

FLORIDA PUBLIC SERVICE COMMISSION
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Tallahassee, Florida 32399-0850

M E M O R A N D U M

JANUARY 23, 1997

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

FROM: DIVISION OF WATER & WASTEWATER (COKER, REDEMANN) *Sam Jio RRR JMW OK*
DIVISION OF LEGAL SERVICES (CROSBY) *LR BL*

RE: DOCKET NO. 960642-WU - APPLICATION FOR TRANSFER OF ASSETS
AND FACILITIES FROM SEVEN RIVERS UTILITIES, INC. TO
CRYSTAL RIVERS UTILITIES, INC. IN CITRUS COUNTY, AMENDING
WATER CERTIFICATE NO. 396-W AND CANCELLATION OF WATER
CERTIFICATE 551-W.
COUNTY: CITRUS

AGENDA: FEBRUARY 4, 1997 - REGULAR AGENDA - PROPOSED AGENCY
ACTION ON ISSUES NO. 2, 3 AND 4 CONCERNING DEPOSITS AND
LATE FEES

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

LOCATION OF FILE: S:\PSC\WAW\WP\960642WU.RCM

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

DOCKET NO. 960642-WU
JANUARY 23, 1997

CASE BACKGROUND

Seven Rivers Utilities, Inc. (Seven Rivers or utility) provides water service in Citrus County and serves approximately 154 customers. The 1995 annual report for Seven Rivers states that the operating revenue for the system was \$27,328 with a net operating loss of \$2,214. The utility is a Class C utility company under Commission jurisdiction. On May 23, 1996, Crystal River Utilities, Inc. (Crystal River) applied for the transfer of assets, facilities and Water Certificate No. 551-W from Seven Rivers to Crystal River.

DOCKET NO. 960642-WU
JANUARY 23, 1997

DISCUSSION OF ISSUES

ISSUE 1: Should the transfer of assets and facilities from Seven Rivers Utilities, Inc. to Crystal River Utilities, Inc., the amendment of Water Certificate No. 396-W, and the cancellation of Water Certificate No. 551-W be approved?

RECOMMENDATION: Yes, the transfer of assets and facilities from Seven Rivers Utilities, Inc. to Crystal River Utilities, Inc., the amendment of Water Certificate No. 396-W, and the cancellation of Water Certificate No. 551-W should be approved. (COKER, REDEMANN)

STAFF ANALYSIS: As stated in the case background, Crystal River Utilities, Inc. applied for a transfer of the Seven Rivers water system, including Water Certificate No. 551-W in Citrus County to Crystal River Utilities, Inc. on May 23, 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 a check in the amount of \$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. The territory description in the recommendation dated March 4, 1993, in Docket No. 920933-WU, was correct. However, Order No. PSC-93-0877-AS-WU, issued June 10, 1993, which granted the original service area for this certificate contained two typographical errors. In the Order, Line 7 of the final paragraph reads, "Line of Lots 46 and 46...". Line 10 of the final paragraph reads, "along the North right-of-way South 88°49'19" West, 473.10 feet to...". Line 7 of the final paragraph should read, "Line of Lots 45 and 46...". Line 10 of the final paragraph should read, "along the North right-of-way South 88°49'19" West, 673.10 feet to...". This recommendation revises the description and corrects those errors.

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

DOCKET NO. 960642-WU
JANUARY 23, 1997

(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, which 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. Since the system is small, staff believes that the financial foundation of the new owner should be adequate to insure the continued operations of the utility.

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. Crystal River has provided a statement that it will fulfill the commitments, obligations, and representations of the transferor.

Crystal River previously received Water Certificate No. 396-W in Citrus County through Order No. PSC-96-1539-FOF-WS, issued December 17, 1996. Therefore, although Crystal River requested a transfer of assets associated with Certificate No. 551-W of Seven Rivers, the appropriate action is to cancel Certificate No. 551-W, and amend Crystal River's existing Citrus County Certificate, No. 396-W.

