State of Florida

Public Service Commission

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

DATE: May 1, 2019

TO: Laura V. King, Chief of Reliability & Resource Planning, Division of Engineering

FROM: Division of Engineering (Knoblauch, Doehling, Graves, Salvador) EK SD RG LS TB
Division of Accounting and Finance (Bennett, Fletcher, Norris, Sewards)
Division of Economics (Ramos, Hudson)
Office of the General Counsel (DuVal, Weisenfeld)

RE: Docket No. 20180218-SU – Application for staff-assisted rate case in Brevard County by TKCB, Inc.

-- STAFF REPORT--

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting scheduled on May 30, 2019.

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Case Background

TKCB, Inc. (TKCB or Utility) is a Class C utility currently providing wastewater service to 274 mobile home lots in the Sun Lake Village Estates manufactured home community (formerly Sun Lake Estates) in Brevard County. TKCB is located in the St. Johns River Water Management District, and water service is provided by the City of Cocoa. The Utility began providing wastewater service in 1984 as the Sun Lake Estates Homeowners Association (HOA), which became TKCB in November 1986. On November 7, 2011, the Commission granted Certificate No. 562-S to TKCB to provide wastewater service.[1] The Utility's rates were last established in its 2012 staff-assisted rate case (SARC) by Order No. PSC-13-0126-PAA-SU.[2]

On November 26, 2018, TKCB filed an application for a SARC. Pursuant to Section 367.0814(2), Florida Statutes, (F.S.), the official filing date of the SARC has been determined to be January 10, 2019. Staff selected the test year ended September 30, 2018, for the instant case. According to the Utility's 2018 Annual Report, it reported total operating revenue of $84,270 and a net operating loss of $5,106.

In 2018, the Florida Department of Environmental Protection (DEP) conducted a compliance inspection and determined the plant to be in compliance with DEP rules and regulations.

This Staff Report is a **preliminary** analysis of the Utility prepared by Commission staff to give customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission is currently scheduled to be filed July 25, 2019, for consideration at the August 6, 2019 Commission Conference. The recommendation will be revised as necessary using any updated information and results of customer quality of service concerns or other relevant information received at the customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 367.091, and 367.121, F.S.

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[1]Order No. PSC-11-0522-FOF-SU, issued November 7, 2011, in Docket No. 20100442-SU, *In re: Application for certificate to provide wastewater service in Brevard County by TKCB.*
[2]Order No. PSC-13-0126-PAA-SU, issued March 14, 2013, in Docket No. 20120078-SU, *In re: Application for staff-assisted rate case in Brevard County by TKCB.*

Discussion of Issues

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

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the May 30, 2019 Customer Meeting. (Doehling)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by a utility. For a wastewater only utility, the determination is made from an evaluation of the utility's attempt to address customer satisfaction. The Rule further states that outstanding citations, violations, and consent orders on file with the DEP and the county health department, along with any DEP and county health department officials' testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints received by the Commission are also reviewed.

The Utility's Attempt to Address Customer Satisfaction

A review of the Commission's complaint tracking system revealed no customer comments or complaints against the Utility in the previous five-year period. In addition, no complaints were received by the DEP or the Utility, and the Utility is currently in compliance with the DEP. Staff will hold a customer meeting on May 30, 2019, to obtain customer comments.

Conclusion

Quality of service will be determined at a later date, pending review of comments made at the May 30, 2019 Customer Meeting.

Issue 2: What are the used and useful (U&U) percentages for the Utility's wastewater treatment plant (WWTP) and collection system?

Preliminary Recommendation: Staff recommends that the WWTP and collection system be considered 100 percent U&U. There is no excessive infiltration and inflow (I&I) and no adjustment to operating expenses is necessary. (Salvador)

Staff Analysis: Pursuant to Rule 25-30.432, F.A.C., the U&U percentage of a WWTP is based on the plant flows, growth allowance, I&I and the plant permitted capacity. 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 DEP permitted capacity is currently at 99,000 gallons per day (gpd) based on the annual average daily flow. The collection system is composed of polyvinyl chloride pipes and there is one lift station in the service area.

WWTP and Collection System U&U

The Utility's service area is plotted for 295 mobile homes connections. During the test year the Utility indicated 274 lots were being served. During the analysis period of the previous SARC staff conducted a field inspection and confirmed that the service area is built out. In that same rate case the Commission found the WWTP and collection system to be 100 percent U&U. Since that time there have been no changes to the collection system and there are no plans for expansion. Because the service area is built out and there are no plans for expansion, staff recommends that the WWTP and collection system should be considered 100 percent U&U.

