

FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center • 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

MEMORANDUM

September 26, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF WATER & WASTEWATER (TOMLINSON, REDEMANN) *CT, DSA*
DIVISION OF LEGAL SERVICES (AGARWAL) *RA*

RE: DOCKET NO. 960716-WU - RAVENSWOOD WATER SYSTEM D/B/A
THEODORE S. JANSEN - APPLICATION FOR TRANSFER OF
CERTIFICATE NO. 123-W IN LAKE COUNTY FROM RAVENSWOOD
WATER SYSTEM D/B/A THEODORE S. JANSEN TO CRYSTAL RIVER
UTILITIES, INC.
COUNTY: LAKE

AGENDA: OCTOBER 8, 1995 - REGULAR AGENDA - PROPOSED AGENCY ACTION
ON ISSUES NOS. 2, 3, a portion of 4 AND 5 - INTERESTED
PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\WAW\WP\960716WU.RCM

DOCUMENT NUMBER-DATE

10342 SEP 26 88

FPSC-RECORDS/REPORTING

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

Pursuant to Sections 367.011 and 367.021, Florida Statutes, anyone who owns, operates, manages, or controls a water and/or wastewater utility system is subject to the Commission's jurisdiction. Section 367.031, Florida Statutes, requires each utility subject to the Commission's jurisdiction to obtain a certificate of authorization or request an exemption. 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. Staff has reviewed the Option Agreement of Purchase and Sale (Agreement) and has found that although the parties have come to an agreement on the sale, the official closing is contingent upon the approval of the Commission.

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DISCUSSION OF ISSUES

ISSUE 1: Should the transfer of Water Certificate No. 123-W from Ravenswood Water System d/b/a Theodore S. Jansen to Crystal River Utilities, Inc. be approved?

RECOMMENDATION: Yes, the transfer of Water Certificate No. 123-W should be approved. (TOMLINSON, REDEMANN)

STAFF ANALYSIS: As stated in the case background, Crystal River Utilities, Inc. applied for a transfer of the Ravenswood water system (Water Certificate No. 123-W in Lake County) to Crystal River Utilities, Inc. on June 10, 1996. 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 to the application were received, and the time for the filing of such objections has expired. A description of the territory served by the utility is appended to this memorandum 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. Staff has contacted the Department of Environmental Protection (DEP) and has learned that there are no outstanding notices of violation against the utility. Regarding the financial ability, Crystal River supplied financial statements to staff. The 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 believe 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. Since the system is small, staff believes that the assets of the new owner should be adequate to insure the continued operations of the utility.

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The application contains a copy of the contract for sale 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. In addition, the developer agreements, customer deposits and interest thereon will be transferred to the purchaser. In addition, Crystal River has provided a statement that it will fulfill the commitments, obligations, and representations of the transferor.

Based on the above, staff believes the transfer of Water Certificate No. 123-W from Ravenswood Water System d/b/a Theodore S. Jansen to Crystal River Utilities, Inc., is in the public interest and should be approved.

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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.

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ISSUE 2: What is the rate base of Ravenswood at the time of transfer?

RECOMMENDATION: The rate base, which for transfer purposes reflects the net book value, is \$7,377 for the water system as of April 11, 1996. (TOMLINSON)

STAFF ANALYSIS: 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.

Staff conducted an audit of the books and records of the utility to determine the rate base (net book value) at the time of transfer. The rate base examined by staff and the beginning balances were reconciled to the last order. Staff reviewed 100% of total dollar additions/retirements of utility plant-in-service, testing for proper amount, timing, and account classifications. Staff also recomputed accumulated depreciation balance from December 1, 1992, forward, compiled the land balance and verified land ownership with company-supplied documentation. In addition, staff reviewed and calculated a sample of customer bills for the month of March 1996 from the utility's billing register to verify the Commission approved rates at April 11, 1996.

Staff examined the utility plant account balances. Upon investigation, the company records did not agree with prior Commission Order No. PSC-93-0901-FOF-WU, at November 30, 1992. Therefore staff adjusted the accounts to comply with the Commission order.

In addition, staff 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, staff reduced the utility's water utility plant-in-service balance by \$47 to remove these additions from rate base.

