

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: July 25, 2019

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Engineering (Knoblauch, Doehling, Salvador, Graves) *EK JD LS*
Division of Accounting and Finance (Bennett, Sowards, Norris) *2W*
Division of Economics (Ramos, Hudson) *MR 80H ELD 9/21N*
Office of the General Counsel (DuVal, Weisenfeld) *ALM*

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

AGENDA: 08/06/19 – Proposed Agency Action – Except for Issue Nos. 10, 11, and 12 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Polmann

CRITICAL DATES: 04/10/20 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

TKCB, Inc. (TKCB or Utility) is a Class C utility currently providing wastewater service to 274 residential mobile homes 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 Florida Public Service Commission (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 net operating income of \$5,106.

Staff notes that the Florida Department of Environmental Protection (DEP) conducted a compliance evaluation inspection in 2018 and determined the plant and facilities to be in compliance with DEP rules and regulations pursuant to Rule 25-30.433(2), Florida Administrative Code (F.A.C.).

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.

¹Order 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.*

²Order 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, Inc. satisfactory?

Recommendation: Yes. The Utility is in compliance with DEP's rules and regulations and there have been no customer comments or complaints against the Utility in the previous five-year period. Therefore, staff recommends that the overall quality of service provided by the Utility be considered satisfactory. (Doehling)

Staff Analysis: Pursuant to Rule 25-30.433(1), 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

On May 30, 2019, a customer meeting was held at the Merritt Island Public Library to receive customer comments concerning quality of service. No customers attended the meeting. Staff reviewed the Commission's complaint records related to TKCB from October 1, 2013, through July 23, 2019, and found no complaints. In addition, no complaints were received by the DEP or the Utility. The Utility is currently in compliance with DEP's rules and regulations.

Conclusion

The Utility is in compliance with DEP's rules and regulations and there have been no customer comments or complaints against the Utility in the previous five-year period. Staff recommends that the overall quality of service provided by the Utility should be considered satisfactory.

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

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 home 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 either the WWTP or 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.?

Recommendation: The appropriate average test year rate base for TKCB for ratemaking purposes is \$58,454. (Bennett, Sowards, Knoblauch)

Staff Analysis: The test year ended September 30, 2018, was used for 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 appropriate 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. The land balance was established in Order No. PSC-13-1026-PAA-SU. In that case, staff auditors examined records from the Brevard County Property Appraiser and determined the balance represented land dedicated to the wastewater plant, percolation ponds, and utility easements as of the date the land was dedicated to utility service. Based on staff's review, no adjustment is necessary. Therefore, staff recommends that the appropriate balance is \$36,203.

Used & Useful

As discussed in Issue 2, TKCB's WWTP 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 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 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 removed the rate case expense balance of \$384 for this calculation resulting in an adjusted O&M expense balance of \$75,645 (\$76,030 - \$384). Applying this formula approach to the adjusted O&M expense balance, staff recommends a working capital allowance of \$9,456 ($\$75,645 / 8$).

Rate Base Summary

Based on the forgoing, staff recommends that the appropriate test year average rate base is \$58,454. 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.?

Recommendation: The appropriate return on equity (ROE) is 7.85 percent with a range of 6.85 percent to 8.85 percent. (Bennett, Sowards)

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 does not apply 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 7.85 percent based on the Commission approved leverage formula currently in effect.^{3,4} As such, staff recommends a ROE of 7.85 percent, with a range of 6.85 percent to 8.85 percent. The ROE and overall rate of return are shown on Schedule No. 2.

³Order No. PSC-2019-0267-PAA-WS, issued July 1, 2019, in Docket No. 20190006-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.*

⁴Staff notes the protest period for the Proposed Agency Action Order cited above expired prior to this recommendation being filed; the Consummating Order is scheduled to be released on July 26, 2019.

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

Recommendation: The appropriate test year revenues for TKCB 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. 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 \$83,684.⁵ 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).

⁵The 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.?

Recommendation: The appropriate amount of operating expense for TKCB is \$85,605. (Bennett, Sowards, 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 a few adjustments to the Utility's operating expenses as summarized below.

Operation & 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 also 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.⁶

By letter dated December 18, 2018, TKCB requested an increase in salary for this position.⁷ 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. Staff reviewed the 2018 AWWA Small Utility Survey and 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.