Based on the above, staff believes the transfer of assets and facilities from Seven Rivers Utilities, Inc. to Crystal River Utilities, Inc., the amendment of Water Certificate No. 396-W, and the cancellation of Water Certificate No. 551-W is in the public interest and should be approved.

Crystal River Utilities, Inc.
Territory Description

The Seven Rivers System

Citrus County

HOMOSASSA VILLA TERRACE UNIT 11 WATER SYSTEM is situated in the Northeast 1/4 of Section 24, Township 19 South, Range 17 East; Citrus County, Florida, being a recorded subdivision - Sub. 0110, Pb. 1, Pg. 52, further shown on the County Aerial No. 72D, County Map 218A and further being described as follows:

Beginning at a point of commencement - the Northeast corner of Section 24 and running due West along the North line of Section 24, 1373.08 feet to the Point of Beginning. From the Point of Beginning, going due South along the center line of Country Club Place a distance of 405.00 feet to a point. Thence going due East along the center line of Grant Drive 283.51 feet to a point of curvature. Thence along the curve having a radius of 2315.10 feet, an arc of 232.74 feet, a chord of 230.78 feet and a chord bearing of North 87°08'00" East to a point. Thence going due South along the center line of Citrus Avenue 611.50 feet to a point of curvature. Thence along the curve having a radius of 470.00 feet, an arc of 738.27 feet, a chord of 666.26 feet and a chord bearing of South 45°00'00" West to a point. Thence going due North a distance of 10 feet to a point. Thence going due West a distance of 170.00 feet to a point. Thence going due North along the center line of Country Club Place a distance of 390.00 feet to a point. Thence going due West along the center line of Pershing Avenue a distance of 983.35 feet to a point on the center line of Rosedale Avenue and also a point of curvature. Thence along the curve have a radius of 1378.24 feet, an arch of 225.99 feet, a chord of 225.66 feet and a chord bearing of North 04°24'35" East to a point. Thence continuing due North along the center line of Rosedale Avenue a distance of 850.00 feet to a point on the North Section line of Section 24. Thence going due East along the North Section line, a distance of 1090.00 feet to the Point of Beginning.

KENWOOD NORTH WATER SYSTEM is situated in the West 1/4 of the Northwest 1/4 of the Northeast 1/4 of Section 25, Township 19 South, Range 17 East; Citrus County, Florida, being an unrecorded subdivision 1D000, further shown on the County Aerial No. 73A, County Map 219A and being further described as follows:

From a Point of Beginning - Being the Southwest corner of the Northwest 1/4 of Section 25, Township 19 South, Range 17 East, North 00°25'47" West 1288.98 feet to a point on the South right-of-way of Grover Cleveland Boulevard. Thence along the South right-of-way - South 89°58'00" East, 666.04 feet to a point. Thence leaving the South right-of-way South 00°18'48" East, 1292.47 feet to a point. Thence North 89°39'48" West, 663.43 feet to the Point of Beginning.

MEADOW STREET WATER SYSTEM is situated within Green Acres Pb. 5, Pg. 4, Sub. 0200 within the Southeast 1/4 of Section 36, Township 19 South, Range 17 East and within Green Acres Subdivision No. 1, Sub. 0210 Pb. 5, Pg. 5, within the North ½ of the Southwest 1/4 in Section 31, Township 19 South, Range 18 East; Citrus County, Florida, and further shown on the County Aerial 86C, County Map 375C, being further described as follows:

From a point of commencement being the Southeast corner of Section 36, Township 19 South, Range 17 East North a distance of 1966.84 feet to the Point of Beginning on the North right-of-way of Meadow Street. Thence South 89°44'44" West, 332.02 feet to a point. Thence leaving the right-of-way North 00°04'49" East, 623.43 feet to a point. Thence South 89°29'56" East, 331.09 feet to a point. Thence South 00°05'32" East, 622.00 feet to the Point of Beginning. Further being the East ½ of Lot 22 within Section 36, Township 19 South, Range 17 East.

