



# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

## -M-E-M-O-R-A-N-D-U-M-

**DATE:** NOVEMBER 20, 2002

**TO:** DIRECTOR, DIVISION OF THE COMMISSION CLERK &  
ADMINISTRATIVE SERVICES (BAYÓ)

**FROM:** DIVISION OF ECONOMIC REGULATION (JOHNSON, WALDEN, KAPROTH) *CO*  
OFFICE OF THE GENERAL COUNSEL (CROSBY, HELTON) *max*

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Text*

**RE:** DOCKET NO. 011632-WU - APPLICATION FOR TRANSFER OF  
CERTIFICATE NO. 364-W FROM LINADALE WATER COMPANY IN  
MARION COUNTY TO SUNSHINE UTILITIES OF CENTRAL FLORIDA,  
INC.  
COUNTY: MARION

**AGENDA:** DECEMBER 2, 2002 - REGULAR AGENDA - INTERESTED PERSONS MAY  
PARTICIPATE - PROPOSED AGENCY ACTION ISSUES 4 & 5

**CRITICAL DATES:** NONE

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\011632.RCM

### CASE BACKGROUND

Linadale Water Company (Linadale or utility) is a Class C utility that provides water service to approximately 269 customers in a forty-acre mobile home community in Marion County. The water treatment system consists of two 6-inch wells, a hydro-pneumatic tank and two high service pumps. Wastewater service is provided by septic tanks. The utility is in the St. Johns River Water Management District which is considered a water use caution area. According to the utility's 2001 annual report, Linadale had gross revenues of \$38,384 and net operating income of \$3,653.

On May 5, 1981, Marion County transferred jurisdiction of the privately-owned water and wastewater facilities in that county to the Florida Public Service Commission. By Order No. 11219, issued on October 4, 1982, in Docket No. 810290-W, Linadale was granted

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Grandfather Certificate No. 364-W. However, the territory granted by that Order did not accurately reflect the territory being served by Linadale at that time. In its application, Linadale indicated it was serving two areas, Sandy Acres and Carl Shields Unrecorded. The two areas are separated by 600 feet of undeveloped property. The utility did not file a metes and bounds description of the territory, but instead filed plats of the areas served. Instead of requiring Linadale to file a clear description of the territory the utility was serving, Staff wrote the territory description approved by the Commission from the information filed in the application and an error occurred. While processing the transfer application at issue in this docket, staff learned that the territory description included in Order No. 11219 incorrectly reflects that the two areas are side by side. As a result, Linadale has been serving the territory that was described in the Order, but not what the utility requested to serve in its application.

When the original owner, Carl Shields, died, his wife took over the utility and continued to serve the territory previously served. During the audit of the utility's records in this docket, it was discovered that the utility is serving outside of its certificated territory. Further review by Staff revealed that the territory description granted by Order No. 11219 was incorrect.

On December 10, 2001, Sunshine Utilities of Central Florida, Inc. (Sunshine or buyer) and Linadale jointly filed an application for transfer of Linadale to Sunshine. In an effort to correct the territory description, Sunshine has filed an application for amendment of Linadale's territory to include all of the territory the utility is now serving. Sunshine has also requested additional territory in the application. The application for amendment is being handled in Docket No. 021034-WU.

In the instant docket, the utility's application was found to be deficient. The deficiencies were corrected on January 11, 2002. Rate base was last established in Docket No. 810290-WU, by Order No. 11219, issued October 4, 1982, as \$7,033.

This recommendation addresses a show cause for Linadale's failure to timely report lost or destroyed books and records, a show cause for collecting unauthorized charges, the transfer of Linadale to Sunshine, and rate base at the time of transfer. The Commission has jurisdiction to consider this matter pursuant to Sections 367.081 and 367.071, Florida Statutes.

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should the utility be ordered to show cause in writing within 21 days why it should not be fined for failure to inform the Commission of lost or destroyed records within ninety days, in violation of Rule 25-30.110(1)(a), Florida Administrative Code?

**RECOMMENDATION:** No. A show cause proceeding should not be initiated. (CROSBY, JOHNSON)

**STAFF ANALYSIS:** Rule 25-30.110(1)(a), Florida Administrative Code, provides that "[e]ach utility shall preserve its records in accordance with the 'Regulations to Govern the Preservation of Records of Electric, Gas and Water Utilities' as issued by the National Association of Regulation Utility Commissions, as revised May 1985." (NARUC Regulations).

