflect the appropriate accumulated depreciation. | ($86) |
| 2. | To reflect an averaging adjustment. | 43 |
| 3. | To reflect pro forma accumulated depreciation. | (137) |
| | Total | ($180) |
| | WORKING CAPITAL ALLOWANCE | |
| | To reflect 1/8 of test year O & M expenses. | $7,767 |

**TKCB**
**TEST YEAR ENDED 04/30/2012**
**SCHEDULE OF CAPITAL STRUCTURE**

**SCHEDULE NO. 2**
**DOCKET NO. 120078-SU**

| | CAPITAL COMPONENT | PER UTILITY | SPECIFIC ADJUST-MENTS | BALANCE BEFORE PRO RATA ADJUSTMENTS | PRO RATA ADJUST-MENTS | BALANCE PER STAFF | PERCENT OF TOTAL | COST | WEIGHTED COST |
|---|---|---|---|---|---|---|---|---|---|
| 1. | COMMON STOCK | | $0 | $0 | | | | | |
| 2. | RETAINED EARNINGS | 0 | 0 | 0 | | | | | |
| 3. | PAID IN CAPITAL | 0 | 0 | 0 | | | | | |
| 4. | OTHER COMMON EQUITY | 0 | 0 | 0 | | | | | |
| | TOTAL COMMON EQUITY | $0 | $0 | 0 | 52,477 | 52,477 | 100.00% | 8.74% | 8.74% |
| 5. | TOTAL LONG TERM DEBT | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 6. | CUSTOMER DEPOSITS | 0 | 0 | 0 | 0 | 0 | 0.00% | 6.00% | 0.00% |
| 7. | TOTAL | $0 | $0 | $0 | $52,477 | $52,477 | 100.00% | | 8.74% |

| RANGE OF REASONABLENESS | LOW | HIGH |
|---|---|---|
| RETURN ON EQUITY | 7.74% | 9.74% |
| OVERALL RATE OF RETURN | 7.74% | 9.74% |

| TKCB<br>TEST YEAR ENDED 04/30/2012<br>SCHEDULE OF WASTEWATER OPERATING INCOME | | | | | | SCHEDULE NO. 3-A<br>DOCKET NO. 120078-SU |
|---|---|---|---|---|---|---|
| | | TEST YEAR PER UTILITY | STAFF ADJUSTMENTS | STAFF ADJUSTED TEST YEAR | ADJUST. FOR INCREASE | REVENUE REQUIREMENT |
| 1. | OPERATING REVENUES | $64,108 | $5,365 | $69,473 | $3,362<br>4.84% | $72,835 |
| | OPERATING EXPENSES: | | | | | |
| 2. | OPERATION & MAINTENANCE | $59,728 | $2,410 | $62,138 | 0 | $62,138 |
| 3. | DEPRECIATION (NET) | 0 | 445 | 445 | 0 | 445 |
| 4. | AMORTIZATION | 0 | 0 | 0 | 0 | 0 |
| 5. | TAXES OTHER THAN INCOME | 0 | 3,886 | 3,886 | 151 | 4,038 |
| 6. | INCOME TAXES | 0 | 0 | 0 | 0 | 0 |
| 7. | TOTAL OPERATING EXPENSES | $59,728 | $6,742 | $66,470 | $151 | $66,621 |
| 8. | OPERATING INCOME/(LOSS) | $4,380 | | $3,003 | | $6,214 |
| 9. | WASTEWATER RATE BASE | $30,000 | | $52,477 | | $52,477 |
| 10. | RATE OF RETURN<br>(Operating Margin) | 14.60% | | 5.72% | | 10.00% |

| TKCB | SCHEDULE NO. 3-B |
|---|---|
| TEST YEAR ENDED 04/30/2012 | DOCKET NO. 120078-SU |
| ADJUSTMENTS TO OPERATING INCOME | Page 1 of 2 |

