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GENERAL COUNSEL
S. CURTIS KISER
(850) 413-6199

Public Service Commission

November 13, 2012

Mr. Thad Terry
TKCB
5600 North Cocoa Boulevard
Cocoa, FL 32927

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

Dear Mr. Terry:

This will confirm that Commission staff will hold a customer meeting on Thursday, December 13, 2012. We ask that, if at all possible, you or another knowledgeable representative of the Utility attend the meeting in order to answer customer questions. The location of the general meeting will be as follows:

4:00 p.m., Thursday, December 13, 2012
Merritt Island Public Library
1195 North Courtenay Parkway
Merritt Island, FL 32953

As required by Rule 25-22.0407(9)(b), Florida Administrative Code (F.A.C.), the utility must provide, in writing, a customer meeting notice to all customers within its service area no less than 14 days and no more than 30 days prior to the date of a customer meeting. A draft customer meeting notice is enclosed. Please note the date has been left blank so that you can fill in the date that the notice is sent to the customers. Please furnish me with a copy of the notice, as reproduced at the time it is distributed to your customers, together with a cover letter indicating the exact date(s) on which the notice was mailed or otherwise delivered to the customers.

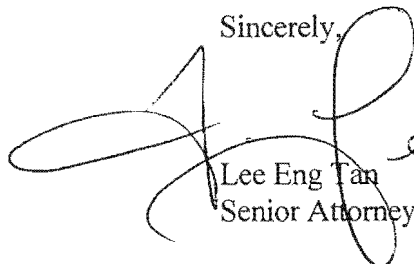
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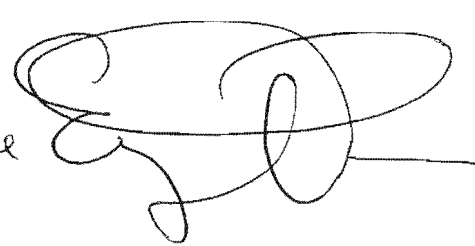
Mr. Terry
Page 2
November 13, 2012

Two copies of the staff report are enclosed. When you receive the staff report, please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407(9)(a), F.A.C., by all interested persons at the following location:

5600 North Cocoa Boulevard
Cocoa, FL 32927

For your convenience, I have also enclosed a copy of Rule 25-22.0407(9), F.A.C. Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-6185. In addition, you may contact Shannon Hudson at (850) 413-7021, with any questions.

Sincerely,

Lee Eng Tan
Senior Attorney



Enclosures

LET/sh

cc: Division of Economic Regulation (Bruce, McRoy, Hudson, Fletcher, Maurey)
Office of General Counsel (Teitzman, Tan)
Office of Commission Clerk (Docket No. 120078-SU)

Rule 25-22.0407(9), Florida Administrative Code

9) When a utility applies for a staff-assisted rate case in accordance with Section 367.0814, Florida Statutes, and Rule 25-30.455, F.A.C., and staff-assistance is granted, the requirements of subsections (2), (3), (4), and (5) of this rule shall not apply.

(a) Upon receipt of the staff reports, the utility shall place two copies of its application for staff-assistance and the staff reports at any business offices it has in its service area. Such copies shall be available for public inspection during the utility's regular business hours. If the utility does not have a business office in its service area, the utility shall place two copies of its application and the staff reports at the main county library, the local community center or other appropriate location that is within or most convenient to the service area and that is willing to accept and provide public access to the copies.

(b) No less than 14 days and no more than 30 days prior to the date of a customer meeting conducted by the Commission staff, the utility shall provide, in writing, a customer meeting notice to all customers within its service area and to all persons in the same service areas who have filed a written request for service or who have been provided a written estimate for service within the 12 calendar months prior to the month the petition is filed.

(c) The customer meeting notice shall be approved by the Commission staff prior to distribution and shall include the following:

1. The date the notice was issued;
2. The time, date, location, and purpose of the customer meeting;
3. A statement that the utility has applied for a staff-assisted rate case and the general reasons for doing so;
4. A statement of the location where copies of the application and the staff reports are available for public inspection and the times during which inspection may be made;
5. A comparison of current rates and charges and the proposed new rates and charges;
6. The utility's address, telephone number, and business hours;
7. A statement that written comments regarding utility service or the proposed rates and charges should be addressed to the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0870, and that such comments should identify the docket number assigned to the proceeding;
8. A statement that complaints regarding service may be made to the Commission's Division of Service, Safety & Consumer Assistance at the following toll-free number: 1(800)342-3552.
9. A statement that the Commission will be reviewing the utility's service availability charges in the pending case and that the Commission may adjust those charges.
10. The docket number assigned by the Commission's Office of Commission Clerk.

(d) The customer meeting notice shall be mailed to the out-of-town address of all customers who have provided the utility with an out-of-town address.