Part I, on Page 5 of the General Instructions of the NARUC Regulations states:

I. Premature Destruction or Loss of Records

When any records are destroyed before the expiration of the prescribed period of retention, a certified statement listing, as far as may be determined, the records destroyed and describing the circumstances of accidental or other premature destruction shall be filed with the Commission within ninety (90) days from the date of discovery of such destruction. Discovery of loss of records is to be treated in the same manner as in the case of premature destruction.

According to information gained through an audit performed by the Commission Staff, Linadale's records were destroyed by vandalism sometime in April of 2000. Linadale's failure to notify the Commission that the records were destroyed is an apparent violation of Rule 25-30.110(1)(a), Florida Administrative Code.

Section 367.161(1), Florida Statutes, authorizes this Commission to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated, any Commission rule, order, or provision of Chapter 367, Florida Statutes. Utilities are charged with the knowledge of the Commission's rules and statutes.

Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Thus, any intentional act, such as the utility's failure to notify the Commission of the destruction of utility records within ninety days would meet the standard for a "willful violation." In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be find, stating that "'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

Failure of Linadale to notify the Commission of the destruction of its records within ninety days is an apparent violation of Rule 25-30.110(1)(a), Florida Administrative Code. However, Staff does not believe that the utility's apparent violation rises to the level of warranting the initiation of a show cause proceeding. Destruction of the records was due to vandalism and, therefore, was outside of the utility's control. Further, the destruction of the records has now been brought to the Commission's attention, albeit not within ninety days, and the utility is now cognizant of its obligation to report any future loss or destruction of records. In addition, if the Commission approves the transfer of the utility to Sunshine, the current owner will no longer be in the utility business. Therefore, Staff recommends that a show cause proceeding should not be initiated against Linadale for failure to notify this Commission of the destruction of its records.

**ISSUE 2:** Should Linadale Water Company be ordered to show cause, in writing within 21 days, why it should not be fined for its apparent violation of Section 367.081, Florida Statutes and Rule 25-30.311, Florida Administrative Code?

**RECOMMENDATION:** No. A show cause proceeding should not be initiated against Linadale for the collection of unapproved tariff charges. Unclaimed refunds and accrued interest in the amount of \$1,424 should be credited to CIAC, pursuant to Rule 25-30.360(8), Florida Administrative Code. (CROSBY)

**STAFF ANALYSIS:** According to the Staff audit, Linadale has collected customer deposits and initial connection charges from its customers which are in excess of those approved in its tariff. Linadale is approved to collect a customer deposit of \$15. However, it does not have an approved initial connection charge. Although the auditor was unable to verify amounts collected prior to April, 2000, the utility confirmed the audit findings that Linadale was charging unapproved amounts for customer deposits and connection charges. Linadale's collection of unapproved tariff charges is an apparent violation of Section 367.081, Florida Statutes, and Rule 25-30.135(2), Florida Administrative Code.

Section 367.081(1), Florida Statutes, states, in part, that ". . . a utility may only charge rates and charges that have been approved by the commission." Upon being informed by the Commission Staff that they could not charge more than their approved tariff allowed, Linadale refunded to the customers that could be located all customer deposits and initial connection charges plus interest. In addition, every effort has been made by Linadale to contact those customers who have moved. Since, as discussed in Issue 1, the utility's records were destroyed by vandals, Linadale and Sunshine provided an affidavit that a good-faith, diligent effort has been made to identify and locate all customers of Linadale due refunds. The affidavit further states that all customer deposits and connection charges, plus interest, have been refunded to those customers of Linadale that could be identified and located.

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

Section 367.161(1), Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any provision of Chapter 367, Florida Statutes. The utility's failure to collect the correct charges approved in its tariff, appears to be willful in the sense intended by Section 367.161, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code, Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc., the Commission having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule."

Staff does not believe that the apparent violation of Section 367.081, Florida Statutes, rises in these circumstances to the level which warrants the initiation of a show cause proceeding. The utility has refunded \$1,530 in customer deposits and connection charges, plus interest of \$146. There are twenty customers remaining that have not received refunds, and the utility has exhausted all means for locating these customers. The utility has requested that the remaining unclaimed refunds plus interest be credited to CIAC. Furthermore, if the Commission approves the transfer, the current owner will no longer be in the utility business. Therefore, Staff recommends that the Commission not order Linadale to show cause for charging customer deposits and initial connection charges not approved in its tariff. In addition, Staff recommends that unclaimed refunds of \$1,350 and accrued interest of \$74, totaling \$1,424, be credited to CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

**ISSUE 3:** Should Linadale Water Company be ordered to show cause, in writing within 21 days, why it should not be fined for its apparent violation of Section 367.045, Florida Statutes?

