

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for transfer ) DOCKET NO. 960716-WU  
of Certificate No. 123-W in Lake ) ORDER NO. PSC-96-1409-FOF-WU  
County from Theodore S. Jansen ) ISSUED: November 20, 1996  
d/b/a Ravenswood Water System to )  
Crystal River Utilities, Inc. )  
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The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman  
J. TERRY DEASON  
JOE GARCIA  
JULIA L. JOHNSON  
DIANE K. KIESLING

ORDER APPROVING TRANSFER

AND

NOTICE OF PROPOSED AGENCY ACTION  
ORDER ESTABLISHING RATE BASE FOR PURPOSES  
OF THE TRANSFER AND DECISION NOT TO INCLUDE  
A POSITIVE ACQUISITION ADJUSTMENT IN THE CALCULATION  
OF RATE BASE AND IMPLEMENTING A LATE CHARGE  
AND MODIFYING THE DEPOSIT CHARGE

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the establishment of rate base for purposes of the transfer, our decision not to include a positive acquisition adjustment in the calculation of rate base, implementing a late charge and modifying the deposit charge, are preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal hearing, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Ravenswood Water System d/b/a Theodore S. Jansen (Ravenswood or utility) provides water service in Lake County and serves approximately 41 customers. The annual report for 1995 shows that the operating revenue for the system was \$11,855 and the net operating income was \$2,901. The utility is a Class C utility company under Commission jurisdiction. On June 10, 1996,

DOCUMENT NUMBER-DATE

12405 NOV 20 96

FPSC-RECORDS/REPORTING

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Ravenswood applied for a transfer of the Ravenswood water system (Water Certificate No. 123-W in Lake County) to Crystal River Utilities, Inc.

Section 367.071, Florida Statutes, states that no utility shall sell, assign, or transfer its certificate of authorization, facilities or any portion thereof, or majority organizational control without approval of the Commission. We have reviewed the Management and Asset Purchase Agreement (Agreement) and find that, although the parties have come to an agreement on the sale, the official closing is contingent upon our approval.

#### APPLICATION

The application is in compliance with the governing statute, Section 367.071, Florida Statutes, and other pertinent statutes and administrative rules concerning an application for transfer. The application contains \$750, which is the correct filing fee pursuant to Rule 25-30.020, Florida Administrative Code. The applicant has provided evidence that the utility owns the land upon which the utility's facilities are located as required by Rule 25-30.037(2)(q), Florida Administrative Code.

In addition, the application contains proof of compliance with the noticing provisions set forth in Rule 25-30.030, Florida Administrative Code. No objections were received and the time for filing of such objections has expired. A description of the territory served by the utility is appended to this Order as Attachment A.

With regard to the purchaser's technical ability, Crystal River has indicated that it will be retaining the services of H2O Utility Services, Inc. to maintain and operate the system. H2O currently operates and maintains over eighty systems in Florida. According to the Department of Environmental Protection (DEP), there are no outstanding notices of violation against the utility. Regarding the financial ability, Crystal River's financial statements indicate that approximately 64% of the company's net worth is in real estate and other assets, and that it has approximately \$885,000 in liquid assets. We find that the owner possesses the overall financial ability to operate the water facility. As stated previously, the annual report for 1995 shows that the consolidated annual operating revenue for the system was \$11,855 and the net operating income was \$2,901. As the system is small, we find that the assets of the new owner should be adequate to insure the continued operations of the utility.

The application contains a copy of the Agreement which includes the purchase price, terms of payment and a list of the assets purchased and liabilities assumed. Based on the application, there are no guaranteed revenue contracts or customer advances. The seller will remain responsible for the existing debts of the utility. The developer agreements, customer deposits and interest thereon will be transferred to Crystal River. In addition, Crystal River provided a statement that it will fulfill the commitments, obligations and representations of the transferor.

Based on the above, we find the transfer of facilities of Ravenswood Water System d/b/a Theodore S. Jansen, to Crystal River Utilities, Inc., is in the public interest and shall be approved.