(e) If the proposed agency action order issued in the case is protested and any hearings are subsequently held, the utility shall give notice in accordance with subsections (6) and (7) above.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

NOTICE OF CUSTOMER MEETING

TO THE CUSTOMERS OF TKCB

AND

ALL OTHER INTERESTED PERSONS

DOCKET NO. 120078-SU

APPLICATION OF TKCB

FOR A STAFF-ASSISTED RATE CASE IN

BREVARD COUNTY

Issued:

Notice is hereby given that the staff of the Florida Public Service Commission (Commission) will conduct a customer meeting to discuss the application of TKCB (TKCB or Utility) for a staff-assisted rate case (SARC) in Brevard County. The meeting will be held at the following time and place:

4:00 p.m., Thursday, December 13, 2012
Merritt Island Public Library
1195 North Courtenay Parkway
Merritt Island, FL 32953

All persons who wish to comment are urged to be present at the beginning of the meeting, since the meeting may be adjourned early if no customers are present. One or more of the Commissioners of the Commission may attend and participate in this meeting. The meeting will begin as scheduled and will continue until all the customers have been heard.

If a named storm or other disaster requires cancellation of the meeting, Commission staff will attempt to give timely direct notice to the parties. Notice of the cancellation of the meeting will also be provided on the Commission's website (<http://www.psc.state.fl.us/>) under the Hot Topics link found on the home page. Cancellation can also be confirmed by calling the Commission's Office of the General Counsel at (850) 413-6199.

Any person requiring some accommodation at the customer meeting because of a physical impairment should call the Office of Commission Clerk at (850) 413-6770 at least five calendar days prior to the meeting. Any person who is hearing or speech impaired should contact the Commission by using the Florida Relay Service, which can be reached at 1-800-955-8771 (TDD).

PURPOSE

The purpose of this meeting is to give customers and other interested persons an opportunity to offer comments to Commission staff regarding the quality of service the Utility provides, the proposed rate increase, and to ask questions and comment on staff's preliminary rates included in this notice as well as other issues. Staff members will summarize TKCB's proposed filing, the preliminary work accomplished, and answer questions to the extent possible. A representative from the Utility has also been invited to respond to questions.

At the beginning of the meeting, procedures will be established for the order of comments. Commission Staff will have sign-up sheets, and customers will be called to speak in the order that they sign up. Staff will be available to coordinate customers' comments and to assist members of the public.

Any person who wishes to comment or provide information to staff may do so at the meetings, orally or in writing. Written comments may also be sent to the Commission at the address given at the end of this notice. Your letter will be placed in the correspondence file of this docket. You may also submit comments through the Commission's toll-free facsimile line at 1-800-511-0809.

BACKGROUND

TKCB (TKCB or Utility) is a Class C utility currently providing wastewater service to 295 mobile home lots in the Sun Lake Village Estates manufactured home community (formerly Sun Lake Estates) in Cocoa, Florida. The Utility is located in the St. Johns River Water Management District. Water service is provided by the City of Cocoa (City). The Utility began providing wastewater service in 1984 as the Sun Lake Estates Homeowners Association (HOA) and became TKCB in November 1986. The Commission granted the Utility Certificate No. 562-S to provide wastewater service in 2011.¹

CURRENT AND PRELIMINARY RATES AND CHARGES

Staff has compiled the following rates and charges for the purpose of discussion at the customer meeting. These rates are preliminary and subject to change based on information gathered at the customer meeting, further staff review, and the final decision by the Commission. The Utility's current, and staff's preliminary rates and charges, are as follows:

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

	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES
<u>Residential Service</u>		
Base Facility Charge All Meter Sizes	\$12.50	\$13.48
<u>Gallonage Charge</u>		
Per 1,000 Gallons (6,000 gallon cap)	N/A	\$3.49
Per 1,000 Gallons(12,000 gallon cap)	\$2.65	N/A
<u>General Service</u>		
Base Facility Charge by Meter Size:		
5/8"X3/4"	\$0.00	\$13.48
3/4"	\$0.00	\$20.22
1"	\$0.00	\$33.70
1-1/2"	\$0.00	\$67.40
2"	\$0.00	\$107.84
3"	\$0.00	\$215.68
4"	\$0.00	\$337.00
6"	\$0.00	\$674.00
Gallonage Charge per 1,000 gallons	\$0.00	\$4.19
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>		
3,000 Gallons	\$20.45	\$23.95
5,000 Gallons	\$25.75	\$30.93
10,000 Gallons	\$39.00	\$48.38

STAFF REPORTS AND UTILITY APPLICATION

The results of staff's preliminary investigation are contained in a staff report dated November 9, 2012. Copies of the report may be examined by interested members of the public from 9:00 a.m. to 4:00 p.m., Monday through Friday at the following location:

5600 North Cocoa Boulevard
Cocoa, FL 32927

PROCEDURES AFTER CUSTOMER MEETING

After the customer meeting, Commission staff will prepare a recommendation which is scheduled to be submitted to the Commission on February 7, 2013. The Commission will then vote on staff's recommendation at its February 19, 2013 Commission Conference. The Commission will thereafter issue a proposed agency action (PAA) order containing rates which may be different from those contained in staff's final recommendation. Substantially affected persons have 21 days from the date that the PAA order is issued to protest the Commission's PAA order. Five to ten customers or persons who attend the meeting, and who wish to receive a copy of the recommendation and the order should so indicate at the meeting. Those individuals are expected to distribute the information in the recommendation and the order to other customers. Anyone who is unable to attend and who wishes to obtain a copy of the recommendation or the order may do so in writing to the Commission at the address at the end of this notice.

