

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Brevard County by TKCB, Inc.

DOCKET NO. 20180218-SU
ORDER NO. PSC-2019-0362-PAA-SU
ISSUED: August 26, 2019

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
JULIE I. BROWN
DONALD J. POLMANN
GARY F. CLARK
ANDREW GILES FAY

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING RATE INCREASE FOR TKCB, INC.
AND FINAL ORDER ON RECOVERY OF RATE CASE EXPENSES,
TEMPORARY RATES, AND ACCOUNTING ADJUSTMENTS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission (Commission) that the actions discussed herein, except for (1) the reduction of rates after four years based upon the recovery of rate case expense, (2) the granting of temporary rates in the event of protest, and (3) the requirement for proof of adjustment of books and records, are preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.). The reduction of rates after four years, the granting of temporary rates in the event of protest, and the requirement for proof of adjustment of books and records are final agency actions and subject to reconsideration and appeal as described below under the heading, "NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW."

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, we 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. Our 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.

Our staff noted 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), F.A.C.

We have jurisdiction in this case pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 367.091, and 367.121, F.S.

Review and Decision

1. Quality of Service

Pursuant to Rule 25-30.433(1), F.A.C., in water and wastewater rate cases, we 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 this Commission are also reviewed.

A. 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. Our staff reviewed this 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 the DEP's rules and regulations.

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.*

B. Conclusion

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

2. Used and Useful (U&U)

Pursuant to Rule 25-30.432, F.A.C., the U&U percentage of a wastewater treatment plant (WWTP) is based on the plant flows, growth allowance, infiltration and inflow (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.

A. 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, our staff conducted a field inspection and confirmed that the service area is built out. In that same rate case, we 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, we find that the WWTP and collection system shall be considered 100 percent U&U.

B. Infiltration and Inflow (I&I)

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, we 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. We calculate 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. We next calculate 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 I&I 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.

C. Conclusion

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

3. Rate Base

The test year ended September 30, 2018, was used for the instant case. A summary of each rate base component and approved adjustments are discussed below.

A. Utility Plant in Service (UPIS)

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

B. 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, our 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 our review, no adjustment is necessary. Therefore, we find that the appropriate balance is \$36,203.

C. Used & Useful

As stated above, we find that TKCB's WWTP and collection system are 100 percent U&U. Therefore, no U&U adjustments are necessary.

D. Accumulated Depreciation

TKCB recorded a test year accumulated depreciation balance of \$653. We increased accumulated depreciation by \$326 to reflect depreciation pursuant to Rule 25-30.140, F.A.C. In addition, we decreased accumulated depreciation by \$252 to reflect an averaging adjustment. Our adjustments to accumulated depreciation result in a net increase of \$74 (\$326 - \$252). Therefore, we find an accumulated depreciation balance of \$727 is appropriate.

E. Contributions in Aid of Construction (CIAC)

The Utility recorded a test year CIAC balance of \$0. Based on our review, no adjustment is necessary. Therefore, we find that the appropriate balance is \$0.

F. Accumulated Amortization of CIAC

The Utility recorded a test year accumulated amortization of CIAC balance of \$0. Based on review, no adjustment is necessary. Therefore, we find that the appropriate balance is \$0.

G. 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., we 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, we 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, we find a working capital allowance of \$9,456 ($\$75,645 / 8$) to be appropriate.

H. Rate Base Summary

Based on the forgoing, we find 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.

4. Return on Equity (ROE)

According to our staff's audit, TKCB's test year capital structure reflected common equity of \$50,060. As discussed below, we utilized the operating ratio methodology 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, we find that an ROE shall still be established for this Utility. The

appropriate ROE for the Utility is 7.85 percent based on our approved leverage formula currently in effect.³ As such, we find a ROE of 7.85 percent, with a range of 6.85 percent to 8.85 percent, to be appropriate. The ROE and overall rate of return are shown on Schedule No. 2.