**RECOMMENDATION:** No. A show cause proceeding should not be initiated against Linadale for serving outside of its territory. Sunshine has filed an application for amendment of Certificate 364-W to include additional territory. The application for amendment should be processed administratively. (CROSBY, WALDEN)

**STAFF ANALYSIS:** As stated in the case background, Linadale has been serving territory outside of its service area since 1981, which is an apparent violation of Section 367.045, Florida Statutes. Section 367.045(2), Florida Statutes, states, in part, that "A utility may not delete or extend its service outside the area described in its certificate of authorization unit it has obtained an amended certificate of authorization from the commission. . . ." Staff became aware of the additional customers during the audit of the utility's records conducted in this docket.

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

Section 367.161(1), Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any provision of Chapter 367, Florida Statutes. In serving outside of its certificated territory without obtaining an amended certificate of authorization, the utility's act was "willful" in the sense intended by Section 367.161, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code, Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc., the Commission having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule."

Staff does not believe that the apparent violation of Section 367.045, Florida Statutes, rises in these circumstances to the level which warrants the initiation of a show cause proceeding. As discussed in the Case Background, when Linadale was granted Grandfather Certificate No. 364-W, the description of the territory granted by Order No. 11219 did not reflect the territory requested by Linadale. The Order granted Linadale only a portion of the territory it was currently serving and additional territory not requested. Linadale served the area it believed was within its certificated territory. It should also be noted that Linadale has included the additional territory in its annual reports and paid all the related regulatory assessment fees during the time the area was served. Further, if the Commission approves the transfer, the current owner will no longer be in the utility business. Therefore, staff recommends that the Commission not order Linadale to show cause for failing to obtain an amended certificate of authorization prior to serving outside of its certificated territory.



**ISSUE 4:** Should the transfer of the facilities from Linadale to Sunshine be approved?

**RECOMMENDATION:** Yes, the transfer of facilities from Linadale to Sunshine should be approved. Sunshine's Certificate No. 363-W should be amended to include the approved territory of Linadale and Linadale's Certificate No. 364-W should be cancelled. Linadale is current on its 2001 RAFs and annual report. Sunshine is responsible for remitting all future RAFs and annual reports to the Commission. A description of the approved territory proposed to be transferred to Sunshine is appended to this memorandum as Attachment A. (JOHNSON, WALDEN, KAPROTH)

**STAFF ANALYSIS:** As discussed in the case background, on December 10, 2001, Linadale and Sunshine jointly filed an application for transfer of Linadale to Sunshine. The application, as filed, was deficient. Sunshine submitted the corrected information on January 11, 2002. The amended 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 joint applicants have provided evidence in the form of a recorded warranty deed, that the utility facilities are located on real property which is owned by Sunshine, as required by Rule 25-30.037(2)(q), Florida Administrative Code.

Section 367.071, Florida Statutes, requires that no utility shall sell, assign, or transfer its certificate of authorization, facilities, or any portion thereof, without prior approval of the Commission unless such sale, assignment, or transfer is made contingent upon Commission approval. Consistent with the statute, the closing on the transfer of the utility took place on November 15, 2001, contingent upon the Commission's approval.

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 approved territory served by the utility is appended to this memorandum as Attachment A. This is the original service area that was granted to the utility in Order No. 11219, issued October 4, 1982.

Sunshine is a Class B water utility that operates twenty-one water systems throughout the Marion and Citrus County area. Sunshine is not a developer or developer related company. According to the application, the transfer is in the public interest because Sunshine can provide better service to the Linadale customers because of its large and more experienced Staff.

With regard to the buyer's technical ability, according to Sunshine, it has the financial resources to maintain consistent compliance with environmental regulations. Sunshine has been providing water service in Marion County for more than 24 years and operates 21 separate water systems. Staff has contacted the Department of Environmental Protection (DEP) and has learned that there are no outstanding notices of violation against Linadale or Sunshine.

