

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for approval
of transfer of a portion of the
facilities operated under
Certificate No. 40-W in Orange
County from Utilities, Inc. of
Florida to the City of Maitland.

DOCKET NO. 981589-WU
ORDER NO. PSC-99-2171-PAA-WU
ISSUED: November 8, 1999

The following Commissioners participated in the disposition of
this matter:

JOE GARCIA, Chairman
J. TERRY DEASON
SUSAN F. CLARK
E. LEON JACOBS, JR.

ORDER APPROVING TRANSFER OF A PORTION OF FACILITIES,
MODIFYING TERRITORY DESCRIPTION, AMENDING
CERTIFICATES NOS. 40-W AND 278-W, AND
OPENING DOCKET TO INVESTIGATE
GAIN ON SALE

BY THE COMMISSION:

BACKGROUND

Utilities, Inc. of Florida (UIF or utility) is a Class A utility providing water and wastewater service in the following counties: Marion, Orange, Pasco, Pinellas, and Seminole. The utility's 1998 annual report lists total utility operating revenues of \$1,942,046 and total utility operating income of \$310,448.

On November 12, 1998, UIF filed an application for the transfer of one of its three systems located in Orange County, the Druid Isle water system, to the City of Maitland (City). The Druid Isle water system is interconnected with the Oakland Shores water system, a small portion of which is located in Orange County and the majority of which is located in Seminole County. The transfer includes all 51 customers of the Druid Isle system and 40 of the 293 customers of the Oakland Shores system. The portion of the Oakland Shores system being transferred to the City is described in Attachment A, which by reference is incorporated herein.

DOCUMENT NUMBER-DATE

13696 NOV-89

FPSC-RECORDS/REPORTING

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According to the application, UIF's Orange County water systems serve 377 customers. The utility has provided water service through the three Orange County water systems since April 18, 1976, by Order No. 7213, in Docket No. 760181-W.

APPLICATION

With the correction of the deficiencies on June 30, 1999, the application is in compliance with Section 367.071(4)(a), Florida Statutes, and Rule 25-30.037(4), Florida Administrative Code. As this is a transfer to a governmental authority, no notice of the transfer is required and no filing fees apply.

Included with the application was a copy of the transfer agreement. The application stated that the proposed closing date was December 15, 1998. According to a subsequent letter from the utility's Vice President of Regulatory Matters, the actual closing date of the transfer was February 15, 1999.

Pursuant to Rule 25-30.037(4)(e), Florida Administrative Code, the application contained a statement that the City obtained UIF's income and expense statement, balance sheet, statement of rate base for regulatory purposes, and contributions-in-aid-of-construction. A statement that customer deposits and interest thereon will be paid to the customers, as required by Rule 25-30.037(4)(g), Florida Administrative Code, was also included in the application. Additionally, pursuant to Rule 25-30.037(4)(h), Florida Administrative Code, a statement was included that UIF will pay outstanding regulatory assessment fees as part of its regular annual filing.

Pursuant to Section 367.071(4)(a), Florida Statutes, the sale of facilities to a governmental authority shall be approved as a matter of right. Based on the foregoing, we hereby approve, as a matter of right, the transfer of a portion of UIF's facilities to the City. Because UIF is transferring only a portion of its water system, the utility's territory description shall be modified and Certificates Nos. 40-W and 278-W shall be amended to reflect the deletion of territory.

OPENING DOCKET TO INVESTIGATE
GAIN ON SALE

The proposition that gains on sales should be shared with customers has been considered in other dockets. In each case, we evaluated whether or not ratepayers contributed to the utility's overall recovery of investment. See Order No. PSC-93-0301-FOF-WS, issued February 25, 1993, in Docket No. 911188-WS; Order No. PSC-93-0423-FOF-WS, issued March 22, 1993, in Docket No. 920199-WS; and Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS.

We last established rate base for UIF's water systems located in Orange and Seminole Counties by Order No. PSC-95-0574-FOF-WS, issued May 9, 1995, in Docket No. 940917-WS. Because uniform rates were established for each county, Order No. PSC-95-0574-FOF-WS did not include rate base for the individual systems within each county. Consequently, we have devised a method to determine whether there appears to be a gain on sale. This method is explained below.

The rate bases for Orange and Seminole Counties, shown in the utility's 1998 annual report, were adjusted for the allowance for funds used during construction (AFUDC) changes outlined in Order No. PSC-95-0574-FOF-WS. The adjusted rate bases were then divided by the equivalent residential connections (ERCs) in each county for a per ERC rate base. This number was then multiplied by the number of ERCs transferred to the City to determine an estimate of rate base value relating to the transferred ERCs. The rate base values for both counties were then subtracted from the aggregate purchase price to determine an estimate of any potential gain on sale. The actual calculations are in Schedule No. 1, which by reference is incorporated herein.

Based on these calculations, the estimated value of rate base associated with the transfer of these ERCs is \$43,597. According to the purchase agreement, the purchase price for the Druid Isle system and a portion of the Oakland Shores system is \$159,000. This sum exceeds the estimated rate base value of \$43,597. The excess purchase amount of \$115,403, divided by the remaining 2,549 ERCs in the two counties, results in a per customer excess of \$45.

