

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for Transfer of)	DOCKET NO. 900222-WS
Certificate Nos. 220-W and 165-S from)	ORDER NO. 23542
El Agua Corporation to San Pablo)	ISSUED: 10-01-90
Utilities Corporation.)	

The following Commissioners participated in the disposition of this matter:

MICHAEL MCK. WILSON, Chairman
THOMAS M. BEARD
BETTY EASLEY
FRANK S. MESSERSMITH

ORDER APPROVING TRANSFER OF CERTIFICATES
NOS. 220-W AND 165-S

AND

NOTICE OF PROPOSED AGENCY ACTION
ORDER ADJUSTING RATE BASES AND
APPROVING RATES AND CHARGES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the actions discussed herein are preliminary in nature, and as such, will become final unless a person whose interests are substantially affected files a petition for a formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

CASE BACKGROUND

El Agua Corporation (El Agua or utility) is a Class "C" utility which serves 870 water and 697 wastewater customers according to its 1989 annual report. The utility is managed by Jax Utilities Management, Inc., a firm which manages a number of investor-owned water and wastewater systems in the greater Jacksonville area.

Sun Bank/North Florida, N. A., (Sun Bank) filed a foreclosure action against the utility when the utility defaulted on the mortgage held by the bank. On November 13, 1989, a summary judgment was issued in favor of Sun Bank. Sun Bank was the successful bidder for the assets of El Agua with a bid of \$750,000. On December 18, 1989, the court issued Sun Bank a certificate of

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title for all of El Agua's assets. Sun Bank subsequently established a wholly owned subsidiary named San Pablo Utilities Corporation (San Pablo) and transferred El Agua's assets to that entity. San Pablo was formed to act as the owner of the utility. Jax Utilities Management, Inc., continued to operate the systems under a management agreement similar to the one it had with El Agua.

On March 23, 1990, Mr. William M. Brannen, the court appointed receiver of El Agua, filed an application for approval of the transfer of Certificates Nos. 220-W and 165-S from El Agua to San Pablo pursuant to Section 367.071, Florida Statutes. An interconnect agreement between El Agua and Canal Utilities, Inc., (Canal) was approved by the Commission in this docket by Order No. 23202, issued July 16, 1990. The agreement allowed El Agua to use capacity which was readily available from Canal; El Agua needed capacity so it would be able to serve the needs of developers in the area.

TRANSFER OF CERTIFICATES

The application filed by the receiver is in compliance with Section 367.071, Florida Statutes, and all other pertinent statutes and administrative rules concerning an application for a transfer. In particular, the notarized application contains:

- 1) A check in the amount of \$1,800, which upon calculation, equates to the correct filing fee as prescribed by Rule 25-30.020, Florida Administrative Code.
- 2) Proof of notice of application to all interested governmental/regulatory agencies and all utilities within a four-mile radius of the territory, and proof of advertisement in a newspaper of general circulation in the county, as prescribed by Rule 25-30.030, Florida Administrative Code.
- 3) Proof of notice to all customers of record pursuant to Rule 25-30.030(g), Florida Administrative Code.
- 4) Evidence that the utility owns the land upon which the utility's facilities are located as required by Rule 25-30.035(f), Florida Administrative Code.

No timely objections to the notice of application were received.

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The purchaser of the utility has no experience in the management and operation of a water and wastewater utility. However, we see no adverse impact on the customers of the utility. Since Jax Utilities Management, Inc., will continue to operate the utility under a management agreement with San Pablo, there will be no lapse in service to the customers. Also, the utility is currently in compliance with all regulatory requirements of the Florida Department of Environmental Regulation.

Upon consideration, we find that this transfer is in the public interest. Accordingly, we hereby approve the transfer of Certificates Nos. 220-W and 165-S from El Agua Corporation to San Pablo Utilities Corporation. The certificates shall be returned to the Commission for entry reflecting the transfer within thirty days of the date of this Order.