HOW TO CONTACT THE COMMISSION

Written comments regarding the Utility and the proposed rates, and requests to be placed on the mailing list for this case, may be directed to this address:

Director, Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

All correspondence should refer to "Docket No. 120078-SU, TKCB" If you wish to contact the Commission regarding complaints about service, you may call the Commission's Office of Consumer Assistance and Outreach at the following toll-free number: 1-800-342-3552. This notice was prepared by Commission staff for distribution by the Utility to its customers.

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: November 9, 2012

TO: Andrew Maurey, Bureau Chief of Surveillance and Rate Filings

FROM: Shannon Hudson, Economic Supervisor *SH*
Sonica Bruce, Regulatory Analyst IV *SB*
James McRoy, Utility System/Engineering Specialist *AM* *RV* *TB*

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

– STAFF REPORT –

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

Table of Contents

<u>Issue</u>	<u>Description</u>	<u>Page</u>
	Case Background.....	3
1	Quality of Service (McRoy).....	4
2	Used and Useful (McRoy).....	5
3	Rate Base (Hudson).....	6
4	Rate of Return (Hudson).....	8
5	Test Year Revenues (Bruce, Hudson).....	9
6	Operating Expense (Hudson).....	10
7	Operating Ratio Margin (Hudson).....	14
8	Revenue Requirement (Hudson).....	17
9	Rate Structure (Bruce).....	18
10	Rates (Bruce).....	19
11	Four-Year Rate Reduction (Hudson).....	20
12	Temporary Rates (Hudson).....	21
13	Proof of Adjustments (Hudson).....	24
	Schedule No. 1-A Wastewater Rate Base.....	25
	Schedule No. 1-B Adjustments to Rate Base.....	26
	Schedule No. 2 Capital Structure.....	27
	Schedule No. 3-A Wastewater NOI.....	28
	Schedule No. 3-B Adjustments to NOI.....	29
	Schedule No. 3-C Wastewater O&M Expense.....	31
	Schedule No. 4 Wastewater Rates.....	32

Case Background

TKCB (TKCB or Utility) is a Class C utility currently providing wastewater service to 295 mobile home lots in the Sun Lake Village Estates manufactured home community (formerly Sun Lake Estates) in Cocoa, Florida. The Utility is located in the St. Johns River Water Management District. Water service is provided by the City of Cocoa (City). The Utility began providing wastewater service in 1984 as the Sun Lake Estates Homeowners Association (HOA) and became TKCB in November 1986. The Commission granted the Utility Certificate No. 562-S to provide wastewater service in 2011.¹

This Staff Report is a **preliminary** analysis of the Utility prepared by the Florida Public Service Commission (Commission) staff to give utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed February 7, 2013, for the February 19, 2013, Commission Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

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

Discussion of Issues

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

Preliminary Recommendation: The staff recommendation regarding customer satisfaction and overall quality of service will not be finalized until after the December 13, 2012 customer meeting. (McRoy)

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

TKCB's wastewater treatment plant (WWTP) operating permit was renewed by DEP on November 1, 2010 and will expire on October 27, 2015. On May 22, 2012, DEP conducted a compliance inspection of the WWTP. Five deficiencies were noted in the inspection report, including the need for the Utility to remove sand and grit in the surge tank; install a communitor at the surge tank; repair a leak in the concrete at the WWTP; repair the north fence surrounding the percolation ponds; and submit the groundwater monitoring reports for the third and fourth quarters of 2011 and the first quarter of 2012.

The Utility's response to DEP on July 23, 2012, indicated that the grit and sand in the surge tank and the permanent perimeter fencing will be completed using funds received through the proposed rate increase from the Commission. The Utility indicated this process should be completed in the first quarter of 2013. The leaks and temporary perimeter fencing repair will be done immediately. Finally, the groundwater monitoring reports have been completed and sent to DEP. Staff has contacted DEP and they indicated that they are satisfied with the Utility's response regarding the outstanding deficiencies. TKCB has requested that the cost for the sand and grit removal from the surge tank and the installation of the new perimeter fencing be considered in this rate case. TKCB provided cost estimates for each item in its pro forma cost request.

A review of the customers' complaints filed with the Utility over the last three years indicates that TKCB has resolved all of the complaints in a timely manner. There were no complaints filed with the Commission's Consumer Activity Tracking System (CATS) during the past three years. The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the December 13, 2012 customer meeting.

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

Preliminary Recommendation: TKCB's WWTP and collection system should be considered 100 percent used and useful (U&U). (McRoy)

Staff Analysis: The TKCB wastewater system was constructed in 1984. The service area includes 295 mobile home lots in the Sun Lake Village Estates manufactured home community. The collection system is composed of polyvinyl chloride pipes and there is one lift station in the service area. The WWTP is an activated sludge plant operating in the extended aeration mode. The WWTP is permitted by the DEP at 135,000 gallons per day (gpd) based on the average annual daily flow (AADF). Liquid chlorine disinfection is applied prior to the wastewater effluent flowing into the percolation ponds.