According to the application, the buyer's financial ability will not be affected by this transfer. Sunshine has provided its 2000 tax return and 2001 consolidated annual report as an indication of its financial position. Sunshine's financial data indicates that it can provide the financial stability required to maintain the utility systems in accordance with Commission standards. In addition, the customers will receive the benefit of centralized management, accounting, billing, and data processing functions, resulting in the economies of scale that would be unattainable on a stand-alone basis. Staff believes that the buyer has demonstrated the overall financial and technical ability to insure the continued operations of the water system.

The application contains a copy of the agreement for purchase and sale which includes the purchase price, terms of payment, and a list of the assets purchased. The assets include a water treatment plant, a hydro-pneumatic tank, two 6-inch wells, and two high service pumps. The buyer secured a loan for \$40,000 to finance the purchase. The loan is to be repaid in monthly installments of \$465.00 over the next ten years.

The buyer states that a reasonable investigation of the utility has been performed. The investigation revealed that there were several minor repairs and replacement of items needed, which have been completed since the filing of the application. In addition Linadale's operator was withholding three months of operating reports that were to be filed with the DEP, due to the nonpayment

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for his services. However, the operator was paid and the reports were released without a penalty to the utility.

According to our records, Linadale is current with its regulatory assessment fees and has filed an annual report for 2001 and all prior years. If the transfer is approved, Sunshine will be responsible for the 2002 and all future RAFs and annual reports.

Based on the above, Staff recommends that the transfer of facilities from Linadale to Sunshine is in the public interest and should be approved. Sunshine's Certificate No. 363-W should be amended to include Linadale's approved territory. Linadale should return Certificate No. 364-W for cancellation to the Commission within 30 days of the Commission order. A description of the territory proposed to be transferred to Sunshine is appended to this memorandum as Attachment A. As noted in the case background, Sunshine has filed an amendment application in Docket No. 021034-WU to address the area Linadale is serving outside its authorized territory.

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**ISSUE 5:** What is the rate base of Linadale Utilities, Inc. at the time of transfer to Sunshine?

**RECOMMENDATION:** The rate base, which for transfer purposes, reflects the net book value of the water system is \$1,566 as of November 15, 2001. Sunshine should be put on notice that it is required to maintain the utility's books and records in conformance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA). (JOHNSON)

**STAFF ANALYSIS:** According to the applicants, rate base at the time of transfer could not be determined because the books and records were destroyed in April of 2000 by vandalism. The utility used its 2000 annual report to determine the proposed rate base of \$11,270 as of November 15, 2001. Rate base was last established for Linadale in Docket No. 810290-WU, by Order No. 11219, issued October 4, 1982, as \$7,033. In transfer Docket No. 881361-WU, Staff recommended a rate base of \$31,280; however, by Order No. 21834, issued September 5, 1989, the transfer was denied and rate base was not established.

Staff conducted an audit of the available books and records of the utility to determine rate base as of the date of transfer. The utility's rate base was updated from prior orders, the prior audit, and the annual reports. The records that were provided to Staff were maintained on a cash basis for income tax purposes. The Staff audit report contained seven exceptions. The utility did not provide a response to the audit report.

The audit indicated that the utility's books and records do not reflect proper use of the NARUC USOA. According to Rule 25-30.115, Florida Administrative Code, water and wastewater utilities shall maintain their accounts and records in conformance with the 1996 NARUC USOA. Accounting Instruction 2.A of the NARUC USOA for Class C utilities states:

The books of accounts of all water utilities shall be kept by the double entry method on an accrual basis. Each utility shall keep its accounts monthly and shall close its books at the end of each calendar year.

Accounting Instruction 2.B of the NARUC USOA for Class C utilities states:

All books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda and information useful in determining the facts regarding a transaction.

According to the audit report, the utility provided Staff with records that were maintained on a cash basis but could not provide sufficient historical records and supporting source documentation identifying specific plant additions or the associated accumulated depreciation for the system as reflected in its annual reports. Linadale's failure to maintain its books and records in accordance with NARUC USOA is a violation of Rule 25-30.115, Florida Administrative Code. However, Linadale will not be operating the utility if the transfer to Sunshine is approved. According to Sunshine, it maintains its books and records using the NARUC USOA and is now maintaining Linadale's books and records in conformance with the NARUC USOA as prescribed by Rule 25-30.115, Florida Administrative Code.

