

FLORIDA PUBLIC SERVICE COMMISSION
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MEMORANDUM

JULY 2, 1997

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FPSC - Records/Reporting

TO: DIRECTOR OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF WATER AND SEWER (WALKER, REDEMANN) *ma*
DIVISION OF LEGAL SERVICES (REYES) *bul*

RE: DOCKET NO. ~~970209~~-WS - JOINT APPLICATION BY UNITED WATERWORKS, INC., UNITED WATER FLORIDA INC., AND SUNRAY UTILITIES - NASSAU, INC., FOR APPROVAL OF TRANSFER OF CERTIFICATES NOS. 502-W AND 436-S AND UTILITY FACILITIES FROM SUNRAY UTILITIES - NASSAU, INC., TO UNITED WATER FLORIDA INC.; CANCELLATION OF CERTIFICATES NOS. 502-W AND 436-S; AMENDMENT OF CERTIFICATES NOS. 179-S AND 236-W FOR ADDITIONAL TERRITORY; AND FOR LIMITED PROCEEDING TO ADJUST RATES IN NASSAU COUNTY

AGENDA: JULY 15, 1997 - REGULAR AGENDA - PROPOSED AGENCY ACTION FOR ISSUES NOS. 2 and 3 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: I:\PSC\WAW\WP\970209.RCM

DOCUMENT NUMBER-DATE

06657 JUL-25

FPSC-RECORDS/REPORTING

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CASE BACKGROUND

On February 19, 1997, United Waterworks Inc. (United Waterworks), United Florida Water Inc. (UFW), a Florida corporation formerly known as Jacksonville Suburban Utilities Corporation, and Sunray Utilities-Nassau, Inc. (Sunray) filed a joint application to transfer Certificates Nos. 502-W and 436-S from Sunray to UFW. In addition, they asked the Commission to establish a rate base balance for Sunray's facilities. By design, the purchase price will be adjusted to conform with the verified net plant balance on Sunray's books. The applicants further asked the Commission to approve, with two exceptions, collection of UFW's rates and charges. The exceptions concern retention of Sunray's plant capacity and guaranteed revenue charges. The applicants further asked the Commission to affirm that Sunray's facilities are part of UFW's single utility system whose service transverses county boundaries. Finally, they proposed canceling Sunray's certificates and amending UFW's operating certificates (Certificates Nos. 236-W and 179-S) to include the additional territory in Nassau County.

Sunray is a Class C utility in Nassau County that serves about 163 customers. In 1996, Sunray reportedly collected operating revenues of \$138,269, while recording a net operating loss of \$95,438. By contrast, UFW provides water and wastewater service for three neighboring counties in northeast Florida: Duval, St. Johns, and Nassau. The Commission has previously found that UFW's facilities are functionally related and comprise a single utility system whose service transverses county boundaries.

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DISCUSSION OF ISSUES

ISSUE 1: Should Certificates Nos. 502-W and 436-S be transferred from Sunray to UWF?

RECOMMENDATION: Yes, the requested transfer should be approved. Certificates Nos. 502-W and 436-S should then be canceled upon amendment of UWF's operating certificates to include the additional territory in Nassau County. (WALKER, REDEMANN)

STAFF ANALYSIS: On August 21, 1996, Sunray and UWF's parent organization, United Waterworks Inc. (United Waterworks) entered into an Agreement of Purchase and Sale concerning the intended purchase by United Waterworks of the water and wastewater facilities owned and operated by Sunray in Nassau County. That agreement also provided for a subsequent transfer of the utility system to UWF as a contribution to the utility's capital account. This capital contribution accords with the accounting procedures used in UWF's most recent rate proceeding to identify the cost of capital for ratemaking purposes. In that proceeding, United Waterworks's capital structure is used to determine UWF's cost of capital for ratemaking purposes.

In this proceeding, the applicants have requested authority to transfer Sunray's certificates to UWF. Further, UWF has asked the Commission to confirm that the addition of Sunray to UWF's facilities and land will result in Sunray's facilities becoming a part of UWF's functionally related facilities and land, and will result in Sunray's facilities becoming a part of UWF's single utility system whose service transverses county boundaries. Staff's recommendation on this request is addressed in Issue 3. Upon such a finding, after Sunray's certificates are transferred, UWF has proposed amending its Commission issued operating certificates (236-W and 179-S) to include Sunray's service area in Nassau County.

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 of a certificate. The application contains a check in the amount of \$5,000, which is the correct filing fee pursuant to Rule 25-30.020, Florida Administrative Code. The filing fee includes \$3,000 for amendment of the water and wastewater certificates and \$2,000 to process the limited proceeding portion of this case.

The applicants have provided proof that Sunray owns the land upon which its treatment facilities are located pursuant to Rule 25-30.037(2)(g), Florida Administrative Code.