Infiltration and Inflow

Typically infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. By convention, the allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of residential water billed is allowed for inflow. Rule 25-30.432, F.A.C., provides that in determining the WWTP amount of U&U, the Commission will consider I&I.

All wastewater collection systems experience I&I. The conventions noted above provide guidance for determining whether the I&I experienced at a WWTP is excessive. Staff calculates the allowable infiltration based on system parameters and allowable inflow based on water sold to customers. The sum of these amounts is the allowable I&I. Staff next calculates the estimated amount of wastewater returned from customers. The estimated return is determined by summing 80 percent of the water sold to residential customers with 90 percent of the water sold to non-residential customers. Adding the estimated return to the allowable I&I yields the maximum amount of wastewater that should be treated by the wastewater system without incurring adjustments to operating expenses. If this amount exceeds the actual amount treated, no adjustment is made. If it is less than the gallons treated, then the difference is the excessive amount of I&I.

The Utility has 3,570 feet of 4-inch, 2,300 feet of 6-inch and 6,975 feet of 8-inch collecting mains. Given these parameters and performing the necessary conversions to express the result in gallons per year (gpy), the allowance for infiltration is 2,899,261 gpy.

The Utility reported the total number of water gallons billed to all wastewater customers during the test year was 11,476,000. Thus, the allowance for inflow is 10 percent of the residential flow, or 1,147,600 gpy. Therefore, the total allowance for infiltration and inflow is 4,046,861 gpy.

Estimating the residential return at 80 percent, the total estimated return to the wastewater plant is 9,180,800 gallons. Thus, the estimated maximum amount of wastewater that the system should treat, the estimated return plus the allowable I&I, is 13,227,661 gpy. Any amount treated in excess of this amount is considered excessive I&I.

According to the Utility's daily flow reports, the Utility treated 11,757,000 gallons of wastewater during the test year. This is less than the estimated maximum amount allowable. Therefore, there is no excessive I&I and no adjustment to operating expenses is necessary.

Conclusion

Staff recommends that TKCB's WWTP and collection system should be considered 100 percent U&U. There is no excessive I&I and no adjustment to operating expenses is necessary.

Issue 3: What is the appropriate average test year rate base for TKCB, Inc.?

Preliminary Recommendation: The appropriate average test year rate base for TKCB for ratemaking purposes is $58,093. (Bennett, Sewards, Salvador)

Staff Analysis: TKCB operates a WWTP with a permitted capacity of 99,000 gpd. The collection system is composed of polyvinyl chloride pipes and there is one lift station in the service area. In 2018, the DEP conducted a compliance inspection and determined the plant to be in compliance with DEP rules and regulations.

The test year ending September 30, 2018, was used for staff's recommended rate base in the instant case. A summary of each rate base component and recommended adjustments are discussed below.

Utility Plant in Service (UPIS)
The Utility recorded a test year UPIS balance of $17,058. Based on audit staff's review of the Utility's books and records, UPIS should be decreased by $626 to reflect the supported UPIS test year balances. In addition, staff decreased UPIS by $2,910 to include an averaging adjustment. Staff's adjustments to UPIS result in a decrease of $3,536 ($626 + $2,910). Therefore, staff recommends that the appropriate UPIS balance is $13,522.

Land & Land Rights
The Utility recorded a test year land balance of $36,203. Based on staff's preliminary review, no adjustment is necessary. Therefore, staff recommends that the appropriate balance is $36,203.

Used & Useful
As discussed in Issue 2, TKCB's wastewater treatment plant and collection system are considered 100 percent U&U. Therefore, no U&U adjustments are necessary.

Accumulated Depreciation
TKCB recorded a test year accumulated depreciation balance of $653. Staff increased accumulated depreciation by $326 to reflect depreciation pursuant to Rule 25-30.140, F.A.C. In addition, staff decreased accumulated depreciation by $252 to reflect an averaging adjustment. Staff's adjustments to accumulated depreciation result in a net increase of $74 ($326 - $252). Therefore, staff recommends an accumulated depreciation balance of $727.