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

According to TKCB's Discharge Monitoring Reports (DMRs), the WWTP test year AADF was 27,000 gpd. However, according to the Utility, a malfunctioning flow meter was replaced in November 2011, which resulted in higher flow recordings for the duration of the test year. There was insufficient information to determine whether there is excessive I&I. Staff's review of the system maps confirmed the service area is built out, and there are no plans for expansion. Based on flows of 27,000 gpd, the WWTP is 20 percent U&U. However, staff recommends that the WWTP be considered 100 percent U&U because the service area is built out.

The collection system in the service area was designed to serve the 295 lots in the mobile home park with no plans for expansion. Therefore, the collection system should be considered 100 percent U&U.

Pursuant to Rule 25-30.432, F.A.C., staff recommends that the WWTP and collection system be considered 100 percent U&U because the service area is built out.

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

Preliminary Recommendation: The appropriate average test year rate base for TKCB is \$52,919. (Hudson)

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

Utility Plant in Service (UPIS): The Utility recorded \$0 in this account during the test year. Staff has reclassified \$2,574 for a surge pump recorded in Account No. 720 – materials and supplies to this account. UPIS was reduced by \$1,287 for an averaging adjustment. Also, the Utility is requesting a pro forma adjustment to replace a fence. Staff believes this request is reasonable and prudent and would allow the Utility to achieve compliance with the requirement from DEP. Therefore, this account was increased by \$7,393. Staff adjustments result in a UPIS balance of \$8,680.

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

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

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

Working Capital Allowance: TKCB recorded working capital of \$0. Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the O&M expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$8,216 (based on O&M expense of \$65,727/8).

Docket No. 120078-SU
Date: November 9, 2012

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year average rate base is \$52,919. 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?

Preliminary Recommendation: The staff recommendation regarding the appropriate return on equity (ROE) and overall rate of return will be determined in staff's final recommendation. (Hudson)

Staff Analysis: In the Utility's 2011 annual report, it recorded balances of \$329,692 for paid-in-capital and \$3,006 for retained earnings. Staff's auditor was unable to reconcile the balances to the Utility's general ledger or federal tax returns. Staff needs additional time to evaluate the appropriate ROE and overall rate of return. Staff is recommending the operating ratio margin for the instant docket. Therefore, a determination of the ROE and overall rate of return is not essential for calculating an operating income. However, it is important to establish the overall rate of return on a going forward basis for earnings surveillance.

Staff's recommendation regarding the appropriate ROE and overall rate of return will be determined in staff's final recommendation.

Docket No. 120078-SU
Date: November 9, 2012

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

Preliminary Recommendation: The appropriate test year revenue for this Utility is \$69,473.
(Bruce, Hudson)

Staff Analysis: TKCB recorded total revenue of \$64,108. Staff has annualized revenue based on test year billing determinants and existing rates and determined the appropriate service revenue to be \$69,473. Staff has increased test year revenue by \$5,365 to reflect the appropriate service revenue. Staff recommends test year revenue of \$69,473. Test year revenue is shown on Schedule No. 3-A.

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

Preliminary Recommendation: The appropriate amount of test year operating expense for the Utility is \$70,396. (Hudson)

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

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

Salaries and Wages – Officers (703) – TKCB recorded \$15,200 in this account. The Utility's president is both president and owner of Atlantis Investments and the Utility. The president's duties for the Utility consist of performing administrative duties and managing accounting, customer service, contract vendors and service operations. Staff evaluated an appropriate salary for the president using the American Water Works Association's 2008 Utility Compensation Survey. The president's functions best matched those of an accounting manager/controller position. The average salary for the accounting manager/controller position was \$40,326. The president works approximately 26 hours per month on Utility business. On an annual basis, this results in approximately 15 percent (312 hours/2080 annual hours) of his time. Staff applied the 15 percent to the average salary for the accounting manager/controller position and adjusted for inflation. This results in a president's salary of \$6,311. Therefore, staff has decreased this account by \$8,889. Staff recommends salaries and wages – officers of \$6,311.

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

Chemicals (718) – The Utility recorded chemical expense of \$284. Pursuant to Audit Finding No. 5, staff decreased chemical expense by \$58 to reclassify a circuit breaker to Acct. No. 720 – material and supplies. Also, staff increased this account by \$33 and \$20 to reflect chemicals reclassified from Acct. No. – 720 materials and supplies and Acct. No. 736 – contractual services other. Staff recommends chemical expense for the test year of \$280.

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

Table 6-1

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

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

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

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

Contractual Services - Other (736) – The Utility recorded miscellaneous expense of \$21,093. Staff's adjustments to this account included a pro forma increase for surge tank cleaning. As result of a DEP compliance inspection of the WWTP, the Utility is required to remove sand and grit from its surge tank. The Utility provided an estimate of \$3,280 for the surge tank cleaning. Surge tank cleaning is typically performed about every five years. Therefore, staff has amortized this cost of over five years and increased this account by \$656. Staff recommends the following adjustments.

Table 6-2

	<u>Adjustment Description</u>	
1.	To annualize contract operator expense.	\$1,000
2.	To reclassify wastewater plant site cleaning from Acct. No. 720.	110
3.	To remove related party expense for aquatic weed spraying.	(1,350)
4.	To reclassify transportation expense to Acct. No. 750.	(145)
5.	To reclassify chemical expense to Acct. No. 718.	(20)
6.	To reflect pro forma 5-year amortization of surge tank cleaning.	656
	Total	<u>\$251</u>

Based on staff's net adjustment of \$251, staff recommends a miscellaneous expense balance of \$21,344.