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The application contains proof of compliance with the noticing provisions set forth in Rule 25-30.030, Florida Administrative Code, including notice to the customers of the system to be transferred. No objections to the notice of application have been received and the time for filing such has expired.

A description of the territory requested by UWF is appended to this recommendation as Attachment A.

We believe the public interest is served by approving the proposed transfer of Sunray's certificates to UWF. We believe that UWF has the financial and technical abilities needed to provide water and wastewater service for the Sunray service area. UWF and its affiliates have been engaged in owning and operating utility systems for over one hundred years. The utility systems owned by the consolidated companies provide service to more than two million individuals in thirteen states. UWF has provided service in Northeast Florida for more than twenty-five years. We believe that UWF possesses the financial, managerial, and technical capabilities needed to assure satisfactory service for this system. We further believe that UWF has shown that its superior financial condition will enable it to attract sufficient capital in order to meet existing and future construction requirements. Further, UWF reported that Rayonier, Sunray's parent company, has agreed to sell all of its utility assets to UWF because it is no longer interested in providing utility service. In contrast, UWF serves a large service area with many customers. This greater customer base should reduce the frequency and necessity for rate increases due to inherent economies of scale.

We have contacted the Department of Environmental Protection (DEP) concerning Sunray's compliance status regarding any outstanding Notices of Violation or any DEP consent orders. We were informed that this system is not subject to any outstanding Notices of Violation or consent orders. In addition, UWF reported that after reasonable investigation, it found that Sunray's system is in satisfactory condition and is in compliance with all DEP operating standards.

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 the liabilities assumed.

Based on the above, staff recommends that Sunray's operating certificates, 502-W and 436-S, should be transferred to UWF because we believe this transfer serves the public interest. Following this transfer, we recommend canceling those certificates and

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amending UWF's Certificates Nos. 236-W and 179-S to include the former Sunray service areas in Nassau County.

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ATTACHMENT A

UNITED FLORIDA WATER INC.
SUNRAY UTILITIES - NASSAU COUNTY, INC.

TERRITORY DESCRIPTION

ORDER NO. 19392

DESCRIPTION OF TERRITORY SERVED

TOWNSHIP 3 NORTH, RANGE 27 EAST:

The portion of Section 51 lying Southerly of the Railroad right-of-way, and Easterly of Lofton Creek.

The portion of Section 52 lying Easterly of Lofton Creek.

The fractional portion of Section 33, if any, lying in the Southeasterly most corner of Township 3 North, Range 27 East.

TOWNSHIP 3 NORTH, RANGE 28 EAST:

All of Section 37.

All of Section 44, LESS and EXCEPT such portion of the section as may lie Northerly of the right-of-way of Green Pine Road, as well as Northerly of a line extending Green Pine Road from its intersection with Chester Road, directly and due West to terminate at the North-South boundary line between Range 28 East and Range 27 East, which is also the Westerly boundary line of Section 44.

Section 50, LESS and EXCEPT such portions as may lie Easterly or Northerly of the right-of-way of Blackrock Road (SR-107).

TOWNSHIP 2 NORTH, RANGE 27 EAST:

That portion of Section 38 lying Easterly of Lofton Creek, LESS and EXCEPT the subdivision of Meadowfield Bluffs.

All of Section 39.

All of Section 40.

All of Section 12.

All of Section 37.

All of Section 1.

That portion of Section 13 lying Easterly of Lofton Creek.

That portion of Section 11 lying Easterly of Lofton Creek.

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That portion of Section 14 lying Easterly of Lofton Creek.

That portion of Section 24 lying Easterly of Lofton Creek.

TOWNSHIP 2 NORTH - RANGE 28 EAST:

All of Section 30.

The westerly 1/2 of Section 29.

In Section 32, the Northerly 1/4 of the Northeasterly 1/4 of the Northwesterly 1/4 together with the Northwesterly 1/4 of the Northwesterly 1/4 of said Section.

Section 26, LESS and EXCEPT that part of the Easterly 1/4 platted as NASSAU LAKES SUBDIVISION.

In Section 27, (a) that portion of Government Lot 3 lying Westerly of State Road 107, LESS and EXCEPT such portion thereof as may be platted as Nassau Lakes Subdivision: TOGETHER WITH (b) that portion of the Westerly 1/2 LESS and EXCEPT such portion as may be platted as Nassau Lakes Subdivision.

Section 25 LESS and EXCEPT so much land in the Northeast 1/4 as may lie Northerly of the Railroad right-of-way (Seaboard Coast Line, a/k/a/ CSX) and FURTHER LESS and EXCEPT so much of the Southeast 1/4 as may lie Southerly of the right-of-way of SR-200 (U.S. Highway A1A).