#### RATE BASE

According to the application, the net book value of the system being transferred as of the date of the proposed transfer is \$9,476. Rate base was previously established by this Commission in Docket No. 921102-WU, which was an application for approval of rate increase. According to Order No. PSC-93-0901-FOF-WU, issued June 14, 1993, rate base at that time was \$4,568.

An audit of the books and records of the utility was performed to determine the rate base (net book value) at the time of transfer. The rate base was examined and the beginning balances were reconciled with Order No. PSC-93-0901-FOF-WU. We reviewed 100% of total dollar additions/retirements of utility plant-in-service, testing for proper amount, timing, and account classifications. We also computed depreciation and amortization from December 1, 1992, forward, compiled the land balance and verified land ownership with company-supplied documentation. In addition, we reviewed and calculated a sample of customer bills for the month of March 1996 from the utility's billing register to verify our approved rates at April 11, 1996.

We have reviewed the utility plant account balances. Upon investigation, the company records did not agree with our prior Order No. PSC-93-0901-FOF-WU, at November 30, 1992. Therefore we adjusted the accounts to comply with that order.

In addition, we found that the company had recorded \$47 as capital additions to water utility plant-in-service. The \$47 capital additions were for meter repairs. These additions should have been charged to operations and maintenance expense accounts in the periods they were incurred. Therefore, we reduced the utility's water utility plant-in-service balance by \$47 to remove these additions from rate base.

We also discovered that the company had recorded \$248 as water operations and maintenance expense. The \$248 of operations and maintenance expenses recorded by the company should have been capitalized as additions to water utility plant-in-service because they relate to major capital improvements/additions to the company's utility plant. Therefore, we increased the water utility plant-in-service accounts by \$248 to properly account for the utility plant additions.

National Association of Regulatory Utility Commissioners (NARUC), Class C, Accounting Instruction No. 4D states that:

when an item of plant is retired, Account 108 - Accumulated Depreciation and Amortization of Utility Plant in Service, shall be charged and the appropriate plant accounts shall be credited with the entire recorded cost of plant retired regardless of the amount of depreciation which has been accumulated for this particular item of plant.

We discovered that the company did not record the retirement of the original tank replaced in accordance with NARUC, Accounting Instruction No. 4D. The original cost of the tank was \$2,498. Therefore, we reduced water utility plant-in-service by \$2,498.

The utility recorded \$11,080 for Accumulated Depreciation at April 11, 1996. We recalculated Accumulated Depreciation in accordance with Rule 25-30.140, Florida Administrative Code, to be \$9,176. Therefore, we reduced water accumulated depreciation by \$1,904.

We also discovered that the utility had recorded \$8,403 for CIAC amortization. We recalculated amortization to be \$8,875. Therefore, we increased amortization of CIAC by \$472.

In addition, the utility recorded \$3,916 for acquisition adjustment amortization. We recalculated amortization to be \$6,094. Therefore, we increased acquisition adjustment amortization by \$2,178.

Calculation of rate base is shown in Schedule No. 1 for the water system. Adjustments to rate base are itemized on Schedule No. 2. Based on the adjustments set forth herein, we find that rate base for Crystal River shall be established as \$7,377 for the water system as of April 11, 1996. This rate base calculation is used purely to establish the net book value of the property being

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transferred and does not include the normal ratemaking adjustments of working capital calculations and used and useful adjustments.

SCHEDULE NO. 1

CRYSTAL RIVER UTILITIES, INC.