5. Test Year Revenues

TKCB recorded total test year revenues of \$83,015. The Utility's test year revenues consisted entirely of service revenues. Based on our staff's review of the Utility's billing determinants and the service rates that were in effect during the test year, we determined test year service revenues shall be increased by \$669 to reflect annualized test year revenues of \$83,684.⁴ The Utility has no miscellaneous service charges and thus, there are no miscellaneous revenues. Based on the above, we find that the appropriate test year revenues for TKCB are \$83,684 (\$83,015 + \$669).

6. Operating Expense

TKCB recorded an 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. Our adjustments to the Utility's operating expenses are summarized below.

A. Operation & Maintenance Expense

Salaries and Wages – Employees (701)

The Utility recorded a 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, we approved a salary for this position of \$3,000 based on a yearly salary of \$30,000, and a time allocation of 10 percent for utility-related matters.⁵

By letter dated December 18, 2018, TKCB requested an increase in salary for this position.⁶ Using the American Water Works Association 2018 Utility Salary Compensation Survey for Small Water and Wastewater Utilities (2018 AWWA Small Utility Survey), the Utility determined the position of Small System Bookkeeper with a salary of \$42,596 was more representative of the bookkeeper's duties. We reviewed the 2018 AWWA Small Utility Survey and find that the description and requested salary is reasonable for this position. As such, we find that a salary of \$42,596 shall be used for the bookkeeper position.

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.*

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

⁵Order 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.*

⁶Document No. 07665-2018, filed on December 26, 2018.

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. We find that the calculation of time allocated to TKCB shall take into consideration actual time spent historically by the bookkeeper on utility matters. As such, we find it appropriate that the time allocation for the bookkeeper position shall be increased to 15 percent. Therefore, we also find that these adjustments result in a salaries and wages – employees expense of \$6,389 ($\$42,596 \times 15\%$), or an increase of \$2,989 ($\$6,389 - \$3,400$).

Salaries and Wages – Officers (702)

The Utility recorded a 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, we 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.

By letter dated December 18, 2018, TKCB also requested an increase in salary for this position.⁷ Using the 2018 AWWA Small Utility Survey, the Utility determined the position of Small System General Manager with a salary of \$78,709 was more representative of the President's duties. We reviewed the 2018 AWWA Small Utility Survey and find that the description and requested salary is reasonable for this position. As such, we also find that a salary of \$78,709 for the President is appropriate.

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. We find that the calculation of time allocated to TKCB shall take into consideration actual time spent historically by the President on utility matters. As such, we also find that the time allocation for the President shall be increased to 20 percent. Our adjustments would result in a salaries and wages – officers expense of \$15,742 ($\$78,709 \times 20\%$), or an increase of \$7,602 ($\$15,742 - \$8,140$). Therefore, we hereby approve a salaries and wage expense of \$15,742.

Sludge Removal Expense (711)

The Utility recorded a sludge removal expense of \$764 in the test year. In response to our staff's data request, TKCB provided additional information that increased the sludge removal expense for the test year to \$3,200.⁸ However, a number of the invoices provided by the Utility were related to Hurricane Irma, and do not represent normal operation. We 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

⁷*Id.*

⁸Document No. 00027-2019, filed on January 2, 2019.

gallon, the total expense was calculated to be \$2,150. Therefore, we hereby approve a sludge removal expense of \$2,150, or an increase of \$1,386.

Purchased Power (715)

The Utility recorded a purchased power expense of \$9,570 in the test year. We decreased this account by \$78 to remove late fees and reflect the appropriate amount of purchased power expense. As such, we hereby approve a purchased power expense of \$9,492.

Chemicals Expense (718)

The Utility recorded a chemicals expense of \$502 in the test year. We increased this account by \$9 to reflect supporting documentation provided. As such, we hereby approve a chemicals expense of \$511.

Materials and Supplies Expense (720)

TKCB recorded a materials and supplies expense of \$720 in the test year. We increased materials and supplies expense by \$122 to reflect actual invoices for TKCB. Therefore, we hereby approve a materials and supplies expense of \$842.

