

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

**DATE:** March 28, 2013

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Accounting and Finance (Brown, Fletcher, Maurey)  
Division of Economics (Thompson)  
Division of Engineering (Ballinger, Buys, Simpson)  
Office of the General Counsel (Lawson)

**RE:** Docket No. 120240-WU – Application for approval of transfer of water Certificate No. 518-W in Lake County from CWS Communities LP (Haselton Village) to MHC HV FL Utility Systems, L.L.C.

**AGENDA:** 04/09/13 – Regular Agenda – Proposed Agency Action for Issue 2 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Administrative

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\AFD\WP\120240.RCM.DOC

RECEIVED-FPSC  
13 MAR 28 AM 9:40  
COMMISSION CLERK

*Handwritten notes:*  
MOB B's  
ALM  
J.W.P.  
JSC  
TS  
CKL  
POB

*Handwritten circled 'W'*

DOCUMENT NUMBER-DATE  
01504 MAR 28 2013  
FPSC-COMMISSION CLERK

### Case Background

CWS Communities LP (CWS or Utility) is a Class C water utility located in Lake County serving approximately 290 water customers in the Haselton Village Mobile Home Park. CWS is located in the St. Johns River Water Management District (SJRWMD or District). The Utility's 2008 annual report reflects operating revenues of \$23,691 and an operating loss of \$9,316.

The Utility began operations in 1973. On July 11, 1988, CWS applied for original certificates to operate a water and wastewater utility in Lake County. Certificate Nos. 518-W and 451-S were granted to CWS in 1989.<sup>1</sup> Prior to that time, the Utility provided water and wastewater service solely to the rental community tenants as a part of the rent and was therefore exempt from the Commission's regulation pursuant to Section 367.022(5), Florida Statutes (F.S.). After the wastewater system was interconnected with the city of Eustis, the Utility was found to be an exempt wastewater reseller, and Certificate No. 451-S was cancelled in 1996.<sup>2</sup> Rate base was last established for the Utility by Order No. PSC-09-0587-PAA-WU.<sup>3</sup>

On September 25, 2012, an application was filed for the transfer of CWS water system and Certificate No. 518-W to MHC HV FL Utility System, L.L.C. (MHC HV or Buyer). The closing occurred on August 1, 2011, contingent upon Commission approval pursuant to Section 367.071(1), F.S. The Commission has jurisdiction pursuant to Sections 367.071, F.S.

---

<sup>1</sup> See Order No. 21342, issued June 6, 1989, in Docket No. 880936-WS, In re: Application of Century Realty Funds, Inc. and Haselton Associates, Ltd. d/b/a Route 19A North Joint Venture for water and sewer certificates in Lake County, Florida.

<sup>2</sup> See Order No. PSC-1470-FOF-SU, issued December 3, 1996, in Docket No. 961146-SU, In re: Request for change in regulatory status and cancellation of Certificate No. 451-S in Lake County by Route 19A North Joint Venture (Century Realty Funds/Haselton Associates).

<sup>3</sup> See Order No. PSC-09-0587-PAA-WU, issued August 31, 2009, in Docket No. 080715-WU, In re: Application for staff-assisted rate case in Lake County by CWS Communities LP.

### Discussion of Issues

**Issue 1:** Should the Transfer of CWS Communities LP water system and Certificate No. 518-W to MHC HV FL Utility System, L.L.C. be approved?

**Recommendation:** Yes. The transfer is in the public interest and should be approved effective the date of the Commission vote. The territory being transferred is described in Attachment A. The resultant order should serve as MHC HV's water certificate and should be retained as such. Pursuant to Rule 25-9.044(1), Florida Administrative Code (F.A.C.), the Utility's existing rates and charges should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariffs reflecting the transfer should be effective for services rendered or connections made on or after the stamped approval date on the tariffs, pursuant to Rule 25-30.475(1), F.A.C. MHC HV will be responsible for annual reports and regulatory assessment fees (RAFs) for 2012 and all future years. (M. Brown, P. Buys)

**Staff Analysis:** On September 25, 2012, an application was filed for approval of the transfer of CWS water system and Certificate No. 518-W to MHC HV. The application is in compliance with the governing statute, Section 367.071, F.S., and administrative rules concerning applications for transfer of certificates. The closing occurred on August 1, 2011, contingent upon Commission approval, pursuant to Section 367.071(1), F.S.