Contributions in Aid of Construction (CIAC)
The Utility recorded a test year CIAC balance of $0. Based on staff's preliminary review, no adjustment is necessary. Therefore, staff recommends that the appropriate balance is $0.

Accumulated Amortization of CIAC
The Utility recorded a test year accumulated amortization of CIAC balance of $0. Based on staff's preliminary review, no adjustment is necessary. Therefore, staff recommends that the appropriate balance is $0.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(3), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Section 367.081(9), F.S., prohibits a utility from earning a return on the unamortized balance of rate case expense. As such, staff has removed the rate case expense balance of $384 for this calculation resulting in an adjusted O&M expense balance of $72,757 ($73,141 - $384). Applying this formula approach to the adjusted O&M expense balance, staff recommends a working capital allowance of $9,095 ($72,757 / 8).

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate test year average rate base is $58,093. 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, Inc?

Preliminary Recommendation: The appropriate return on equity (ROE) is 8.11 percent with a range of 7.11 percent to 9.11 percent. The traditional rate of return does not apply in this case due to rate base being less than 125 percent of O&M expenses. (Bennett, Sewards)

Staff Analysis: According to staff's audit, TKCB's test year capital structure reflected common equity of $50,060. As discussed in Issue 7, staff is recommending the operating ratio methodology be used in this case. Although the traditional rate of return in this case due to rate base being less than 125 percent of O&M expenses, staff recommends that an ROE still be established for this Utility. The appropriate ROE for the Utility is 8.11 percent based on the Commission approved leverage formula currently in effect.[3] As such, staff recommends an ROE of 8.11 percent, with a range of 7.11 percent to 9.11 percent. The ROE is shown on Schedule No. 2.

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[3]Order No. PSC-2018-0327-PAA-WS, issued June 26, 2018, in Docket No. 20180006-WS, *In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

Issue 5: What are the appropriate test year revenues for TKCB, Inc.?

Preliminary Recommendation: The appropriate test year revenues for TKCB, Inc. are $83,684. (Ramos)

Staff Analysis: TKCB recorded total test year revenues of $83,015. The Utility's test year revenues consisted entirely of service revenues and no miscellaneous revenues. Based on staff's review of the Utility's billing determinants and the service rates that were in effect during the test year, staff determined test year service revenues should be increased by $669 to reflect annualized test year revenues of $83,684.[4] The Utility has no miscellaneous service charges and thus, there are no miscellaneous revenues. Based on the above, the appropriate test year revenues for TKCB are $83,684 ($83,015 + $669).

[4]The Utility filed a 2018 Price Index that became effective July 1, 2018.

Issue 6: What is the appropriate amount of operating expense for TKCB, Inc?

Preliminary Recommendation: The appropriate amount of operating expense for TKCB is $82,338. (Bennett, Sewards, Knoblauch)

Staff Analysis: TKCB recorded operating expense of $73,593 for the test year ended September 30, 2018. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made adjustments to the Utility's operating expenses as summarized below.

Operating & Maintenance Expense

Salaries and Wages – Employees (701)

The Utility recorded salaries and wages – employees' expense of $3,400 in the test year. The Utility's bookkeeper is an employee of Atlantis Investments, a related party. In the last rate case, the Commission approved a salary for this position of $3,000, based on a yearly salary of $30,000 and a time allocation of 10 percent for utility-related matters.[5]

By letter dated December 18, 2018, TKCB requested an increase in salary for this position.[6] Using the American Water Works Association 2018 Utility Salary Compensation Survey for Small Water and Wastewater Utilities (2018 AWWA Small Utility Survey), the Utility determined the position of Small System Bookkeeper with a salary of $42,596 was more representative of the bookkeeper's duties. At this time, staff believes the description and requested salary is reasonable for this position. As such, staff recommends a salary of $42,596 should be used for the bookkeeper position.

Additionally, TKCB has requested that the allocation of time for utility-related matters be increased to 15 percent for the bookkeeper position. The Utility stated that, in the last rate case, the time required for work performed was based on an estimate of 10 percent and not actual time spent on utility matters. Staff believes that the calculation of time allocated to TKCB should take into consideration actual time spent historically by the bookkeeper on utility matters. As such, staff recommends that the time allocation for the bookkeeper position should be increased to 15 percent. Staff is further evaluating the Utility's request.

These adjustments result in a salaries and wages – employees expense of $6,389 ($42,596 x 15%), or an increase of $2,989 ($6,389 - $3,400).