The audit report contained several exceptions that resulted in adjustments to the plant, land, contributions-in-aid-of-construction (CIAC), accumulated depreciation, and accumulated amortization accounts. These adjustments are discussed in the following analysis.

#### UTILITY PLANT-IN-SERVICE

The utility's annual report indicated a plant-in-service balance of \$78,642 as of December 31, 2000. As discussed above, the utility has not maintained its books and records using the NARUC USOA and supporting source documentation was not available to allow Staff verification of specific plant additions. However, the utility indicated that there were no plant additions in 2001.

Order No. 11219, established a plant-in-service balance of \$65,732 as of July 31, 1981; however the utility never adjusted its books to reflect the approved balance. In the audit for the proposed transfer in Docket No. 881361-WU, although the Commission did not formally set rate base, Staff verified \$25,831 in plant

additions, including a generator (\$7,280), a chlorinator (\$1,323), transmission and distribution lines (\$965), meters (\$9,300), office furniture and equipment (\$1,763), and a backhoe (\$5,200), resulting in a total plant-in-service balance of \$91,563 as of December 31, 1988. Staff has reviewed the audit records and it appears that the recommended plant-in-service balance of \$91,563 at December 31, 1988 was reasonable and should be used as a starting point in establishing rate base at the date of the current transfer.

Staff's audit investigation in this docket revealed that the utility's office furniture was not being transferred to Sunshine. Therefore, the plant account should be adjusted to remove \$1,763 for the cost of the office furniture. In addition, Staff verified the August, 2000, purchase of a 2,100 gallon hydropneumatic tank. Therefore, the plant-in-service balance should be increased by \$9,324 to reflect the cost of the hydropneumatic tank and decreased by \$1,207 to retire the old tank.

Based on all the above, Staff recommends that a plant-in-service balance of \$97,917 be included in rate base as of November 15, 2001. The net adjustment to correct the utility's plant in service account balance is \$19,275.

#### LAND

The utility has never recorded land on the company books and records. Order No. 11219, issued October 4, 1982, in Docket No. 810290-WU, established a land balance of \$425, as of July 31, 1981. The land balance of \$425 includes the cost of two parcels valued at \$135 and \$290. The parcel valued at \$135 was the original well site that was cited by the Department of Environmental Regulation for replacement. After being directed to abandon the original well site, the utility acquired the second parcel valued at \$290 and installed a new well. Therefore, Staff recommends that only the second parcel be included in rate base as of November 15, 2001, at a cost of \$290.

#### ACCUMULATED DEPRECIATION

The utility's annual report as of December 31, 2000, indicated an accumulated depreciation balance of \$67,372. The utility has depreciated its plant at a higher rate on both its annual report and tax returns than prescribed by Order No. 11219.

Order No. 11219, established an accumulated depreciation balance of \$13,627 as of July 31, 1981, and approved a depreciation rate of 2.5 percent for all plant accounts. According to the audit in Docket No. 881361-WU, the accumulated depreciation balance was \$28,577 as of December 31, 1988, based on a depreciation rate of 2.5 percent.

The utility reported an accumulated depreciation balance of \$67,372 on plant in service of \$78,642 as of December 31, 2000. The depreciation rates used by the utility exceed the guideline depreciation rates prescribe in Rule 25-30.140 Florida Administrative Code. Order No. PSC-01-2311-PAA-WS, issued November 26, 2001, in Docket No. 001122-WS states:

...the audit recommended adjustments to correct errors in the depreciation rates for the utility's water and wastewater facilities. We disagree that any such adjustments need to be made. The developer-owner chose to depreciate the water and wastewater plant at a more accelerated rate than the average service lives listed in Rule 25-30.140, Florida Administrative Code. Therefore, although the utility did not use the guideline average service lives set forth in the rule to depreciate its assets, we find that no adjustments to depreciation are necessary.

Applying the utility's accelerated depreciation rate, the accumulated depreciation balance on staff's recommended plant in service of \$97,917 as of November 15, 2001, is \$87,656. The total adjustment to accumulated depreciation is \$20,284, which includes the retirement of the old tank and the removal of the office furniture. Based on the above information, staff recommends that an accumulated depreciation balance of \$87,656 be included in rate base as of November 15, 2001.

CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION (CIAC) AND AMORTIZATION OF CIAC

The utility's annual reports indicate that it has never recorded CIAC or accumulated amortization, although it has had an approved meter installation charge of \$150 since April 29, 1982. The utility's 2001 annual report indicated that it has 269 customers.