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, a related party. 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 and Wastewater Association Compensation Survey.

⁶Order 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.*

⁷Document No. 07665-2018, filed on December 26, 2018.

By letter dated December 18, 2018, TKCB also requested an increase in salary for this position.⁸ Using the 2018 AWWA Small Utility Survey, the Utility determined the position of Small System General Manager with a salary of \$78,709 was more representative of the President's duties. Staff reviewed the 2018 AWWA Small Utility Survey and believes the description and requested salary is reasonable for this position. As such, staff recommends a salary of \$78,709 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.

These adjustments would result in a salaries and wages – officers expense of \$15,742 ($\$78,709 \times 20\%$), or an increase of \$7,602 ($\$15,742 - \$8,140$).

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 \$3,200.⁹ 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 this account by \$78 to remove late fees and reflect the appropriate amount of purchased power expense. 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 this account by \$9 to reflect supporting documentation provided. As such, staff recommends a chemicals expense of \$511.

Materials and Supplies Expense (720)

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.

⁸*Id.*

⁹Document No. 00027-2019, filed on January 2, 2019.

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 customers' 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, by letter dated June 20, 2019, the Utility provided documentation from COC that stated that its billing fee will increase from the test year charge of \$1.09 to \$1.14 per bill effective October 1, 2019.¹⁰ Staff has reviewed the documentation provided and believes this adjustment is appropriate. Staff calculated the increase in billing expense using the number of customer bills in the test year and the \$0.05 increase in fees. This results in an increase of \$166 (3,322 customer bills x \$0.05). Staff's adjustments to contractual services – billing expense results in a net increase of \$144 (-\$22 + \$166). Therefore, staff recommends contractual services – billing expense of \$3,787.

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 supporting documentation provided. As such, staff recommends contractual services – testing expense of \$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 result in a net decrease of \$786 (-\$1,570 + \$100 - \$66 + \$750). Therefore, staff recommends contractual services – other expense of \$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. In response to a data request, the Utility stated the office space was owned by the related party. On April 5, 2019, TKCB provided a calculation for rent expense detailing the allocation of rent, office utilities, and supplies expense. Additionally, TKCB provided invoices for utility expenses as well as office supplies expenses.¹¹ The Utility also provided calculations to support indexing the rent expense approved in the last rate case from 2012 to 2019 to account for inflation. In total, TKCB provided documentation supporting rent expense of \$8,860. Staff has reviewed the Utility's indexing and allocation calculations, as well as invoices provided supporting expenses and believes TKCB's allocation of rent from the related party is reasonable. Therefore, staff recommends rent expense of \$8,860, or a decrease of \$3,140 (\$12,000 - \$8,860).

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.

¹⁰Document No. 05026-2019, filed on June 20, 2019.

¹¹Document No. 05195-2019, filed on June 27, 2019.

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 over four years pursuant to Section 367.081(8), F.S., 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 regulatory commission expense 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 its 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 be increased by \$8,014, resulting in total O&M expense of \$76,030. 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. 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 \$810 to reflect the recommended increase to salaries and wages expense discussed above. This results in an increase of \$3,574 ($\$30 + \$2,633 + \$101 + \810).

In addition, as discussed in Issue 8, revenues have been increased by \$11,044 to reflect the change in revenue required to cover expenses and allow the recommended operating margin. As a result, TOTI should be increased by \$497 to reflect RAFs of 4.5 percent on the change in

revenues. Staff's adjustments result in an increase of \$4,071 ($\$3,574 + \497). Therefore, staff recommends TOTI of \$9,071.

Operating Expenses Summary

The application of staff's recommended adjustments to TKCB's test year operating expenses results in operating expenses of \$85,605. 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?

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, Sowards)

Staff Analysis: Rule 25-30.4575, F.A.C., states that the Commission will apply a margin of 12 percent when determining the revenue requirement, up to a cap of \$15,000. The operating ratio methodology will be applied when the Utility's rate base is no greater than 125 percent of O&M expenses. The use of the operating ratio methodology does not change the Utility's qualification for a staff assisted rate case under 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 the Utility'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 \$58,454 and O&M expenses of \$76,030. Based on staff's recommendation, TKCB's rate base is only 77 percent of its O&M expenses. Furthermore, the application of the operating ratio methodology does not change the Utility's qualification for a staff assisted rate case. 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.