Contractual Services – Billing Expense (730)

TKCB has a contract with the City of Cocoa Utilities Department (COC) for customer billing services. The Utility's wastewater bills are based on customers' monthly water consumption with COC. TKCB recorded contractual services – billing expense of \$3,643 in the test year. We 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, 2019.⁹ We reviewed the documentation provided and find this adjustment is appropriate. We 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). Our adjustments to contractual services – billing expense results in a net increase of \$144 (-\$22 + \$166). Therefore, we hereby approve a contractual services – billing expense of \$3,787.

Contractual Services – Testing Expense (735)

The Utility recorded a contractual services – testing expense of \$3,647 in the test year. We decreased this account by \$13 to reflect supporting documentation provided. As such, we hereby approve a contractual services – testing expense of \$3,634.

⁹Document No. 05026-2019, filed on June 20, 2019.

Contractual Services – Other Expense (736)

The Utility recorded a contractual services – other expense of \$20,381 in the test year. We removed \$1,570 for expenses booked outside of the test year or that were non-utility related expenses. Additionally, we 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. Our adjustments to contractual services – other expense result in a net decrease of \$786 (-\$1,570 + \$100 - \$66 + \$750). Therefore, we hereby approve a contractual services – other expense of \$19,595.

Rent Expense (740)

TKCB recorded a rent expense of \$12,000 in the test year. The Utility shares office space with a related party, Atlantis Investments. In response to our staff's 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.¹⁰ 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. We have reviewed the Utility's indexing and allocation calculations, as well as invoices provided supporting expenses and find that TKCB's allocation of rent from the related party is reasonable. Therefore, we hereby approve a rent expense of \$8,860, or a decrease of \$3,140 (\$12,000 - \$8,860).

Regulatory Commission Expense (765)

TKCB recorded a regulatory commission expense of \$162. This balance was associated with the previous rate case and removed from the account by our audit staff, as it is currently fully amortized. We 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 Commission-approved total rate case expense of \$1,538 shall 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, we hereby approve a regulatory commission expense of \$384.

Bad Debt Expense (770)

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

In its response to our 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,

¹⁰Document No. 05195-2019, filed on June 27, 2019.

\$1,818, and \$844 for the years 2016, 2017, and 2018, respectively. Given the variance of this account from year-to-year, we find that the use of a three-year average is appropriate. We calculated a three-year average of \$1,442, a decrease of \$376 from the test year balance. Therefore, we hereby approve a bad debt expense of \$1,442 (\$1,818 - \$376).

Miscellaneous Expense (775)

The Utility recorded a miscellaneous expense of \$2,015. We decreased this account by \$69 to properly reflect the amount from provided invoices. As such, we hereby approve a miscellaneous expense of \$1,946.

B. Operation & Maintenance Expense Summary

Based on the above adjustments, we hereby approve an increase in O&M expense of \$8,014, resulting in total O&M expense of \$76,030. Our adjustments to O&M expense are shown on Schedule No 3-C.

C. Depreciation Expense

TKCB recorded a depreciation expense of \$577 during the test year. We recalculated the depreciation expense for the test year and decreased the expense by \$73. Therefore, we hereby approve a depreciation expense of \$504 (\$577 - \$73).

D. Taxes Other Than Income (TOTI)

TKCB recorded a TOTI balance of \$5,000 during the test year. We increased the Regulatory Assessment Fees (RAFs) by \$30 to reflect the adjusted test year revenues. We increased property tax expense by \$2,633 to reflect the appropriate amount of property tax. We increased TOTI by \$101 to reflect the appropriate test year payroll tax. Additionally, we increased payroll tax by \$810 to reflect the Commission-approved 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 the Revenue Requirement section below, revenues have been increased by \$11,044 to reflect the change in revenue required to cover expenses and allow the Commission-approved operating margin. As a result, TOTI shall be increased by \$497 to reflect RAFs of 4.5 percent on the change in revenues. Our adjustments result in an increase of \$4,071 (\$3,574 + \$497). Therefore, we hereby approve a TOTI of \$9,071.

E. Operating Expenses Summary

The application of the Commission-approved 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.

