

FLORIDA PUBLIC SERVICE COMMISSION
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M E M O R A N D U M

November 14, 1996

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

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

RE: DOCKET NO. 960717-WU - DEMETREE INDUSTRIES, INC. -
APPLICATION FOR TRANSFER OF CERTIFICATE NO. 396-W IN
CITRUS COUNTY FROM DEMETREE INDUSTRIES, INC. TO CRYSTAL
RIVER UTILITIES, INC.
COUNTY: CITRUS

AGENDA: NOVEMBER 26, 1996 - REGULAR AGENDA - PROPOSED AGENCY
ACTION ON ISSUES NOS. 2, 3, and a portion of 4 -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\WAW\WP\960717WU.RCM

DOCUMENT NUMBER-DATE
12114 NOV 14 8
FPSC-RECORDS/REPORTING

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CASE BACKGROUND

Demetree Industries, Inc. (Demetree or utility) provides water service in Citrus County and serves approximately 46 customers. The annual report for 1995 shows that the operating revenue for the system was \$5,645 and the net operating loss was \$9,631. The utility is a Class C utility company under Commission jurisdiction. On June 10, 1996, Demetree applied for a transfer of the Demetree water system (Water Certificate No. 396-W in Citrus County) to Crystal River Utilities, Inc.

Section 367.031, Florida Statutes, requires each utility subject to the Commission's jurisdiction to obtain a certificate of authorization. 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. 396-W from Demetree Industries, Inc. to Crystal River Utilities, Inc. be approved?

RECOMMENDATION: Yes, the transfer of Water Certificate No. 396-W should be approved. (TOMLINSON, REDEMANN)

STAFF ANALYSIS: As stated in the case background, Crystal River Utilities, Inc. applied for a transfer of the Demetree Industries, Inc. (Water Certificate No. 396-W in Citrus 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 \$5,645 and the net operating loss was \$9,631. 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. 396-W from Demetree Industries, Inc. 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

CITRUS COUNTY

Township 19 South, Range 18 East, Citrus County, Florida.

Section 19: The Southwest 1/4 of the Southwest 1/4 of said
 Section 19.

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

RECOMMENDATION: Staff cannot determine what the rate base is for Demetree due to the lack of appropriate records and the need for an original cost study. Therefore, the rate base will be established at the time of a future rate proceeding. (TOMLINSON)

STAFF ANALYSIS: According to the application, the net book value of the system being transferred was estimated to be \$0.00 on December 31, 1995 as determined from the annual report filed by Demetree. However, staff notes that rate base has never officially been established by the Commission. Therefore, 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, July 31, 1996.

The audit revealed that the records of Demetree Industries, Inc., the developer, are commingled with those applicable to utility operations. As a result, staff cannot determine what the appropriate rate base is for Demetree. Rate base will need to be established after an original cost study has been performed and at the time of a rate proceeding. Therefore, staff recommends that no rate base be established at this time.

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ISSUE 3: Should an acquisition adjustment be approved?

RECOMMENDATION: No, an acquisition adjustment cannot be calculated. (TOMLINSON)

STAFF ANALYSIS: An acquisition adjustment results when the purchase price differs from the net book value of the utility. The rate base or net book value of the utility cannot be determined at this time as discussed in Issue 2. The purchase price for this facility was \$3,500. The parties did not request an adjustment. Because rate base cannot be established, a finding regarding an acquisition adjustment cannot be made at this time. Therefore, staff recommends that no acquisition adjustment be made.

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

RECOMMENDATION: Yes, Crystal River should continue charging the rates approved for this utility system. Additionally, the utility should be authorized to implement Crystal River's currently approved deposit charges and late fee. 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 and late fee should be issued as proposed agency action. (TOMLINSON, AGARWAL)

STAFF ANALYSIS: The utility's current approved rates and charges were effective March 24, 1992 pursuant to Order No. PSC-92-0025-FOF-WU issued in Docket No. 910850-WU. The Commission approved these rates when Demetree filed for a transfer of the certificate.

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 requested that the deposit charges and late fee charge currently outlined in Crystal River's approved tariff be applied to the Demetree water service area. Demetree currently is authorized to charge a residential and general service customer (all meter sizes) a \$20.00 deposit. Crystal River has requested to implement the following charges:

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	<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 compared Demetree's currently approved deposit charges with Crystal River's approved deposit charges and believes that Crystal River's deposit charges are reasonable since the only difference between the two rates are the factoring up of the deposit charges for each meter size. Therefore, staff recommends that the Commission approve the proposed deposit charges.

In addition, Crystal River has requested to implement its currently approved late fee 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. Therefore, staff recommends that Crystal River's request to apply its currently approved deposit charges and late fee to Demetree's service area are just, fair and reasonable and that the portion of the Order concerning the approval of the deposit charges and late fee should be issued as proposed agency action.

Based on the above, staff recommends that the utility continue charging the rates approved for Demetree. Additionally, staff recommends that the utility should be authorized to implement Crystal River's currently approved deposit charges and late fee. 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 and Rule 25-30.475, Florida Administrative Code. Finally, staff recommends that the portion of the Order concerning the approval of the deposit charges and late fee should be issued as proposed agency action.

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ISSUE 5: 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 received by a substantially affected person to the proposed agency action issues. (AGARWAL)

STAFF ANALYSIS: If there is no timely protest received by a substantially affected person to the proposed agency action issues (Issues Nos. 2, 3, and a portion of 4), no further action will be required and this docket should be closed.