Salaries and Wages – Officers (702)

The Utility recorded salaries and wages – officers expense of $8,140 in the test year. The Utility's President is also the President and owner of Atlantis Investments. In the last rate case, the Commission approved a salary for this position of $6,311, based on a yearly salary of $42,073 and a time allocation of 15 percent for utility-related matters. The President's salary was established using the 2008 American Water Works Association Compensation Survey. Additionally, the Commission's decision utilized the minimum salary of the average range.

[5]Order No. PSC-13-0126-PAA-SU, issued March 14, 2013, in Docket No. 20120078-SU, *In re: Application for staff-assisted rate case in Brevard County by TKCB, Inc.*
[6]Document No. 07665-2018, filed on December 26, 2018.

By letter dated December 18, 2018, TKCB requested an increase in salary for this position.[7] Using the 2018 AWWA Small Utility Survey, the Utility determined the position of Small System General Manager was more representative of the president's duties. According to the 2018 AWWA Small Utility Survey, the requested salary of $78,709 is the midpoint of the average salary range for this position. At this time, staff believes the description is reasonable for this position. However, staff believes the minimum salary of the average range should be used, consistent with the previous case. As such, staff reviewed the 2018 AWWA Small Utility Survey and recommends a salary of $64,599 for the President.

Additionally, TKCB has requested that the allocation of time for utility-related matters be increased to 20 percent for the president. The Utility stated that, in the last rate case, the time required for work performed was based on an estimate of 15 percent and not actual time spent on utility matters. Staff believes that the calculation of time allocated to TKCB should take into consideration actual time spent historically by the President on utility matters. As such, staff recommends that the time allocation for the President should be increased to 20 percent. Staff is further evaluating the Utility's request.

These adjustments would result in a salaries and wages – officers expense of $12,920 ($64,599 x 20%), or an increase of $4,780 ($12,920 - $8,140).

Sludge Removal Expense (711)

The Utility recorded sludge removal expense of $764 in the test year. In response to staff's data request, TKCB provided additional information that increased the sludge removal expense for the test year to $3,200.[8] However, a number of the invoices provided by the Utility were related to Hurricane Irma, and do not represent normal operation. Therefore, staff requested sludge removal invoices from the Utility over the last four years, and determined the average amount of sludge removed per year to be 10,750 gallons. Using the current sludge removal rate of $0.20 per gallon, the total expense was calculated to be $2,150. Therefore, staff recommends sludge removal expense of $2,150, or an increase of $1,386.

Purchased Power (715)

The Utility recorded purchased power expense of $9,570 in the test year. Staff decreased purchased power expense by $78 to reflect actual invoices for TKCB. As such, staff recommends a purchased power expense of $9,492.

Chemicals Expense (718)

The Utility recorded chemicals expense of $502 in the test year. Staff increased chemicals expense by $9 to reflect actual invoices for TKCB. As such, staff recommends a chemicals expense of $511.

Materials and Supplies Expense (720)

[7] *Id.*
[8] Document No. 00027-2019, filed on January 2, 2019.

TKCB recorded materials and supplies expense of $720 in the test year. Staff increased materials and supplies expense by $122 to reflect actual invoices for TKCB. Therefore, staff recommends materials and supplies expense of $842.

Contractual Services – Billing Expense (730)

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 COC. TKCB recorded contractual services – billing expense of $3,643 in the test year. Audit staff decreased this expense by $22 to reflect the appropriate amount of contractual services for billing. Additionally, in its response to the audit, the Utility stated COC's billing fee increased from $1.09 to $1.12 per bill effective October 1, 2018. The Utility calculated the increase in billing expense using the number of customer bills in the test year and the $0.03 increase in fees. This resulted in an increase of $100 (3,322 customer bills x $0.03). Staff has verified the increase in COC's fees and believes this adjustment is appropriate. Staff's adjustments to contractual services – billing expense results in a net increase of $78 (-$22 + $100). Therefore, staff recommends contractual services – billing expense be $3,721.

Contractual Services – Testing Expense (735)

The Utility recorded contractual services – testing expense of $3,647 in the test year. Staff decreased this account by $13 to reflect the appropriate amount of contractual services – testing expense. As such, staff recommends contractual services – testing expense be $3,634.

