

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Joint application for approval of transfer of Hudson Utilities, Inc.'s wastewater system and Certificate No. 104-S, in Pasco County, to Ni Florida, LLC.	DOCKET NO. 070740-SU ORDER NO. PSC-09-0017-PAA-SU ISSUED: January 5, 2009
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The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman  
LISA POLAK EDGAR  
KATRINA J. McMURRIAN  
NANCY ARGENZIANO  
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION  
ORDER ESTABLISHING RATE BASE

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is 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.).

BACKGROUND

Hudson Utilities, Inc. (Hudson or Utility) is a Class A utility serving approximately 2,575 residential and 145 commercial customers. The Utility provides wastewater collection service to its customers and purchases wastewater treatment service from Pasco County (County) pursuant to a Bulk Wastewater Treatment Agreement. The majority of Hudson's service territory is located in an area designated as a flood plain area, which is unsuitable for the use of septic tanks and drain fields. The Utility is in the South Florida Water Management District and is not in a water use caution area. The Utility's 2007 annual report shows total operating revenue of \$1,459,125 and net operating income of \$210,601 for the system. The Utility was granted Certificate No. 104-S in 1973.<sup>1</sup>

On December 27, 2007, Hudson and Ni Florida, LLC (Ni Florida) filed a joint application for transfer of Hudson's wastewater facilities and certificate to Ni Florida. On April 7, 2008, we issued Order No. PSC-08-0226-FOF-SU, approving the transfer of Hudson Utilities, Inc.'s wastewater system and Certificate No. 104-S, in Pasco County to Ni Florida. Since rate

<sup>1</sup> Wastewater certificate issued pursuant to Order No. 5781, issued June 19, 1973, in Docket No. C-72696-S, In Re: Application of Allyn Water Supply, Inc., for certificates to operate its existing water and sewer system in Pasco County.

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FPSC-COMMISSION CLERK

base was established over seventeen years ago, it was decided that rate base should be updated with the change in ownership.<sup>2</sup> An audit was conducted to establish rate base as of December 31, 2007.

This order establishes rate base as of December 31, 2007, for the transfer application of the wastewater facilities and Certificate No. 104-S from Hudson to Ni Florida. We have jurisdiction to consider this matter pursuant to Section 367.071, Florida Statutes (F.S.).

### RATE BASE

Rate base was last set for the Utility in Order No. 23810, as of December 31, 1990. The last audit of rate base was through June 30, 2004, in Docket No. 981079-SU.<sup>3</sup> However, the Utility did not apply the adjustments from the audit in Docket No. 981079-SU to Hudson's books and records. Therefore, we began with the last audit of rate base and verified plant additions and retirements in order to establish rate base as of December 31, 2007.

### Utility Plant in Service (UPIS)

The Hudson rate base balance as of December 31, 2007, included total depreciable UPIS of \$7,560,838. The UPIS costs include the facilities for structures and improvements, force and collection mains, services, receiving wells, flow measuring devices, pumping equipment, miscellaneous equipment, transportation equipment and tools and other garage equipment.

According to the audit, the Utility replaced four pumps and did not retire the old pumps. Consistent with our practice, when a utility is unable to provide original cost records for a retirement, then 75 percent of the replacement cost is a reasonable estimate of original cost.<sup>4</sup> Therefore, we made an adjustment to retire the pumps at 75 percent of the cost of the new pumps. Therefore, UPIS shall be adjusted to decrease UPIS by \$8,551 to reflect the retired pumps. The UPIS balance shall be \$7,552,287 for the wastewater system as of December 31, 2007.

### Land & Land Rights

Hudson recorded \$9,513 for wastewater land in Account No 353. The National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts

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<sup>2</sup> Rate base was last established by this Commission in Order No. 23810, issued November 27, 1990, in Docket No. 900293-SU, In Re: Application for a Staff-Assisted Rate Case in Pasco County by Hudson Utilities, Inc.