7. Operating Ratio Methodology

Rule 25-30.4575, F.A.C., states that we 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 SARC 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 the Rate Base and Operating Expense sections above, we have approved a rate base of \$58,454 and O&M expenses of \$76,030. Based on these approvals, 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 SARC. As such, TKCB meets the criteria for the operating ratio methodology established in Rule 25-30.4575(2), F.A.C. Therefore, we hereby approve the application of the operating ratio methodology at a margin of 12 percent of O&M expense for determining the wastewater revenue requirement.

8. Revenue Requirement

We hereby find that the appropriate revenue requirement for TKCB is \$94,728, resulting in an annual increase of \$11,044 (13.20 percent). The calculations are shown in Table 1:

Table 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>

9. Rates

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.

We 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 approved 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 our practice, we allocated 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. In addition, it is also our 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 our review of the billing analysis, 83 percent of the gallons are captured at the 6,000 gallon consumption level. For this reason, we hereby find that the gallonage cap for residential customers shall remain at 6,000 gallons. We also find that the general service gallonage charge shall be 1.2 times greater than the residential gallonage charge, which is consistent with our practice.

Based on the above, the Commission-approved monthly wastewater rates are shown on Schedule No. 4. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall 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 shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by customers. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice.

10. Rate Case Expense (Final Agency Action)

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.

The rates shall 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 shall become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. TKCB shall 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 shall 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.

11. Temporary Rates (Final Agency Action)

This Order approves 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, the Commission-approved rates shall be approved as temporary rates. TKCB shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall 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 shall not be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. The Commission-approved rates collected by the Utility shall be subject to the refund provisions discussed below.

TKCB shall be authorized to collect the temporary rates upon our staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security shall 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 shall 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 shall 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 shall 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 shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall 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 shall be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

TKCB shall 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 shall 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 shall also indicate the status of the security being used to guarantee repayment of any potential refund.

12. Adjustments to National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA) Primary Accounts (Final Agency Action)

TKCB shall be required to notify this Commission, in writing, that it has adjusted its books in accordance with our decision. TKCB shall 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 shall be filed within seven days prior to the deadline. Upon providing good cause, our staff shall be given administrative authority to grant such an extension for up to 60 days.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the overall quality of service provided by TKCB, Inc. is satisfactory. It is further

ORDERED that TKCB Inc.'s wastewater treatment plant and collection system shall be considered 100 percent used and useful. It is further

ORDERED that there is no excessive infiltration and inflow, and no adjustment to operating expenses for TKCB, Inc. is necessary. It is further

ORDERED that the appropriate average test year rate base for TKCB, Inc. is \$58,454. It is further

ORDERED that the approved return on equity for TKCB, Inc. is 7.85 percent, with a range of 6.85 percent to 8.85 percent. It is further

ORDERED that the appropriate test year revenues for TKCB, Inc. are \$83,684. It is further

ORDERED that TKCB Inc.'s approved operating expense is \$85,605. It is further

ORDERED that the application of the operating methodology at a margin of 12 percent of operation and maintenance expense for determining the wastewater revenue requirement for TKCB, Inc. is approved. It is further

ORDERED that the appropriate revenue requirement for TKCB, Inc. is \$94,728, resulting in an annual increase of \$11,044 (13.20 percent). It is further

ORDERED that the gallonage cap for TKCB Inc.'s residential customers shall remain at 6,000 gallons. It is further

ORDERED that the general service gallonage charge shall be 1.2 times greater than the residential gallonage charge. It is further

ORDERED that TKCB Inc.'s approved monthly wastewater rates are shown on Schedule No. 4. It is further

ORDERED that TKCB, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall 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 shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by customers. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice. It is further

ORDERED that TKCB Inc.'s rates shall 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 shall become effective immediately following the expiration of the rate case expense recovery period, pursuant to Section 367.081(8), F.S. TKCB shall 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 shall 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. (*Final Agency Action*) It is further

ORDERED that the rates for TKCB, Inc. are approved on a temporary basis subject to refund with interest, in the event of a protest filed by a party other than the Utility. TKCB, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall 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 shall not be implemented until our staff has approved the proposed notice, and the notice has been received by the customers. (*Final Agency Action*) It is further