Contractual Services – Other Expense (736)

The Utility recorded contractual services – other expense of $20,381 in the test year. Staff removed $1,570 for expenses booked outside of the test year or that were non-utility related expenses. Additionally, staff annualized the monthly fees for the WWTP contractor and mowing services for the test year, and removed an expense that was already booked in a separate account. Staff's adjustments to contractual services – other expense results in a net decrease of $786. Therefore, staff recommends contractual services – other expense be $19,595.

Rent Expense (740)

TKCB recorded rent expense of $12,000 in the test year. The Utility shares office space with a related party, Atlantis Investments. TKCB has provided documentation supporting rent expenses of $8,860, or a decrease of $3,140. Therefore, staff recommends rent expense be $8,860. At this time, however, staff is still evaluating the level of the Utility's rent expense.

Regulatory Commission Expense (765)

TKCB recorded regulatory commission expense of $162. This balance was associated with the previous rate case and removed from the account by audit staff as it is currently fully amortized. Staff has calculated a total of $1,538 in regulatory commission expense for the current docket. This amount includes a $1,000 filing fee and $538 in noticing costs for the instant case. The recommended total rate case expense of $1,538 should be amortized pursuant to Section 367.081(8), F.S. Staff recommends that rate case expense should be amortized over four years as the Utility did not request a different amortization period be used. This represents an annual expense of $384 ($1,538 / 4). As such, staff recommends an increase in regulatory commission expense of $222 (-$162 + $384), for a total of $384.

Bad Debt Expense (770)

The Utility recorded bad debt expense of $1,818. Audit staff discovered that TKCB records its bad debt every September and determined the balance of $1,818 represented bad debt recorded for the year 2017. Staff also determined that the current test year balance should be $844, as recorded for the year 2018.

In its response to the audit, the Utility requested the use of a three-year average for bad debt expense, consistent with the last rate case. TKCB recorded bad debt expense of $1,665, $1,818, and $844 for the years 2016, 2017, and 2018, respectively. Given the variance of this account from year-to-year, staff believes the use of a three-year average is appropriate. Staff calculated a three-year average of $1,442, a decrease of $376 from the test year balance. Therefore, staff recommends bad debt expense of $1,442 ($1,818 - $376).

Miscellaneous Expense (775)

The Utility recorded miscellaneous expense of $2,015. Staff decreased this account by $69 to properly reflect the amount from provided invoices. As such, staff recommends miscellaneous expense of $1,946.

Operation & Maintenance Expense Summary

Based on the above adjustments, staff recommends that O&M expense should be increased by $5,125, resulting in total O&M expense of $73,141. Staff's recommended adjustments to O&M expense are shown on Schedule No 3-C.

Depreciation Expense

TKCB recorded depreciation expense of $577 during the test year. Staff recalculated depreciation expense for the test year and decreased the expense by $73. This results in a depreciation expense of $504. Therefore, staff recommends depreciation expense of $504 ($577 - $73).

Taxes Other Than Income (TOTI)

TKCB recorded a TOTI balance of $5,000 during the test year. Staff increased the Regulatory Assessment Fees (RAFs) by $30 to reflect the adjusted test year revenues. Staff increased property tax expense by $2,633 to reflect the appropriate amount of property tax. Staff increased TOTI by $101 to reflect the appropriate test year payroll tax. Additionally, staff increased payroll tax by $594 to reflect the requested pro forma increase of salaries and wages expense as discussed above. This results in an increase of $3,358 ($30 + $2,633 + $101 + $594).

In addition, as discussed in Issue 8, revenues have been increased by $7,431 to reflect the change in revenue required to cover expenses and allow the recommended operating margin. As a result, TOTI should be increased by $334 to reflect RAFs of 4.5 percent on the change in revenues. Staff's adjustments result in an increase of $3,692 ($3,358 + $334). Therefore, staff recommends TOTI of $8,692.

Operating Expenses Summary

The application of staff's recommended adjustments to TKCB's test year operating expenses results in operating expenses of $82,338. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule Nos. 3-B and 3-C.

Issue 7: Should the Commission utilize the operating ratio methodology as an alternative method of calculating the wastewater revenue requirement for TKCB, Inc. and, if so, what is the appropriate margin?