Also the following within Section 31, Township 19 South, Range 18 East.

Beginning at the point of commencement being the Southwest corner of Section 31, North 1294.56 feet to the Point of Beginning: Thence North 00°13'45" East, 622.28 feet to a point on the South right-of-way of Meadow Street. Thence North 88°49'19" East, 336.54 feet to a point on the right-of-way. Thence leaving the right-of-way South 00°14'28" West, 624.90 feet to a point. Thence 89°15'59" West, 336.37 feet to the Point of Beginning, being Lot 40.

Beginning at a point of commencement being the Southwest corner of Section 31, North 1966.84 feet to a point on the North right-of-way of Meadow Street. Thence along the right-of-way North 88°49'19" East, 336.55 feet to the Point of Beginning on the West Property

DOCKET NO. 960642-WU
JANUARY 23, 1997

ATTACHMENT A
Page 3 of 3

Line of Lot 42. Thence North $00^{\circ}14'28''$ East 624.90 feet to a point. Thence along the North Property line of Lots 42 and 43, North $88^{\circ}22'40''$ East, 673.54 feet to a point on the Northeast corner of Lot 43. Thence South $00^{\circ}15'54''$ West, 630.13 feet to a point on the North right-of-way of Meadow Street. Thence along the North right-of-way, South $88^{\circ}49'19''$ West, 673.10 feet to the Point of Beginning, being Lots 42 and 43.

Beginning at a point of commencement, being the Southwest corner of Section 31, North 1966.84 feet to a point on the North right-of-way of Meadow Street. Thence along the North right-of-way, North $88^{\circ}49'19''$ East, 1346.20 feet to the Point of Beginning on the West Property Line of Lot 45. Thence North $00^{\circ}16'37''$ East, 632.74 feet to the Northwest corner of Lot 45. Thence along the North Property Line of Lots 45 and 46, North $88^{\circ}22'40''$ East, 673.56 feet to the Northeast corner of Lot 46. Thence South $00^{\circ}18'02''$ West, 637.96 feet to a point on the North right-of-way of Meadow Street. Thence along the North right-of-way South $88^{\circ}49'19''$ West, 673.10 feet to the Point of Beginning, being Lots 45 and 46.

DOCKET NO. 960642-WU
JANUARY 23, 1997

ISSUE 2: What is the rate base of Seven Rivers Utilities, Inc. at the time of transfer?

RECOMMENDATION: The rate base, which for transfer purposes reflects the net book value, is \$17,301 for the water system. (COKER)

STAFF ANALYSIS: In its application, Crystal River proposed a net book valuation of \$17,713 for the acquired assets. That amount was derived using audited details from a staff assisted rate case, which established a rate base value as of June 30, 1994 in Order No. PSC-95-0342-FOF-WU, issued March 13, 1995. Crystal River adjusted that determination to reflect additional depreciation and amortization through December 31, 1995. Staff recommends approval of the revised values as shown below. Crystal River's reported rate base amount included a property held for future use adjustment and a separate provision for working capital. Those measures are typically removed when rate base is established in a transfer proceeding. The 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 for working capital and used and useful corrections.

	<u>12/31/95</u>	<u>Adjustments</u>	<u>Staff Bal.</u>
Utility plant In Service	183,830	0	183,830
Land	3,826	0	3,826
Accumulated Depreciation	(77,273)	0	(77,273)
CIAC	(155,792)	0	(155,792)
Accum. Amort. of CIAC	62,710	0	62,710
Future Plant	(3,173)	3,173	0
Working Capital Allowance	<u>3,585</u>	<u>(3,585)</u>	<u>0</u>
Net Book Value	<u>17,713</u>	<u>(412)</u>	<u>17,301</u>

DOCKET NO. 960642-WU
JANUARY 23, 1997

ISSUE 3: Should an acquisition adjustment be approved?