#### Noticing, Territory, and Land Ownership

The application contains proof of compliance with the noticing provisions set forth in Section 367.071, F.S. and Rule 25-30.030, F.A.C. No objections to the transfer were timely filed with the Commission, and the time for doing so has expired. The application contains a description of the Utility's authorized service territory, which is appended to this recommendation as Attachment A. The application contains a copy of an easement that was executed on August 1, 2011, and recorded with the Lake County Clerk of Courts, as evidence that MHC HV owns the land upon which the water treatment facilities are located.

#### Purchase Agreement and Financing

Pursuant to Rule 25-30.037(2)(h), F.A.C., the application contains a copy of the executed purchase agreement, which includes the purchase price, terms of payment, and a list of the assets purchased. The mobile home community and the Utility's assets were purchased by Equity LifeStyle Properties, Inc. (ELS), as part of a large transaction that related to the acquisition of Hometown America, LLC. The purchase price for the transaction that acquired 75 mobile home communities, utilities and other assets was \$1,263,600,064. There was not separate financing for the purchase of the Utility's assets, and the purchase agreement did not include a separate allocated amount for these assets. However, the net book value (NBV) of the water facility is discussed in Issue 2. MHC HV purchased the assets secured by a bank loan. There are no customer deposits, guaranteed revenue contracts, developer agreements, or debt of CWS that must be disposed of with regard to the transfer. As noted, the sale took place on August 1, 2011, subject to Commission approval, pursuant to Section 367.071(1), F.S.

### Facility Description and Compliance

The Haselton Village water system consists of two wells (one 4-inch and one 6-inch) treated with chlorine. The treated water is channeled into a 5,000-gallon hydropneumatic tank for distribution to customers. The water distribution system consists of approximately 12,858 feet of pipe, 3 auto flushers and 6 fire hydrants. Staff has verified that the water system is currently in substantial compliance with all applicable standards set by the Florida Department of Environmental Protection.

### Technical and Financial Ability

Pursuant to Rule 25-30.037(2)(j), F.A.C., the application contains a statement indicating that the transfer is in the public interest. According to the application, the transfer is in the interest of the customers as MHC HV has the financial and technical ability to continue to provide the safe and reliable service to which they are accustomed. As discussed above, MHC HV operates under the parent company, ELS. Although MHC HV does not own any other water or wastewater utilities, its parent company manages other utility systems in Florida, including four systems regulated by the Commission.<sup>4</sup> In addition, ELS has a second docket pending before the Commission for the transfer of Hidden Valley SPE LLC d/b/a Orange Lake to MHC OL Utility Systems, L.L.C.<sup>5</sup> As of the end of 2011, ELS had indirect ownership of approximately 382 properties in the United States. Staff reviewed ELS' earnings and financial statements and believes it has the financial ability to provide safe and reliable service to its customers. As a result, staff believes that MHC HV has demonstrated the financial and technical ability to operate the Utility pursuant to Rule 25-30.037(2)(j), F.A.C.

### Rates and Charges

The Utility's rates and charges were last approved in a 2009 staff-assisted rate case (SARC) and a subsequent 2011 price index.<sup>6</sup> The Utility's existing rates and charges are shown on Schedule 2. Rule 25-9.044(1), F.A.C., provides that, in the case of a change of ownership or control of a utility, the rates, classifications, and regulations of the former owner must continue unless authorized to change by this Commission. Therefore, staff recommends that the Utility's existing rates and charges remain in effect until a change is authorized by this Commission in a subsequent proceeding. Staff notes the current tariffs do not include charges for customer deposits or service availability charges.

### Regulatory Assessment Fees and Annual Reports

Staff has verified that the Utility is current on its annual report for 2011 and all prior years and there are no outstanding RAFs, fines, or refunds due. According to the Utility's

---

<sup>4</sup> ELS manages OB Utility Systems, L.L.C., COL Utility Systems, L.L.C., HV Utility Systems, L.L.C., and MFL Utility Systems, L.L.C., which are regulated by the Commission.

<sup>5</sup> See Docket No. 120239-WS, In re: Application for approval to transfer water and wastewater Certificate Nos. 625-W and 536-S in Lake County from Hidden Valley SPE LLC d/b/a Orange Lake to MHC OL Utility Systems, L.L.C.