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In setting rate base in Docket No. 810290-WU, the Commission included CIAC of \$14,815 and accumulated amortization of \$6,485. According to the audit in Docket No. 881361-WU, there were 217 customers as of December 31, 1988 and Staff recommended that CIAC be imputed to reflect a CIAC balance of \$43,056 and accumulated amortization balance of \$12,686 as of that date.

Staff recommends that the CIAC and accumulated amortization balances should be increased to reflect the prior balance recommended in Docket No. 881361-WU of \$43,056 and \$12,686 and the additional CIAC and accumulated amortization associated with the 52 additional customers which have connected since 1988. In addition, CIAC should be increased by \$1,424 to reflect the unclaimed refunds and interest discussed in Issue 2. The resulting CIAC balance is \$52,280 as of November 15, 2001.

Applying a composite amortization rate, the accumulated amortization on staff's recommended CIAC of \$52,280 as of November 15, 2001, is \$43,295. Based on the above information, staff recommends that an accumulated amortization balance of \$43,295 be included in rate base as of November 15, 2001.

#### RATE BASE

Staff's calculation of rate base for the water system is shown on Schedule No. 1. Adjustments to rate base are itemized on Schedule No. 2. Based on the adjustments set forth herein, Staff recommends that rate base for Linadale is \$1,566 for the water system as of November 15, 2001. This rate base calculation is used solely to establish the net book value of the property being transferred and does not include the normal rate making adjustments of working capital and used and useful. Sunshine should be put on notice that it is required to maintain the utility's books and records in conformance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA)



**ISSUE 6:** Should an acquisition adjustment be included in the calculation of rate base?

**RECOMMENDATION:** No. Sunshine has not requested an acquisition adjustment and there are no extraordinary circumstances in this case to warrant the inclusion of an acquisition adjustment. Staff recommends that no acquisition adjustment should be included in the calculation of rate base. (JOHNSON, CROSBY)

**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 Linadale would be calculated as follows:

Purchase Price:	\$ 40,000
Less Staff Calculated Rate Base:	\$ 1,566
Positive Acquisition Adjustment:	\$38,434
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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. Since the buyer stated in its application for transfer that it was not seeking an acquisition adjustment, and there are no extraordinary circumstances regarding this purchase that would justify an acquisition adjustment to rate base, Staff recommends that an acquisition adjustment not be included in the calculation of rate base. Staff's recommendation is consistent with previous Commissions decisions in this regard. See Order No. PSC-01-1271-PAA-SU, issued June 6, 2001, in Docket No. 010382-SU; Order No. PSC-01-1655-PAA-WS, issued August 13, 2001, in Docket No. 000793-WS; Order No. PSC-01-1917-PAA-WS, issued September 24, 2001, in Docket No. 001551-WS; and Order No. PSC-02-1299-PAA-SU, issued September 23, 2002, in Docket No. 011379-SU.

It should be noted that the Commission recently adopted Rule 25-30.0371, Florida Administrative Code, to address the appropriate treatment of acquisition adjustments that occur when the purchase price of a utility differs from its rate base. In the case of Sunshine's purchase of Linadale, because the purchase occurred and the application was filed prior to the adoption of the rule, the new

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rule is not applicable in this docket. Staff notes that even if the newly adopted rule were applicable to this docket, Staff's recommendation would remain the same, since a positive acquisition adjustment would not be allowed absent a showing of extraordinary circumstances.

**ISSUE 7:** Should Linadale's approved rates and charges continue to be charged by Sunshine to the customers acquired from Linadale?

**RECOMMENDATION:** Yes, Sunshine should continue charging the approved Linadale rates and charges to the customers in the Linadale service territory until authorized to change by the Commission in a subsequent proceeding. The tariff reflecting the change in ownership should be effective for services provided or connections made on or after the stamped approval date on the tariff sheets. (JOHNSON)

**STAFF ANALYSIS:** Linadale's current rates for water service were approved by the Commission in an administrative price index and pass-thru proceeding effective March 29, 1995. The utility's approved customer deposit, miscellaneous service charges, meter testing, and meter installation charges were effective April 29, 1982, pursuant to Order No. 11219, issued October 4, 1982, in Docket No. 810290-WU. Linadale's approved rates and charges to be charged by Sunshine to the customers in the Linadale service territory are:

Sunshine Monthly Water Service Rates  
for the Linadale System

Residential

Base Facility Charge:

Meter Size:

5/8" x 3/4"	\$ 4.45
1"	\$ 11.12
Gallonage Charge per 1,000 gallons	\$ 1.40

Miscellaneous Service Charges

Violation Reconnection Fee-Normal Hrs.	\$ 5.00
Violation Reconnection Fee-After Hrs.	\$ 7.50

Customer Deposits

5/8"x3/4" \$ 15.00

Meter Installation Fee

5/8"x3/4" \$150.00

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

In case[s] 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) . . . .