That part of Section 37, Township 2 North, Range 28 East, Nassau County, Florida and being more particularly described as follows:

Commence at a concrete monument at the Southerwesterly corner of Tract "B" as shown on the Plat of Piney Island, as recorded in Plat Book 4, Pages 62 and 63, of the Public records of said Nassau County, Florida, said point being an intersection of the Northeasterly right-of-way line of Piney Island Drive (a 60 foot right-of-way) with the Northwesterly right-of-way line of the Seaboard Coastline Railroad (a 120 foot right-of-way) both as shown on the said Plat of Piney Island; thence South 30°54'59" East, 417.45 feet to an intersection with the Southeasterly right-of-way line of State Road No. 200 (also known as State Road No. A1A), (a 184 foot right-of-way); and the Point of Beginning; thence North 59°05'01" East, along the said Southeasterly right-of-way line, a distance of 1612 feet more or less to the 3.40 foot elevation contour line; thence Southeasterly, Southerly, Southwesterly, Westerly, Northwesterly and Northerly along the said 3.40 foot contour line, a distance of 9500 feet more or less to an intersection with the aforementioned Southeasterly right-of-way line of State Road No. 200 (Also known as State Road No. A1A), said point lying South 59°05'01" West and 1387 feet more or less from the Point of Beginning; thence North 59°05'01" East along the said Southeasterly right-of-way line a distance of 1387 feet more or less to the Point of Beginning.

Those portions of Sections 40 and 41 more particularly described as:

All of that certain lot, piece or parcel of land situate, lying and being in Section 40, Township 2 North, Range 28 East, County of Nassau and State of Florida, and more particularly described by metes and bounds as follows: Beginning at a point on the Southeasterly line of

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said Section 40, said point lying North 41°00' East a distance of 3376 feet from the Southeast corner of Section 40, thence North 09°35' West a distance of 557 feet to a point on the Easterly right-of-way of a graded County Road (40' r/o/w), thence North 4°19' West along said right-of-way a distance of 669 feet to a point, thence North 06°25' East continuing along said right-of-way a distance of 664 feet to a point at the intersection of the said Easterly right-of-way and the Southerly right-of-way line of the Old Fernandina-Yulee Road (40' r/o/w), thence North 88°21' East along said right-of-way line of the Old Fernandina-Yulee Road a distance of 651 feet to a point on the Westerly right-of-way line of a county road, thence South 18°50' East along said Westerly right-of-way line a distance of 890 feet, more or less, to a point on the Section line between said Section 40 and Section 41, thence South 41°00' West along said section in a distance of 1352 feet, more or less to the Point of Beginning.

TOGETHER WITH:

All of that certain lot, piece or parcel of land situate, lying and being in Section 41, Township 2 North, Range 28 East, County of Nassau and State of Florida, and more particularly described by metes and bounds as follows; Beginning at a point on the Section line between said Section 41 and Section 40, said point lying North 41°00' East a distance of 3376 feet from the Southeast corner of Section 40, thence South 09°35' East a distance of 44.1 feet to a point, thence South 87°42' East a distance of 1109 feet to a point on the Westerly right-of-way line of a graded County Road (40' r/o/w), thence in a Northwesterly direction along the said right-of-way line and around a curve to the left a distance of 1181 feet to a point on the Section line between said Section 41 and Section 40, thence South 41°00' West along said Section line a distance of 1352 feet, more or less, to the Point of Beginning.

TOGETHER WITH:

All of that certain lot, piece or parcel of land situate, lying and being in Sections 40 and 41, Township 2 North, Range 28 East, County of Nassau and State of Florida, and more particularly described by metes and bounds as follows: Beginning at a point on the boundary line between said Sections 40 and 41 that lies North 41°00' East a distance of 3376.0 feet from the Southern most corner of said Section 40; thence South 9°35' East a distance of 44.1 feet to a point; thence North 87°42' West, a distance of 73.26 feet, more or less, to a point on the Easterly right-of-way line of a graded County Road (40' right-of-way); thence North 02°37' West, along the easterly right-of-way line of said County Road, a distance of 590.38 feet to a point; thence South 09°35' East, a distance of 557.0 feet to the Point of Beginning.

ORDER NO. 21173

In Township 2 North, Range 28 East, Nassau County, Florida:

That portion of Sections 24 and 39 lying South of the Seaboard Coastline Railroad and,

The Northeast 1/4 of the Northeast 1/4 of Section 27 and,

That part of Sections 37 and 40 lying North of an Easterly extension of the South line of the North 1/2 of Section 27 and South of the Seaboard Coastline Railroad and,

The Southeast 1/4 of Section 25,

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LESS and EXCEPT those portions previously granted by Order Number 19392, dated May 31, 1988.

ORDER NO. 23194

All parcels of land contained in Section 44 North of the centerline of the right-of-way of State Road 200, East of ITT Rayonier private forest road #21, and West of the centerline of the CSX railroad right-of-way contained in Township 2 North, Range 27 East, Nassau County, Florida.