Preliminary Recommendation: Yes. The Commission should utilize the operating ratio methodology for calculating the revenue requirement for TKCB. The margin should be 12 percent of O&M expense. (Bennett, Sewards)

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. By Order No. PSC-2019-0096-FOF-WS, the Commission adopted Rule 25-30.4575, F.A.C.,[9] operating ratio methodology, which states that the Commission will apply a margin of 12 percent of O&M expenses when determining the revenue requirement, up to a cap of $15,000. The operating ratio methodology can be applied when the Utility's rate base is no greater than 125 percent of O&M expenses and that the use of the operating ratio methodology does not change the Utility's qualification for a SARC under subsection Rule 25-30.455(1), F.A.C.

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 TKCB's O&M expenses plus a margin of 12 percent. This methodology has been applied in cases in which the traditional calculation of the revenue requirement would not provide sufficient revenue to protect against potential variances in revenues and expenses. As discussed in Issues 3 and 6, staff has recommended a rate base of $58,093 and O&M expenses of $73,141. Based on recommended amounts, TKCB's rate base is only 79 percent of its O&M expenses. Furthermore, the application of the operating ratio methodology does not change the Utility's qualification for a SARC. As such, TKCB meets the criteria for the operating ratio methodology established in Rule 25-30.4575(2), F.A.C. Therefore, staff recommends the application of the operating ratio methodology at a margin of 12 percent of O&M expense for determining the wastewater revenue requirement.

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[9]Order No. PSC-2019-0096-FOF-WS, issued March 8, 2019, in Docket No. 20180141-WS, *In re: Proposed adoption of Rule 25-30.4575, F.A.C., Operating Ratio Methodology*.

Issue 8: What is the appropriate revenue requirement for TKCB, Inc.?

Preliminary Recommendation: The appropriate revenue requirement is $91,115 resulting in an annual increase of $7,431 (8.88 percent). (Bennett, Sewards)

Staff Analysis: TKCB should be allowed an annual increase of $7,431 (8.88 percent). The calculations are shown in Table 8-1:

Table 8-1
Revenue Requirement

Adjusted O&M	$73,141
Operating Margin (%)	x 12.00%
Operating Margin ($15,000 Cap)	$8,777
Adjusted O&M Expense	73,141
Depreciation Expense (Net)	504
Taxes Other Than Income	8,692
Revenue Requirement	$91,115
Less Adjusted Test Year Revenues	83,684
Annual Increase	$7,431
Percent Increase	8.88%

Issue 9: What are the appropriate wastewater rates and rate structure for TKCB, Inc.?

Preliminary Recommendation: The recommended monthly wastewater rates and rate structure, on Schedule No. 4, are reasonable and should be approved. 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 sheets pursuant to Rule 25-30.475(1), F.A.C. The approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Ramos)

Staff Analysis: The Utility provides wastewater to approximately 274 residential mobile homes in Sun Lake Village Estates in Brevard County. The Utility does not have any general service customers. Additionally, the City of Cocoa performs the billing for TKCB and is also the water provider. TKCB's rate structure consists of a uniform base facility charge (BFC) for all residential meter sizes and a gallonage charge with a 6,000 gallon cap. General Service rate structure is a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

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

Consistent with Commission practice, staff allocated 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. In addition, it is also Commission practice to set the wastewater cap at approximately 80 percent of residential water gallons sold. Based on staff's review of the billing analysis, 83 percent of the gallons are captured at the 6,000 gallon consumption level. For this reason, staff recommends that the gallonage cap for residential customers remain at 6,000 gallons. The wastewater gallonage cap recognizes that not all water is returned to the wastewater system. Staff also recommends that the general service gallonage charge be 1.2 times greater than the residential gallonage charge, which is consistent with Commission practice.

Based on the above, the recommended monthly wastewater rates and rate structure, on Schedule No. 4, are reasonable and should be approved. 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 sheets pursuant to Rule 25-30.475(1), F.A.C. The approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 10: What is the appropriate amount by which rates should be reduced after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.081(8) F.S.?

Preliminary Recommendation: The 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 rate case expense recovery period, pursuant to Section 367.081(8), F.S. TKCB 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. (Ramos, Bennett, Sewards)

Staff Analysis: Section 367.081(8), F.S., requires that the rates be reduced immediately following the expiration of the recovery period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. The total reduction is $403.

Staff recommends that the 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 rate case expense recovery period, pursuant to Section 367.081(8), F.S. TKCB 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.

Issue 11: Should the recommended rates be approved for TKCB, Inc. on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

Preliminary 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 with interest, 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's Office of Commission Clerk 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. (Bennett, Sewards)

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.