Sunshine has not requested a change in the rates and charges of Linadale. Therefore, Staff recommends that Sunshine continue charging the approved Linadale rates and charges to the customers in the Linadale service territory until authorized to change by the Commission in a subsequent proceeding. The utility has filed a revised tariff. If the Commission approves Staff's recommendation, the tariff should be effective for services rendered or connections made on or after the stamped approval date.

DOCKET NO. 011632-WU  
DATE: NOVEMBER 20, 2002

**ISSUE 8:** Should this docket be closed?

**RECOMMENDATION:** Yes. If no timely protest is received to the proposed agency action issues, upon the expiration of the protest period a Consummating Order should be issued and the docket should be closed. (CROSBY)

**STAFF ANALYSIS:** If no timely protest is received to the proposed agency action issues, upon the expiration of the protest period a Consummating Order should be issued and the docket should be closed.

DOCKET NO. 011632-WU  
DATE: NOVEMBER 20, 2002

**ATTACHMENT A**

**LINADALE WATER COMPANY  
WATER TERRITORY DESCRIPTION**

SANDY ACRES

TOWNSHIP 17 SOUTH, RANGE 26 EAST, MARION COUNTY

SECTIONS 29,30,31 AND 32

The West 1/3 of the Southwest 1/4 of said Section 29.  
The East 1/4 of said Section 30 lying South of State Highway 42.  
The Northeast 1/4 of the Northeast 1/4 of said Section 31.  
The West 2/3 of the Northwest 1/4 of said Section 32.

SCHEDULE 1

LINADALE WATER COMPANY  
 (SANDY ACRES SYSTEM)  
 SCHEDULE OF WATER RATE BASE  
 AS OF NOVEMBER 15, 2001

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>STAFF'S ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>
Utility Plant in Service	\$78,642	\$ 19,275    A	\$97,917
Land	0	290    B	290
Contributions in Aid of Construction (CIAC)	0	(52,280)    C	(52,280)
Accumulated Depreciation	(67,372)	(20,284)    D	(87,656)
Amortization of CIAC	<u>0</u>	<u>43,295</u> E	<u>43,295</u>
 WATER RATE BASE	 <u>\$ 11,270</u>	 <u>\$ (9,704)</u>	 <u>\$ 1,566</u>

SCHEDULE 2

LINADALE WATER COMPANY  
SCHEDULE OF WATER RATE BASE ADJUSTMENTS  
AS OF NOVEMBER 15, 2001

<u>EXPLANATION</u>	<u>ADJUSTMENTS</u>
<b>A Utility Plant-in-Service</b>	
1) To record plant per Docket. No. 881361-WU	\$12,921
2) To record hydropneumatic tank	9,324
3) To retire tank	( 1,207)
4) To remove office furniture	<u>( 1,763)</u>
TOTAL	<u>\$19,275</u>
<b>B Land</b>	
1) To record land cost	290
<b>C Contributions-in-Aid-of-Construction (CIAC)</b>	
1) To record CIAC per Docket No. 881361-WU	(\$43,056)
2) To impute CIAC for additional 52 customers	(7,800)
3) To imputed CIAC for unclaimed refunds	<u>(1,424)</u>
TOTAL	<u>(\$52,280)</u>
<b>D Accumulated Depreciation</b>	
1) To remove depreciation on office furniture	\$1,476
2) To retire tank	1,207
3) To record depreciation on unrecorded assets	<u>(22,967)</u>
TOTAL	<u>\$20,284</u>
<b>E Accumulated Amortization of CIAC</b>	
1) To record amortization per Docket No. 881361-WU	\$12,686
2) To record additional amortization on imputed CIAC	<u>30,609</u>
TOTAL	<u>\$43,295</u>