Rent Expense (740) – TKCB recorded rent expense of \$0 for the test year. The Utility shares office space with a related party, Atlantis Investments. TKCB currently does not record any

expense related to sharing this office space. The office space is 1,288 square feet (sq.ft.). Staff researched the cost of commercial office space near the office of the Utility. Staff determined the average per sq. ft. lease cost for office space was \$6.50. This results in office space rent of \$8,372 (1,288 sq.ft. x \$6.50)

TKCB also shares the electric, water, and telephone services. Staff obtained the invoices from the Utility for the electric, water, and telephone services for the test year to determine an appropriate allocation for these services to the Utility. Based on the invoices, staff has calculated electric, water and telephone services to be \$2,487, \$579, and \$2,906, respectively. The total cost associated with the office is \$14,344 (\$8,372+\$2,487+\$579+\$2,906). As discussed above, TKCB's president spends 15 percent of his time using the office space for Utility business, annually. This results in an allocation for rent expense of \$2,152 (\$14,344 x 15 percent). As a result, staff recommends rent expense for the test year of \$2,152.

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

Insurance Expense (755) – TKCB recorded \$0 in this account. During the test year, the Utility did not have insurance. The Utility has obtained general liability and pollution liability insurance quotes of \$5,527. For the staff report, staff recommends an increase of \$5,527 for the general liability and pollution liability policies. However, for the final recommendation, TKCB will have to provide documentation that it has paid the premium for the policies.

Regulatory Commission Expense (765) – The Utility recorded \$327 of regulatory commission expense for the test year. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. The amount of \$327 that TKCB included in this account represents rate case expense incurred during its original wastewater certificate docket. The Utility is required by Rule 25-22.0407, F.A.C., to mail notices of the customer meeting and notices of final rates in this case to its customers. For noticing, staff has estimated \$221 for postage expense, \$49 for printing expense, and \$25 for envelopes. This results in \$294 for the noticing requirement. The Utility paid a \$1,000 rate case filing fee. Based on the above, staff recommends total rate case expense of \$1,622 (\$327+\$284+\$1,000), which amortized over four years is \$406. Therefore, staff recommends regulatory commission expense of \$406.

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

Miscellaneous Expense (775) – TKCB recorded miscellaneous expense of \$595. This account includes an amount associated with bank overdraft fees. Staff does not believe these fees should be recovered from the general body of ratepayers. Therefore, staff has reduced miscellaneous expense by \$105 to remove the bank charges. Also, the Utility renewed its permit in 2010. TKCB provided documentation that the permit renewal costs were \$4,500. Permits are renewed every five years. Staff has increased miscellaneous expense by \$900 (\$4,500/5) to reflect the

amortization of the permit renewal costs. Staff's net adjustment to miscellaneous expense is an increase of \$795 (\$900-\$105). Staff recommends miscellaneous expense of \$1,390.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expense should be increased by \$5,999. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A and 3-B.

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

Taxes Other Than Income (TOTI) – The Utility recorded a TOTI balance of \$0. Based on test year revenues of \$69,473 recommended in Issue 8, staff has determined that RAFs should be \$3,126 ($\$69,473 \times 4.5$ percent). Staff has increased TOTI by \$3,126 to reflect the appropriate RAFs. Staff has also increased TOTI by \$760 to reflect the appropriate property taxes. As discussed in Issue 8, revenues have been increased by \$7,495 to reflect the change in revenue required to cover expenses and allow an opportunity to earn the recommended return on investment. As a result, TOTI should be increased by \$337 to reflect RAFs of 4.5 percent on the change in revenues. Therefore, staff recommends TOTI of \$4,224.

Operating Expenses Summary – The application of staff's recommended adjustments results in operating expenses of \$70,396. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The adjustments are shown on Schedule No. 3-C.

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

Preliminary Recommendation: Yes, the Commission, on its own motion, should utilize the operating ratio methodology for calculating the revenue requirement for TKCB. The margin should be 10.00 percent of O&M expense. (Hudson)

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

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

By Order No. PSC-96-0357-FOF-WU,² the Commission, for the first time, utilized the operating ratio methodology as an alternative means for setting rates. This order also established criteria to determine the use of the operating ratio methodology and a guideline margin of 10 percent of O&M expense. This criteria was applied again in Order No. PSC-97-0130-FOF-SU.³ Most recently, the Commission approved the operating ratio methodology for setting rates in Order No. PSC-12-0533-PAA-WU.⁴

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

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

² Issued March 13, 1996, in Docket No. 950641-WU, In re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.

³ Issued February 10, 1997, in Docket No. 960561-SU, In re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.

⁴ See Order No. PSC-12-0533-PAA-WU, issued October 9, 2012, in Docket No. 110238-WU, In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, LLC.

expense. Based on the staff's preliminary recommendation, the adjusted rate base for the test year is \$52,919, while adjusted O&M expense is \$65,727.

2) Whether the Utility is expected to become a Class B utility in the foreseeable future. According to Chapter 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenue of \$250,000 or less. TKCB is a Class C utility and the recommended revenue requirement of \$76,968 is substantially below the threshold level for Class B status (\$200,000 per system). The Utility's service area has not had any significant growth in the last five years. Therefore, the Utility will not become a Class B utility in the foreseeable future.

