

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Joint Application for) DOCKET NO. 930436-SU
Transfer of Certificate No. 363-) ORDER NO. PSC-93-1850-FOF-SU
S and Assets of OCEAN REEF) ISSUED: December 30, 1993
UTILITY COMPANY in Monroe County)
From Ocean Reef Club, Inc. to)
OCEAN REEF CLUB, INC. f/k/a)
OCEAN REEF ACQUISITION CORP.)
_____)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
JULIA L. JOHNSON
LUIS J. LAUREDO
DIANE K. KIESLING

FINAL ORDER APPROVING TRANSFER OF CERTIFICATE AND
ESTABLISHING RATES AND CHARGES

AND

NOTICE OF PROPOSED AGENCY ACTION ORDER
ESTABLISHING RATE BASE AND APPROVING NEW CLASS OF SERVICE

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature, except those portions approving transfer of certificate and establishing rates and charges, and as such, will become final unless a person whose interests are substantially affected files a petition for formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

APPLICATION FOR TRANSFER

On April 27, 1993, Ocean Reef Utility Company (ORUC) filed an application for the transfer of its sewer certificate from the Ocean Reef Club, Inc. (ORC) to Ocean Reef Club, Inc. f/k/a Ocean Reef Acquisition Corp. (Ocean Reef). ORUC is a Class B utility in Monroe County which provides wastewater service to approximately 739 equivalent residential connections (ERCs) within the Ocean Reef

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FPSC-RECORDS/REPORTING

Club. According to its 1992 Annual Report, ORUC had annual revenues of \$422,606 and a net operating loss of \$24,302.

Ocean Reef's application, except for the fact that the transfer occurred prior to Commission approval, we find that it 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 certificate and utility assets. The application contained a check in the amount of \$900.00, which is the correct filing fee pursuant to Rule 25-30.020, Florida Administrative Code. The utility provided evidence of its ownership of the land upon which the utility's facilities are located as required by Rule 25-30.037(1)(o), Florida Administrative Code. The utility, as well, provided an adequate description of the territory served, which is appended to this order as Attachment A, and 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.

The transfer was initiated on March 1, 1993, although Section 367.071(1), Florida Statutes, states that no utility may sell, assign, or transfer its certificate of authorization of facilities without approval by the Commission. We determined not to initiate a show cause proceeding because the utility is a very small portion of Ocean Reef's entire purchase. The property includes a marina, walkways, guest hotel, two golf courses, an airstrip, other property and the utility. The entire property, including the wastewater plant and system, was purchased for \$58 million. Since there was no specific purchase price for the utility, we will not address here the issue of whether an acquisition adjustment is appropriate.

Ocean Reef is a nonprofit corporation formed by the customers of the utility. The buyer formed an acquisition company in which all acquired assets were transferred to Ocean Reef and the transfer expenses were paid. 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. Of the \$58 million purchase price, \$56,500,000 is equity capital and the remaining \$1,500,000 is debt capital.

With regard to the financial ability of Ocean Reef, its capital is nearly all positive equity and is approximately \$1

million. Ocean Reef has affirmed that it will fulfill the commitments, obligations and representations of ORC. The utility is retaining all employees of the seller who were involved in the daily operations of the utility. The utility's new owners are also its customers, who rely upon the utility's service. In addition, according to the Department of Environmental Protection (DEP), the utility has no outstanding violations against it.

Based on the above, we have determined that Ocean Reef has sufficient technical and financial ability to operate the system. Furthermore, we find that the transfer of Certificate No. 363-S and the assets of Ocean Reef Utility Company from Ocean Reef Club, Inc. to Ocean Reef Club, Inc. f/k/a Ocean Reef Acquisition Corp. is in the public interest and hereby approve the transfer.

RATE BASE

According to the application, the net book value of the utility system as of the date of the transfer is \$710,293. We previously established a rate base of \$746,455 by Order No. 17760 issued on June 29, 1987. In Order No. 22015, issued October 8, 1989, we approved ORC's application to decrease its rates by 5.10%. Accordingly, the utility decreased its rate base by 5.10%.