<sup>3</sup> An audit report was completed on Hudson's plant and CIAC for the period of January 1, 2002 through June 30, 2004 for internal Commission use and a copy was mailed to the Utility, in Docket No. 981079-SU, In Re: Application for amendment of Certificate No. 104-S to extend service territory in Pasco County by Hudson Utilities, Inc., and request for limited proceeding.

<sup>4</sup> We found that where original cost is not available for the retirements that 75 percent of the replacement cost was a reasonable estimate for the cost of the retirement. This practice of determining plant costs is consistent with Order No. PSC-03-1250-PAA-WU, issued November 6, 2003, in Docket No. 030250-WU, In Re: Application for a staff-assisted rate case in Pasco County by Floralino Properties, Inc. and Order No. PSC-01-1574-PAA-WS, issued July 30, 2001, in Docket No. 000584-WS, In Re: Application for a staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.

(USOA) states that the cost of land should be recorded at its original cost when first dedicated to utility service. According to the prior owner, the Utility does not own any land. The land on which the wastewater system is located was obtained by easements. The recorded \$9,513 for land is the cost to obtain the easements. We therefore approve a land and land rights balance of \$9,513 for the system as of December 31, 2007.

#### Contributions-in-aid-of-Construction (CIAC)

The Utility recorded a CIAC balance of \$3,495,558 for the system as of December 31, 2007. We have reviewed the Utility's CIAC balance and it appears to be reasonable. Therefore, we are in agreement with the Utility and approve a CIAC balance of \$3,495,558 to be included in rate base.

#### Accumulated Depreciation

The Utility recorded a balance for accumulated depreciation of \$2,886,826 for wastewater as of December 31, 2007. The Utility shall adjust this account by \$9,855 to remove the depreciation associated with several retired plant items. The Utility did not apply the prescribed rates set in Rule 25-30.140, F.A.C. We have calculated accumulated depreciation using the prescribed rates and determined that an adjustment of \$16,528 is needed to correct the account balance. In addition, an adjustment to increase the account balance by (\$10,038) was not recorded from a prior audit in Docket No. 981079-SU. As a result, we have decreased this account by the net amount of \$16,345 to reflect the correct depreciation balance. These adjustments result in an accumulated depreciation balance of \$2,870,481 for the system as of December 31, 2007.

#### Accumulated Amortization-CIAC

The Utility recorded a balance for accumulated amortization of \$1,186,714 as of December 31, 2007. The Utility used a three percent amortization rate to calculate accumulated amortization. The NARUC USOA, for a Class A wastewater system, provides that a group or overall composite rate may be used for contributed balances that cannot be directly related to a plant's assets. We used a yearly composite depreciation rate to determine the accumulated amortization balance. The composite rate is based on the guideline average service lives in Rule 25-30.140, F.A.C. Therefore, we have increased this account by \$35,457. The adjustment results in an accumulated amortization balance of \$1,222,171 for the system as of December 31, 2007.

#### Conclusion

Based on the foregoing, we find that the appropriate rate base is \$2,417,932 for the system as of December 31, 2007. Rate base is shown on Schedule No. 1-A and our adjustments are shown on Schedule 1-B. Rate base for transfer purposes does not include the normal ratemaking adjustments for working capital or used and useful. Within 60 days of the date of the final order, Ni Florida shall be required to provide a statement that the Utility's books have been

updated to reflect our approved rate base adjustments and balances. In addition, our rate base adjustments shall be reflected in the Utility's 2008 annual report.

ACQUISITION ADJUSTMENT

An acquisition adjustment results when the purchase price differs from the original cost of the assets adjusted to the time of the acquisition. The calculation of an acquisition adjustment is shown below:

Purchase Price	\$5,600,000
Rate Base	<u>\$2,417,932</u>
Positive Acquisition Adjustment	\$3,182,068

Pursuant to Rule 25-30.0371, F.A.C., a positive acquisition adjustment shall not be included in rate base absent proof of extraordinary circumstances. The buyer has neither requested an acquisition adjustment nor identified any extraordinary circumstances. Therefore, we find that an acquisition adjustment shall not be included in the calculation of rate base for transfer purposes.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the appropriate rate base, which reflects the net book value for transfer purposes, shall be \$2,417,932 for the Hudson Utilities, Inc. system as of December 31, 2007. It is further