Staff 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 be capitalized as additions to Water Utility Plant-in-Service because they relate to major capital improvements/additions to the company's utility plant. Therefore, staff increased the Water

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Utility Plant-in-Service accounts by \$248 to properly account for the utility plant additions.

Per NARUC, Class C, Accounting Instruction No. 4D, "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". Staff 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, staff reduced Water Utility Plant-in-Service by \$2,498.

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

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

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

Staff's 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, staff recommends that rate base for Crystal River 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 transferred and does not include the normal ratemaking adjustments of working capital calculations and used and useful adjustments.

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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>STAFF ADJUSTMENTS</u>	<u>BALANCE PER STAFF</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>

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SCHEDULE NO. 2

CRYSTAL RIVER UTILITIES, INC.

SCHEDULE OF WATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
Utility Plant in Service	
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)
Accumulated Depreciation	
To record recalculation of depreciation per Rule 25-30.14C	(\$1,904)
Accumulated Amortization of CIAC	
To record recalculation of amortization of CIAC	\$472
Accumulated Amortization of Acquisition Adjustment	
To record recalculation of Acc. Amortization of Acquisition Adjustment	\$2,178

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ISSUE 3: Should a positive acquisition adjustment be approved?

RECOMMENDATION: No, a positive acquisition adjustment should not be included in the calculation of rate base for transfer purposes. (TOMLINSON)

STAFF ANALYSIS: 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
Staff Calculated Rate Base:	<u>\$ 7,377</u>
Positive Acquisition Adjustment:	<u>\$16,623</u>

In the absence of extraordinary circumstances, it has been Commission 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, staff recommends that a positive acquisition adjustment should not be included in the calculation of rate base.

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ISSUE 4: Should Crystal River adopt and use the rates and charges approved by this Commission for Ravenswood?

RECOMMENDATION: Yes, Crystal River should continue charging the rates approved for this utility system. Additionally, the deposit charges requested by the utility should be approved as modified. The tariff reflecting the change in ownership should be effective for services provided or connections made on or after the stamped approval date. The portion of the order concerning the approval of the deposit charges should be issued as proposed agency action. (TOMLINSON, AGARWAL)

STAFF ANALYSIS: 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. The Commission 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" x 3/4" 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

Staff has reviewed the proposed charges and finds that they do not exceed the amount equal to the average actual charge for water service for two monthly billing periods. Therefore, staff believes that it is appropriate to approve the proposed deposit charges. In addition, staff recommends that the portion of the Order concerning

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the approval of the deposit charges should be issued as proposed agency action.

Based on the above, staff recommends that the utility continue charging the rates approved for Ravenswood. Additionally, staff recommends that the utility should be authorized to implement the proposed deposit 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 the Commission's decision. Finally, staff recommends that the portion of the Order concerning the approval of the deposit charges should be issued as proposed agency action.

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ISSUE 5: Should Crystal River's request to implement a late charge of \$5.00 be approved?

RECOMMENDATION: Yes, the tariff to implement a late charge should be approved and should become effective for service rendered on or after the stamped approval date. (TOMLINSON)

STAFF ANALYSIS: 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. Recommendations have been made based upon the conditions presented by each individual utility. The Commission has 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 sewer-only utility. In Order No. 20779 issued on February 20, 1988, the Commission authorized a 1.5% late charge on all customers of Longwood Utilities, also a sewer-only company. The Commission has approved a late charge for sewer-only operations because of the difficulty in shutting off a customer's sewer service.

Late charges for both water and wastewater operations have also been approved by the Commission. In Docket No. 891365-WS, Ortega Utility submitted cost justification for a late charge request of 1.5%. However, the Commission 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, the Commission 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, the Commission also approved a late payment charge for Rolling Oaks Utilities, Inc. (Citrus County) and Hydratech Utilities, Inc. (Martin County).

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Presently, Commission 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. Staff believes that the cost causer should 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, staff recommends that the utility's request to implement a late payment of \$5.00 should be approved.

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ISSUE 6: Should this docket be closed?

RECOMMENDATION: Yes, upon expiration of the 21 day protest period, this docket should be closed if no timely protest is filed by a substantially affected person to the proposed agency action issues. (AGARWAL)

STAFF ANALYSIS: If there are no timely protests filed by a substantially affected person to the proposed agency action issues (Issues Nos. 2 and 3), no further action will be required and this docket should be closed.