All parcels of land contained in Sections 50 and 51 North of the centerline of the right-of-way of State Road 200 and West of the centerline of the CSX Railroad right-of-way lying in Township 3 North, Range 27 East, Nassau County, Florida.

ORDER NO. 23411

All lands contained in Section 1 lying West of the CSX Railroad right-of-way.

All lands contained in Section 2 lying East of I-95 West of the CSX Railroad right-of-way.

All lands contained in Section 11 lying East of I-95, LESS and EXCEPT that parcel of land described in Official Records Book 546, Page 1286 of the Public Records of Nassau County, Florida.

All lands contained in Section 14 East of I-95.

All lands contained in Section 23 East of I-95.

All lands contained in Section 41 East of I-95 and West of the CSX Railroad right-of-way, LESS and EXCEPT a parcel described as follows:

Commence at the intersection of the centerline of the CSX railroad right-of-way and CR-108; proceed in a Northwesterly direction 3,900 feet to a point; thence North 10 degrees East for a distance of approximately 3,400 feet until said bearing intersects the centerline of the CSX Railroad right-of-way; thence Southeasterly directly along the centerline of the CSX Railroad right-of-way back to the Point of Beginning.

All lying in Township 3 North, Range 26 East.

All parcels of land contained in Section 44 East of the ITT Rayonier private forest road #21, LESS and EXCEPT the lands described as follows:

Commence at the intersection of the Northeast corner of said Section 44 and proceed in a Westerly direction along the Northerly Section line of said Section 44 for a distance of approximately 2,800 feet to a point; thence in a Southerly direction along a line perpendicular to the Northerly Section line of said Section 44 for a distance of approximately 1,300 feet to a point; thence Easterly along a line parallel to the Northerly Section line of said Section 44 for a distance of approximately 1,600 feet to a point at the intersection of the Southeast Section line of said Section 44; thence Northeast along the Southeast Section line of said Section 44 to the Point of Beginning.

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Also, LESS and EXCEPT, those parcels of land described in the Official Records Book 235, Page 514 of the Public Records of Nassau County, Florida.

Also, LESS and EXCEPT, those parcels of land described in the Official Records Book 513, Page 91 and Deed Book 81, Page 359 of the Public Records of Nassau County, Florida.

All lying in Township 2 North, Range 27 East.

All lands contained in Sections 50 and 56 West of U.S. 17, LESS and EXCEPT that parcel which is described as follows:

Commence at the intersection of the centerline of U.S. 17 and the Southeast Section line of said Section 50; proceed Northwest along the centerline of U.S. 17 approximately 5,600 feet to a point; thence Southwest perpendicular to the centerline of U.S. 17 approximately 1,100 feet to a point; thence Southeast parallel to the centerline of the CSX Railroad right-of-way to a point of intersection with ITT Rayonier private forest road #55; thence Southerly along the centerline of said forest road #55 to the intersection of the South Section line of said Section 50; thence East along the South Section line of said Section 50 to the Southeast corner of Section 50; thence Northeast along the Southeast Section line of said Section 50 to the Point of Beginning.

All lands contained in Sections 50, 53, 54, 55 and 56 East of the centerline of the U.S. 17 right-of-way South of Crandall Road, ITT Rayonier private forest road #9 and Roses Bluff Road, LESS and EXCEPT that parcel of land described by exception 33 of Deed Book 99, Page 413 of the Public Records of Nassau County, Florida; and LESS and EXCEPT that parcel contained in Sections 50, 53, 54, 55 and 56 described as follows:

Commence at the intersection of the centerline of U.S. 17 and Southeasterly Section line of said Section 50; proceed Northeast along the Southeast Section line of said Section 50 approximately 3,300 feet to a point; thence Northwest perpendicular to the Southeast Section line of said Section 50 for a distance of approximately 14,000 feet to a point; thence Southwesterly and parallel to the Southeast Section line of said Section 50 for a distance of approximately 2,400 feet to a point at the intersection of the centerline of U.S. 17; thence Southeast along the centerline of U.S. 17 to the Point of Beginning.

All lands contained in Section 51 North of SR-200 East of the West line of the parcel described in the Official Records Book 351, Page 757 of the Public Records of Nassau County, Florida, South of the ITT Rayonier private forest road #35, LESS and EXCEPT the Priest Lots 5 and 6 as described in Deed Book 95, Page 448 of the Public Records of Nassau County, Florida; and those parcels described in the Official Records Book 389, Page 124, the Official Records Book 546, Page 1286, and the Official Records Book 576, Page 431 of the Public Records of Nassau County, Florida.

All lying in Township 3 North, Range 27 East.

LESS and EXCEPT all parcels of land contained in Section 44, Township 2 North, Range 27 East, Nassau County, Florida, South of the centerline of the right-of-way State Road 200.