3) Quality of service and condition of plant. For staff's preliminary recommendation, there has not been a determination of the quality of service or condition of plant. However, if there is a determination of poor plant condition and/or unsatisfactory quality, it does not necessarily disqualify the Utility from the operating ratio method. Staff will make that determination in its final recommendation.

4) Whether the Utility is developer-owned. The current Utility owner is a developer. However, as noted in Order No. PSC-96-0357-FOF-WU,⁵ the fact that a utility is developer-owned does not by itself disqualify a utility from utilizing the operating ratio methodology. If a developer-owned utility is in the early stages of growth, it may be inappropriate to employ the operating ratio methodology. In this particular case, the service territory is built out.

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

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

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

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

Second, use of the operating ratio methodology rests on the contention that the principal risk to the utility resides in operating cost rather than in capital cost of the plant. The fair return

⁵ See Order No. PSC-96-0357-FOF-WU, p.7.

on a small rate base may not adequately compensate the utility owner for incurring the risk associated with covering the much larger operating cost. Therefore, the margin should adequately compensate the utility owner for that risk. Under the rate base method, the return to TKCB amounts to only \$4,625, which is enough to cover only an approximate 7 percent variance in O&M expense. Staff believes \$4,625 is an insufficient financial cushion.

Third, if the return on rate base method was applied, a normal return would generate such a small level of revenue that in the event revenue or expenses vary from staff's estimates, TKCB could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenue to protect against potential variability in revenue and expenses. The return on rate base method would provide the Utility only \$4,625. If the Utility's operating expenses increase or revenue decreases, TKCB would not have the funds required for day-to-day operations.

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

Issue 8: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is \$76,968. (Hudson)

Staff Analysis: TKCB should be allowed an annual increase of \$7,495 (10.79 percent). This will allow the Utility the opportunity to recover its expenses and a 10.00 percent cushion over its O&M expenses. The calculations are as follows:

Table 8-1

Adjusted O&M Expense	\$65,727
Operating Margin Ratio	<u>10.00%</u>
Operating Margin	\$6,573
Adjusted O&M Expense	65,727
Depreciation expense (Net)	445
Amortization	0
Taxes Other Than Income	4,224
Income Tax	<u>0</u>
Revenue Requirement	\$76,968
Less Adjusted Test Year Revenues	<u>\$69,473</u>
Annual Increase	<u>\$7,495</u>
Percent Increase/(Decrease)	<u>10.79%</u>

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

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

Staff Analysis: TKCB's current rate structure consists of a traditional BFC/gallonage charge rate structure. The BFC is \$12.50 and the gallonage charge is \$2.65 per 1,000 gallons, with a maximum of 12,000 gallons charged to residential customers. These rates were grandfathered in by Order No. PSC-11-0522-FOF-SU.⁶ The water service is provided by the City of Cocoa.

The Commission's preferred wastewater rate structure is a base facility charge (BFC)/uniform rate structure. For this reason, staff recommends a continuation of the BFC/gallonage charge rate structure. It is Commission practice to set the residential wastewater gallonage cap such that approximately 80 percent of the usage is captured at or below the cap.⁷ Staff's review of the billing data captures 82 percent of the gallons sold at 6,000 gallons. Therefore, the Utility's residential wastewater gallonage cap of 12,000 gallons should be changed to 6,000 gallons. At this time, the Utility does not have any non-residential customers. Nonetheless, staff believes that in the event the Utility decides to add a non-residential customer to its service territory a rate should be in place. For this reason, staff recommends that the non-residential gallonage charge be 1.2 times greater than the residential charge. This is done in an effort to calculate a 20 percent differential between a utility's residential and non-residential customers. There is no cap for non-residential customers.

Staff's estimated fixed cost for the wastewater system represents 53 percent of its revenue requirement. This BFC cost recovery percentage falls within the Commission's practice of setting the BFC allocation to at least 50 percent due to the capital intensive nature of wastewater plants. For this reason, staff believes that the BFC cost recovery is appropriate.

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

⁶ See Order No. PSC-11-0522-FOF-SU, issued November 7, 2011, in Docket No. 100442-SU, In re: Application for certificate to provide wastewater service in Brevard County by TKCB.

⁷ See Orders Nos.12350, issued August 10, 1983, in Docket No. 820073-WS, In re: Application of Seacoast Utilities, Inc. for an increase in water and sewer service rates to its customers in Palm Beach County, Florida; PSC-11-0015-PAA-WS, issued January 5, 2011, in Docket No. 090531-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities, Inc.

Issue 10: What are the appropriate rates for TKCB?

Preliminary Recommendation: The appropriate monthly wastewater rates are shown on Schedule No. 4. The recommended rates should be designed to produce revenues of \$76,968. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days after the date of the notice. (Bruce)

Staff Analysis: The recommended rates should be designed to produce revenue of \$76,968. As discussed in Issue 9, staff recommends a continuation of the base facility charge (BFC)/uniform gallonage charge rate structure for residential wastewater service. In addition, staff recommends that the non-residential gallonage charge be 1.2 times greater than the residential charge. Finally, the Utility's residential wastewater gallonage cap should be changed from 12,000 to 6,000 gallons a month.