RATE BASE

Our evaluation of the utility's rate bases began with an examination of the rate bases approved by this Commission in El Agua's last staff-assisted rate case in Order No. 20947, issued March 27, 1989, Docket No. 880811-WS. We audited the books and records of the utility to determine the rate bases (net book values) at the time of transfer. We have adjusted the rate bases listed on the utility's books as a result of the investigation in the following areas: in accumulated depreciation and contributions-in-aid-of-construction (CIAC) amortization for both water and wastewater and in land value for the wastewater system. The results of our adjustments are shown in Schedules Nos. 1 and 2, attached hereto and by reference incorporated herein, and are explained below.

Accumulated Depreciation--Accumulated depreciation was understated due to the utility's failure to book the amount attributable to fully depreciated office furniture in Account 1503. The utility account properly reflected the asset value; but the accumulated depreciation account needed to be adjusted to reflect the value of the asset, since it was fully depreciated. The adjustment totalled \$260; and \$130 dollars was allocated each to the water and the wastewater systems.

Amortization of CIAC--The utility calculated annual amortization of CIAC on the basis of the depreciation of specific asset accounts. However, the CIAC accounting methodology did not break down the CIAC into accounts which would readily identify them with specific assets. As a consequence, the amortization of CIAC could not be effectively audited. We have recalculated the

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amortization of CIAC based upon the composite rate used in Order No. 20947, the staff-assisted rate case. The composite rate utilized is 3.34% and 4.49% for water and wastewater, respectively. The adjustments amount to an increase in amortization of CIAC of \$5,706.44 and \$30,572.21 for water and wastewater, respectively. While the method we have utilized has the effect of raising rate base slightly, we believe that this method is more consistent with actual amortization of CIAC and is materially easier to audit.

Wastewater System Land--In Order No. 20947, this Commission concluded that the value of the land for the wastewater plant had been overstated. The order adjusted the value of the land from approximately \$258,274 to \$245,975. The utility failed to make an adjustment in its books reflecting this change. The utility should make an adjustment to the land value for the wastewater system to reflect this adjustment.

An acquisition adjustment results when the purchase price differs from the utility's rate base. We calculate the acquisition adjustment resulting from the foreclosure sale of El Agua as follows:

Commission Calculated Rate Base:	\$ 1,197,183.43
Purchase Price:	<u>-1,230,361.22</u>
Positive Acquisition Adjustment	\$ 33,177.79

It is Commission policy that a subsequent purchase of a utility system at a premium or discount shall not affect the rate base calculation in the absence of extraordinary circumstances. The utility in this case did not request the inclusion of an acquisition adjustment in its application for transfer approval. The circumstances of this transfer are not extraordinary; therefore, a positive acquisition adjustment should not be included in the rate base calculation.

Sun Bank purchased the utility for approximately \$480,361.22 more than the \$750,000 cash it paid at foreclosure. The difference is calculated as follows:

Lien Adjudged Against El Agua	\$ 1,230,361.22
Sun Bank's Cash Payment	<u>- 750,000.00</u>
Difference	\$ 480,361.22

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Finally, according to our review of the plant sites, there should be no reduction in plant values due to faulty or inadequate performance or lack of repair.

In accordance with the above, we find that the utility's rate bases are \$195,600.14 and \$1,001,583.29 for water and wastewater, respectively.

RATES AND CHARGES

Rule 25-9.044(1), Florida Administrative Code, states the following:

In cases of change of ownership or control of a utility which places the operation under a different or new utility . . . the company which will thereafter operate the utility business must adopt and use the rates, classification and regulations of the former operating company (unless authorized to change by the Commission)
. . . .

The utility's present rates and charges were approved by the Commission in Order No. 20947 and were effective April 18, 1990. San Pablo has not requested a change in these previously-approved rates and charges, and we see no reason to change them at this time. Accordingly, San Pablo will continue to operate under the existing tariff rules and policies and will apply the existing rates and charges. The utility shall file tariff revisions reflecting the change in ownership within thirty days of the date of this Order. The tariff revisions will be effective for services provided or connections made after the stamped approval date on the tariff sheets.