<sup>6</sup> See Order No. PSC-09-0587-PAA-WU, issued August 31, 2009, in Docket No. 080715-WU, In re: Application for staff-assisted rate case in Lake County by CWS Communities LP.

purchase agreement, MHC HV is responsible for filing the Utility's annual reports and paying RAFs for 2012 and all future years.

Conclusion

Based on the above, staff recommends that the transfer of CWS water system and Certificate No. 518-W to MHC HV is in the public interest and should be approved effective the date of Commission vote. The territory being transferred is described in Attachment A. The resultant order should serve as MHC HV's water certificate and should be retained as such. The Utility's existing rates and charges should remain in effect until a change is authorized by the Commission in a subsequent proceeding. The tariffs reflecting the transfer should be effective for services rendered or connections made on or after the stamped approval date on the tariffs, pursuant to Rule 25-30.475(1), F.A.C. MHC HV will be responsible for annual reports and RAFs for 2012 and all future years.

**Issue 2:** What is the appropriate net book value for MHC HV's water system for transfer purposes and should an acquisition adjustment be approved?

**Recommendation:** The net book value of MHC HV's water system for transfer purposes is \$18,449 as of December 31, 2011. An acquisition adjustment should not be included in rate base. Within 30 days of the final order, MHC HV should be required to provide a general ledger that show its books have been updated to reflect the Commission-approved balances as of December 31, 2011, along with a statement that these adjustments will also be reflected in the Utility's 2012 annual report. (M. Brown)

**Staff Analysis:** Rate base for the Utility's water system was established as of December 31, 2008, in a SARC by Order No. PSC-09-0587-PAA-WU. Included in the Utility's application was a statement that there had been no adjustments made to the plant since the previously mentioned Order. Staff reviewed the annual reports for 2009 through 2011 which reflected minor plant additions. However, in response to staff's data request, MHC HV determined that it could not produce support documentation for these plant additions. Further, MHC HV stated no plant additions should be considered in the instant docket.

Staff believes it is necessary to establish the appropriate NBV for transfer purposes as of December 31, 2011. The purpose of establishing NBV for transfers is to determine whether an acquisition adjustment should be approved. The NBV does not include normal ratemaking adjustments for used and useful plant or working capital. Staff's recommended NBV for water is shown on Schedule No. 1.

#### Utility Plant in Service (UPIS)

In its 2011 annual report, MCH HV reflected a plant balance of \$262,744. After a review of the Order and subsequent annual report filings, staff determined that the Commission-ordered adjustments from the Utility's last rate proceeding had not been properly made. To account for the adjustments, UPIS should be decreased by \$6,679. With these adjustments, staff believes that the appropriate UPIS balance for water is \$256,965. The appropriate UPIS amounts for the Utility's water system are outlined in Schedule No. 1.

#### Land and Land Rights

In its 2011 annual report, the Utility reflected a land balance of \$7,500. In its application, MHC HV stated that there had been no adjustments made to the land balances since the SARC Order. An audit was conducted in the 2009 SARC, and staff determined the appropriate land balance was \$2,500. Therefore, staff recommends land and land rights be decreased by \$5,000 to the previously approved \$2,500.

#### Accumulated Depreciation

As noted above, staff determined that the Utility did not properly make the plant adjustments required in its last rate proceeding. In its 2011 annual report, the Utility reflected an accumulated depreciation balance of \$159,940. Staff calculated accumulated depreciation using

the prescribed rates set forth in Rule 25-30.140, F.A.C., and the previously approved 2009 plant balances. As a result, staff recommends these balances be increased by \$35,284 as of December 31, 2011, to reflect the calculated depreciation. Staff's recommended accumulated depreciation balance is shown on Schedule No. 1.

#### Contribution in Aid of Construction (CIAC)

In its 2011 annual report, the Utility reflected a CIAC balance of \$47,775. An audit was conducted in the 2009 SARC and it was determined \$93,925 was the appropriate amount of CIAC, and the Utility's system was considered built out. No additions have been made subsequent to the last rate proceeding; therefore, staff recommends an increase of \$46,150 in CIAC to reflect the corrected balance for the Utility's water system.