TKCB 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 $5,034. 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) The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement;
2) No monies in the escrow account may be withdrawn by the Utility without the express approval of the Commission;
3) The escrow account shall be an interest bearing account;
4) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
5) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;
6) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
7) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
8) 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;
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.

Should the recommended rates be approved by the Commission on a temporary basis, TKCB should maintain a record of the amount of the security, 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's Office of Commission Clerk 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 12: Should this docket be closed?

Preliminary Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the proposed agency action 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. (DuVal, Weisenfeld)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the proposed agency action 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.

TKCB, Inc.
TEST YEAR ENDED 9/30/2018
SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1-A
DOCKET NO. 20180218-SU

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$17,058	($3,536)	$13,522
LAND & LAND RIGHTS	36,203	0	36,203
ACCUMULATED DEPRECIATION	(653)	(74)	(727)
CIAC	0	0	0
AMORTIZATION OF CIAC	0	0	0
WORKING CAPITAL ALLOWANCE	0	9,095	9,095
RATE BASE	$52,608	$5,485	$58,093

TKCB, Inc. TEST YEAR ENDED 9/30/2018 ADJUSTMENTS TO RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 20180218-SU
	UTILITY PLANT IN SERVICE	
1.	To reflect the appropriate amount of test year plant in service.	($626)
2.	To reflect an averaging adjustment.	(2,910)
	Total	($3,536)
	ACCUMULATED DEPRECIATION	
1.	To reflect test year accumulated depreciation per Rule 25-30.140, F.A.C.	($326)
2.	To reflect an averaging adjustment.	252
	Total	($74)
	WORKING CAPITAL ALLOWANCE	
	To reflect 1/8 of O & M expenses.	$9,095

TKCB, Inc.
TEST YEAR ENDED 09/30/2018
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 20180218-SU

	CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST RATE	WEIGHTED COST
1.	LONG-TERM DEBT	$0	$0	$0	$0	$0	0.00%	0.00%	0.00%
2.	SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
3.	PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%
4.	COMMON EQUITY	50,060	0	50,060	8,033	58,093	100.00%	8.11%	8.11%
5.	CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	2.00%	0.00%
6.	DEFERRED INCOME TAXES	0	0	0	0	0	0.00%	0.00%	0.00%
7.	**TOTAL CAPITAL**	$50,060	$0	$50,060	$8,033	$58,093	100.00%		8.11%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	7.11%	9.11%
OVERALL RATE OF RETURN	7.11%	9.11%

TKCB, Inc.
TEST YEAR ENDED 9/30/2018
SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3-A
DOCKET NO. 20180218-SU

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. **OPERATING REVENUES**	$83,105	$669	$83,684	$7,431 8.88%	$91,115
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	$68,016	$5,125	$73,141	$0	$73,141
3. DEPRECIATION (NET)	577	(73)	504	0	504
4. TAXES OTHER THAN INCOME	5,000	3,358	8,358	334	8,692
5. **TOTAL OPERATING EXPENSES**	$73,593	$8,410	$82,003	$334	$82,338
6. **OPERATING INCOME/(LOSS)**	$9,422	($7,741)	$1,681		$8,777
7. **RATE BASE**	$52,608		$58,093		$58,093
8. **OPERATING RATIO**					12.00%

TKCB, Inc.
TEST YEAR ENDED 9/30/2018
ADJUSTMENTS TO OPERATING INCOME

Schedule No. 3-B
Docket No. 20180218-SU
Page 1 of 2

OPERATING REVENUES	
To reflect the appropriate test year services revenues.	$669
OPERATION AND MAINTENANCE EXPENSES	
1.Salaries and Wages - Employees (701)	
To reflect pro forma increase to salaries and wages – employee expense.	$2,989
2.Salaries and Wages - Officers (703)	
To reflect pro forma increase to salaries and wages – officers expense.	$4,780
3.Sludge Removal Expense (711)	
To reflect appropriate amount of sludge removal expense.	$1,386
4.Purchased Power (715)	
To reflect appropriate amount of purchased power expense.	($78)
5.Chemicals (718)	
To reflect appropriate amount of chemicals expense.	$9
6.Materials and Supplies (720)	
To reflect appropriate amount of materials and supplies expense.	$122
7.Contractual Services - Billing (730)	
a. To reflect audit adjustments to contractual services – billing expense.	($22)
b. To reflect pro forma increase to contractual services – billing expense.	100
Total	$78
8.Contractual Services – Testing (735)	
To reflect appropriate amount of contractual services – testing expense.	($13)
9.Contractual Services – Other (736)	
a. To reflect audit adjustments to contractual services – other.	($1,570)
b. To reflect appropriate salary expense of operator.	100
c. To reflect removal of materials & supplies expense.	(66)
d. To reflect pro forma increase to contractual services – other expense.	750
Total	($786)
10.Rent Expense (740)	
To reflect the supported rent expense.	($3,140)
11.Regulatory Commission Expense (765)	
a. To reflect removal of fully amortized rate case expense.	($162)
b. To reflect amortization of rate case expense.	384
Total	$222
12.Bad Debt Expense (770)	
To reflect three year average of bad debt expense.	($376)