| | WASTEWATER |
|---|---|
| **OPERATING REVENUES** | |
| To reflect the appropriate test year revenues per billing units. | $5,365 |
| | |
| **OPERATION AND MAINTENANCE EXPENSES** | |
| 1. Salaries and Wages - Employees (701) | |
| To reflect allocated salary of bookkeeper. | $3,000 |
| 2. Salaries and Wages - Officers (703) | |
| To reflect the appropriate allocation for the Utility president. | ($8,889) |
| 3. Purchased Power (615/ 715) | |
| To reflect the appropriate test year purchased power expense. | ($85) |
| 4. Chemicals Expense (718) | |
| a. To reclassify cost for circuit breaker to Acct. No. 720. | ($58) |
| b. To reclassify chemical expense from Acct. No. 720. | 33 |
| c. To reclassify chemical expense from Acct. No. 736. | 20 |
| d. To annualize expense for chlorine. | $110 |
| Subtotal | ($105) |
| 5. Materials and Supplies (720) | |
| a. To reclassify cost for circuit breaker from Acct. No. 718. | $58 |
| b. To reclassify labor cost for plant site cleaning to Acct. No. 736. | (110) |
| c. To capitalize wastewater surge pumps. | (2,574) |
| d. To reclassify chemical expense to Acct. No. 718. | (33) |
| e. To remove expense for lack of support documentation. | (30) |
| Subtotal | ($2,689) |
| 6. Contractual Services - Billing (730) | |
| To reflect the appropriate billing cost to the City of Cocoa. | $3,091 |
| 7. Contractual Services - Testing (735) | |
| To reflect the appropriate testing expense. | ($85) |
| 8. Contractual Services - Other (736) | |
| a. To annualize contract operator expense. | $1,000 |
| b. To reclassify wastewater plant site cleaning from Acct. No. 720. | 110 |
| c. To remove related party expense. | (1,350) |
| d. To reclassify transportation expense to Acct. No. 750. | (145) |
| e. To reclassify chemical expense to Acct. No. 718. | (20) |
| f. To reflect pro forma 5 year amortization of surge tank cleaning. | 656 |
| Subtotal | $251 |

(CONTINUED ON NEXT PAGE)

| TKCB<br>TEST YEAR ENDING 04/30/2012<br>ADJUSTMENTS TO OPERATING INCOME | | SCHEDULE NO. 3-B<br>DOCKET NO. 120078-SU<br>Page 2 of 2 |
|---|---|---|
| | (O & M Expense Continued) | |
| 9. | Rent Expense | |
| | To reflect an appropriate rent allocation. | $3,485 |
| 10. | Transportation Expense (750) | |
| | To reclassify transportation expense from Acct. No. 736. | $145 |
| 11. | Insurance | |
| | To reflect general liability and pollution liability insurance. | $512 |
| 12. | Regulatory Expense (765) | |
| | a. To reclassify legal expense for certification docket to misc. expense.. | ($327) |
| | b. To reflect amortization of rate case expense. | 324 |
| | Subtotal | ($4) |
| 13. | Bad Debt Expense (770) | |
| | a. To reflect the appropriate bad debt expense. | $2,712 |
| 14. | Miscellaneous Expense (675/ 775) | |
| | a. To remove bank overdraft fees. | ($105) |
| | b. To reflect amortization of wastewater permit renewal. | 900 |
| | c. To reflect amortization legal expense from certification docket. | 65 |
| | Subtotal | $860 |
| | **TOTAL OPERATION & MAINTENANCE ADJUSTMENTS** | **$2,410** |
| | | **WASTEWATER** |
| | **DEPRECIATION EXPENSE** | |
| 1. | To reflect depreciation expense. | $171 |
| 2. | To reflect pro forma depreciation expense. | 274 |
| | Total | $445 |
| | **TAXES OTHER THAN INCOME** | |
| 1. | To reflect the appropriate regulatory assessment fees. | $3,126 |
| 2. | To reflect the appropriate property taxes. | 760 |
| | Total | $3,886 |