#### Accumulated Amortization of CIAC

In its 2011 annual report, the Utility reflected an accumulated amortization of CIAC balance of \$36,041. However, after a review of the Order and subsequent annual report filings, it was determined that the Commission-ordered adjustments from the Utility's last rate proceeding had not been properly made to the accumulated amortization of CIAC. Staff calculated amortization of CIAC using composite rates prescribed in Rule 25-30.140, F.A.C., and the previously approved 2008 CIAC balances. As a result, the amounts in these accounts have been increased by \$12,092 to reflect the calculated depreciation. Staff's recommended accumulated amortization of CIAC balance is shown on Schedule No. 1.

#### Net Book Value

Based on the adjustments described above and shown on Schedule No. 1, staff recommends that the NBV of the Utility's water system is \$18,449, as of December 31, 2011. Schedule No. 1 contains the resulting National Association of Regulatory Utility Commissioners Uniform System of Accounts (NARUC USOA) balances for UPIS and accumulated depreciation as of December 31, 2011.

#### Acquisition Adjustment

An acquisition adjustment results when the purchase price of a utility differs from the original cost of the assets adjusted to the time of the acquisition. A positive acquisition adjustment exists when the purchase price is greater than NBV, and a negative acquisition adjustment exists when the purchase price is less than NBV. Pursuant to Rule 25-30.0371(2), F.A.C., a positive acquisition adjustment shall not be included in rate base unless there is proof of extraordinary circumstances. As discussed above, the purchase of MHC HV was part of a larger purchase of multiple properties. As such, a separate purchase price was not allocated to the Utility and its assets. ELS has indicated that the purchase price of the Utility assets was equal to the NBV as reflected in the 2011 annual report. MHC HV did not request a positive acquisition adjustment, and there is no evidence of extraordinary circumstances. Therefore, staff recommends that an acquisition adjustment is not warranted.

Conclusion

Based on the above, staff recommends that the NBV of the Utility's water system is \$18,449, as of December 31, 2011. A positive acquisition adjustment should not be included in rate base. Within 30 days of the date of the final order, MHC HV should be required to provide general ledger balances which show its books have been updated to reflect the Commission approved balances as of December 31, 2011, along with a statement that these numbers will also be reflected in the Utility's 2012 annual report. If the Utility's 2012 annual report has already been filed, the Utility should file an amended 2012 annual report.



Docket No. 120240-WU

Date: March 28, 2013

**Issue 3:** Should this docket be closed?

**Recommendation:** Yes. If no protest to the proposed agency action issue is filed by a substantially affected person within 21 days of the date of the order, the docket should be closed upon the issuance of a consummating order. (Lawson, M. Brown)

**Staff Analysis:** If no protest to the proposed agency action issue is filed by a substantially affected person within 21 days of the date of the order, the docket should be closed upon the issuance of a consummating order.

**MHC HV FL Utility Systems, LLC**

**Lake County**

**Description of Water Territory**

**PER ORDER NO. 21342**

Beginning at the East 1/4 corner of Section 34, Township 18 South, Range 26 East, Lake County, Florida, run thence South  $01^{\circ}48'30''$  West a distance of 600.06 feet, thence South  $60^{\circ}02'15''$  East a distance of 258.75 feet to the Westerly right-of-way of County Road No. 19A, thence South  $27^{\circ}20'27''$  West along said right-of-way, a distance of 529.11 feet to the beginning of a curve having a radius of 510.46 feet and being concave Easterly, thence along the arc of said curve and through a central angle of  $23^{\circ}49'40''$  an arc length of 212.28 feet, thence South  $01^{\circ}43'53''$  West along said Westerly right-of-way of County Road No. 19A, a distance of 369.71 feet to the Northerly right-of-way of County Road No. 452-A, thence South  $89^{\circ}58'57''$  West along said Northerly right-of-way a distance of 806.22 feet, thence North  $01^{\circ}52'26''$  East, a distance of 514.53 feet, thence North  $89^{\circ}19'12''$  West a distance of 9.49 feet, thence North  $01^{\circ}50'47''$  East a distance of 39.32 feet, thence South  $89^{\circ}37'31''$  West a distance of 339.62 feet, thence North  $01^{\circ}51'37''$  East a distance of 641.18 feet to the Southwest bank of a dug canal, thence North  $25^{\circ}58'09''$  West along said Southwest bank of dug canal, a distance of 304.55 feet, thence North  $01^{\circ}51'37''$  East a distance of 340.00 feet to the East-West Mid-Section line, thence South  $88^{\circ}35'32''$  East along said East-West Mid-Section line, a distance of 1315.80 feet to the Point of Beginning.