ORDERED that TKCB, Inc. shall provide appropriate security. Temporary rates collected by TKCB, Inc. shall be subject to refund as provided in the body of this Order. (*Final Agency Action*) It is further

ORDERED that after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility shall 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 shall also indicate the status of the security being used to guarantee repayment of any potential refund. (*Final Agency Action*) It is further

ORDERED that TKCB, Inc. shall be required to notify this Commission, in writing, that it has adjusted its books in accordance with this Commission's decision. TKCB shall 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 shall be filed within seven days prior to the deadline. Upon providing good cause, our staff shall be given administrative authority to grant such an extension for up to 60 days. (*Final Agency Action*) It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order shall be issued. The docket shall remain open for our staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by our staff. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 26th day of August, 2019.



ADAM J. TEITZMAN
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

AJW/MAD

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

As identified in the body of this order, our actions are preliminary in nature, except for (1) the reduction of rates after four years based upon the recovery of rate case expense, (2) the granting of temporary rates in the event of protest, and (3) the requirement for proof of adjustment of books and records. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on September 16, 2019. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final actions in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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

DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUSTMENTS TO UTIL. BAL.	BALANCE PER COMMISSION
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 BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER COMMISSION	PERCENT OF TOTAL	COST RATE	WEIGHTED COST	
1. LONG-TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
2. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%	
3. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%	
4. COMMON EQUITY	50,060	0	50,060	8,394	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	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
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						<u>LOW</u>	<u>HIGH</u>		
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	COMMISSION ADJUSTMENTS	COMMISSION 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.	Schedule No. 3-B
TEST YEAR ENDED 9/30/2018	Docket No. 20180218-SU
ADJUSTMENTS TO OPERATING INCOME	Page 1 of 2

OPERATING REVENUES

To reflect the appropriate test year services revenues.	<u>\$669</u>
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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>
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2.Salaries and Wages - Officers (703)

To reflect pro forma increase to salaries and wages – officers expense.	<u>\$7,602</u>
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3.Sludge Removal Expense (711)

To reflect appropriate amount of sludge removal expense.	<u>\$1,386</u>
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4.Purchased Power (715)

To reflect appropriate amount of purchased power expense.	<u>(\$78)</u>
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5.Chemicals (718)

To reflect appropriate amount of chemicals expense.	<u>\$9</u>
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6.Materials and Supplies (720)

To reflect appropriate amount of materials and supplies expense.	<u>\$122</u>
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7.Contractual Services - Billing (730)

a. To reflect audit adjustments to contractual services – billing expense.	(\$22)
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b. To reflect pro forma increase to contractual services – billing expense.	<u>166</u>
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Subtotal	<u>\$144</u>
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8.Contractual Services – Testing (735)

To reflect appropriate amount of contractual services – testing expense.	<u>(\$13)</u>
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9.Contractual Services – Other (736)

a. To reflect audit adjustments to contractual services – other.	(\$1,570)
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b. To reflect appropriate salary expense of operator.	100
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c. To reflect removal of materials & supplies expense.	(66)
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d. To reflect pro forma increase to contractual services – other expense.	<u>750</u>
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Subtotal	<u>(\$786)</u>
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10.Rent Expense (740)

To reflect the supported rent expense.	<u>(\$3,140)</u>
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11.Regulatory Commission Expense (765)

a. To reflect removal of fully amortized rate case expense.	(\$162)
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b. To reflect amortization of rate case expense.	<u>384</u>
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Subtotal	<u>\$222</u>
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12.Bad Debt Expense (770)

To reflect three-year average of bad debt expense.	<u>(\$376)</u>
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TKCB, Inc. TEST YEAR ENDED 9/30/2018 ADJUSTMENTS TO OPERATING INCOME	Schedule No. 3-B Docket No. 20180218-SU Page 2 of 2
13. Miscellaneous Expense (775) To reflect appropriate amount of miscellaneous expense.	<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	<u>810</u>
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	COMMISSION ADJUST- MENT	TOTAL PER COMMISSION
(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	COMMISSION APPROVED 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 ¹¹	\$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	

¹¹During 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. The Commission-approved gallonage charge corrects the error on a prospective basis.