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LESS and EXCEPT all parcels of land contained in Section 50, Township 3 North, Range 27 East, Nassau County, Florida, lying South of Lofton Creek and Southeast of a tributary of Lofton Creek which crosses U.S. 17 approximately 7,600 feet Northwest of the intersection of U.S. 17 and the Southwest boundary of Section 50, Township 3 North, Range 27 East, Nassau County, Florida.

ORDER NO. 23843

All that certain tract or parcel of land being a portion of Government Lot 2, Section 27 and a portion of Section 40, Township 2 North, Range 28 East, Nassau County, Florida, said parcel being a portion of lands described in the Official Records of said County in Book 555, Page 869 and being more particularly described as follows: For a Point of Beginning commence at a concrete monument set at the point where the Westerly right-of-way line of State Road No. 107 (a 66-foot right-of-way as established) intersects the Northerly right-of-way line of Parliament Drive (right-of-way varies) and run South 74°50'00" West, along said Northerly right-of-way line, a distance of 193.37 feet to a concrete monument found at an angle point; run thence South 68°02'40" West, continuing along said Northerly right-of-way line, a distance of 84.59 feet to a second angle point; run thence South 74°50'00" West, continuing along last mentioned Northerly right-of-way line, a distance of 59.11 feet to a 5/8 inch rebar (found) at the Southeast corner of Tract "A", Nassau Lakes Subdivision - Phase 1-A, according to plat recorded in Plat Book 5, Pages 70 and 71, Public Records of said county; run thence North 00°40'39" West, along the Easterly line of said Tract "A", a distance of 426.89 feet to a concrete monument found at an angle point; run thence North 14°38'53", East continuing along last mentioned Easterly line, a distance of 526.20 feet to a concrete monument found on the Southerly line of Government Lot 1 (as found monumented); run thence North 89°12'41" East, along last mentioned Southerly line, a distance of 350.00 feet to a concrete monument found on the Northwesterly right-of-way line of said State Road No. 107; run thence South 40°16'30" West, along said Northwesterly right-of-way line, a distance of 65.10 feet to a concrete monument found at a point of curvature; run thence in a Southerly direction along the arc of a curve in the Westerly right-of-way line of said State Road No. 107, said curve being concave to the East and having a radius of 606.69 feet; a chord distance of 462.71 feet to a concrete monument found at the point of tangency of said curve, the bearing of the aforementioned chord being South 17°51'30" West; run thence South 04°33'30" East, continuing along last mentioned Westerly right-of-way line, a distance of 354.11 feet to the Point of Beginning.

The land thus described contains 6.00 acres more or less and is subject to any easements of record lying within.

All that certain tract or parcel of land being a portion of Government Lot 2, Section 27, Township 2 North, Range 28 East, Nassau County, Florida, said parcel being a portion of lands recorded in the Official Records of said County in Book 555, Page 869 and being more particularly described as follows: for a Point of Beginning commence at a concrete monument found at the point where the Southerly right-of-way line of Parliament Drive (right-of-way varies) intersects the Westerly right-of-way line of State Road No. 107 (a 66 foot right-of-way as established) and run South 04°33'30" East, along said Westerly right-of-way line, a distance of 1126.13 feet to a concrete monument (found); run thence South 89°29'53" West, along the Northerly line of lands now or formerly of ITT Rayonier, Inc., a distance of 400.00 feet to a concrete monument found at the Southeast corner of Tract "D", Nassau Lakes Subdivision - Phase 1-B, according to plat recorded in Plat Book 5, Pages 72 and 73, Public Records of said County; run thence North 00°59'55" West, along the Easterly line of said Tract "D" and the Easterly line of Tract "C", Nassau Lakes Subdivision - Phase 1-A, according to plat recorded in Plat Book 5, Pages 70 and 71, Public Records of said County, a distance of 1047.45 feet to a concrete monument found on the Southerly right-of-way line of aforementioned Parliament Drive; run thence North 74°50'00" East, along said Southerly right-of-way line, a distance of 79.30 feet to a concrete monument found at an angle point; run thence North 81°37'20" East, continuing along said Southerly

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right-of-way line, a distance of 84.59 feet to a concrete monument found at a second angle point; run thence North 74°50'00" East, continuing along said last mentioned Southerly right-of-way line, a distance of 174.62 feet to the Point of Beginning.

The land thus described contains 9.11 acres, more or less, and is subject to any easements of record lying within.