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

Recommendation: The appropriate revenue requirement is \$94,728 resulting in an annual increase of \$11,044 (13.20 percent). (Bennett, Sowards)

Staff Analysis: TKCB should be allowed an annual increase of \$11,044 (13.20 percent). The calculations are shown in Table 8-1:

**Table 8-1
Revenue Requirement**

Adjusted O&M	\$76,030
Operating Margin (%)	x 12.00%
Operating Margin (\$15,000 Cap)	\$9,124
Adjusted O&M Expense	76,030
Depreciation Expense (Net)	504
Taxes Other Than Income	9,071
Revenue Requirement	\$94,728
Less Adjusted Test Year Revenues	83,684
Annual Increase	<u>\$11,044</u>
Percent Increase	<u>13.20%</u>

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

Recommendation: The recommended monthly wastewater rates, as shown 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. The wastewater gallonage cap recognizes that not all water is returned to the wastewater system. 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. 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, as shown 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.?

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, Sowards)

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?

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, Sowards)

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 \$7,478. 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 the Utility be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision?

Recommendation: Yes. TKCB should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. TKCB should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all applicable National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice providing good cause should be filed within seven days prior to the deadline. Staff should be given administrative authority to grant such an extension for up to 60 days. (Bennett, Sowards)

Staff Analysis: TKCB should be required to notify the Commission, in writing, that it has adjusted its books in accordance with the Commission's decision. TKCB should submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable NARUC USOA primary accounts have been made to the Utility's books and records. In the event the Utility needs additional time to complete the adjustments, notice providing good cause should be filed within seven days prior to the deadline. Staff should be given administrative authority to grant such an extension for up to 60 days.

Issue 13: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the 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.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 9/30/2018		DOCKET NO. 20180218-SU	
SCHEDULE OF WASTEWATER RATE BASE			
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
ACCUMULATED AMORTIZATION OF CIAC	0	0	0
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>9,456</u>	<u>9,456</u>
RATE BASE	<u>\$52,608</u>	<u>\$5,846</u>	<u>\$58,454</u>

TKCB, Inc.	SCHEDULE NO. 1-B
TEST YEAR ENDED 9/30/2018	DOCKET NO. 20180218-SU
ADJUSTMENTS TO RATE BASE	
UTILITY PLANT IN SERVICE	
1. To reflect the appropriate amount of test year plant in service.	(\$626)
2. To reflect an averaging adjustment.	<u>(2,910)</u>
Total	<u>(\$3,536)</u>
ACCUMULATED DEPRECIATION	
1. To reflect test year accumulated depreciation per Rule 25-30.140, F.A.C.	(\$326)
2. To reflect an averaging adjustment.	<u>252</u>
Total	<u>(\$74)</u>
WORKING CAPITAL ALLOWANCE	
To reflect 1/8 of O&M expenses.	<u>\$9,456</u>

TKCB, Inc.		SCHEDULE NO. 2							
TEST YEAR ENDED 09/30/2018		DOCKET NO. 20180218-SU							
SCHEDULE OF CAPITAL STRUCTURE									
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE		BALANCE PER STAFF	PERCENT OF TOTAL	COST RATE	WEIGHTED COST	
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS					
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	8,394	58,454	100.00%	7.85%	7.85%	
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	<u>\$50,060</u>	<u>\$0</u>	<u>\$50,060</u>	<u>\$8,394</u>	<u>\$58,454</u>	<u>100.00%</u>		<u>7.85%</u>	
RANGE OF REASONABLENESS						LOW	HIGH		
RETURN ON EQUITY						<u>6.85%</u>	<u>8.85%</u>		
OVERALL RATE OF RETURN						<u>6.85%</u>	<u>8.85%</u>		