ORDERED that within 60 days of the date of the final order, Ni Florida, LLC shall provide a statement that the Utility's books have been updated to reflect the Commission-approved rate base adjustments and balances. It is further

ORDERED that the Commission approved rate base adjustments shall be reflected in the Utility's 2008 annual report. It is further

ORDERED that an acquisition adjustment shall not be included in the calculation of rate base for transfer purposes. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. 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. However, the docket shall remain open pending receipt of the confirmation statement that the Utility's books have been adjusted to reflect the Commission approved rate base adjustments. It is further

ORDERED that upon receipt of the confirmation statement, this docket may be closed administratively when this Order becomes final.

By ORDER of the Florida Public Service Commission this 5th day of January, 2009.



ANN COLE  
Commission Clerk

( S E A L )

CMK

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.

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.

The action proposed herein is preliminary in nature. 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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on January 26, 2009.

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In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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

**HUDSON UTILITIES, LLC**  
SCHEDULE OF WASTEWATER RATE BASE  
AS OF DECEMBER 31, 2007

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY BOOKS</u>	<u>COMMISSION ADJUSTMENTS</u>		<u>BALANCE</u>
Utility Plant in Service	\$7,560,838	(\$8,551)	A	\$7,552,287
Land	9,513	0		9,513
Contributions in Aid of Construction (CIAC)	(3,495,558)	0		(3,495,558)
Accumulated Depreciation	(2,886,826)	16,345	B	(2,870,481)
Amortization of CIAC	<u>1,186,714</u>	<u>35,457</u>	C	<u>1,222,171</u>
WASTEWATER RATE BASE	<u>\$2,374,681</u>	<u>\$43,251</u>		<u>\$2,417,932</u>

**HUDSON UTILITIES, LLC**  
**SCHEDULE OF WASTEWATER RATE BASE ADJUSTMENTS**

<u>EXPLANATION</u>	<u>COMMISSION APPROVED ADJUSTMENT</u>
<b>A Utility Plant In Service</b>	
1. To record UPIS retirements	(8,551)
Total Utility Plant In Service adjustment	(\$8,551)
<b>B Accumulated Depreciation</b>	
1. To adjust for retired plant	\$ 9,855
2. To reflect the correct depreciation rates	16,528
3. To reflect prior PSC audit adjustment	(10,038)
Total Accumulated Depreciation adjustment	\$16,345
<b>C Accumulated Amortization of CIAC</b>	
1. To increase amortization to reflect composite rate	\$35,457
Total Accumulated Amortization of CIAC adjustment	\$35,457
<b>Total Adjustments</b>	<b><u>\$43,251</u></b>

HUDSON UTILITIES, LLC		SCHEDULE NO. 1-B	
COMMISSION APPROVED DECEMBER 31, 2007 BALANCE			
WASTEWATER		ACCUMULATED	
ACCT NO.	ACCOUNT NAME	PLANT BALANCE	DEPRECIATION BALANCE
351	Organization	\$6,247	\$6,247
353	Land and Land Rights	9,513	0
354	Structures and Improvements	2,195	1,562
360	Collection Sewers-Force	995,236	582,640
361	Collection Sewers-Gravity	3,692,850	937,648
362	Special Collecting Structure	411,793	108,881
363	Services to customers	991,349	266,716
364	Flow Measuring Devices	157,854	157,854
370	Receiving Wells	550,916	263,733
371	Pumping Equipment	540,546	343,008
389	Other Plant and Miscellaneous Equipment	6,298	6,298
390	Office Furniture and Equipment	36,751	35,641
391	Transportation Equipment	146,609	146,609
393	Tools, Shop and Garage Equipment	10,829	10,829
398	Other Tangible Plant	<u>2,814</u>	<u>2,814</u>
<b>Total Wastewater Plant</b>		<b>\$7,561,800</b>	<b>\$2,870,481</b>