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

STAFF ANALYSIS: An acquisition adjustment results when the purchase price differs from the former owner's original cost balance. The acquisition adjustment for the proceeding is calculated as follows:

Purchase Price:	\$25,000
Staff Calculated Rate Base:	<u>\$17,301</u>
Acquisition Adjustments:	\$ 7,699

Crystal River is an operating company that acquires and consolidates small utility systems in order to achieve greater operating efficiencies. Additional investments to enhance system performance are sometimes needed. According to Crystal River, a \$3,000 investment in plant facilities has been spent since the purchase of the Seven Rivers system.

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 an acquisition adjustment should not be included in the calculation of rate base.

DOCKET NO. 960642-WU
JANUARY 23, 1997

ISSUE 4: Should Crystal River Utilities, Inc. continue to use the rates and charges approved by this Commission for Seven River Utilities, Inc.?

RECOMMENDATION: Yes, Crystal River Utilities, Inc. should continue charging the rates approved for Seven Rivers Utilities, Inc. Crystal River's currently approved deposit charges and late fee should also be approved. The tariff should be effective for services provided or connections made on or after the stamped approval date. (COKER)

STAFF ANALYSIS: The utility's current approved rates and charges were effective April 28, 1995 pursuant to Order No. PSC-95-0342-FOF-WU issued in Docket No. 940726-WU. The Commission approved these rates when Seven Rivers filed for a staff assisted rate case.

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 requested the rates currently being charged by Seven Rivers remain in effect. The rates are reflected below:

WATER

MONTHLY RATES

Residential Service

	<u>Meter Size</u>	<u>Base Facility Charge</u>	<u>Gallonge Charge</u>
	5/8 x 3/4"	\$ 7.56	\$ 2.22
	3/4"	\$ 11.34	\$ 2.22
	1.0"	\$ 18.90	\$ 2.22
	1.5"	\$ 37.79	\$ 2.22
	2.0"	\$ 60.47	\$ 2.22
	3.0"	\$120.94	\$ 2.22
	4.0"	\$188.97	\$ 2.22
	6.0"	\$377.93	\$ 2.22

DOCKET NO. 960642-WU
 JANUARY 23, 1997

**MISCELLANEOUS
 SERVICE CHARGES**

Initial Connection	\$ 15.00
Normal Reconnection	\$ 15.00
Violation Reconnection	\$ 15.00
Premises Visit	\$ 10.00

SERVICE AVAILABILITY CHARGES

Plant Capacity Charge	\$150.00
Main Extension Charge	\$150.00
Service Line Extension and Tap	\$100.00
Meter Installation Charge (under 2.0")	\$100.00
Meter Installation Charge (over 2.0")	Actual Cost

DEPOSITS

5/8" x 3/4" meter	\$ 21.00
Meter Test Deposit	\$ 20.00
5/8" x 3/4" meter	\$ 25.00
1.0" meter	Actual Cost
2.0" and larger meter	

Crystal River has requested that the deposit charges and late fee charge currently outlined in Crystal River's approved tariff be applied to the Seven Rivers water service area. Seven Rivers is currently authorized to charge a residential customer (5/8" x 3/4" meter size) a \$21.00 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
1.5"	\$100.00	\$100.00
Over 2.0"	\$160.00	\$160.00

Staff has compared Seven Rivers' currently approved deposit charges with Crystal River's approved deposit charges and believes the Crystal River deposit is reasonable since the only difference between the two rates is the adjustment for larger meter sizes.

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

DOCKET NO. 960642-WU
JANUARY 23, 1997

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. Staff believes that Crystal River's request to apply its currently approved late fee to the Seven Rivers service area is reasonable.

Based on the above, staff recommends that the utility continue charging the rates and charges approved for Seven Rivers, with the exception of implementing 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.

DOCKET NO. 960642-WU
JANUARY 23, 1997

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 filed by a substantially affected person to the proposed agency action issues.
(CROSBY)

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