An audit of the books and records of the utility was taken to determine the rate base (net book value) at the time of transfer. Order No. 17760 made several adjustments to rate base which were never posted to the general ledger. Appropriate adjustments were made to reflect Order No. 17760. These adjustments are as follows: 1) the removal of undocumented plant of \$286,341 and associated depreciation of \$129,299; 2) the removal of amounts reimbursed by the Ocean Reef Acquisition Corp. of \$2,482 which were fully depreciated; 3) the recording of unrecorded CIAC of \$47,331 and associated amortization of \$17,124.

We have determined that several items had been transferred or retired after touring the plant. Some of these retirements were necessary after Hurricane Andrew. As a result, adjustments were made to accumulated depreciation and plant in the amount of \$19,194.53 to reflect the retirements and adjustments to accumulated depreciation in the amount of \$16,235.72 and plant in the amount of \$16,335.68 to reflect the transfers.

The utility did not prepare a ledger for 1993, therefore, no depreciation or amortization had been recorded. Depreciation and

amortization was computed for the two months of 1993 using two methods. To determine the amount of depreciation, we have used 2/12 of the company's 1992 depreciation expense. To determine the amount of amortization of CIAC, we have used the depreciation by asset number on the company property records was used. The calculation of depreciation is \$13,017.88 and the calculation of amortization is \$1,961.24. The approved calculation of rate base is shown on Schedule No. 1 for the wastewater system. Adjustments to rate base are itemized on Schedule No. 2.

Based on the adjustments set forth herein, we find it appropriate to set rate base for Ocean Reef Club, Inc. at \$746,468.82 for the wastewater system as of February 28, 1993. This rate base calculation is used purely to establish the net book value of the property being transferred and does not include the normal ratemaking adjustments of working capital calculations and used and useful adjustments.

RATES AND CHARGES

The utility's approved rates and charges were effective January 1, 1993, pursuant to a price index.

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

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

Ocean Reef Club, Inc. f/k/a Ocean Reef Acquisition Corp. has not requested a change in the rates and charges of the utility and we find no reason to change them at this time. We find that the utility shall continue operations under the existing tariff and apply the approved rates and charges. The utility has filed a tariff reflecting the transfer of ownership. We will approve the tariff filing effective for services provided or connections made after the stamped approval date.

NEW CLASS OF SERVICE

Ocean Reef has requested a new class of service to the marina located on the property. According to the utility, the marina is planning to build a sewage system which will draw sewage from the boats at the dock and send it back to the treatment plant. Ocean Reef has requested that each slip owner be charged a flat rate of \$9.33 which would provide an incentive for the customers to use the pump out system rather than dump their sewage into the ocean.

Documentation provided by the utility shows that the marina would produce approximately 25-30 gpd per boat at peak conditions and that the average residence at the Ocean Reef resort uses approximately 100 gpd. Ocean Reef's flat residential rate is \$28.00. Because the flow from each boat is about one third that of residential customers, the flat rate of \$9.33 per boat is an appropriate charge. The utility shall file tariff sheets reflecting the new class of service within thirty days of the effective date of this order.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the application to transfer Certificate No. 363-S and the assets of Ocean Reef Utility Company from Ocean Reef Club, Inc. to Ocean Reef Club Inc. f/k/a Ocean Reef Acquisition Corp., is hereby approved. It is further

ORDERED that the rate base, which for transfer purposes reflects the net book value, is \$746,468.82. It is further

ORDERED that the authorized rates and charges of Ocean Reef Utility Company shall continue to be the authorized rates and charges under the ownership of Ocean Reef Club. It is further

ORDERED that a new class of service, for wastewater service at the Ocean Reef Marina, at a flat rate of \$9.33 per boat is hereby approved. The utility shall file tariff sheets reflecting the new class of service within thirty days of the effective date of this Order. It is further

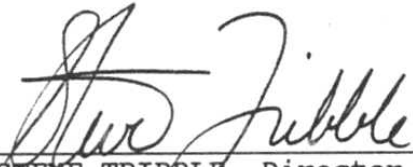
ORDERED that all of the provisions of this Order, except those portions and establishing rates and charges, are issued as proposed agency action and shall become final, unless an appropriate petition in the form provided by Rule 25-22.029, Florida

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Administrative Code, is received by the Director of the Division 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 if no timely protest is filed, this docket may be closed.

By ORDER of the Florida Public Service Commission, this 30th day of December, 1993.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

JBL

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 action, except those portions granting amendment of territory and establishing rates and charge, is preliminary in nature and will not become effective or final, except as provided by Rule 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,

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by the close of business on January 20, 1994. 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.