**FLORIDA PUBLIC SERVICE COMMISSION**

**authorizes**

**MHC HV FL Utility Systems, L.L.C.**

**pursuant to**

**Certificate Number 518-W**

to provide water service in Lake County in accordance with the provisions of Chapter 367, Florida Statutes, and the Rules, Regulations, and Orders of this Commission in the territory described by the Orders of this Commission. This authorization shall remain in force and effect until superseded, suspended, cancelled or revoked by Order of this Commission.

<u>Order Number</u>	<u>Date Issued</u>	<u>Docket Number</u>	<u>Filing Type</u>
Order No. 21342	6/6/1989	880936-WS	Original Certificate
*	*	120240-WS	Transfer of Certificate

**\*Order Number and date to be provided at time of issuance.**

**MHC HV FL Utility Systems, L.L.C.**

**MHC HV FL Water System**

**Net Book Value as of December 31, 2011**

**Utility Proposed and Staff Recommended  
Schedule of Net Book Value as of December 31, 2011**

<b>Description</b>	<b>Utility Proposed</b>	<b>Adjustment</b>		<b>Staff Recommended</b>
Utility Plant in Service	\$262,744	(\$5,779)	A	\$256,965
Land & Land Rights	7,500	(5,000)	B	2,500
Accumulated Depreciation	(159,940)	(35,284)	C	(195,224)
CIAC	(47,775)	(46,150)	D	(93,925)
Amortization of CIAC	<u>36,041</u>	<u>12,092</u>	E	<u>48,133</u>
Net Book Value	<u>\$98,570</u>	(\$80,121)		<u>\$18,449</u>

**Explanation of Staff's Recommended  
Adjustments to Net Book Value as of December 31, 2011  
Water**

<b>Explanation</b>	<b>Amount</b>
A. Utility Plant In Service (UPIS) To the appropriate UPIS per PSC-09-0587-P AA-WU.	<u>(\$5,779)</u>
B. Land and Land Rights To reflect the appropriate amount of Land and Land Rights.	<u>(\$5,000)</u>
C. Accumulated Depreciation To reflect the appropriate amount of Accumulated Depreciation.	<u>(\$35,284)</u>
D. Contribution in Aid of Construction (CIAC) To reflect the appropriate amount of CIAC.	<u>(\$46,150)</u>
E. Amortization of CIAC To reflect the appropriate amount of Amortization of CIAC.	<u>\$12,092</u>
Total Adjustments to Net Book Value as of December 31, 2011	<u>(\$80,121)</u>

**MHC HV FL Utility Systems, L.L.C.**

**MHC HV FL Water System**

**Schedule of Staff Recommended Account Balances as of December 31, 2011**

<b>Acct. No.</b>	<b>Description</b>	<b>UPIS</b>	<b>Accumulated Depreciation</b>
304	Structures and Improvements	\$887	\$887
307	Wells and Springs	81,385	78,309
309	Supply Mains	4,008	4,008
310	Power Generation Equipment	3,064	3,064
311	Pumping Equipment	2,851	2,851
320	Water Treatment Equipment	14,162	14,162
330	Distribution Reservoirs and Standpipes	40,000	4,542
331	Trans & Dist. Mains - Pipes	65,963	49,246
333	Service to Customers	22,759	20,023
334	Meters	12,249	11,402
335	Hydrants	<u>9,637</u>	<u>6,730</u>
	<b>Total</b>	<u>\$256,965</u>	<u>(\$195,224)</u>

**MHC HV Utility Systems, L.L.C.**

**Schedules of Rates and Charges**

**Monthly Service Rates**

	<b>Water</b>	<b>Residential and General Service</b>
Flat Rate		
Occupied		\$12.29
Unoccupied – (For more than 60 consecutive days)		\$6.73

**MISCELLANEOUS SERVICE CHARGES**

<b>DESCRIPTION</b>	<b>NORMAL HOURS</b>	<b>AFTER HOURS</b>
Water Service		
Initial Connection	\$20.00	\$40.00
Normal Reconnection	\$20.00	\$40.00
Violation Reconnection	\$20.00	\$40.00
Premises Visit Charge	\$20.00	\$40.00