

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for transfer of Certificate No. 380-W from A. P. Utilities, Inc. in Marion County to Sunshine Utilities of Central Florida, Inc., holder of Certificate No. 363-W, for amendment of Certificate No. 363-W, and for cancellation of Certificate No. 380-W.

DOCKET NO. 020256-WU
ORDER NO. PSC-02-1292-PAA-WU
ISSUED: September 23, 2002

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
MICHAEL A. PALECKI
RUDOLPH "RUDY" BRADLEY

ORDER APPROVING TRANSFER, CANCELING CERTIFICATE
NO. 380-W, AMENDING CERTIFICATE NO. 363-W TO INCLUDE
ADDITIONAL TERRITORY

AND

NOTICE OF PROPOSED AGENCY ACTION
ORDER ESTABLISHING RATE BASE FOR PURPOSES OF THE
TRANSFER AND DECLINING TO INCLUDE A NEGATIVE ACQUISITION
ADJUSTMENT IN THE CALCULATION OF RATE BASE

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action establishing rate base for purposes of the transfer and declining to include a negative acquisition adjustment in the calculation of rate base discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal

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proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Background

On March 21, 2002, Sunshine Utilities of Central Florida, Inc. (Sunshine) and A. P. Utilities, Inc. (APU or utility) filed a joint application for approval of the transfer of the Quail Run water system from APU to Sunshine. Sunshine is a Class B utility that operates 21 water systems throughout Marion and Citrus County. Sunshine has been providing water service in Marion County for more than 24 years.

Originally, APU had seven water systems and was a Class B utility that served approximately 1,017 residential water customers in Marion County. Two of APU's seven water systems were transferred to another utility in Docket No. 981030-WU. Four of the remaining five systems were transferred to Marion County in Docket No. 010506-WU. The remaining system, Quail Run, is being transferred to Sunshine in the instant docket. The Quail Run system serves approximately 66 residential water customers.

APU is located in the St. Johns River Water Management District, all of which is a water use caution area. APU has been providing water service since 1973. Wastewater service is provided by septic tanks. Rate base for this system was previously established by Order No. 25063, issued September 13, 1991, in Docket No. 910119-WU.

This Commission has jurisdiction in this matter, pursuant to Section 367.071, Florida Statutes.

Application

The application is in compliance with Section 367.071, Florida Statutes, and other pertinent statutes and provisions of the Florida Administrative Code. In particular, the application for transfer contains a filing fee in the amount of \$750, as prescribed by Rule 25-30.020, Florida Administrative Code. Evidence in the form of a 99-year lease has been provided as proof that the utility has continued use of the land upon which its facilities are

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located, as required by Rule 25-30.037(2)(q), Florida Administrative Code.

Pursuant to Section 367.071, Florida Statutes, no utility shall sell, assign, or transfer its certificate of authorization, facilities, or any portion thereof, without prior approval of this Commission unless such sale, assignment or transfer is made contingent upon Commission approval. Consistent with the Statute, the closing on the transfer occurred on March 15, 2001, contingent upon Commission approval.

The application contains 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 being transferred. No objections to the application have been received, and the time for filing such has expired.

In addition, the application includes a copy of the agreement for purchase and sale. The agreement includes the purchase price, terms of payment, and a list of the assets purchased.

With regard to technical ability, Sunshine operates 21 water systems in Marion and Citrus County, and has been providing satisfactory service to its customers for more than 24 years. Further, Sunshine indicated that the transfer is in the public interest because it can provide better service to the APU customers with its large and more experienced staff.

In addition, according to the application, Sunshine has the financial ability to insure the continued operation of the utility. The information provided by Sunshine indicates that 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.

According to the application, a reasonable investigation of the utility was performed. The investigation revealed that the system is in compliance with the applicable standards of the Department of Environmental Protection (DEP). Our Staff contacted DEP and verified that there are no outstanding notices of violation against the utility.

Our records indicate that APU has filed an annual report and paid regulatory assessment fees for the period from January 1, 2001, through December 31, 2001. Sunshine shall be responsible for regulatory assessment fees and annual reports after January 1, 2002.

Based on the foregoing, we find that the transfer of APU's remaining system, Quail Run, from APU to Sunshine is in the public interest and it is approved. Certificate No. 363-W, held by Sunshine, is hereby amended to include the Quail Run service area. Certificate No. 380-W, held by APU, is hereby cancelled. The territory the utility is authorized to serve is shown on Attachment A of this Order, which by reference is incorporated herein.

Rate Base

According to the information filed with the application, the utility's rate base was unknown as of March 15, 2002, the date of the transfer. Rate base was previously established at \$27,936 as of November 30, 1990, by Order No. 25063, issued September 13, 1991, in Docket No. 910119-WU. Plant and depreciation balances have been updated to the date of transfer, March 15, 2002, based on invoices and other documentation provided by the utility.