The approved rates should be effective for service rendered on or after stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date.

Based on the foregoing, the appropriate rates for monthly service for residential and general wastewater service are shown on Schedule No. 4.

Issue 11: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

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

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated operating margin, and the gross-up for RAFs which is \$467. Using the Utility's current revenues, expenses, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule No. 4.

TKCB should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If TKCB files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

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

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, in the event of a protest filed by a party other than the Utility. TKCB should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's office no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Hudson)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. TKCB should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

The Utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$5,001. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

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

- 1) The letter of credit is irrevocable for the period it is in effect, and,
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

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

- 1) No monies in the escrow account may be withdrawn by the Utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and
- 9) The account must specify by whom and on whose behalf such monies were paid.

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

The Utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's office no later than the 20th of each month indicating the monthly and total amount of money subject to

Docket No. 120078-SU
Date: November 9, 2012

refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

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

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

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

TKCB
 TEST YEAR ENDED 04/30/2012
 SCHEDULE OF WASTEWATER RATE BASE

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$0	\$8,680	\$8,680
2. LAND & LAND RIGHTS	30,000	6,203	36,203
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	0	0
5. ACCUMULATED DEPRECIATION	0	(180)	(180)
6. AMORTIZATION OF CIAC	0	0	0
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>8,216</u>	<u>8,216</u>
8. WASTEWATER RATE BASE	<u>\$30,000</u>	<u>\$22,919</u>	<u>\$52,919</u>

TKCB TEST YEAR ENDED 04/30/2012 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-B DOCKET NO. 120078-SU
	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To capitalize surge pump recorded as expense.	\$2,574
2. To reflect an averaging adjustment	(1,287)
3. To reflect pro forma fence addition.	<u>7,393</u>
Total	<u>\$8,680</u>
 <u>LAND AND LAND RIGHTS</u>	
To reflect the appropriate land balance per AF 3.	<u>\$6,203</u>
 <u>ACCUMULATED DEPRECIATION</u>	
1. To reflect the appropriate accumulated depreciation.	(\$86)
2. To reflect an averaging adjustment.	43
3. To reflect pro forma accumulated depreciation.	<u>(137)</u>
Total	<u>(\$180)</u>
 <u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O & M expenses.	<u>\$8,216</u>

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

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK		\$0	\$0					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>					
TOTAL COMMON EQUITY	\$0	\$0	0	52,919	52,919	100.00%	8.74%	8.74%
5. TOTAL LONG TERM DEBT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%
6. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	6.00%	<u>0.00%</u>
7. TOTAL	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$52,919</u>	<u>\$52,919</u>	<u>100.00%</u>		<u>8.74%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>7.74%</u>	<u>9.74%</u>	
OVERALL RATE OF RETURN						<u>7.74%</u>	<u>9.74%</u>	

TKCB TEST YEAR ENDED 04/30/2012 SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$64,108</u>	<u>\$5,365</u>	<u>\$69,473</u>	<u>\$7,495</u> 10.79%	<u>\$76,968</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$59,728	\$5,999	\$65,727	0	\$65,727
3. DEPRECIATION (NET)	0	445	445	0	445
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	0	3,886	3,886	337	4,224
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$59,728</u>	<u>\$10,330</u>	<u>\$70,058</u>	<u>\$337</u>	<u>\$70,396</u>
8. OPERATING INCOME/(LOSS)	<u>\$4,380</u>		<u>-\$585</u>		<u>\$6,573</u>
9. WASTEWATER RATE BASE	<u>\$30,000</u>		<u>\$52,919</u>		<u>\$52,919</u>
10. RATE OF RETURN (Operating Margin)	<u>14.60%</u>		<u>-1.11%</u>		<u>10.00%</u>

TKCB
 TEST YEAR ENDED 04/30/2012
 ADJUSTMENTS TO OPERATING INCOME

WASTEWATER

OPERATING REVENUES

To reflect the appropriate test year revenues per billing units. \$5,365

OPERATION AND MAINTENANCE EXPENSES

1. Salaries and Wages - Employees (701)
 To reflect allocated salary of bookkeeper. \$3,000
2. Salaries and Wages - Officers (703)
 To reflect the appropriate allocation for the Utility president. (\$8,889)
3. Purchased Power (615/ 715)
 To reflect the appropriate test year purchased power expense. (\$85)
4. Chemicals Expense (718)
 - a. To reclassify cost for circuit breaker to Acct. No. 720. (\$58)
 - b. To reclassify chemical expense from Acct. No. 720. 33
 - c. To reclassify chemical expense from Acct. No. 736 20

Subtotal (\$4)
5. Materials and Supplies (720)
 - a. To reclassify cost for circuit breaker from Acct. No. 718. \$58
 - b. To reclassify labor cost for plant site cleaning to Acct. No. 736. (110)
 - c. To capitalize wastewater surge pumps. (2,574)
 - d. To reclassify chemical expense to Acct. No. 718. (33)
 - e. To remove expense for lack of support documentation. (30)