The utility also submitted unaudited rate base information for the two systems indicating a rate base of \$27,761 for Druid Isle and \$201,247 for Oakland Shores. The entire Druid Isle system is

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being transferred to the City, so it is appropriate to include the entire rate base amount. A prorated amount for the 40 Oakland Shores customers being transferred could be calculated as 40, divided by 293, multiplied by \$201,247, which results in an estimated rate base of \$27,474. The resulting estimated combined rate base of \$55,235, subtracted from the contract sales price of \$159,000, yields an estimated gain on sale of \$103,765. Dividing this gain on sale by the 2,549 remaining ERCs in the two counties results in a per ERC excess of \$41. This closely compares to the gain on sale calculated by the per ERC rate base methodology which resulted in a per customer excess of \$45.

We recognize that these calculations are only a proxy for the actual rate base. However, since both systems received the benefit of uniform rates, there is justification for using the per ERC allocation methodology in calculating a value of rate base that is associated with the territory transferred to the City.

An investigation into the gain on sale will determine whether UIF's remaining customers subsidized the investment in UIF's systems during the years that the systems were combined for ratemaking purposes. Due to the estimated amount of the gain on sale, we find it prudent to initiate an investigation at this time. Therefore, a docket shall be opened to examine whether UIF's sale of a portion of its facilities involves a gain that should be shared with its remaining customers in Orange and Seminole Counties.

No further action is required, and this docket shall be closed.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the transfer of a portion of facilities of Utilities, Inc. of Florida, 200 Weathersfield Avenue, Altamonte Springs, Florida 32714, to the City of Maitland, 1776 Independence Lane, Maitland, Florida 32751, is hereby approved as a matter of right. It is further

ORDERED that Attachment A and Schedule No. 1, attached to this Order, are incorporated herein by reference. It is further

ORDERED that the territory description of Utilities, Inc. of Florida shall be modified to reflect the deletion of territory. It is further

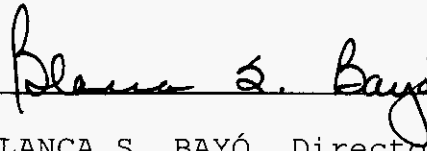
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ORDERED that Certificates Nos. 40-W and 278-S shall be amended to reflect the deletion of territory. It is further

ORDERED that a docket shall be opened to examine whether the sale of a portion of Utilities, Inc. of Florida's facilities to the City of Maitland involves a gain that should be shared with the utility's remaining customers in Orange and Seminole Counties. It is further

ORDERED that this docket shall be closed.

By ORDER of the Florida Public Service Commission this 8th Day of November, 1999.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

SMC

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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

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hearing or judicial review will be granted or result in the relief sought.

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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, 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 and/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.

UTILITIES, INC. OF FLORIDA

WATER SERVICE AREA OF THE OAKLAND SHORES SYSTEM

ORANGE COUNTY

Description:

A portion of Section 25, Township 21 South, Range 29 East, Orange County, Florida, and also a portion of Section 24, Township 21 South, Range 29 East, Seminole County, Florida; More particularly described as follows; Commencing at the SW corner of Section 24; Thence run due East a distance of 1320 feet along the South line of said Section 24 to the Point of Beginning; Thence run due South a distance of 640 feet to a point; Thence run due East 980 feet to a point; Thence run due South a distance of 100 feet to a point; Thence run due East a distance of 500 feet to a point; Thence run due South a distance of 100 feet to a point; Thence run due East a distance of 481 feet to a point; Thence run due North a distance of 900 feet to the South line of said Section 24; Thence run due East a distance of 550 feet to a point; Thence run due South a distance of 300 feet to a point; Thence run due East a distance of 575 feet to a point; Thence run due North 1050 feet to a point; Thence run due West 260 feet to a point; Thence run due North 420 feet to a point; Thence run due West 1250 feet to a point; Thence run due North 450 feet to a point; Thence run due West 320 feet to a point; Thence run due South 420 feet to a point; Thence run due West 300 feet to a point; Thence run due South 1250 feet to a point on the South line of section 24; Thence run due West a distance of 750 feet along the South line of said Section 24 the Point of Beginning.

Description:

A portion of Section 24, Township 21 South, Range 29 East, Seminole County, Florida. Being more particularly described as follows: Commencing at the SW corner of said Section 24, same point also being the Point of Beginning; Thence run due East along the South line of said Section 24, a distance of 660 feet to a point; Thence run due North a distance of 1250 feet to a point, Thence run due West a distance of 660 feet to the West line of Section 24, Thence

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run due South along the West line of said Section 24 a distance of
1250 feet to the Point of Beginning.

ESTIMATED GAIN ON SALE CALCULATIONS

Orange County Rate Base

Rate Base per 1998 Annual Report	\$133,507
Less AFUDC*	-2,288
Plus Depreciated AFUDC*	<u>+188</u>
Adjusted Rate Base	\$131,407
Per ERC Rate Base (383.5 County ERCs)	\$343
Value of ERCs Transferred (55.5)	\$19,037

Seminole County Rate Base

Rate Base per 1998 Annual Report	\$1,404,134
Less AFUDC*	-16,354
Plus Depreciated AFUDC*	<u>+1,507</u>
Adjusted Rate Base	\$1,389,287
Per ERC Rate Base (2,261 County ERCs)	\$614
Value of ERCs Transferred (40)	\$24,560

Rate Base Value of Purchase

Orange County Value Transferred	\$19,037
Seminole County Value Transferred	<u>+24,560</u>
Total Value	\$43,597

Gain on Sale Determination

Purchase Price	\$159,000
Less Value of Purchase	<u>-43,597</u>
Excess Purchase Price	\$115,403
Excess Per Remaining ERCs (2,549)	\$45

*From Rate Case Docket No. 940917-WS, Order No. PSC-95-0574-FOF-WS