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M E M O R A N D U M

July 11, 1986

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING
FROM: DIVISION OF LEGAL SERVICES (JANER) *RRJ HB*
RE : DOCKET NO. 860583-WS, APPLICATION FOR THE TRANSFER OF
CERTIFICATES NOS. 277-W AND 223-S FROM ECO-SAN, INC., TO
CLAYTON, WILLIAMS & SHERWOOD, INC.

OH# 16360

The attached order is in accordance with the Commission vote at the July 1st Agenda Conference and must be issued no later than July 16, 1986, in order for the dates thereon to be appropriate.

RRJ/rl
Attachment/Order

cc: Division of Water and Sewer

DOCUMENT NUMBER-DATE
07258 JUL 16 1986
FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for the transfer) DOCKET NO. 860583-WS
of Certificates Nos. 277-W and 223-S) ORDER NO. 16360
from ECO-SAN, INC., to CLAYTON,)
WILLIAMS & SHERWOOD, INC.)
ISSUED: 7-16-86

The following Commissioners participated in the disposition of this matter:

JOHN R. MARKS, III, Chairman
GERALD L. GUNTER
KATIE NICHOLS
MICHAEL MCK. WILSON
JOHN T. HERNDON

NOTICE OF PROPOSED AGENCY ACTION

ORDER APPROVING TRANSFER OF CERTIFICATES
AND REQUIRING DISCONTINUANCE OF COLLECTION
OF CASH CONNECTION FEES

BY THE COMMISSION:

Notice is hereby given by the Florida Public Service Commission of its intent to approve the transfer of Certificates Nos. 277-W and 223-S from Eco-San, Inc., to Clayton, Williams and Sherwood, Inc., pursuant to Section 367.071, Florida Statutes.

CASE BACKGROUND

On May 13, 1986, Eco-San, Inc., the present holder of Certificates Nos. 277-W and 223-S, filed an application for permission to transfer the certificates to Clayton, Williams and Sherwood, Inc. The buyer is also purchasing certain mobile home sales and mobile home development properties from the utility's parent organization, Palm Ventures, Inc.

Eco-San, Inc., provides water distribution and wastewater collection services in Seminole County for approximately forty (40) single family homes, all individually metered, and for a mobile home community (Palm Valley Mobile Home Park) under a master metering arrangement. The mobile home park is the majority user of the utility's services and provides about 90 percent of utility revenues. The mobile home community is the subject of the collateral property purchase agreement.

This Commission's approval of the proposed transfer of certificates is one of the precedent conditions for closing of the related property purchase agreement. To facilitate such closing, the applicants have asked this Commission to consider this pending transfer matter at the earliest opportunity.

APPLICATION

The application in this case is in substantial compliance with Section 367.071, Florida Statutes, and the applicable provisions of Chapter 25-10, Florida Administrative Code. The appropriate filing fee of \$300 was paid pursuant to Section 367.141, Florida Statutes. Notice to all governmental agencies and utilities within the required radius of the territory to be served was given on March 25, 1986. Notice was published on

DOCUMENT NUMBER-DATE

07258 JUL 16 1986

PSC-RECORDS/REPORTING

March 30, April 6, and April 13, 1986, in The Orlando Sentinel, a newspaper of general circulation in Seminole County. No written objections to the proposed transfer were received, and the time for filing such has expired.

The buyer proposes to acquire the utility's certificates and assets in the context of a larger business transaction which involves the purchase of a mobile home development project from the utility's parent organization. Thus the buyer is necessarily concerned with the preservation of satisfactory utility service.

The buyer has demonstrated that it has the financial ability to operate the system. Further, it appears that the buyer has the desire to provide good quality of service. Therefore, we find this transfer to be in the public interest, and do hereby approve the transfer of Certificates Nos. 277-W and 223-S from Eco-San, Inc., to Clayton, Williams and Sherwood, Inc.

RATE BASE

Section 367.071, Florida Statutes, allows this Commission to establish the rate base balance in a proceeding for the transfer of operating certificates. In measuring that investment, Commission policy dictates retention of the former owner's rate base balance (original cost), unless extraordinary conditions are evident. Neither the buyer nor the seller have demonstrated any extraordinary conditions. Therefore, any acquisition adjustment will not be included in rate base.

Based upon review of the 1985 annual report previously filed by Eco-San, Inc., supporting tax depreciation worksheets, and further communication with the utility's outside accountant, a rate base balance of \$16,611 is computed as of December 31, 1985.