An audit of the utility's books and records indicated that they have not been maintained in accordance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA). Rule 25-30.115(1), Florida Administrative Code, requires water and wastewater utilities to maintain their accounts and records in conformance with the 1996 NARUC USOA. Accounting Instruction 2.A of the NARUC USOA for Class C water 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 maintains its books and records on a cash basis and does not utilize a general ledger, subsidiary ledger, or the NARUC USOA. APU's failure to maintain its books and records in accordance with the NARUC USOA is an apparent violation of Rule 25-30.115, Florida Administrative Code. However, APU will no longer be operating the utility. Therefore, Sunshine is hereby reminded of its obligation to maintain the utility's books and records in conformance with the NARUC USOA as prescribed by Rule 25-30.115, Florida Administrative Code.

The audit report contained one disclosure and three exceptions that resulted in adjustments to the plant and accumulated depreciation. These adjustments are discussed below.

Utility Plant-in-Service

Because the utility does not maintain a monthly general ledger or continuing property records to record plant additions, we relied upon Order No. 25063, which established rate base at November 30, 1990, as the beginning balance for determining the plant-in-service balance. As of November 30, 1990, the utility's plant-in-service balance for water was \$36,365. The utility provided invoices and other documentation which were used to verify plant additions for the period from November 30, 1990, through March 15, 2002.

It was determined that \$7,917 of plant additions during the period were expensed instead of capitalized. The utility incurred costs of \$6,577 to refurbish two water pumps. One pump was rebuilt on October 19, 1997, and the second pump was rebuilt on July 21, 2000. Further, a cost of \$1,340 was incurred on March 31, 2001, to refurbish the utility's fuse box. Therefore, utility plant has

been increased by \$7,917, for a total water utility plant-in-service balance of \$44,282.

Land

The utility has a land lease for 99 years for a total cost of \$99 that is payable in equal annual installments of one dollar each year. Therefore, land is not be included in the calculation of rate base.

Contributions-in-Aid-of-Construction (CIAC) and Amortization of CIAC

According to Order No. 13292, issued May 15, 1984, in Docket No. 830361-WU, CIAC and Accumulated Amortization of CIAC had a zero balance as of February 28, 1983. These accounts are zero because the utility does not have an approved service availability policy or charge.

Accumulated Depreciation

Because APU does not maintain records of accumulated depreciation, accumulated depreciation had to be determined as of the date of transfer. Pursuant to Order No. 25063, the utility's accumulated depreciation balance for water was \$8,429, as of November 30, 1990.

Depreciation on the \$36,365 plant balance from December 1, 1990, through March 15, 2002, was computed as \$15,231 based on Rule 25-30.140, Florida Administrative Code. An additional \$937 of accumulated depreciation was computed for the \$7,917 in plant additions. Therefore, accumulated depreciation for water has been adjusted by \$16,168, to reflect a balance of \$24,597.

Rate Base

Based on the forgoing, rate base for APU is found to be \$19,685 for the water system as of March 15, 2002. Our calculation of rate base is shown on Schedule No. 1. Adjustments to the rate base calculation are itemized on Schedule No. 2. The 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 for working capital and used and useful.

Acquisition Adjustment

An acquisition adjustment results when the purchase price differs from rate base. In this instance, the purchase price (\$1) less rate base (\$19,685), results in a negative acquisition adjustment of \$19,684.

In the absence of extraordinary circumstances, it has been Commission policy that the purchase of a utility system at a premium or discount shall not affect the rate base calculation. Because Sunshine has not requested an acquisition adjustment and there do not appear to be any extraordinary circumstances in this transaction, an acquisition adjustment has not been included in the calculation of rate base. This decision is consistent with previous decisions in this regard. See Order No. PSC-01-0425-PAA-WU, issued February 22, 2001, in Docket No. 001083-WU; 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; and Order No. PSC-01-1917-PAA-WS, issued September 24, 2001, in Docket No. 001551-WS.

It should be noted that we recently adopted Rule 25-30.0371, Florida Administrative Code, to address the appropriate treatment of acquisition adjustments that occurs when the purchase price of a utility differs from its rate base. In the case of APU, because the purchase occurred and the application was filed prior to the adoption of the rule, the new rule is not applicable in this docket.

Rates and Charges

The utility's current rates were grandfathered in pursuant to Order No. 13292, issued May 15, 1984, in Docket No. 830361-WU. The utility has no service availability charges and has never filed for a rate increase. The utility's approved rates and charges are set forth below.