TKCB, Inc. **TEST YEAR ENDED 9/30/2018** **ADJUSTMENTS TO OPERATING INCOME**	**Schedule No. 3-B** **Docket No. 20180218-SU** **Page 2 of 2**
13.Miscellaneous Expense (775)	
To reflect appropriate amount of miscellaneous expense.	($69)
TOTAL OPERATION AND MAINTENANCE ADJUSTMENTS	**$5,125**
DEPRECIATION EXPENSE - NET	
To reflect the appropriate depreciation expense.	**($73)**
TAXES OTHER THAN INCOME	
1.To reflect the appropriate test year RAFs.	$30
2.To reflect appropriate property taxes.	2,633
3.To reflect appropriate test year payroll tax.	101
4.To reflect pro forma payroll tax	594
Total	**$3,358**

TKCB, Inc. — **SCHEDULE NO. 3-C**
TEST YEAR ENDED 9/30/2018 — **DOCKET NO. 20180218-SU**
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

	TOTAL PER UTILITY	STAFF ADJUST-MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	$3,400	$2,989	$6,389
(703) SALARIES AND WAGES - OFFICERS	8,140	4,780	12,920
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	764	1,386	2,150
(715) PURCHASED POWER	9,570	(78)	9,492
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	502	9	511
(720) MATERIALS AND SUPPLIES	720	122	842
(730) CONTRACTUAL SERVICES - BILLING	3,643	78	3,721
(731) CONTRACTUAL SERVICES - PROFESSIONAL	753	0	753
(733) CONTRACTUAL SERVICES - LEGAL	0	0	0
(735) CONTRACTUAL SERVICES - TESTING	3,647	(13)	3,634
(736) CONTRACTUAL SERVICES - OTHER	20,381	(786)	19,595
(740) RENTS	12,000	(3,140)	8,860
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	501	0	501
(765) REGULATORY COMMISSION EXPENSE	162	222	384
(770) BAD DEBT EXPENSE	1,818	(376)	1,442
(775) MISCELLANEOUS EXPENSE	2,015	(69)	1,946
	$68,016	$5,125	$73,141

TKCB, Inc.
TEST YEAR ENDED 9/30/2018
MONTHLY WASTEWATER RATES

SCHEDULE NO. 4
DOCKET NO. 20180218-SU

	UTILITY EXISTING RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
Residential			
Base Facility Charge - All Meter Sizes	$13.75	$13.87	$0.06
Charge per 1,000 Gallons- Residential			
6,000 gallon cap	$4.13	$4.88	$0.03
General Service			
Base Facility Charge by Meter Size			
5/8" x 3/4"	$13.75	$13.87	$0.06
3/4"	$20.63	$20.81	$0.09
1"	$34.38	$34.68	$0.15
1-1/2"	$68.75	$69.35	$0.30
2"	$110.00	$110.96	$0.48
3"	$220.00	$221.92	$0.96
4"	$343.75	$346.75	$1.50
6"	$687.50	$693.50	$3.00
Charge per 1,000 Gallons - General Service	$4.13[10]	$5.86	$0.03
Typical Residential 5/8" x 3/4" Meter Bill Comparison			
3,000 Gallons	$26.14	$28.51	
6,000 Gallons	$38.53	$43.15	
10,000 Gallons	$38.53	$43.15	

[10]During TKCB's 2016 price index application, the general service gallonage charge was erroneously reflected the same as the residential gallonage charge. Consistent with Commission practice, the general service gallonage charge is 1.2 times greater than the residential gallonage charge. Staff's recommended rates correct the error on a prospective basis.