**TKCB**
**TEST YEAR ENDED 04/30/2012**
**ANALYSIS OF WASTEWATER OPERATION**
**AND MAINTENANCE EXPENSE**

**SCHEDULE NO. 3-C**
**DOCKET NO. 120078-SU**

| | TOTAL PER UTILITY | STAFF ADJUST-MENT | | TOTAL PER STAFF |
|---|---|---|---|---|
| (701) SALARIES AND WAGES - EMPLOYEES | $0 | $3,000 | [1] | $3,000 |
| (703) SALARIES AND WAGES - OFFICERS | 15,200 | (8,889) | [2] | 6,311 |
| (704) EMPLOYEE PENSIONS AND BENEFITS | 0 | 0 | | 0 |
| (710) PURCHASED SEWAGE TREATMENT | 0 | 0 | | 0 |
| (711) SLUDGE REMOVAL EXPENSE | 1,400 | 0 | | 1,400 |
| (715) PURCHASED POWER | 10,895 | (85) | [3] | 10,810 |
| (716) FUEL FOR POWER PRODUCTION | 0 | 0 | | 0 |
| (718) CHEMICALS | 284 | 105 | [4] | 389 |
| (720) MATERIALS AND SUPPLIES | 4,622 | (2,689) | [5] | 1,933 |
| (730) CONTRACTUAL SERVICES - BILLING | 0 | 3,091 | [6] | 3,091 |
| (731) CONTRACTUAL SERVICES - PROFESSIONAL | 525 | 0 | | 525 |
| (735) CONTRACTUAL SERVICES - TESTING | 4,787 | (85) | [7] | 4,702 |
| (736) CONTRACTUAL SERVICES - OTHER | 21,093 | 251 | [8] | 21,344 |
| (740) RENTS | 0 | 3,485 | [9] | 3,485 |
| (750) TRANSPORTATION EXPENSE | 0 | 145 | [10] | 145 |
| (755) INSURANCE EXPENSE | 0 | 512 | [11] | 512 |
| (765) REGULATORY COMMISSION EXPENSES | 327 | (4) | [12] | 324 |
| (770) BAD DEBT EXPENSE | 0 | 2,712 | [13] | 2,712 |
| (775) MISCELLANEOUS EXPENSES | 595 | 860 | [14] | 1,455 |
| | $59,728 | $2,410 | | $62,138 |

**TKCB** **SCHEDULE NO. 4**
**TEST YEAR ENDED 04/30/2012** **DOCKET NO. 120078-SU**
**MONTHLY WASTEWATER RATES**

| | UTILITY'S EXISTING RATES | STAFF RECOMMENDED RATES | 4-YEAR RATE REDUCTION |
|---|---|---|---|
| **Residential Service** | | | |
| Base Facility Charge All Meter Sizes | $12.50 | $13.10 | $0.07 |
| | | | |
| Gallonage Charge | | | |
| Per 1,000 Gallons (6,000 gallon cap) | N/A | $3.28 | $0.02 |
| Per 1,000 Gallons(12,000 gallon cap) | $2.65 | N/A | N/A |
| | | | |
| **General Service** | | | |
| Base Facility Charge by Meter Size: | | | |
| 5/8"X3/4" | $0.00 | $13.10 | $0.07 |
| 3/4" | $0.00 | $19.65 | $0.10 |
| 1" | $0.00 | $32.75 | $0.17 |
| 1-1/2" | $0.00 | $65.50 | $0.34 |
| 2" | $0.00 | $104.80 | $0.54 |
| 3" | $0.00 | $209.60 | $1.07 |
| 4" | $0.00 | $327.50 | $1.68 |
| 6" | $0.00 | $655.00 | $3.35 |
| | | | |
| Gallonage Charge per 1,000 gallons | $0.00 | $3.94 | $0.02 |
| | | | |
| Typical Residential 5/8" x 3/4" Meter Bill Comparison | | | |
| 3,000 Gallons | $20.45 | $22.94 | |
| 5,000 Gallons | $25.75 | $29.50 | |
| 10,000 Gallons | $39.00 | $32.78 | |