The utility's 1985 annual report shows a net plant investment of \$141,591 as of December 31, 1985. This amount was also reported for tax depreciation purposes. The amount of contributions-in-aid-of-construction (CIAC) in that annual report were \$142,055. However, further information shows that the correct balance should be \$160,100. When the reserve balance for amortization of CIAC is considered, the net CIAC balance is calculated to be \$124,980. This results in a rate base total of \$16,611. This rate base balance does not include working capital, used and useful corrections, or similar adjustments which are normally considered in a rate case proceeding.

ACQUISITION ADJUSTMENT

When a utility system is acquired in a purchase transaction and the purchase price is different from the rate base value (original cost) of the acquired properties, the difference is described as an acquisition adjustment. As previously stated, this acquisition adjustment is not included in the rate base calculation unless there are extraordinary circumstances.

As indicated in the purchase agreement of February 27, 1986, the actual purchase price for the utility assets shall be \$140,000. That amount appears to be an allocated share of the overall purchase price for a simultaneous acquisition of utility assets and various mobile home properties. As previously discussed, a \$16,611 original cost value for rate base has been determined. Therefore, the purchase price of \$140,000 exceeds

that original cost rate base amount of \$16,611 by \$123,389. This will be recorded as a positive acquisition adjustment. However, this amount is not included in the calculation of rate base.

SERVICE AVAILABILITY CHARGES

In reviewing the filing of the utility, it was discovered that the utility had been collecting connection fees pursuant to informal and formal developer agreements. Approximately \$136,000 appears to have been collected from an affiliated company for development of the mobile home park and an additional \$24,100 was collected from other developers. By letter dated December 21, 1982, the utility indicated that its policy was to collect an \$800 combined water and sewer connection fee for all proposed connections. Review of the utility's tariffs shows that this charge was never formally adopted or approved.

Also, the ratio of net contributions-in-aid-of-construction (CIAC) to net plant investment is about 88 percent. This ratio is larger than that prescribed in Rule 25-30.58, Florida Administrative Code. We believe it is essential that an owner retain some investment in the utility system as an incentive for proper attention to maintenance problems and other service concerns. Therefore, the utility should discontinue collection of any cash connection fees until otherwise authorized by this Commission.

We do note that in the purchase agreement of February 27, 1986, the seller still owned about 14 acres of frontage property in the utility's service area, and to the extent that expansion of treatment plant facilities is later necessary to permit development of that property, the seller has agreed that such construction should be at its sole expense.

In consideration of the above, it is

ORDERED by the Florida Public Service Commission that the application for transfer of Certificates Nos. 277-W and 223-S from Eco-San, Inc., to Clayton, Williams and Sherwood, Inc., 800 Newport Center Drive, Suite 400, Newport Beach, California 92660, be and is hereby approved. It is further

ORDERED that, for purposes of this transfer only, rate base be established as of December 31, 1985, at \$16,611. It is further

ORDERED that no acquisition adjustment should be included in the rate base evaluation. It is further

ORDERED that the provisions of this order, issued as Proposed Agency Action, shall become final unless an appropriate petition in the form provided by Rule 25-22.36, Florida Administrative Code, is received by the Director of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32301, by the close of business on August 6, 1986. It is further

ORDERED that the utility shall continue to charge only those rates and charges as approved by this Commission. It is further

ORDERED that the utility shall cease to collect cash connection fees.

By ORDER of the Florida Public Service Commission, this 16th
day of JULY, 1986.


STEVE TRIBBLE, Director
Division of Records & Reporting

(S E A L)

RRJ

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes (1985), to notify parties of any administrative hearing or judicial review of Commission orders that may be available, as well as the procedures and time limits that apply to such further proceedings. This notice should not be construed as an endorsement by the Florida Public Service Commission of any request for further proceedings or judicial review, nor should it be construed as an indication that such request will be granted.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.29, 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 25-22.29(4), Florida Administrative Code, in the form provided by Rule 25-22.36(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32301, by the close of business on August 6, 1986. In the absence of such a petition, this order shall become effective August 7, 1986, as provided by Rule 25-22.29(6), Florida Administrative Code, and as reflected in a subsequent order.

If this order becomes final and effective on August 7, 1986, any party adversely affected may request judicial review by the First District Court of Appeal by the filing of a notice of appeal with the Director, Division of Records and Reporting and the filing of a copy of the notice and filing fee with the First District Court of Appeal. This filing must be completed within 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.