All that certain tract or parcel of land being a portion of Section 26 and a portion of Section 27, all lying in Township 2 North, Range 28 East, Nassau County, Florida, said parcel being a portion of lands described in the Official Records of said County in Book 555, Page 869 and being more particularly described as follows: for a Point of Beginning commence at a concrete monument found at the Northwest corner of said Section 27 and run North 88°49'3" East, along the Northerly line of said Section 27, a distance of 2637.50 feet to a "Rayonier" monument found at the Northeast corner of the Northwest one-quarter of said Section 27, the same being the Northwest corner of Government Lot 1: run thence South 00°59'55" East, along the Westerly line of said Government Lot 1, a distance of 1386.43 feet to a "Rayonier" monument found at the Northwest corner of Government Lot 2 (as found monumented): thence continue South 00°59'55" East, along the Westerly line of Government Lot 2, a distance of 375 feet more or less to a point on a Northerly line of Nassau Lakes Subdivision-Phase 1-A. According to plat recorded in Plat Book 5, Pages 70 and 71, Public Records of said County, said point lying on the approximate Northerly edge of water of Bahama Lake (as shown on said subdivision plat); run thence in a Westerly direction along the Northerly edge of water of said Bahama Lake, a distance of 380 feet more or less, to the Southeast corner of Lot 1, Block 1, of aforementioned Nassau Lakes Subdivision-Phase 1-A: run thence North 26°11'50" West, along the Easterly line of said Lot 1, Block 1, a distance of 300 feet, more or less to a 1/2-inch iron pipe found at the Northeast corner thereof; thence continue North 26°11'50" West, a distance of 60.41 feet to a concrete monument (found); run thence in a Southwesterly direction along the arc of a curve in the Northerly right-of-way line of Nassau Lakes Circle (a 60 foot right-of-way as established), said curve being concave to the Northwest and having a radius of 339.20 feet, a chord distance of 110.00 feet, to the point of tangency of said curve, the bearing of the aforementioned chord being South 65°51'38" West; run thence South 75°11'31" West, continuing along said Northerly right-of-way line, a distance of 173.12 feet to the most Easterly corner of Lot 15, Block 2, said Nassau Lakes Subdivision-Phase 1-A; run thence North 58°40'43" West, along the Northeasterly line of said Lot 15, Block 2, a distance of 540 feet more or less to the most Northerly corner thereof, said point lying on the Easterly edge of water of Lake Paradise (as shown on aforementioned subdivision plat); run thence in a Southerly and Southwesterly direction along the edge of water of Lake Paradise, the same being a Westerly and Northerly line of said Nassau Lakes Subdivision Phase 1-A, a distance of 1200 feet, more or less to the most Northerly corner of Lot 1, Block 2, said Nassau Lakes Subdivision-Phase 1-A; run thence South 48°52'57" West, along the Northwesterly line of said Lot 1, Block 2, and the Southwesterly prolongation thereof, the same being a Northwesterly line of Block 4 of said Nassau Lakes Subdivision-Phase 1-A, a distance of 1,560 feet more or less to a 1/2-inch iron pipe found at the most Westerly corner of Lot 6, Block 4, said Nassau Lakes Subdivision-Phase 1-A; run thence North 18°07'39" West, a distance of 3283.10 feet to a concrete monument found on the Northerly line of aforementioned Section 26; run thence North 89°52'00" East, along said Northerly line, a distance of 1166.70 feet to the Point of Beginning.

The land thus described contains 170.00 Acres, more or less, and is subject to any easements of record lying within.

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ISSUE 2: What is the rate base of Sunray Utilities - Nassau, Inc., at the date of transfer?

RECOMMENDATION: The rate base amount, which for transfer purposes reflects the net book value, is \$795,370 for the water system and \$975,492 for the wastewater system. By design, the purchase price for this system will conform with the verified net plant balance for Sunray's facilities. Therefore, an acquisition adjustment will not be recorded. (WALKER)

STAFF ANALYSIS: UWF has asked the Commission to establish rate base values for the acquired systems to thereby match their net book values at the closing date. Per the application, when the relative investments are examined as of December 31, 1995, the reported net book values were \$970,237 and \$1,025,527 for the respective water and wastewater systems. As noted below, the staff auditor updated the net plant balance through December 31, 1996, to reflect more current information. Also, per the purchase agreement, the seller and buyer agreed that the purchase price for the acquired systems would exactly match the net book balance at the closing date. The agreement further provided that the net book balances would be subject to verification as to compliance with any prescribed accounting principles. Thus, since UWF's purchase price will exactly match the net book value, there will be no acquisition adjustment in this case.

An acquisition adjustment results when the purchase price differs from the original cost calculation. 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. In this proceeding, the purchase price and the net book value will be identical and, thus, an acquisition adjustment is not an issue in this case.

Sunray's rate base has not been established by the Commission in any previous order. Instead, Sunray's initial rates were determined based on anticipated plant balances rather than audited records. Thus, the rate base determination in this case required examination of Sunray's accounting records since its inception. The audit examination was conducted for the period ending December 31, 1996. The audit disclosed that the recorded values on Sunray's books for its Nassau system were supported by appropriate accounting records in all material respects. One adjustment was proposed: removal of general plant that Sunray will retain. The adjustment removes \$8,158 for office equipment and its \$7,135 related provision for accumulated depreciation.