Subtotal (\$2,689)
6. Contractual Services - Billing (730)
 To reflect the appropriate billing cost to the City of Cocoa. \$3,091
7. Contractual Services - Testing (735)
 To reflect the appropriate testing expense. (\$85)
8. Contractual Services - Other (736)
 - a. To annualize contract operator expense. \$1,000
 - b. To reclassify wastewater plant site cleaning from Acct. No. 720. 110
 - c. To remove related party expense. (1,350)
 - d. To reclassify transportation expense to Acct. No. 750. (145)
 - e. To reclassify chemical expense to Acct. No. 718. (20)
 - f. To reflect pro forma 5 year amortization of surge tank cleaning. 656

Subtotal \$251

(CONTINUED ON NEXT PAGE)

TKCB
TEST YEAR ENDING 04/30/2012
ADJUSTMENTS TO OPERATING INCOME

(O & M Expense Continued)

9.	Rent Expense	
	To reflect an appropriate rent allocation.	<u>\$2,152</u>
10.	Transportation Expense (750)	
	To reclassify transportation expense from Acct. No. 736.	<u>\$145</u>
11.	Insurance	
	To reflect general liability and pollution liability insurance.	<u>\$5,527</u>
12.	Regulatory Expense (765)	
	a. To reflect amortization of rate case expense for certification docket.	(\$245)
	b. To reflect amortization of rate case expense.	<u>324</u>
	Subtotal	<u>\$79</u>
13.	Bad Debt Expense (770)	
	a. To reflect the appropriate bad debt expense.	<u>\$2,712</u>
14.	Miscellaneous Expense (675/ 775)	
	a. To remove bank overdraft fees.	(\$105)
	b. To reflect amortization of wastewater permit renewal.	<u>900</u>
	Subtotal	<u>\$795</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		<u>\$5,999</u>

WASTEWATER

DEPRECIATION EXPENSE

1.	To reflect depreciation expense.	\$171
2.	To reflect pro forma depreciation expense.	<u>274</u>
	Total	<u>\$445</u>

TAXES OTHER THAN INCOME

1.	To reflect the appropriate regulatory assessment fees.	\$3,126
2.	To reflect the appropriate property taxes.	<u>760</u>
	Total	<u>\$3,886</u>

TKCB		SCHEDULE NO. 3-C		
TEST YEAR ENDED 04/30/2012		DOCKET NO. 120078-SU		
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE				
	TOTAL PER UTILITY	STAFF ADJUST- MENT		TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$3,000	[1]	\$3,000
(703) SALARIES AND WAGES - OFFICERS	15,200	(8,889)	[2]	6,311
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0		0
(710) PURCHASED SEWAGE TREATMENT	0	0		0
(711) SLUDGE REMOVAL EXPENSE	1,400	0		1,400
(715) PURCHASED POWER	10,895	(85)	[3]	10,810
(716) FUEL FOR POWER PRODUCTION	0	0		0
(718) CHEMICALS	284	(4)	[4]	280
(720) MATERIALS AND SUPPLIES	4,622	(2,689)	[5]	1,933
(730) CONTRACTUAL SERVICES - BILLING	0	3,091	[6]	3,091
(731) CONTRACTUAL SERVICES - PROFESSIONAL	525	0		525
(735) CONTRACTUAL SERVICES - TESTING	4,787	(85)	[7]	4,702
(736) CONTRACTUAL SERVICES - OTHER	21,093	251	[8]	21,344
(740) RENTS	0	2,152	[9]	2,152
(750) TRANSPORTATION EXPENSE	0	145	[10]	145
(755) INSURANCE EXPENSE	0	5,527	[11]	5,527
(765) REGULATORY COMMISSION EXPENSES	327	79	[12]	406
(770) BAD DEBT EXPENSE	0	2,712	[13]	2,712
(775) MISCELLANEOUS EXPENSES	<u>595</u>	<u>795</u>	[14]	<u>1,390</u>
	<u>\$59,728</u>	<u>\$5,999</u>		<u>\$65,727</u>

TKCB		SCHEDULE NO. 4		
TEST YEAR ENDED 04/30/2012		DOCKET NO. 120078-SU		
MONTHLY WASTEWATER RATES				
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	4-YEAR RATE REDUCTION	
<u>Residential Service</u>				
Base Facility Charge All Meter Sizes	\$12.50	\$13.48	\$0.07	
<u>Gallonge Charge</u>				
Per 1,000 Gallons (6,000 gallon cap)	N/A	\$3.49	\$0.02	
Per 1,000 Gallons(12,000 gallon cap)	\$2.65	N/A	N/A	
<u>General Service</u>				
Base Facility Charge by Meter Size:				
5/8"X3/4"	\$0.00	\$13.48	\$0.07	
3/4"	\$0.00	\$20.22	\$0.11	
1"	\$0.00	\$33.70	\$0.19	
1-1/2"	\$0.00	\$67.40	\$0.37	
2"	\$0.00	\$107.84	\$0.59	
3"	\$0.00	\$215.68	\$1.19	
4"	\$0.00	\$337.00	\$1.86	
6"	\$0.00	\$674.00	\$3.72	
Gallonge Charge per 1,000 gallons	\$0.00	\$4.19	\$0.02	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$20.45	\$23.95		
5,000 Gallons	\$25.75	\$30.93		
10,000 Gallons	\$39.00	\$48.38		