It is, therefore,

ORDERED by the Florida Public Service Commission that the application for the transfer of Certificates Nos. 220-W and 165-S from El Agua Corporation to San Pablo Utilities Corporation is hereby approved and that San Pablo Utilities Corporation shall return said Certificates to the Commission within thirty days of the date of this Order for entry reflecting the transfer. It is further

ORDERED that the remaining provisions of this Order are issued as proposed agency action, and shall become final, unless an appropriate petition in the form provided by Rule 25-22.035, Florida Administrative Code, is received by the Director, Division

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of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that the rate bases of the utility for purposes of this transfer are \$195,600.14 for water and \$1,001,583.29 for wastewater. It is further

ORDERED that San Pablo Utilities Corporation shall adopt and use the rates, charges, classifications and regulations of El Agua Corporation until such time as we approve otherwise. It is further

ORDERED that San Pablo Utilities Corporation shall file revised tariff sheets reflecting the change in ownership of the utility within thirty days of the date of this Order. It is further

ORDERED that if no timely protest is received to the proposed agency action portions of this Order this docket shall be closed upon approval of the revised tariff sheets.

By ORDER of the Florida Public Service Commission, this 1st day of OCTOBER, 1990.


STEVE TRIBBLE, Director
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our actions taken regarding rate base and rates and charges are preliminary in nature and will not become effective or final, except as provided by Rule

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25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on 10-22-90. In the absence of such a petition, this order shall become effective on the date subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code, and as reflected in a subsequent order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If the relevant portion of this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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SCHEDULE NO. 1
PAGE 1 OF 2

EL AGUA CORPORATION
SCHEDULE OF RATE BASE
AS OF FEBRUARY 2, 1990

WATER SYSTEM

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>ADJUSTMENTS</u>	<u>BALANCE</u>
Plant in Service	\$ 903,452.79		\$ 903,452.79
Land	16,530.00		16,530.00
Accumulated Depreciation	(259,270.36)	\$ (130.00)	(259,400.36)
Contributions-in- Aid-of-Construction Construction	(684,056.82)		(684,056.82)
CIAC Amortization	173,553.09	5,706.44	179,259.53
CWIP	47,615.00		47,615.00
Advances in Aid of Construction	<u>(7,800.00)</u>	<u> </u>	<u>(7,800.00)</u>
Rate Base	\$190,023.70	\$5,576.44	\$195,600.14

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SCHEDULE NO. 1
PAGE 2 OF 2

WASTEWATER SYSTEM

<u>DESCRIPTION</u>	<u>BALANCE PER UTILITY</u>	<u>ADJUSTMENTS</u>	<u>BALANCE</u>
Plant in Service	\$2,213,687.15		\$2,213,687.15
Land	258,274.06	\$(12,299.06)	245,975.00
Accumulated Depreciation	(511,329.71)	(130.00)	(511,459.71)
Contributions-in-Aid- of-Construction	(1,297,110.44)		(1,297,110.44)
CIAC Amortization	333,621.08	30,572.21	364,193.29
CWIP	5,798.00		5,798.00
Advances in Aid of Construction	<u>(19,500.00)</u>	<u> </u>	<u>(19,500.00)</u>
Rate Base	\$ 983,440.14	\$18,143.15	\$1,001,583.29

EL AGUA CORPORATION
SCHEDULE OF RATE BASE ADJUSTMENTS
AS OF FEBRUARY 2, 1990

WATER SYSTEM

<u>EXPLANATION</u>		<u>ADJUSTMENT</u>
Accumulated Depreciation	(Note 1)	\$ (130.00)
CIAC Amortization	(Note 2)	<u>\$ 5,706.44</u>
Total		\$ 5,576.44

Notes to water rate base adjustments schedule

1. Accumulated Depreciation to recognize fully depreciated off. equip. \$ (130.00)
2. CIAC Amortization to adjust to composite rate of 3.34% \$ 5,706.44

WASTEWATER SYSTEM

<u>EXPLANATION</u>		<u>ADJUSTMENT</u>
Accumulated Depreciation	(Note 1)	\$ (130.00)
CIAC Amortization	(Note 2)	\$ 30,572.21
Land	(Note 3)	<u>\$(12,999.06)</u>
Total		\$ 18,143.15

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SCHEDULE NO. 2
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Notes to wastewater rate base adjustments schedule

1. Accumulated Depreciation to recognize fully depreciated off. equip.	\$ (130.00)
2. CIAC Amortization to adjust to composite rate of 4.49%	\$ 30,572.21
3. Land to adjust to value in Order No. 20947	\$(12,299.06)