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 wastewater 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 wastewater 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.

ATTACHMENT A

Ocean Reef Club, Inc.

TERRITORY DESCRIPTION

Township 59 South, Range 40 East

Section 12:

All of said Section 12 lying East of Card Sound

Section 13:

All of said Section 13 lying East of S.R. 905

Section 24:

That part of the North 1/2 of said Section 24 lying East of S.R. 905

Township 59 South, Range 41 East

Section 05:

The South 2,950 feet of the West 4,000 feet of said Section 05

Section 06:

The South 2,700 feet of the East 5,100 feet of said Section 06
EXCEPT
that island know as Government Lot 5

Section 07:

All of said Section 07 lying west of the Atlantic Ocean

Section 08:

All of said Section 08 lying North and West of the Atlantic Ocean

Section 18:

The West 3,000 feet of the North 500 feet
AND
the South 1,900 feet of the North 2,400 feet of the West 600 feet
of said Section 18

Section 19:

That portion of said Section 19 lying West of the Atlantic Ocean

SCHEDULE NO. 1

Ocean Reef Club, Inc.

SCHEDULE OF WASTEWATER RATE BASE

As of February 28, 1993

| <u>DESCRIPTION</u> | <u>BALANCE PER UTILITY</u> | <u>COMMISSION ADJUSTMENTS</u> | <u>BALANCE PER COMMISSION</u> |
|--------------------------------|--------------------------------|-----------------------------------|-----------------------------------|
| Utility Plant in Service | \$1,769,036.16 | \$ 173,086.79 (1) | \$1,942,122.95 |
| Accumulated Dep. | (857,077.39) | 330,205.60 (2) | (526,871.79) |
| CIAC | (222,967.72) | (545,131.00) (3) | (768,098.72) |
| CIAC Amort. | 43,295.54 | 56,020.84 (4) | 99,316.38 |
| TOTAL | <u>\$ 732,286.59</u> | <u>\$ 14,182.23</u> | <u>\$ 746,468.82</u> |

Footnotes tie to summary number on Schedule 2

Ocean Reef Club, Inc.

SCHEDULE OF WASTEWATER RATE BASE ADJUSTMENTS

| <u>EXPLANATION</u> | <u>ADJUSTMENT</u> |
|---|--------------------------|
| Utility Plant in Service | |
| To remove undocumented plant in accordance with Order No. 17760 for force mains. | \$(286,341.00) |
| To remove amounts reimbursed by the Ocean Reef Acquisition Corp. in accordance with Order No. 17760. | (2,842.00) |
| To record retired plant. | (19,194.00) |
| To record transferred plant. | (16,235.68) |
| To record contributed lines and lift stations. | 497,800.00 |
| Total | (1) <u>\$ 173.086.79</u> |
| Accumulated Depreciation | |
| To record depreciation associated with the undocumented plant in accordance with Order No. 17760 and depreciation of these amounts from 9/85 to 2/93. | \$ 200,532.28 |
| To record depreciation associated with amounts reimbursed by the Ocean Reef Acquisition Corp. | 2,842.00 |
| To record depreciation associated with the plant retirements. | 19,194.53 |
| To record depreciation associated with the plant transfers. | 16,235.72 |

| | |
|---|---------------------------|
| To record depreciation for the first two months of 1993. | (13,017.88) |
| To record difference between company beginning balance per the general ledger and the ending balance per their last rate cases filing exhibits. | 75,558.00 |
| Depreciation for certain assets recalculated in accordance with Rule 25-30.140, F.A.C. | 50,034.95 |
| To compute depreciation for contributed lines and lift stations. | (21,174.00) |
| Total | (2) <u>\$ 330,205.60</u> |
| Contributions-in-aid-of-Construction | |
| To record unrecorded CIAC per Order No. 17760. | \$ (47,331.00) |
| To record CIAC associated with the contributed lines and lift stations. | (497,800.00) |
| Total | (3) <u>\$(545,131.00)</u> |
| CIAC Amortization | |
| To record accumulated amortization of CIAC per Order No. 17760. | \$ 32,885.60 |
| To record amortization of CIAC for the first two months of 1993. | 1,961.24 |
| To record accumulated amortization associated with contributed lines and lift stations. | 21,174.00 |
| Total | (4) <u>\$ 56,020.84</u> |