WATER
(Monthly Rates)

Residential, Multi-Residential
and General Service

Base Facility Charge
Meter Size:

All Meter Sizes \$ 9.00

Miscellaneous Service Charges

Violation Reconnection Fee
Normal Hours \$ 8.00

Violation Reconnection Fee
After Hours \$ 15.00

Rule 25-9.044(1), Florida Administrative Code, requires the new owner of a utility to adopt and use the rates, classifications 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 the utility, and we see no reason to change them at this time. Sunshine shall continue to charge the rates and charges approved in APU's tariff until authorized to change by this Commission in a subsequent proceeding. Sunshine has filed a revised tariff reflecting the change in issuing officer due to the transfer of control. The tariff shall be effective for service rendered or connections made on or after the stamped approval date on the tariff sheets. It should be noted, that when meters are installed in the Quail Run service area, Sunshine will have to make application to this Commission to establish metered rates for the Quail Run system.

It is, therefore,

ORDERED by the Florida Public Service Commission that the transfer of Quail Run water system from A. P. Utilities, Inc., 3925 Southeast 45th Court, Suite E, Ocala, Florida 34480-7431, to Sunshine Utilities of Central Florida, Inc., 10230 East Highway

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25, Belleview, Florida 34420-5531, is hereby approved. The territory the utility is authorized to serve is shown on Attachment A of this Order. It is further

ORDERED that Certificate No. 380-W, held by A. P. Utilities, Inc., is hereby canceled. It is further

ORDERED that Certificate No. 363-W, held by Sunshine Utilities of Central Florida, Inc., is hereby amended to include the territory served by A. P. Utilities, Inc. It is further

ORDERED that rate base, which for transfer purposes represents the net book value of the system, is \$19,685 as of March 15, 2002, the date of transfer. It is further

ORDERED that a negative acquisition adjustment is not included in the calculation of rate base. It is further

ORDERED that all matters contained in Schedules Nos. 1 and 2 and Attachment A attached hereto are by reference incorporated herein. It is further

ORDERED that Sunshine Utilities of Central Florida, Inc. is hereby reminded that it must maintain the utility's books and records in accordance with Rule 25-30.115(1), Florida Administrative Code. It is further

ORDERED that Sunshine Utilities of Central Florida, Inc. shall continue to charge the rates and charges approved in A. P. Utilities, Inc.'s tariff until authorized to change by this Commission in a subsequent proceeding. It is further

ORDERED that the revised tariff filed by Sunshine Utilities of Central Florida, Inc. shall be effective for service rendered or connections made on or after the stamped approval date on the tariff sheets. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of

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the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 23rd day of September, 2002.



BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

(S E A L)

ALC

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

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As identified in the body of this order, our action establishing rate base for purposes of the transfer and declining to include a negative acquisition adjustment in the calculation of rate base is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 14, 2002. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating 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.

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 the Commission Clerk and Administrative Services 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 the Commission Clerk and Administrative Services 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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ATTACHMENT A

**A. P. UTILITIES, INC.
WATER TERRITORY DESCRIPTION**

QUAIL RUN

Portions of Section 25, Township 16 South, Range 21 East in
Marion County, Florida:

Section 25

The Southeast 1/4 of the Southeast 1/4

SCHEDULE 1

A. P. UTILITIES, INC.
 (QUAIL RUN SYSTEM)
 SCHEDULE OF WATER RATE BASE
 AS OF MARCH 15, 2002

<u>DESCRIPTION</u>	<u>BALANCE PER ORDER NO. 25063</u>	<u>COMMISSION ADJUSTMENTS</u>	<u>BALANCE PER COMMISSION</u>
Utility Plant-in- Service	\$ 36,365	\$ 7,917 A	\$ 44,282
Land	0	0	0
Contributions-in-Aid- of Construction (CIAC)	0	0	0
Accumulated Depreciation	(8,429)	(16,168) B	(24,597)
Amortization of CIAC	<u>0</u>	<u>0</u>	<u>0</u>
WATER RATE BASE	<u>\$ 27,936</u>	<u>\$ (8,251)</u>	<u>\$ 19,685</u>

SCHEDULE 2

A. P. UTILITIES, INC.
SCHEDULE OF WATER RATE BASE ADJUSTMENTS
AS OF MARCH 15, 2002

<u>EXPLANATION</u>	<u>ADJUSTMENTS</u>
A) Utility Plant-in-Service	\$ 1,259
1) To Record Rebuilt Pump	
2) To Record Refurbished Pump	5,318
3) To Record Rebuilt 200-amp Motor Fuse Box	<u>1,340</u>
TOTAL	<u>\$ 7,917</u>
B) Accumulated Depreciation	
1) To Reflect Depreciation From 12/1/90 Through 15/02	\$ (15,231)
2) To Reflect Depreciation on Unrecorded Plant	<u>(937)</u>
TOTAL	<u>\$ (16,168)</u>