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Staff's recommended rate base balance for the respective water and wastewater systems are attached as Schedule No. 1. Adjustments are set forth on Schedule No. 2. Based on the adjustments set forth herein, staff recommends that rate base amounts for this proceeding should be \$795,370 for water and \$975,492 for wastewater. These rate base calculations are used purely to establish the net book value of the property being transferred and do not include the normal ratemaking adjustments for working capital or used and useful adjustments.

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SCHEDULE NO. 1

SUNRAY - NASSAU, INC.
SCHEDULE OF WATER RATE BASE
AS OF DECEMBER 31, 1996

<u>Description</u>	<u>Balance per Utility</u>	<u>Adjust</u>	<u>Balance per Staff</u>
Utility Plant in Service	\$1,270,691	(\$8,158)	\$1,262,533
Accumulated Depreciation	(\$288,016)	\$7,135	(\$280,881)
CIAC	(\$216,701)	\$0	(\$216,701)
Accumulated Amortization	<u>\$30,419</u>	<u>\$0</u>	<u>\$30,419</u>
Totals	<u>\$796,393</u>	<u>(\$1,023)</u>	<u>\$795,370</u>

SUNRAY - NASSAU, INC.
SCHEDULE OF WASTEWATER RATE BASE
AS OF DECEMBER 31, 1996

<u>Description</u>	<u>Balance per Utility</u>	<u>Adjust</u>	<u>Balance per Staff</u>
Utility Plant in Service	\$1,783,784	\$0	\$1,783,784
Accumulated Depreciation	(\$539,695)	\$0	(\$539,695)
CIAC	(\$333,570)	\$0	(\$333,570)
Accumulated Amortization	<u>\$64,973</u>	<u>\$0</u>	<u>\$64,973</u>
Totals	<u>\$975,492</u>	<u>\$0</u>	<u>\$975,492</u>

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SCHEDULE NO. 2

EXPLANATION OF ADJUSTMENTS

WATER

WASTEWATER

PLANT IN SERVICE

a) Remove general and miscellaneous
office equipment retained by Sunray

(\$8,158)

ACCUMULATED DEPRECIATION

a) Adjustments to reserve account due
to adjustments to plant

\$7,135

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ISSUE 3: Should the Commission grant UWF's request to adopt its existing rates and charges for the Sunray system while retaining Sunray's plant capacity and guaranteed revenue charges?

RECOMMENDATION: Yes. The Commission should grant UWF's request to adopt its existing rates and charges for the Sunray system while retaining Sunray's plant capacity and guaranteed revenue charges. (WALKER, REYES)

STAFF ANALYSIS: UWF's approved rates and charges became effective May 19, 1997, pursuant to Order No. PSC-97-0618-FOF-WS, issued May 30, 1997, in Docket No. 960451-WS.

Rule 25-9.044(1), Florida Administrative Code, provides that:

In case 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).

UWF has requested by way of a limited proceeding pursuant to Section 367.0822, Florida Statutes, that Sunray's rates be changed to conform with the rates UWF uses for its single operating system, with two exceptions. Those exceptions concern retention of Sunray's plant capacity and guaranteed revenue charges. Retention of system specific plant capacity and guaranteed revenue charges has been approved for other systems acquired by UWF. See Order No. PSC-93-0201-FOF-WS. Also, Sunray's present plant capacity and guaranteed revenue charges appear to be reasonable. Accordingly, staff recommends approval of UWF's request to retain Sunray's plant capacity and guaranteed revenue charges.

Adoption of UWF's existing rates for an acquired system has been approved in other limited proceeding filings. In Docket No. 930204-WS, which case involved UWF's purchase of the Ponte Vedra system in St. Johns County, implementation of UWF's rates was approved by Order No. PSC-93-1480-FOF-WS, issued October 11, 1993. Likewise, in Docket No. 890759-WS, by Order No. 22794, implementation of UWF's rates was approved for the Ponce De Leon system in St. Johns County. Adoption of UWF's rates was likewise allowed in Docket No. 891110-WS, by Order No. 23111, concerning UWF's purchase of St. Johns North Utility Corporation. UWF contends that application of its rates for the acquired system will result in a uniform, non-preferential rates for all UWF customers, which will produce cost savings due to a reduction in accounting,

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data processing, and administrative expenses. UWF further states that reduced expenses will benefit current and future customers. Based on these factors, staff recommends approving UWF's request to implement its uniform rates except as otherwise explained. A properly noticed customer meeting was conducted on June 12, 1996. No customers attended that meeting. However, a comparison of Sunray's rates and UWF's rates shows that rate reductions are expected for residential users. Some rate increase is expected for most general and commercial customers. A comparison of UWF's and Sunray's rates is attached as Schedule No. 3.

Related to the rate structure issue is the issue of whether UWF's land and facilities are functionally related within the meaning of Section 367.021(11), Florida Statutes. Since UWF has requested that its uniform rates currently in effect be implemented in the Sunray service area, staff believes that the Commission must evaluate whether the utility's land and facilities are functionally related before making a determination of whether the uniform rates can be implemented.