SCHEDULE OF WATER RATE BASE

As of April 11, 1996

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>COMMISSION ADJUSTMENTS</u>	<u>BALANCE PER COMMISSION</u>
Utility Plant in Service	\$19,385	(\$2,297)	\$17,088
Land	368	0	368
Accumulated Depreciation	(11,080)	1,904	(9,176)
Contributions-in-aid-of-Construction	(11,129)	0	(11,129)
CIAC Amortization	8,403	472	8,875
Acquisition Adjustment	7,445	0	7,445
Amortization of Acquisition Adjustment	<u>(3,916)</u>	<u>(2,178)</u>	<u>(6,094)</u>
TOTAL	<u>\$9,476</u>	<u>\$2,099</u>	<u>\$7,377</u>

SCHEDULE NO. 2

CRYSTAL RIVER UTILITIES, INC.  
SCHEDULE OF WATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
<b>Utility Plant in Service</b>	
To remove incorrectly recorded capital additions	(\$47)
To account for utility plant additions	\$248
To record the retirement of a storage tank	<u>(\$2,498)</u>
Total Adjustment to Utility Plant	(\$2,297)
<b>Accumulated Depreciation</b>	
To record recalculation of depreciation per Rule 25-30.140	(\$1,904)
<b>Accumulated Amortization of CIAC</b>	
To record recalculation of amortization of CIAC	\$472
<b>Accumulated Amortization of Acquisition Adjustment</b>	
To record recalculation of Accumulated Amortization of Acquisition Adjustment	\$2,178

ACQUISITION ADJUSTMENT

An acquisition adjustment results when the purchase price differs from the rate base for transfer purposes. The acquisition adjustment resulting from the transfer of Ravenswood would be calculated as follows:

Purchase Price:	\$24,000
Commission Calculated Rate Base:	<u>7,377</u>
Positive	
Acquisition Adjustment:	<u>\$16,623</u>

In the absence of extraordinary circumstances, it has been our practice that a subsequent purchase of a utility system at a premium or discount shall not affect the rate base calculation. The circumstances in this exchange do not appear to be extraordinary. An acquisition adjustment was not requested by the applicant. Therefore, we find that a positive acquisition adjustment shall not be included in the calculation of rate base.

RATES AND CHARGES

The utility's current approved rates and charges were effective October 12, 1995 pursuant to Order No. PSC-95-1165-FOF-WU issued in Docket No. 950636-WU. We approved these rates when Ravenswood filed for a limited proceeding to adjust rates.

Rule 25-9.044(1), Florida Administrative Code, provides that:

In cases of change of ownership or control of a utility which places the operation under a different or new utility...the company which will thereafter operate the utility business must adopt and use the rates, classification and regulations of the former operating company (unless authorized to change by the Commission)

Crystal River has not requested a change in the rates of the utility. However, Crystal River has proposed changing the utility's currently approved deposit charges. Ravenswood currently is authorized to charge a residential 5/8 inches x 3/4 inches customer a \$50.00 deposit. Crystal River has requested to implement the following charges:

	<u>Residential</u>	<u>General Service</u>
5/8" x 3/4":	\$ 20.00	\$ 20.00
1":	\$ 50.00	\$ 50.00
1 1/2":	\$100.00	\$100.00
over 2":	\$160.00	\$160.00

We have reviewed the proposed charges and find that they do not exceed the amount equal to the average actual charge for water service for two monthly billing periods. Therefore, we find that it is appropriate to approve the proposed deposit charges.

Crystal River Utilities, Inc. has not requested a change in the rates of the utility but has requested a change in the charges

discussed above. Accordingly, we find that the utility shall continue operations under the existing tariff and apply the approved rates and charges. The utility has filed a tariff reflecting the transfer of ownership. Staff will approve the tariff filing effective for services provided or connections made on or after the stamped approval date. The tariff sheets will be approved upon staff's verification that the tariff is consistent with our decision.

#### IMPLEMENTATION OF LATE CHARGE

Crystal River has requested approval to implement a late charge of \$5.00. The purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing such delinquent notices and accounts solely upon those who are the cost causer. Statistics filed with Crystal River's request show that approximately 24% of its customers are delinquent each month. Crystal River provided documentation showing that the utility incurs a cost of \$7.77 per late account.