TKCB, Inc.		SCHEDULE NO. 3-A				
TEST YEAR ENDED 9/30/2018		DOCKET NO. 20180218-SU				
SCHEDULE OF WASTEWATER OPERATING INCOME						
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	\$83,105	\$669	\$83,684	\$11,044 13.20%	\$94,728	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$68,016	\$8,014	\$76,030	\$0	\$76,030	
3. DEPRECIATION (NET)	577	(73)	504	0	504	
4. TAXES OTHER THAN INCOME	<u>5,000</u>	<u>3,574</u>	<u>8,574</u>	<u>497</u>	<u>9,071</u>	
5. TOTAL OPERATING EXPENSES	<u>\$73,593</u>	<u>\$11,515</u>	<u>\$85,108</u>	<u>\$497</u>	<u>\$85,605</u>	
6. OPERATING INCOME/(LOSS)	<u>\$9,422</u>	<u>(\$10,846)</u>	<u>(\$1,424)</u>		<u>\$9,124</u>	
7. RATE BASE	<u>\$52,608</u>		<u>\$58,454</u>		<u>\$58,454</u>	
8. OPERATING RATIO					<u>12.00%</u>	

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.	<u>\$669</u>
OPERATION AND MAINTENANCE EXPENSES	
1.Salaries and Wages - Employees (701)	
To reflect pro forma increase to salaries and wages – employee expense.	<u>\$2,989</u>
2.Salaries and Wages - Officers (703)	
To reflect pro forma increase to salaries and wages – officers expense.	<u>\$7,602</u>
3.Sludge Removal Expense (711)	
To reflect appropriate amount of sludge removal expense.	<u>\$1,386</u>
4.Purchased Power (715)	
To reflect appropriate amount of purchased power expense.	<u>(\$78)</u>
5.Chemicals (718)	
To reflect appropriate amount of chemicals expense.	<u>\$9</u>
6.Materials and Supplies (720)	
To reflect appropriate amount of materials and supplies expense.	<u>\$122</u>
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.	<u>166</u>
Subtotal	<u>\$144</u>
8.Contractual Services – Testing (735)	
To reflect appropriate amount of contractual services – testing expense.	<u>(\$13)</u>
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.	<u>750</u>
Subtotal	<u>(\$786)</u>
10.Rent Expense (740)	
To reflect the supported rent expense.	<u>(\$3,140)</u>
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
Subtotal	<u>\$222</u>
12.Bad Debt Expense (770)	
To reflect three-year average of bad debt expense.	<u>(\$376)</u>

TKCB, Inc.		Schedule No. 3-B
TEST YEAR ENDED 9/30/2018		Docket No. 20180218-SU
ADJUSTMENTS TO OPERATING INCOME		Page 2 of 2
13. Miscellaneous Expense (775)		
To reflect appropriate amount of miscellaneous expense.		<u>(\$69)</u>
TOTAL OPERATION AND MAINTENANCE ADJUSTMENTS		<u>\$8,014</u>
DEPRECIATION EXPENSE - NET		
To reflect the appropriate depreciation expense.		<u>(\$73)</u>
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		810
Total		<u>\$3,574</u>

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	7,602	15,742
(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	144	3,787
(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	<u>2,015</u>	<u>(69)</u>	<u>1,946</u>
	<u>\$68,016</u>	<u>\$8,014</u>	<u>\$76,030</u>

TKCB, Inc.		SCHEDULE NO. 4	
TEST YEAR ENDED 9/30/2018		DOCKET NO. 20180218-SU	
MONTHLY WASTEWATER RATES			
	UTILITY EXISTING RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential</u>			
Base Facility Charge - All Meter Sizes	\$13.75	\$14.42	\$0.06
Charge per 1,000 Gallons- Residential 6,000 gallon cap	\$4.13	\$5.08	\$0.02
<u>General Service</u>			
Base Facility Charge by Meter Size			
5/8" x 3/4"	\$13.75	\$14.42	\$0.06
3/4"	\$20.63	\$21.63	\$0.09
1"	\$34.38	\$36.05	\$0.15
1-1/2"	\$68.75	\$72.10	\$0.30
2"	\$110.00	\$115.36	\$0.48
3"	\$220.00	\$230.72	\$0.96
4"	\$343.75	\$360.50	\$1.50
6"	\$687.50	\$721.00	\$3.00
Charge per 1,000 Gallons - General Service	\$4.13 ¹²	\$6.09	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$26.14	\$29.66	
6,000 Gallons	\$38.53	\$44.90	
10,000 Gallons	\$38.53	\$44.90	

¹²During 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 gallonage charge corrects the error on a prospective basis.