"Florida law ... allows uniform rates only for a utility system that is composed of facilities and land functionally related in the providing of water and wastewater service to the public." Citrus County v. Southern States Utilities, Inc., 656 So.2d 1307, 1309 (Fla. 1st DCA 1995). In Citrus County, the court determined that the evidence did not support uniform rates absent a showing that the utility's facilities "were operationally integrated, or functionally related, in any aspect of utility delivery service other than fiscal management." Id. at 1310.

In the utility's recent rate case, by Order No. PSC-97-0618-FOF-WS, issued May 30, 1997, in Docket No. 960451-WS, the Commission accepted stipulations stating that the evidence in that proceeding showed that UWF's facilities and land are functionally related and form a single system, and that the Commission has exclusive jurisdiction over UWF's facilities in all three counties. The question presented in this case is whether the acquisition by UWF of the Sunray-Nassau facilities would result in those facilities being functionally related to UWF's other facilities such that they would become a portion of UWF's single system. Consistent with Citrus County, staff has evaluated whether the acquisition of the Sunray system in Nassau County would change the functional relatedness of UWF's facilities and land.

UWF is providing water and wastewater service in three adjoining counties, consisting of twenty water and seven wastewater facilities in Duval County, eight water and three wastewater facilities in St. Johns County, and one water and two wastewater

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facilities in Nassau County. The utility operates in a manner in which the various facilities are treated as a single system and decisions are made for the entire system serving the three counties.

Specifically, UWF manages all of its facilities from its office in Duval County, which is centrally located to all of its service areas. In terms of driving time from the office, it takes approximately the same amount of time to reach the most remote service area in each of the three counties. The central office personnel in Duval County provide the same services to all of the service areas in the three counties, including engineering, operation, maintenance, testing, customer service, accounting, purchasing, planning, budgeting, personnel and other administrative functions. The utility employs a monitoring system in all of its facilities known as the Supervisory Control and Data Acquisition (SCADA) system. Under the SCADA system, all facilities are monitored by on-site personnel 16 hours a day and by the use of alarm and pager systems for the other 8 hours each day. Also, UWF is in the process of preparing a utility master plan which will address the need for and timing of construction projects to improve or increase the capacity of all of the utility's facilities, wherever located.

According to the utility, the acquisition of the Sunray facilities in Nassau County will not change this organization or method of operation. In fact, since UWF is currently operating Sunray's facilities under an Operation and Management Agreement, this facility is already being treated for the most part as if it were another facility in UWF's single utility system. Under this Agreement, the Sunray facilities are being operated out of Duval County in the same manner as the UWF systems as discussed above. If the acquisition is completed, this will obviously not change.

Based on the foregoing, staff believes that UWF's facilities and land are functionally related and constitute a single system. Accordingly, we recommend that the Commission should grant UWF's request to adopt its existing rates and charges for the Sunray system while retaining Sunray's plant capacity and guaranteed revenue charges.

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COMPARISON OF RATES

SCHEDULE NO. 3

	<u>Sunray</u>	<u>UWF</u>
<u>Water: Residential - Quarterly</u>		
5/8" meter - BFC	\$32.52	\$17.38
Gallonage Charge - per 1,000 gallons	\$1.36	\$1.35
<u>Wastewater: Residential - Quarterly</u>		
5/8" meter - BFC	\$41.97	\$33.98
Gallonage Charge - per 1,000 gallons	\$2.54	\$3.34
<u>Residential - Combined Quarterly</u>		
Total Bill @ 18K	\$ 167.25	\$135.78
Total Bill @ 27K	\$201.63	\$177.99
 <u>Water: General Service - Monthly</u>		
2" meter - BFC	\$88.67	\$82.89
6" meter - BFC	\$541.76	\$746.15
10" meter - BFC	N/A	\$2,072.86
Gallonage Charge	\$1.36	\$1.35
 <u>Wastewater: General Service - Monthly</u>		
2" meter - BFC	\$111.91	\$132.55
6" meter - BFC	\$699.44	\$1,193.12
8" meter - BFC	N/A	\$2,120.65
Gallonage Charge	\$3.00	\$4.01
 <u>Sunray - Retained Charges</u>		
Plant Capacity Charge	\$368.00	\$370.00
Guaranteed Revenues	\$10.84	\$13.99

Note - UWF will not collect Sunray's authorized Allowance for Funds Prudently Invested (AFPI) Charges. Sunray's allowed charges were \$166.72 for water and \$180.91 for wastewater.

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ISSUE 4: Should this docket be closed?

RECOMMENDATION: Yes, this docket should be closed if no timely protest is filed to the proposed agency action issues. (REYES)

STAFF ANALYSIS: If there are no timely protests to the proposed agency action issues (Issues 2 and 3), no further action will be required and the docket should be closed.