In the past, late payment fee requests have been handled on a case-by-case basis. Our decisions have been based upon the conditions presented by each individual utility. We have authorized late payment charges for wastewater companies based on demonstration by the company of a service delinquency problem. In Order No. 8157 issued on February 2, 1978, a 5% late charge was approved for residential customer of Santa Villa Utilities. Santa Villa is a wastewater-only utility. In Order No. 20779 issued on February 20, 1988, we authorized a 1.5% late charge on all customers of Longwood Utilities, also a wastewater-only company. We have approved a late charge for wastewater-only operations because of the difficulty in shutting-off a customer's wastewater service.

We have also approved late charges for both water and wastewater operations. In Docket No. 891365-WS, Ortega Utility submitted cost justification for a late charge request of 1.5%. However, we approved a \$3.00 late charge. The utility reported that 30% of its customer base was establishing a trend of paying late and it intended to discourage this practice by charging late payers. In 1992, we approved a \$3.00 late payment charge for Palm Coast Utility Corporation, a water and wastewater utility in Flagler County, Docket No. 920349-WS, and for Ferncrest Utilities, Inc. a water and wastewater utility in Broward County, in Docket No. 920535-WS. In 1993, we also approved a late payment charge for Rolling Oaks Utilities, Inc. (Citrus County) and Hydratech Utilities, Inc. (Martin County).



Presently, our rules provide that late payers may be required by the utility to provide an additional deposit. However, there is no further incentive for either delinquent or late paying customers to pay their bills on time. We find that the cost causer shall pay the additional costs incurred to the utility by late payments, rather than the general body of the utility's rate payers. Therefore, based on the above, we find that the utility's request to implement a late payment of \$5.00 shall be approved.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the transfer of facilities and Certificate No. 123-W in Lake County from Ravenswood Water System d/b/a Theodore S. Jansen to Crystal River Utilities, Inc., is hereby approved. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the schedules attached hereto are by reference incorporated herein. It is further

ORDERED that rate base, which for transfer purposes reflects the net book value of the system, is \$7,377. It is further

ORDERED that Crystal River Utilities, Inc. shall continue charging the rates and charges in the tariff until authorized to change by this Commission. The tariff reflecting the change in ownership shall become effective for services provided or connections made on or after the stamped approval date. It is further

ORDERED that the tariff sheets will be approved upon staff's verification that the tariff is consistent with our decision. It is further

ORDERED that the provisions of this Order regarding the establishment of rate base for purposes of the transfer, our decision not to include a positive acquisition adjustment in the calculation of rate base, our implementation of the late charge, and our modification of the deposit charges, are issued as proposed agency action and shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

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ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission, this 20th day of November, 1996.

BLANCA S. BAYÓ, Director  
Division of Records and Reporting

by: Kay Dejeu  
Chief, Bureau of Records

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, 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 or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our actions regarding the establishment of rate base for purposes of the transfer, our decision not to include a positive acquisition adjustment in the calculation of rate base, our implementation of the late charge, and our modification of the deposit charges, are preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 11, 1996. In the absence of such a petition, this order shall become

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effective on the date subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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.

If the relevant portion of this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting 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 of the effective date 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.

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting 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 Director, Division of Records and Reporting 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.

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ATTACHMENT A

CRYSTAL RIVER UTILITIES, INC.

WATER SERVICE AREA

LAKE COUNTY

Township 20 South, Range 24 East, Lake County, Florida.

Section 2: Commence at the Southwest corner of said Section 2; thence run North 792 feet along the west section line of said Section 2 for a Point of Beginning; thence run North along the west section line of said Section 2 739.69 feet; thence South 89 degrees 37 minutes 00 seconds East 313.77 feet; thence South 25 degrees 27 minutes 20 seconds East 820.89 feet; thence North 89 degrees 41 minutes 30 seconds West 666.60 feet to Point of Beginning.

Section 3: Commence at the southeast corner of said Section 3; thence run North 792 feet along the east section line of said Section 3 for a Point of Beginning; thence run North 89 degrees 45 minutes 00 seconds West 1043.23 feet; thence North 739.69 feet; thence South 89 degrees 45 minutes 00 seconds East 1043.23 feet; thence south 739.69 feet to Point of Beginning.